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SCHOOL OF BUSINESS, ECONOMICS AND LAW

# Interfirm cooperations on strategic- and operational level - A case study of outsourced cleaning service

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Supervisor: Mikael Cäker  
Authors: Ellinor Storm 880218  
Lina Adolfsson 830920

# Summary

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**Authors:** Ellinor Storm and Lina Adolfsson

**Supervisor:** Mikael Cäker

**Title:** Interfirm cooperations on strategic and operational level - A case study of outsourced cleaning service

**Background:** Since outsourcing is used more and more it is interesting to investigate the interorganizational cooperation between the buyer and the supplier (Corbett, 2004). This new form of interfirm collaboration brings light to new consequences and problems that may occur in the relationship. These aspects have caused an increased focus on the contracts and the management of relationships in interfirm relations.

**Problem:** How is the interfirm cooperation between a buyer and a service supplier handled on the strategic and operative level, when the service is performed at the buyer's facilities?

**Purpose:** We elaborate in the interfirm organizational area in order to get an enhanced understanding of how the strategic and operational cooperations and relationships between a buyer and a service supplier functions.

**Method:** A case study is conducted and several interviews with people at different levels in the case company and its suppliers are performed. The interviews are semi-structured in order to enable the respondents to talk freely and for us to find out more in depth how the cooperation functions. The empirical findings are then analyzed through comparing them to the frame of references.

**Conclusion:** The interfirm cooperations on the strategic- and operational levels are handled differently due to many different aspects. The cooperation on strategic level do not involve any day to day work which implies that it is easier for them to exert formal control. The contract is written on the strategic level and is rather used as a backbone for the operative cooperation than as a set of strictly regulating rules. This is due to that differences here are solved through communication and trust. The operational relationship is structured by a tradeoff between trust and control. The parties have to interact with each other, as both parties work at the buyer's facilities, and hence the human aspects have to be taken into consideration when exerting control.

**Future areas of investigation:** It would be interesting to investigate if there are any differences within the company, due to other cultures or macro factors, at stores in other countries compared to the stores in Sweden that we have visited. It would also be interesting to look at how people at other levels in both the Group and the supplier look at the cooperation.

**Keywords:** Transaction cost economies, interorganization, outsourcing, control, strategic level, operational level, cooperation

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Ellinor Storm

X

Lina Adolfsson

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# 1. Background

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*This introducing chapter aims at giving the reader a view of what the thesis is about. The section starts off with a discussion where the underlying problem is introduced and thereafter the specific problem that will be elaborated on is presented. Further the purpose of the work is explained and the target audience is discovered.*

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## 1.1 Introduction

Companies nowadays are operating in an environment that is constantly changing and they therefore have to go through more or less dramatic changes in order to stay competitive (Van der Meer-Kooistra and Vosselman, 2000). A commonly occurring measure to take is to start outsourcing, which is increasingly used around the globe. Outsourcing might be used for many different reasons such as cost savings, risk reductions and increasing the potential to focus on core activities (Buck-Lew, 1992; Burt, 2010; Gilley and Rasheed, 2000; Belcourt, 2006; Leavy, 2006). It is generally known and shown in various studies that outsourcing can help many companies to perform better (Buck-Lew, 1992; Burt, 2010; Gilley and Rasheed, 2000; Belcourt, 2006; Leavy, 2006) and therefore it seems to be of utmost importance for companies to utilize this new managerial approach as efficiently as possible (Yigit et al, 2007).

According to Gilley and Rasheed (2000) there are several ways to use outsourcing and it can be utilized on many different levels in the company. Depending on the way outsourcing is applied in the company, it may be divided into core- or peripheral outsourcing. There are usually positive effects of peripheral outsourcing while outsourcing of core activities may have negative consequences. For example, it is shown in studies in Turkey that hospitals using outsourcing for a range of different services have been able to concentrate more on developing their core business and providing better care for their patients (Yigit et al, 2007).

## 1.2 Problem discussion

Since outsourcing is used more and more it is interesting to investigate the interorganizational cooperation between the buyer and the supplier (Corbett, 2004). This new form of interfirm collaboration brings light to new consequences and problems that may occur in the relationship. These are for instance opportunistic behavior, control of expenses, control of services bought and internal labor consequences. These aspects have caused an increased focus on the contracts and the management of relationships in interfirm relations. It has also led to a development of control mechanisms used by the management when working with planning of support, measuring results and establishing activities (Van der Meer-Kooistra and Vosselman, 2000).

When companies use outsourcing in several of their branches it is not unusual to practice joint procurement. One of the most important advantages with using joint procurement is cost savings whilst benefiting from the suppliers' economies of scale. Another area where costs can be cut is in the administrative division as timesaving routines are created. The fact that employees with specific skills and expertise are gathered at one office might result in knowledge spreading and better performance at a lower cost compared to all units negotiating their own contracts. Yet another advantage is the possibility to standardize the contracts and following a certain process which makes it easier to find an agreement when the suppliers recognize the procedure. The main weakness of using joint procurement is that when first setting up the structure and organizing the division some delays and unexpected costs might

occur (European Commission, 2008).

Even though a large part of the total outsourcing is production of goods, companies also outsource services. In this thesis we have decided to study a retail company that uses joint procurement for their cleaning services. The cooperations in the case study are divided into a strategic level and an operational level where the strategic buyer performs the joint procurement and the operative buyer collaborates daily with the supplier. The focus on cleaning services is chosen because they are essential for the shoppers' overall impression of the company. Further, there are some specific problems that might arise with cleaning firms, for example that these tend to have high staff turnover often due to low social status for the job. This may result in less motivated personnel and that the level of cleanliness that the buying companies require is not fulfilled (Assetskills.org, 2011). Cleaning is a service that often is considered easy to outsource since it does not require highly educated personnel and is seldom regarded as being a part of the core activities. At the same time, it is of utmost importance that the store is clean, which implies that cleaning services nevertheless could be viewed as a core activity. Due to this, it can be argued that the cleaning service might be a more central service than most people seem to think, which implies that further research on the topic is legitimate.

In our thesis we will to a large extent use transaction cost economics (Williamson, 1979) as background for analyzing our research questions. The theory of transaction cost economics investigates how the cooperation between two parties should be organized through the use of several different control models. We will especially focus on the handling of interfirm relationships since this has not been investigated as thoroughly before (Dekker, 2003).

### **1.3 Problem**

How is the interfirm cooperation between a buyer and a service supplier handled on the strategic and operative level, when the service is performed at the buyer's facilities?

### **1.4 Aim**

We want to explore the interfirm organizational area in order to get an enhanced understanding of how the strategic and operative cooperations and relationships between a buyer and a service supplier functions.

### **1.5 Scope**

In this thesis we do not elaborate on the make or buy decision as we assume that outsourcing is the best way to go in this case setting. We will look at the strategic buyer, the operative buyer and the operative supplier but not the strategic supplier. This is partly because the cooperation is mainly investigated from the buyer's point of view and after brief conversations on the phone with the strategic suppliers it was found that this level was less important for the type of research question investigated in this thesis. The reason for this is the fact that it is the strategic buyer that mainly decides what the collaboration should look like and hence influences the operational level the most. How the relationship between the strategic supplier and the strategic buyer functions would be interesting to analyze as well but is beyond the scope of this thesis.

Further is an important reason for not including the strategic seller the fact that the strategic buyer has a lot of potential suppliers and therefore is these relationships less important. When the strategic buyer has chosen a supplier it is more interesting to look at the relationship



between the supplier and the operational buyer since this cooperation has to function in the everyday work.

### **1.6 Target audience**

The aim of this thesis is to create a greater understanding of the interorganizational relationships that occur in the procurement process of cleaning services. Therefore the target audience is students who are interested in this field of subject but also service suppliers, the buyer of the services, purchasers and business developers.

## 2. Method

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*In this section an understanding of the methodology used in order to fulfill the purpose of this report is provided. First the research method is chosen and then the use of case study and data collection method are discussed.*

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### 2.1 Qualitative or quantitative method

In this thesis we are researching an existing problem regarding the interorganizational cooperation between parties when outsourcing cleaning services. To be able to explore this issue thoroughly we will use a qualitative method. The definition of a qualitative method is a study where the author investigates people's actions, the results of these actions (Blumberg et al, 2008) and is based on high quality input and aims at creating a greater understanding of a phenomenon or problem (Nationalencyklopedin, 2011). The use of a qualitative method is appropriate in our case since the problem is complex (Blumberg et al, 2008). Further when using this approach we look at the whole picture which generates an understanding of the situation. In qualitative studies the information often consists of words and sentences rather than figures and numbers as in a quantitative study, and it is common to study a small or limited population or using a case in order to get a good insight and understanding of the specific situation (Blumberg et al, 2008). As we interviewed just a few carefully selected persons in the organizations rather than many randomly selected respondents a qualitative method is more suitable as well (Bernard, 2000). The interviews were performed in a semi-structured manner where the respondents were asked specific questions but in the same time were able to advance and explain their point of views (Blumberg et al, 2008). This choice of method helped us to solve our problem through getting a better understanding and view of the object studied. The observations gathered were then analyzed to be able to draw conclusions from them (Bernard, 2000).

### 2.2 Literature

In order to create a solid background and to find out what has been done earlier in this area, we have searched through several databases and journals, which are so called secondary data. We have done thorough searches in databases such as Business Source Premier, Emerald Management Xtra Plus, ScienceDirect, Oxford Scholarship Online and JSTOR. Further we have searched in databases of journals such as Accounting, Organizations and Society. In order to dig deeper into certain interesting areas we have also looked up sources and important authors referred to in the articles. In some cases the texts are so old that they were only available in "physical books" which we found in libraries. The most successful keywords have been: outsourcing, interorganizational, transaction cost economics, basic service and implementation process.

### 2.3 Case study

Case studies are frequently used when a researcher is trying to explain an event or phenomenon (Blumberg et al, 2008). The reason why we have chosen to do a case study on a specific company is that we wish to find out what really happens on operative and strategic levels in a company that uses outsourcing for cleaning services. The case study also gave us a chance to meet people on different positions in the companies to discuss the processes of outsourcing and to learn about their experiences. The complex nature of our research questions is another factor that makes a case study suitable. We would not have been able to investigate the relationships closely enough through a survey where the respondent has to answer briefly. When performing qualitative research, a case study provides much more comprehensive information (Blumberg et al, 2008).

### **2.3.1 The case company**

This thesis investigates the interorganizational cooperation on strategic and operational level in an outsourcing relationship. To be able to do this investigation a case study is performed in cooperation with “the Group” which is a large retail company. Company X is a part of the Group and responsible for, amongst other things, purchasing of cleaning services for the stores. Interviews are performed with Company X, three service suppliers and three stores. We have also been able to read some of the respondents’ internal documents such as the contract and the cleaning standard.

### **2.3.2 Executive summary**

Some of the findings and solutions found are too firm-specific to present in this thesis as the companies are promised anonymity. An executive summary was therefore given to the Group in order to provide them with some ideas for their continuing work with the suppliers. The findings are a mixture of facts that have come up during the interviews and theory based ideas that might fit the organization well.

## **2.4 Data collection method**

There are two suitable ways of collecting data in a case study. The first is called monitoring and means that the researcher only observes a situation or action without any kind of interaction. The other method, which we have chosen to use, is called interrogation or communication method. When using this approach the researcher collects answers to some questions in order to get good insight into the situation or problem. The questioning can be done in many ways, for example through mailing out surveys or through interviews. We have chosen to work with interviews as we have in-depth questions that need to be discussed rather than explained briefly in a survey or through just observing. We will in this way also be able to discuss follow-up questions as well as any other issues that show to be important during the interview. In a survey or in an observation there is no possibility to be flexible and dig deeper into a subject that proves to be important. Yet another advantage when using interviews in our case is that we know for sure that we will get to meet the people we have an arrangement with and do not have to rely on the survey respondents’ good will (Blumberg et al, 2008).

The interviews are semi-structured which means that we have used a framework with specific areas that we have explored and discussed with the Group’s representatives. The interviews are the primary source of data in this thesis. During the interviews we used a computer to record the conversation. This made it possible for us to concentrate on the interviewee and not on taking in depth notes. This also gave us the opportunity to go back and listen multiple times when compiling the information. The primary downside of using interviews is the geographical distances that makes it time consuming to visit the stores. Interviewing also puts pressure on us as interviewers to behave appropriately and to not influence the interviewee (Blumberg et al, 2008).

An advantage with using a semi-structured approach when interviewing is that the respondent is given the opportunity to talk more freely and to include things that comes to his/her mind when answering. This way of interviewing makes room for further exploration of the topic. Despite the open-ended nature of this approach an interview guide is used. The guide contains some quite specific questions and makes sure that nothing important is forgotten. It also assures that all the interviewees are asked the same questions (Blumberg et al, 2008).

### **2.4.1 Choice of respondents**

We worked with purposive sampling when choosing respondents since the respondents had to have certain knowledge. Purposive sampling is a non-probability way of selecting a sample

where a specific criterion is used in order to find the most appropriate people in the organizations to interview (Blumberg et al, 2008). The criterion used in this thesis is that the respondents had to have the insight needed and access to the right information and documents. Through the interviews we tried to find out which areas that are critical for the operational and strategic cooperation. In strive of getting a good underlying understanding we interviewed the purchaser responsible for the joint procurement of cleaning services for Company X in Sweden. We got a closer look at the strategic aspects of the relationship through talking to this person. We also talked to the stores' representatives who are in charge of handling the operational cooperation with the cleaning supplier at each store. These representatives have good knowledge of the day to day work at the store and were able to provide us with insights of the operative relationship. We were also able to meet representatives from the cleaning companies who are responsible at each store. These representatives have the most experience from working under the contracts created by people higher up in the company. This way of working with interviews and our way of choosing respondents gave us several interesting angles of the relationship and a better understanding of the possible obstacles that may occur in the collaboration (Blumberg et al, 2008). Further we got insight into some firm specific information and internal documents that gave us a good starting point and a solid background of the company.

## **2.5 Credibility**

In strive of achieving a high level of credibility we have taken some measures regarding the interviews. When conducting the interviews we have avoided leading questions and left room for the respondent to add things by being quiet after each question. In the end of each interview we have also asked the interviewee if there is anything that he/she would like to add or ask. Another measure that we have taken is to interview both people from the suppliers' side and the stores' side in order to provide an overall picture of the relationship and the cooperation. By using a computer to record the interviews it was possible for us to concentrate solely on the conversations without taking notes.

## **2.6 Ethics**

We have signed a confidentiality agreement where we promise the Group not to reveal any secrets or intrafirm documents we come across during our work.

In order to get as sincere answers as possible from the respondents we will offer them anonymity. This makes it easier for the employees to talk more freely and not having to worry about any consequences. Otherwise the team leaders for the cleaning companies or the representatives from the stores might fear that they harm the relationship when discussing sensitive issues regarding the cooperation or the contract

## 3. Frame of references

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*In this section earlier studies and articles which are used in creating a background for this thesis are presented. The section starts with a presentation of the transaction cost economics (TCE) which is used as a backbone for this thesis. Thereafter some other interesting theories are described and the different phases of the procurement process are presented.*

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### 3.1 Transaction cost economics

Transaction cost economics describes how transactions are controlled using different types of governance (Van der Meer-Kooistra and Vosselman, 2000) and is presented here as a background for different theories used in this thesis. Williamson (1981) describes a transaction as something that:

*“..occurs when a good or service is transferred across a technologically separable interface”*

Further, Donada and Nogatchewsky (2006) add that:

*“TCE provides a cogent and comprehensive perspective to address control structure variety in and between organizations and can be considered as a management control theory.”*

The theory of transaction cost economics is a multidisciplinary approach that stems from economics, contractual law and organization theory (Williamson, 1981). Williamson (1979) investigates the issues of transaction costs by claiming that these are important in economic science for reasons such as identifying crucial determinants of transactions' characteristics and for describing how transactions are controlled. To describe the contractual background for transaction cost economics, Williamson (1979) refers to classical contract law, neoclassical contract law and relational contracting as different models of contracting transaction costs. These are described more thoroughly chapter in 3.3.1.

Opportunism and bounded rationality are two important aspects of human behavior in TCE according to Speklé (2001), Van der Meer-Kooistra and Vosselman (2000) and Williamson (1981). Opportunistic behavior is when people do what is best for themselves instead of what for instance is best for the company. Bounded rationality refers to that people do not always act rationally (Speklé, 2001). These behavioral restraints are also described more thoroughly in chapter 3.3.2 since they affect the contract.

#### 3.1.1 Transaction characteristics

Van der Meer- Kooistra and Kamminga (2007) discuss different transaction characteristics and relationship characteristics that affect which type of control that should be used, according to TCE. Below is the first part mentioned, the characteristics of the different transactions, described.

##### 3.1.1.1 Uncertainty, frequency and transaction-specific investments

Williamson (1979) argues that contracts set up for complicated structures should be used to rule complicated relationships and vice versa for elementary structures. To decide which structures are complicated and which ones are basic, certain qualities of transactions are defined and divided into three crucial measures of contractual relationships: (1) uncertainty, (2) frequency and (3) transaction-specific investments.

### Uncertainty

Williamson (1979) describes uncertainty in economics that comes from the complexity and variation in contracts. When looking at uncertainty it is investigated how augmented uncertainty affects the way transactions are governed. In the case of transactions that are standardized with market governance, uncertainty plays a little role. When it comes to investments that are transaction-specific, uncertainty makes it more important for the parties to reach an agreement (Williamson, 1979). Speklé (2001) says that the uncertainty comes from inadequate descriptions of what should be done. It is not rare that new information comes up during the negotiation of a contract that might fill the gaps or creates a need for renegotiation.

### Frequency

Williamson (1979) describes frequency as a factor that is less important than for example uncertainty. This measure of contractual relationships aims at describing the degree of activity that the buyer has in the market, meaning how often the transaction is carried out. It can be split up into three different kinds of frequency patterns: one-time, occasional and recurrent. Williamson (1979) further discusses a linkage between the transactions' frequency and the company's ability to recover from the costs connected to the specific governance structures that has to be set-up.

### Transaction-specific investments

Transaction-specific investments implies how specific an investment for certain transactions is and hence how large the costs associated with an investment are. If the costs are unspecific, the supplier and the buyer are able to trade with anyone on the market who is willing to do business. If there are great investments involved in the cooperation between a buyer and a supplier, for instance if the supplier needs to build a factory, both parties will get tied to the contract. This is because both parties have incentives to continue the cooperation since the supplier needs to make an investment and the buyer needs a supplier who is willing to make that investment. The investments could also include investing in human capital, such as learning (Williamson, 1979).

## **3.1.2 Relationship characteristics**

As mentioned above, Van der Meer- Kooistra and Kamminga (2007) discuss different transaction characteristics and relationship characteristics that affect which type of control that should be used, according to TCE. In this part are the relational aspects trust, information asymmetry and dominating buyer described.

### **3.1.2.1 Trust and information asymmetry**

The theory of transaction cost economics (Williamson, 1979) has been developed in many different directions over the years. Even though trust was not included in the original TCE, it has been given increased focus in the field of management accounting due to the importance of trust when governing. Van der Meer-Kooistra and Vosselman (2000) state that:

*“(...)trust plays a role in cooperation and coercion, incentives and trust are relevant aspects of governance”*

The authors note that trust is crucial when handling situations where the buyer and the supplier are highly dependent on each other regarding specific investments, and situations that in the same time are symbolized by incertitude. These situations can often not be solved by using contracts specifying every detail but rather need to be adapted to changes and new circumstances and therefore be based on trust. Further the authors state that the origination of

trust between parties may stem from for instance friendship or earlier contracted deals and can possibly result in commonly worked up norms and values (Van der Meer-Kooistra and Vosselman, 2000).

Dekker (2003) writes that an important aspect in a relationship regarding control and trust, is a mutual assumption that the counterpart is benignant. This is crucial in order for the parties to be able to share information without having to fear that the other company will act opportunistically. One relevant fear for companies is a situation where the counterpart takes advantage of the information they have been given and later use it in order to profit. The level of trust in the relationship also affects the need for control.

### **3.1.2.2 Dominating buyers**

Donada and Nogatchewsky (2006) refer to the transaction cost economics as an important theory and mention three aspects that are important to consider when investigating the dependence between two parties are mentioned. The aspects are characteristics of the transaction parties, the transaction environment and the transaction itself.

The degree of dependence between the parties depends on how transaction specific the investments made by the parties are. The party who makes more investments that are specific for a relationship is the most dependent. The second aspect refers to how important the institutional environment is and how many actors there are on the market. The last aspect refers to whether it is important if the actors have special qualities. Hence, Donada and Nogatchewsky (2006) conclude that a situation with a dominating buyer:

*“(...)corresponds to a situation where transactions require low-specific assets from the buyer, where potential suppliers are numerous, and where the institutional environment and the identity of the parties are insignificant.”*

According to Donada and Nogatchewsky (2006) it is more likely to practice market control (see definition below) if there is a dominating buyer. In the study it is shown that this type of control is blended with parts of both bureaucracy control and social based control, to fill gaps that are not covered by market control. The social based control, in combination with other types of control, is often used on the operational level to make things run smoothly. This way of mixing the different control patterns is something that goes against the theory of transaction cost economics. Cäker (2008) agrees and in his case study it is found that if the bureaucratic mechanisms have to be supported, the use of social mechanisms is appropriate. The dominated supplier might even find bureaucratic mechanisms helpful to keep the relationship healthy and can therefore be accepted even though they tend to be costly and problematic.

According to Cäker (2008) the dominant buyer may look at the supplier as an internal partner when the supplier is accepting the underdog position. It is also said that problems might occur if the supplier has conflicting goals and makes different priorities than what is requested by the buyer. The dominant buyer has the power to put price pressure on the suppliers in order to lower its own costs. This price pressure implies a tradeoff since there is a risk of losing the supplier if going too far. As discussed by Cäker (2008) it is not always positive for the supplier when the buyer is implementing projects that aim at lowering costs. This is because the buyer probably will demand lowered prices in the future. Even though the supplier finds the cost savings to be beneficial, it does not always have the time or money to carry out all these savings, and will therefore get a lower margin after the next round of negotiations. The

supplier will probably put up with this anyway since it is afraid to lose the dominating buyer. The case study shows that the buyer usually does not listen to suggestions that the supplier has unless these involve specific cost savings.

### **3.1.3 Definition of market-, bureaucracy- and trust based pattern**

Van der Meer-Kooistra and Vosselman (2000) describe a model for structuring interfirm relationships built on the transaction cost economies. The authors state that different types of transactions demand different types of control structures. These structures are divided into market based, bureaucracy based and trust based and are explored further in the different phases of the procurement process. In Cäker (2008), the author refers to three different coordination mechanisms: market, bureaucracy and social mechanisms which are similar to the mechanisms market, bureaucracy and trust described here.

#### Market based

This pattern is based on how the market reacts to different occurrences. The investments made are not specific and the outcome depends on supply and demand in the market. There are many contingent suppliers since the asset-specificity here is low and the transactions performed are standardized and easy to measure. The chores performed are also regarded to be highly repetitive and it is easy to switch between suppliers since the costs for doing this are very low (Van der Meer-Kooistra and Vosselman, 2000).

#### Bureaucracy based

The second pattern, the bureaucracy based, is typically used in a hierarchy structure. Everything is controlled through laws, norms and regulations. It is based on extensive supervision, evaluation of performance and revising information. Assets in the bureaucracy based pattern often have high or medium high asset specificity, the chores degree of repetitiveness are low or medium and are measured with the help of contractual rules. There is asymmetry in the bargaining power, the future is not that uncertain and the payment is dependent upon services performed or output (Van der Meer-Kooistra and Vosselman, 2000). The control type bureaucracy is typically used in collaborations that are horizontal, such as outsourcing, and it is usually the dominating party that decides which type of bureaucratic control that will be applied (Cäker, 2008).

#### Trust based

In the third pattern, trust is the most important way to control the other party. Payments are usually not dependent on specific services performed or output, but rather as sums decided in advance. The trust based pattern is characterized by assets that are highly specific, a low degree of repetition and output that is hard to measure. The bargaining power shows no sign of asymmetry and cooperation partners are chosen based on earlier cooperation and trust (Van der Meer-Kooistra and Vosselman, 2000). According to Cäker (2008) trust is built upon the assumption that the different parties will do their chores. Hence if the parties are engaged in their job, it is much easier to exert social/trust based control. Further Cäker emphasizes the importance of social control as a means to use when the bureaucratic control does not work or have gaps.

## **3.2 The procurement process**

Van der Meer-Kooistra and Vosselman (2000) divide the procurement process into three phases and describe how these are controlled using the transaction cost economics theory. The three phases are: (1) contact phase, (2) contract phase and (3) exchange phase. In the first phase mentioned, control is an important part since the company is searching for whom they



will do business with and hence need to find the most suitable party. Within the second phase lays the composition of the contract which states what should be done, as well as when and how this should be controlled. In the third phase, the exchange phase, the parties are supposed to act on what they decided in the contract. The parties may also need to reconsider the contract on a regular basis since the underlying conditions and the context they act in may change.

### 3.3 The contact- and contract phase

In the contact phase, control is important when searching for appropriate business partners. In the contract phase the contract is written and all limitations, duties, payments and allowances between the parties are set. What is stated in the contract decides what is to be done in the exchange phase (Van der Meer-Kooistra and Vosselman, 2000).

#### 3.3.1 The contract

The purchasing companies can find it easier to control the service performance more closely if they specify their requirements in the outsourcing contract. It is often harder to control the company's own permanently employed staff over time as they tend to do things their own way after a while. If the user of the outsourced service experiences a change in the service wanted, it is possible to renegotiate the contract and add new services when the contract is to be renewed. This is not possible with the company's own permanently employed staff (Belcourt, 2006).

Williamson (1979) describes the contractual background for transactions. He distinguishes between: (1) classical contract law, (2) neoclassical contract law and (3) relational contracting. Further Williamson (1991) shows that the three forms of economic organizations are typically used in the different contracts. To decide which contract is used together with which form, the ability to adapt to new conditions, the control mechanisms and how the parties are coordinated needs to be investigated. The special use of contract law for each form of governance also makes them different from each other.

#### Classical contract law

The classical contract law refers to standardized, formal contracts (Williamson, 1979). This type of contract is commonly used in the economical organization form called market. This means that the buyer and the supplier are independent of each other and if one party chooses to walk away it will not result in a cost for the counterparty. As long as there still are matching bids on the market the supplier will accept it and the contracts will be renewed (Williamson, 1991).

#### Neoclassical contract law

The neoclassical contract law is more commonly used under long-term circumstances with an element of insecurity about the future (Williamson, 1979). Neoclassical contract law is applied in the economic organization form called hybrid. Neoclassical contract law is suitable when the hybrid organization form is prevalent, meaning that although the parties are somewhat dependent on each other there is a situation of autonomy between them. An example of this is franchising. An important difference between classic contract law and neoclassical contract law is that in the latter the contract includes an acceptance for some level of deviation. The neoclassical contract law also gives space for unexpected happenings to be included late as they appear. This kind of flexibility has downsides such as large unexpected expenses and possible strain on the relationship (Williamson, 1991).

### Relational contracting

The relational contracting is used when the relationship between two parties are more extraordinary, and when they in the same time are very involved with each other. In this third case a standard contract will not do, and the parties have to develop a remake of the two former mentioned contracts (Williamson, 1979). In an article from 1991, Williamson (1991) discusses forbearance as contract law, which is similar to the relational contracting. The author suggests that the economic organization form hierarchy uses forbearance contracts. Hierarchy could for instance be the internal organization in a company and is the most conformable and changeable of the three economic organization forms mentioned. Because everything cannot be put into specific contracts in a firm, the organization has to rely on forbearance in the cooperation. The problems with this structure are the increased risks of delays, major failures and quality deviations. When comparing hybrid and hierarchy it is shown that the contracts are allowed to be less elaborate when using hierarchy. Another difference between the two is that in the latter the costs from adaptation and unexpected changes are much lower. This is due to the less comprehensive paperwork, more easily accessed information and the use of intra-firm reward used to motivate the staff (Williamson, 1991).

### **3.3.2 The contract and human behavior**

The area of human behavior focuses on how people act in different situations. For example a hard written contract that implies that certain actions have to be taken imposes difficulties that are hard to solve later on in the cooperation (Williamson, 1981). According to Speklé (2001), Van der Meer-Kooistra and Vosselman (2000) and Williamson (1981) it is especially two different behavioral assumptions that are important to transaction cost economics and the contracting problem: bounded rationality and opportunism.

#### Bounded rationality

Bounded rationality means that even though humans try to be rational and to not include emotions, they fail and the decisions rarely end up being optimal (Speklé, 2001). According to Williamson (1991) this can be restrained through contracts. These contracts need to be somewhat incomplete since they cannot consider all relevant situations that could occur.

#### Opportunism

When bounded rationality deals with people's feelings and emotions, opportunism refers to that decisions are biased by personal agendas (Speklé, 2001) and that people act selfishly and do what is best for themselves (Williamson, 1981). If people did not act opportunistically, contracts would not exist since one would trust that people do not act in this manner. In the initial phases of the procurement process, opportunistic behavior can be avoided through a large number of bidders, but this becomes harder when the parties enter the execution phase, often depending on the type of the transactions. This means that if a party acts opportunistically when a lot of time, effort and money have been spent for a transaction to occur, it is harder for the other party to break the contract (Williamson, 1981).

Trust is not considered to be an important aspect in TCE, but Williamson (1979) state that exchange relationships that are characterized by personal trust have a greater probability of surviving longer and may adapt to new circumstances more easily than exchange relationships without this characteristic. If contracts are short-term, they are re-negotiated frequently, the activities performed are highly sensitive and the willingness to make investments is lower. A

solution could be a long-term contract that makes it possible to adapt to new circumstances. In the absence of opportunism the contract could for instance include paragraphs that state that the parties will not act on their own behalf. Since Williamson (1979) does not believe in a world without opportunism, he states that this hazard ought to be considered. Whenever one of the parties in a bilateral monopoly wants to change something in the contract, both parties will try to gain advantages over the other. This will lead to either costly haggling procedures or no procedures at all, even though the changes in the contract could lead to saving in costs for both parties (Williamson, 1979).

### **3.3.3 Market-, bureaucracy- and trust based pattern in the contact- and contract phase**

#### Market based

The market based pattern is characterized by several bidders in the contact phase, which is dependent upon the fact that specific investments are not necessary. The contract is written on short- or medium time intervals and it is not very specific since all the relevant information is supposed to be reflected in the price, and this price is directly tied to how the supplier performs (Van der Meer-Kooistra and Vosselman, 2000).

#### Bureaucracy based

During the contact phase, the buyer is searching after specified criteria and collect offers from suppliers that state their different qualities. The supplier is often chosen due to their reputation and the bargaining process is asymmetric. Since the assets in the bureaucracy based pattern often have high- or medium asset specificity, the contracts may be very specific and extensive and the sanctions following certain occurrences are well defined. The contract is often written for a long- or medium time period (Van der Meer-Kooistra and Vosselman, 2000).

#### Trust based

In the third pattern trust is, as mentioned earlier, the most important way to control the other party. Therefore, when the buyer is searching for a supplier in the contact phase, it is doing this based on for instance friendship, earlier cooperations, image and general respectability. The contracts are long term and not particularly detailed in the beginning. Since the cooperation is built on mutual reliance, the details are worked out later on in the cooperation. The supplier is found and chosen through reputation, networks and earlier experience with each other. The contract is affected by the uncertainty in the future and there is no asymmetry in bargaining power (Van der Meer-Kooistra and Vosselman, 2000).

## **3.4 The exchange phase**

In the exchange phase, also known as the execution phase, the parties will perform according to what was agreed upon in the contract phase. This is the phase where the transactions actually will occur and the parties need to react and be flexible to how the paragraphs stated in the contract will function in the real world (Van der Meer-Kooistra and Vosselman, 2000).

Van der Meer-Kooistra and Vosselman (2006) discuss different interfirm transactional relationships, where outsourcing is considered to be one. The authors argue that this type of relationships demand that the parties coordinate their different operations in order to succeed. This means that they have to make allowances for one another and be open-minded to change and remake their chores and contracts as the environment they operate in change. This is not always easily done and difficulties may arise along the way.

### **3.4.1 Implementation and cooperation**

By having a well developed plan for how the implementation of new work assignments should be performed the company can benefit from increased efficiency as well as higher

quality and lower process time (Al-Mashari and Zairi, 1999; Fui-Hoon Nah et al, 2001). Al-Mashari and Zairi (1999) and Vrakking (1995) conclude that in the same way as there are several different factors that contribute to a successful implementation and cooperation, there are some factors that may lead to failure and thus are important to notice. An example of this is when the preparations are not solid enough which can result in unexpected problems and costs (Vrakking, 1995).

### Staff

Al-Mashari and Zairi (1999) point out that one of the most important factors when implementing a project is to make sure that the staff is committed and given the right information and training to get a clear picture of the organization and its goals. Al-Mashari and Zairi (1999) and Fui-Hoon Nah et al (2001) emphasize that when putting together project groups for the implementation it is advantageous if people from different parts of the company are engaged in the work as they provide different points of view. Al-Mashari and Zairi (1999) reckon that an important factor in succeeding in a cooperation is communication (described more thoroughly below). Gilled and Rasheed (2000) point out that a risk when using outsourcing is the loss of the feeling of belonging among the external staff working at the company.

### Communication and information

Al-Mashari and Zairi (1999) argue that an open and frequent communication between all parties involved and between all levels inside the company eases the cooperation since deficient communication is a common reason for failure in implementations. This helps to avoid unnecessary misunderstandings and smoothens the implementation. Freedman (2003) agrees with this and shows that in most successful implementation processes, stakeholders in the company as well as outside the firm are well informed about the strategy. Vrakking (1995) also emphasizes the importance of communication since employees who are against it might be relentless and can possibly slow down the process on purpose. One way of preventing this from happening is to make sure that the employees understand why the changes are done and why they can benefit from the project.

### Leadership

To succeed with the implementation and the collaboration Al-Mashari and Zairi (1999), Fui-Hoon Nah et al (2001) and Vrakking (1995) mention the presence of strong, committed leaders who can guide, inspire and pay attention to the employees by helping them and being supportive.

### Goals and measures

Goals that are easy to measure is an important factor for succeeding with an implementation since the lack of measures that are easy to evaluate and analyze makes it difficult to determine the degree of goal fulfillment (Al-Mashari and Zairi, 1999; Vrakking, 1995). It is also argued by Fui-Hoon Nah et al (2001) and Al-Mashari and Zairi (1999) that the failure of an implementation may be the result a of vague or ambiguous goal description where there is no consensus between the involved parties regarding their contract. The needs must be clearly defined and understood by all involved, in this way the problems with unrealistic expectations and too high-flying ideas can be reduced.

### **3.4.2 Reduction of shared costs**

Cooper and Slagmulder (2004) study new hybrid relationships between a buyer and a supplier, such as the phenomenon of outsourcing, and their joint efforts to reduce costs. This

type of relationship (hybrid) is increasingly important since a lot of cooperations nowadays do not fit into the division of market or hierarchy. Hybrid cooperations are often characterized by contracts that are incomplete due to the impossibility to predict all different outcomes and how one should act when they occur. Agndal and Nilsson (2009) investigate the collaboration between the buyer and the seller to reduce their costs which is called interorganizational cost management (IOCM). According to the authors, IOCM can be used before, under and after the “full-speed production”. There are several different techniques used for IOCM and some of the most commonly used are described below.

#### Target costing

This technique means that a target cost is set on a level that the market should be willing to pay. All aspects of the product should be taken into consideration and therefore the whole life cycle is investigated. What is implied to be extra important is to form a product that customers find satisfying, to find what the target cost should be and then to strive to reach the target cost through different techniques (Agndal and Nilsson, 2009). According to Cooper and Slagmulder (2004) the target costing technique is used by the buyer to find a price it is willing to pay for the good or service. Thereafter the supplier is told in which areas they should lower their costs. According to Agndal and Nilsson (2009) it is recommended that the buyer should include the supplier when trying to find the target cost. The target cost can also be found by utilizing different techniques mentioned below.

#### Trade-off techniques and continuous improvement

The quality-function-price (QFP) model implies a trade-off between the three parts mentioned. It can be seen as a negotiation between the buyer and the seller to reach an optimal solution (Agndal and Nilsson, 2009). According to Cooper and Slagmulder (2004) this technique is usually used when the supplier realizes that the target cost that is set is too low and thus has to modify this by altering the quality or the function. This technique works well during minor cost changes and implies only smaller modifications. Interorganizational cost investigations is a technique that is used when the QFP-model is not sufficient. It (interorganizational cost investigations) implies a deeper cooperation between the buyer and the supplier to find cost reductions and results in larger modifications. A third technique is the concurrent cost management which amounts to the largest changes, the most extensive cooperation to reduce costs between the parties and thus is used during the most fundamental modifications.

### **3.4.3 Dependency risk and increased areas of application**

Adler (2003) discusses the dependency risk where the buying company might end up being dependent on the supplier due to reliance on their knowledge. Leavy (2004) agrees that the risk of possible loss of skills within the company gets bigger with increased use of outsourcing. On the other hand, the supplier faces a similar risk of being too tied up by the company buying the service. Adler (2003) also argues that there are possible gains for the supplying firm as they often experience the benefits of economies of scope and scale as they provide several companies with similar services. Van der Meer-Kooistra and Vosselman (2000) use a case study to look closer at how a company uses outsourcing, and thereafter present a theory regarding knowledge in the supplying firm. One important finding is a trend where the supplying company tends to provide the company with more and more activities instead of the company using several different suppliers for their services. An important advantage of this structure is the increased level of knowledge and firm specific competences that the supplier builds up when working close to the company. They find evidence of the buying company benefiting from the suppliers skills through the better service and

performance provided. The possible downside of this trend is the risk of overusing outsourcing (Gilley and Rasheed, 2000).

### **3.4.5 Market-, bureaucracy- and trust based pattern in the exchange phase**

#### Market based

The market mechanism aims at giving structure to transactions between autonomous parties that have chosen to cooperate (Cäker 2008). When entering the exchange phase, there is a possibility for another round/rounds of “competitive bidding”. This is done to make sure that the buyer has the best supplier and to make sure that the supplier continues to work hard. The supplier will be controlled through recurring measuring and evaluation of the supplier’s performance and the supplier’s compensation is directly related to these rates (Van der Meer-Kooistra and Vosselman, 2000).

#### Bureaucracy based

The bureaucratic mechanism is made up of rules and regulations for how operations should be executed. There might be clearly stated standards for the parties to follow in order to fulfill the service the right way (Cäker 2008). The bureaucracy based pattern is typically used in a hierarchy. The buyer is constantly supervising, assessing and evaluating the supplier and is very dependent upon the information that exists (Van der Meer-Kooistra and Vosselman, 2000).

#### Trust based

The mechanism that Cäker (2008) refers to as the social mechanism depends a lot on trust in the relationship, and it is further assumed that employees take responsibility for their actions. Van der Meer-Kooistra and Vosselman (2000) state that the buyer and the supplier both take risks and the cooperation is monitored through different processes and relies on social behavior and culture. Therefore is the monitoring used in the execution phase also dependent upon factors such as trust in prevailing competences and benignity. Consultation is often based upon personal advice. Cäker (2008) emphasizes the importance of trust in the operative cooperation, since for instance sharing information and adaptability from both sides eases the employees’ every day chores. Although adaptability and trust is important, these may obstruct other things when some of the control is bureaucratic and formal. For instance if the operative manager in charge says that it is accepted to deliver a shipment late, the bureaucratic system will show that the supplier did not fulfill their agreement to deliver in time.

### **3.4.6 Operative management control mechanisms**

There are several ways to make sure that the employees at a company do their best to serve the company’s best interests. Four commonly discussed forms of operative management control are: (1) action-, (2) result-, (3) personnel- and (4) cultural control (Merchant and Van der Stede, 2007). The control can either focus on a broad spectrum of activities or just on some extra important activities that are crucial for the overall performance. Depending on how closely the activities are governed, the relationship is said to be more or less tightly controlled. The degree of how tight the control is, is viewed from the controlled part’s perspective and depends on the frequency and extent of the control (Groota and Merchant, 2000).

#### Action control

Action control tries to influence the staff by pointing out actions they should undertake during certain events (Davila, 2005). This is the most hands on approach of the four as it aims at affecting the employees’ way of working. The employees’ actions might be motivated by

incentives, such as bonuses and other rewards, set up by the management. In order to make it clear what should be done and how achievements will be rewarded there is a need for contracts defining the conditions. There is also a need for extensive follow-up procedures to evaluate the level of goal fulfillment (Groota and Merchant, 2000).

### Result control

This type of control means that the company is measuring the outcome of the employee's actions and subsequently also evaluating them based upon these measures (Davila, 2005). The result control system aims at making the employees work hard in specific areas that the company prioritizes to augment the overall success. To achieve this result, goals should be set up and the degree of fulfillment should be measured. Thereafter proper reward or punishment should be given to the other party. When needed the management can step in and get involved in order to help the staff perform better. One way of evaluating the results is to look at reports of the performance and then have a dialogue with the employees. When talking to the staff about the results advices could be given and they get the opportunity to give their side of the story (Groota and Merchant 2000).

When implementing a result control system there are four steps that have to be performed. First the area where the improvement should be done has to be defined. Thereafter the current performance has to be measured. In the third step goals are set up in order to make it clear for the employees what should be done. These targets will influence the employees' way of working. Finally incentives such as higher wages, bonuses or promotions could be introduced (Merchant and Van der Stede, 2007).

The degree of success of an implementation of a result control system depends on several factors. One important thing to do is to make sure that the employees are well aware of the goals and that they know how to affect the outcome of their work. Another critical factor is to give the employees a chance to influence the results. A third factor is to measure the results as accurately as possible. The degree of goal fulfillment is investigated as well as the change of behavior among the employees (Merchant and Van der Stede, 2007).

### Personnel control

Personnel control aims at influencing the staff's behavior by constantly remind the staff of the company's goals (Davila, 2005). In order to succeed the employees have to be willing to perform and a way to ensure this is to give them proper conditions to work under. When choosing employees there are several factors that has to be taken into consideration such as the person's history and trustworthiness. The needs of the employees are also important to satisfy, for example through education (Groota and Merchant, 2000).

### Cultural control

The backbone of cultural control is the power of employees monitoring and encouraging each other to do things right. One way of creating culture in the company is to use a code of conduct where for example ethics, vision and firm specific ideas are stated. Another way of using cultural control is to reward good behavior of the group as a whole. This can be done in many ways but some frequently used ways of rewarding is through bonuses and sharing of the profit (Merchant and Van der Stede, 2007). When the management uses cultural control it is important that the employees share the company's management philosophy. It is believed that the culture will lead to good performance through habits and the firm's specific way of doing things (Groota and Merchant, 2000).

## 4. Empirics

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*In this section findings from interviews with Company X, managers at three stores and the suppliers at each of the three stores are presented. First a brief presentation of the company is provided as well as some explanations of terms. Thereafter the respondent groups are handled one at the time. Since the company in our case study wishes to be anonymous, synonyms are used when referring to the interviewed people. Referring to the research question, Company X is regarded to be the strategic buyer and the stores the operative buyers.*

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### 4.1 The company

Our case study is executed at Company X which is a part of a large international retail group, here called the Group. Company X is situated in Sweden and is responsible for the Group's purchasing of services. Since cleaning service is one of the largest indirect expenses for the Group, Company X is constantly seeking new opportunities to cut costs in this area. At the Swedish stores, the cleaning service is in general outsourced to external companies rather than done by the Group's own staff. The Group uses a couple of different suppliers to service their stores in Sweden.

Since the Group strives to keep their prices low, outsourcing is a natural part of their business. The joint procurement of the cleaning services is made by Company X since the beginning of the 21st century. The start of the subsidiary Company X is considered a successful way of centralizing the procurement process. When communicating needs and instructing prospective suppliers of cleaning services, Company X uses a cleaning standard developed to suit the Group's demands of cleanliness. Lately, Company X has received indications that the cleaning standard is not enough, and that the stores are not as clean as the Group wishes them to be.

The stores pay an annual fee for the services that Company X offers and hence do not have to pay for every procurement process. Joint procurement is used because the personnel at the store should not have to care about this, but rather be able to focus on the customer. One advantage with joint procurement is that the procedure does not have to be done over and over again for different stores, which saves time.

### 4.2 Definitions

C = Head of cleaning at the store from the supplier's side

S = Head of cleaning at the store from the store's side, a.k.a. the supervisor

X = Head of cleaning services at Company X

The store = One individual store that is part of the Group

Department manager = Person responsible for a department of the store

Supplier = In this case the company who supplies a store with cleaning services

Extra services = Services other than general cleaning performed by the supplier

Frequency-based cleaning = Implies that an area is cleaned X times per week or month

Need-based cleaning = Implies that an area is cleaned when needed

Team leader = Operational responsible at the store from the supplier's side



## 4.3 Documents

### 4.3.1 The standard contract

Company X has a standard contract for cleaning that is used in all their cleaning procurement processes, with some changes for the different stores. Since the contract is standardized it can be used as a framework for all suppliers. To be able to handle different prerequisites for the different suppliers and stores, some appendices are added to the contract.

According to the contract, the prices are fixed during the first year of the cooperation and thereafter the supplier may initiate negotiations to raise prices. The contract states general rules such as that the supplier shall pay the correct taxes in time, follow the legislation, follow the Group's code of conduct and that they are obligated to have an insurance covering certain possible events. The supplier has to have a team leader in the store who is in charge from the supplier's side and who the store can reach during all operational hours. If the buyer should ask for it, the supplier is beholden to provide the buyer with information about statistics of for instance the number of working hours spent in the store.

### 4.3.2 Appendices

The contract refers to appendices where more store-specific information can be found. These are for instance specific prices for different stores and suppliers. In the appendices all of the store's areas are specified, the opening and closing hours are given and the number of visitors per year is reported. Further the cleaning standard is included, which is described more thoroughly below. The appendices also include what the cooperation between the supervisor from the supplier's side and the store should look like. The extra services added that shall be performed by the supplier, in case the store requests them, are also described in the appendices.

### 4.3.3 The cleaning standard

The cleaning standard that Company X has worked out is used because the Group wants its customers to always perceive the store as clean. Company X has decided that this is best done by using need-based cleaning. According to the cleaning standard, quality controls should be performed every day by the cleaning staff and once a month by a supervisor from the supplier. The quality control is made by counting the number of deviations in different areas in the store. In some areas more deviations are accepted than in others. A deviation could for instance be a stain or dust. The aim of the deviations quality control in the cleaning standard is to help the store and the supplier decide if an area is clean or not.

## 4.4 Company X

The respondent named X1 has worked for Company X for several years and is responsible for the procurement process of cleaning services in Sweden. The cooperations between Company X, the stores and the suppliers are described in the different phases mentioned in the frame of references: contact, contract and exchange.

### 4.4.1 The contact phase

Company X has a few large nationwide suppliers and a couple of local ones engaged in the contact phase. The suppliers are chosen on specific criteria such as that they have to be big enough to not be dependent solely on working with the Group. Further X1 says that they have to have enough experience to be considered to be a well established company and to be able to follow the Group's demands on environmental impact. The price is dependent on how many suppliers there are in the contact phase but also on the fact that cleaning is a special

service which is built on relationships.

X1 says that earlier cooperation and experiences are important when searching for a new supplier. X1 emphasizes that earlier experiences also give a hint about what to look for in new suppliers. According to X1, Company X does not have to make large monetary investments in a specific supplier since all use of articles of consumption and machinery are supposed to be included in the price. Time on the other hand is always invested which implies large sums of money.

#### **4.4.2 The contract phase**

X1 says that the contract is tried to be kept as general as possible and that all specific tasks and assignments are attached in appendices. The contract can be terminated no earlier than a year after it came into effect but runs on indefinite time with a mutual three months term of notice. X1 says that it usually takes approximately three years before a store thinks that it is time for a new round of negotiations. During the first year, the store and the supplier are still in the implementation phase and during the second year things are usually in place and up and running. In the third year the store might get indications that better and cheaper alternatives are to be found. For instance they may feel that the supplier should have found ways to rationalize the work and that the supplier makes more money now than they did in the first year. Therefore the store wants to start a new procurement process.

X1 says that it is reasonable to have a procurement process every third year. X1 does not think it is a good idea to have recurring procurement processes on a yearly basis since the supplier still is in the implementation phase and is getting to know the store and the daily work. X1 says that the cleaning standard may have been too complicated to understand before and that they now have tried to improve it. Earlier the supplier had a lot of responsibility to interpret the standard which led to misunderstandings between the store and the supplier on how things should be done.

X1 says that the store owns the contract once it is sealed and Company X is just a resource in the procurements process. The store is free to make changes in the contract without talking to Company X. According to X1 there is a possibility to make changes in the contract during the cooperation, but in order for them to come in to force an amendment to the contract has to be written and signed. If there are changes that the store or the supplier thinks are necessary they usually handle this through communicating with each other and without changing the contract. At times the store writes amendments for these changes and may then contact Company X to get help on how to write these. The extra services are handled directly by the store and the supplier through a so called "living document". When it comes to the cleaning, X1 says that everything usually works out and if there is a problem it is often dependent on for instance the supplier's team manager's presence at the store.

Company X sets the standard in the contract on what they are expecting from a supplier early in the cooperation. The Group always uses their own cleaning standard and their own template for contracts according to X1. The contracts are never written for too long time periods in order to avoid that the supplier feels too comfortable. Further, X1 says that they expect and demand that the supplier constantly improves and advances themselves. X1 says that the large cleaning companies often have a way of working and that they want to continue to have it that way. Meanwhile the Group and Company X have another way of working which have resulted in some problems, mostly because of the change from cleaning frequently to cleaning when needed. It is increasingly common to use the latter since

companies realize that they get more value for their money. X1 says that a lot of cleaning suppliers are still using frequency-based cleaning since it is easier for them to schedule and explain the chores for their employees based upon this.

X1 says that it is stated in the contract that the supplier should perform inspections of their own, and it is good if someone from the store's side can be present during the inspections as well. Company X has tried to develop the cleaning standard to make sure that the cleaners know exactly what to do and that there is no room for different interpretations. This was a problem earlier since in between the lines Company X more or less told the supplier that:

*“We do not care how you do it, how many you are to do it and which methods you use as long as you follow the standard”.*

Nowadays the standard is more specified, but X1 says that it cannot be too specified because then it is not applicable to have need-based cleaning.

#### **4.4.3 The exchange phase**

According to X1, the cooperation is built on both the contract and trust that the supplier will follow the contract. When it comes to the cleaning, communication is everything X1 says. The parties should for instance make sure that they have the same expectations about the cooperation and the cleaning. Regarding the joint efforts between the store and the supplier to lower their costs, X1 says that they try to give each other ideas on what can be improved to find synergies. These are for instance to make sure that the supplier talks to suppliers in other stores and exchanges experiences with them. The supplier should also perform time studies in certain areas to see if there is a way to do things more efficiently.

Company X is supposed to be a support function during the procurement process and hence is the contact between the store and the supplier thereafter directly handled by the two parties. X1 says that it would be a good idea if they helped to explain the standard and how it should be interpreted when implementing a new supplier. Company X also discusses how it could centrally solve problems that exist on several stores with the same supplier. This solution could be used instead of different stores solving the same problem over and over again. This is not really what is supposed to be the function of Company X and X1 say that they do not really have the resources to do this at the moment. Although, if something is wrong the stores might want a new round of procurement which also is costly and time consuming. They could also hire someone at the headquarter to be responsible for the contact with the stores and the suppliers after the implementation, or that Company X is a little bit more active after the implementation. This is to save money since the procurements performed may decline.

#### **4.5 The managers at the stores**

Three managers that are responsible for, among other things, the cleaning at their stores are interviewed. They have a limited budget spend at cleaning and have to make sure that the store is clean and maintain a good relation with the supplier. The respondents have had their current positions for several years and are given the names S1, S2 and S3. S1 and S2 are in the middle of their cleaning contracts' running time. S3 on the other hand have decided not to renew the contract with their supplier without also taking in offers from other suppliers on the market. This is not due to dissatisfaction but rather due to the fact that S3 thinks that it is good to see if any other supplier has a better offer. The text is divided into contact, contract and exchange phase to make it easier for the reader to see the connection with the frame of reference.

#### 4.5.1 The contact- and contract phase

According to S1 both the finance manager and S1 are able to influence the contract during the negotiations. The reason why they both participate in the negotiations at this store is that they think it seems wrong that just the person with financial responsibility makes decisions without the operative knowledge and experience that S1 has. It is important that both cost- and quality aspects are taken into consideration when making decisions according to S1. S2 and S3 agree that they can influence the contract but that they are not present at the negotiations. If any extra services, except the ones included in the standard contract, are needed at the store there is room for negotiation with the cleaning companies, S2 and S3 state.

According to S1 the contract is very detailed and broken down to a low level. S1 says that the contract has to be this detailed in order to reduce the risk for conflicting interpretations and misunderstandings. Both S2 and S3 disagree with S1 and think that the contract is not that specific. S3 says that the contract is fuzzy and in particular lacks a precise description of what is included in the standard contract and what is not. The problem today is that there are conflicts regarding if a chore is included or if it is an extra service that S3 has to purchase separately from the supplier. S2 explains that the standard contract includes the cleaning standard stated by Company X. According to S2 the cleaning standard in the standard contract is pretty clear but at the store the system with counting deviations is not used. The quality control is rather done by visual screening of the area to conclude whether or not it is clean enough.

Since the store's contract is set up through a standard template, S1 proposes that a local contract could be set up by the store. This contract should state by who and when certain activities should be performed. S1 says that at the store where S1 works the procedure with setting up this document has already started and has smoothed the relationship with the supplier. The standard contract itself should not be more detailed according to S1. S1 says that this work should not include Company X who does not have insight into the store's specific needs. The adjustments have to be done by S1 and C1 who know the day to day work at the store. S2 and S3 on the other hand think that the contract should be more specified. To clarify S2 states that:

*“ The possible drawback of a more detailed contract is that the cleaning personnel might focus too much on deviations instead of cleaning where needed. The good part is that it would give me enhanced opportunity to follow up the work and give feedback. ”*

Another advantage with a more detailed contract mentioned by S2 is that the risk of cleaning personnel creating habits is decreased. For example if the cleaning staff learns that an area does not usually have to be cleaned and end up not checking the area at all.

Today S2 does not use Company X's quality control sheet in the cleaning standard. S2 and C2 walk through the store together and discuss the areas that are already good and which areas should be improved. Even though an area is considered clean based on the cleaning standard, it might look dirty and hence improvements are considered. S2 states that the customer's impression of the store is the most important thing to have in mind. S3 says that at S3's store Company X's cleaning standard is used.

When discussing the possibilities of making changes in the contract during the running time, all respondents say that it is possible. Worth to mention is that the contract itself never seems to be changed but rather the changes are solved through a discussion between the supplier and

the store. S1 says that there is a high degree of flexibility in the relationship which has generated good results. S1 explains that several times during a year new needs are discovered as well as flaws in the contract that are taken care of. The cooperation between C1 and S1 is of horse-trade character where discussions lead to a solution that is optimal for both parties. S2 means that it is the good relationship between the parties rather than from a flexible contract that enables changes. If a new need occurs there is always a way to solve it with the supplier even though the contract is already completed. S3 agrees with S2 and says that there is always a possibility to add services.

Further when discussing the contract S1 says that C1 has a new way of making sure that the cleaning staff does not act irrationally. This is done by the so called “department manager project” and means that all department managers get to meet C1 and an employee from the cleaning company to discuss the cleaning at their department. Thereafter each of the cleaning staff is given their own departments that they are especially responsible for, which has led to better results. The aim of the project is to define the specific cleaning needs at each department. Further, S1 states that the contract handles irrational behavior through the quality control sheet. The sheet implies routines that make it possible to cover the whole store in a satisfying way. S2 and S3 on the other hand do not think that the contract is optimal for avoiding irrational behavior as there is much room for interpretations. The need-based cleaning that is recommended by Company X increases the risk that the cleaning staff misbehaves according to S2. Problems arise when the cleaning staff does not understand what is expected of them and what is considered clean according to the contract. S2 says that in order to make sure that irrational behavior is kept at a low level, S2 and C2 have meetings once a week to talk about how the cleaning of the store should be performed. According to S2 it would help decrease irrational behavior if there was a representative from the supplier present at the store at all times to manage the cleaning staff, instead of C2 just visiting once a week or sometimes less. S3 says that even though the contract does not handle irrational behavior, the good communication and smooth relationship with C3 and C3’s staff eliminates the risk for irrational behavior.

In the same way C3 does not think that there are any problems with opportunistic behavior due to the good relation, but again states that this is not due to the contract. S2 agrees with S3 and says that the contract does not take care of the issue of opportunism. It rather makes it possible to act opportunistic as need-based cleaning can be misused. The good relationship with C2 is, according to S2, an important factor in avoiding opportunistic behavior. S2 says that if it was not for the strong relationship and the high degree of trust S2 would prefer a stricter contract that diminished the risk for misbehavior. S1 again refers to the “department manager project” when taking action against the opportunistic behavior. According to S1, the project have resulted in a decreased risk for opportunistic behavior and underperforming on purpose, as the cleaning staff gets a personal connection with the department manager. The department manager has also gotten more engaged in the cleaning question instead of just complaining when they are not satisfied.

#### **4.5.2 The exchange phase**

During the interviews, the issue concerning possibly conflicting goals between the suppliers and the stores was discussed. According to S3 and S2 there are no problems with conflicting goals in their relationships. S3 states that their supplier always tries to keep the store as clean as possible to satisfy S3. The only problem with conflicting goals that S2 experiences is that the store’s personnel do not understand what is included in the contract. They sometimes do not understand what they can and cannot expect the cleaning staff to do. According to S1 there have been problems with conflicting goals earlier but not anymore. The conflicting goal

came from the cleaning company's wish of giving their staff a possibility to work at "ordinary, 9 to 5" hours and the store's operative need of having cleaning staff in the store even in late afternoon, evenings and weekends. S1 adds that over the years the cleaning company has worked with strong leadership with group leaders, such as C1, and this has resulted in a better cooperation with the store. S1 has been extremely direct with what S1 expects from the cleaning company and that S1 buys a service that shall ensure that the store is clean at all times.

When starting a new contract, all of the respondents say that the work with implementing the store's staff is poor, if at all existing. S1 and S2 send out all protocols from the meetings to the stores' department managers. Both S1 and S3 say that C1 and C3 and all the store's department managers meet and go through what is needed and expected on each department. According to S3 this is crucial for a successful implementation as well as a good communication between the parties. S1 does not see a need for more information during the implementation but on the other hand S1 does not have a clear picture of what the store's employees think. Even though not much is done to incorporate the store's staff, S2 encourages the store's staff to make the cleaners feel welcome and needed. S2 says that this is important in order to keep a good relationship with the supplier. When the supplier brings a new employee S2 has a meeting with him/her together with C2 to go through the work at the store and explain what is expected. S2 says that this meeting is crucial for a successful cooperation.

Both S2 and S3 say that there is not much work done together with the supplier in order to decrease costs. S2 and S3 say that one thing that is done is that at the monthly meeting with their suppliers some costs are discussed and investigated if something seems wrong. S3 adds that costs saving choices are also discussed, for example which kind of floor maintenance that is cheapest in the long run. S2 and S3 say that a reason for the low level of discussions regarding cost savings is the fact that all prices are fixed in the contract and no costs are floating. According to S2, every three years when the contract is renegotiated, the fixed costs are reviewed and possibly changed. S1 and the supplier at the store work a lot with cost savings and have a constant dialogue. For instance, they work together to find the right cleaning equipment needed for doing the job as efficiently as possible. S1 mentions that an important factor is the mutual understanding that the cooperation is a win-win situation where the parties work together to save money. According to S1 there is an open communication between the parties where they both have insight into the other company's operations. This gives them opportunity to comment and present ideas of how the other company can save money. S1 states that in order to have this kind of communication there is a huge need of trust and good will between the parties. S1 says that if C1 finds a way to cut costs the money is used to buy other cleaning services instead.

When discussing dependency between the parties, S1 says that there is dependence on the supplying firm's services, but that it is not a problem as long as the store's employees still care and pitch in when needed. S1 and S3 say that there are several actors on the market who offer cleaning services and that in the long run it is possible to switch service provider if needed. The cleaning company might be more dependent on the Group than vice versa since the Group is a very large company, S1 says. The cleaning company's loss might be bigger as the cleaning at the store employs many of the cleaning company's employees, S3 adds. S1 says that from the Group's point of view it would be possible for them to employ the cleaning staff directly instead of through a cleaning company even though this is not the plan. S2 does not agree and states that none of the parties are dependent on the other. If S2 is not satisfied

with the supplier there is always a possibility to not honor the contract. According to S2 the supplier is strong at the local market and is probably aware of its position, which might be negative for the store when negotiating. S2 says that when this contract period is finished there will be renegotiations and offers from several suppliers will be considered. According to S2:

*“It is always good to change supplier after a couple of years to keep the performance at a high level”*

Regarding the level of closeness in the relationship S1 and C1 have a meeting each month to follow up the work and talk through strategic issues. If needed there is e-mail or telephone communication in between the meetings. S1 states that a close relationship is not equal to having meetings frequently, rather the other way around. In addition to this there are also meetings where C1, a person from the cleaning staff and the department manager handle the operative issues on each department in the store. S2 and S3 also think that the relationship with their suppliers is good. They both have a monthly meeting with their suppliers and between the meetings there is some contact via phone calls and e-mails. S3 thinks that the standard contract and cleaning standard eases the contact between the store and the supplier as some guidelines are provided. S1 thinks that it is important that the cleaners are engaged in their work and tries to make sure that the cleaning staff feels that it is essential to the store. S1 wants the cleaning staff to feel vocational pride and commitment.

S1 says that the cleaning company can be trusted to 100% and that they would not misuse any information given to them. S3 and S2 agree that they can trust their supplier. On the other hand S2 and S3 say that the supplier is a seller that gladly finds new areas where they think that the stores need help with extra cleaning. All respondents say that at their store the cleaning company has access to all information that the store's own employees have, for example sales and campaigns. S2 does not think that the supplier can gain from spreading information to the Group's competitors. Regarding the negotiations, the standard contract is developed by Company X and in this contract the prices are stated. According to S1 the cleaning company gets to share this information and is aware of the fixed budget that the store has for the cleaning services, hence there are no negotiations about prices which could affect the relationship.

S3 says as S3 trusts the supplier there is not a high need of controlling the work. S2 means that there is trust in the relationship today but due to earlier problems in the staff management from the cleaning service's side there have been quite tiresome discussions regarding cleanness. S2 says that there is a need to control the supplier even though S2 trusts them. This is according to S2 for instance seen in the monthly meetings S2 and C2 have. According to S2:

*“The need for control comes from the risk of the cleaning staff being sloppy rather than them being spiteful.”*

S1 says that the store's employees do not control the cleaners but if they should find an area to be very dirty they would probably contact the head of cleaning. This is not done as a way of using top-down management but rather as a way of taking responsibility for the store and the customers' impressions. S1 says that as C1 gets even better on managing the employees the need for the store's control decreases.

Regarding the measuring of performance S2 states that the supplier's performance is quite easy to measure. When controlling the cleanness, S2 does not use the control form that Company X has created and that comes with the cleaning standard. S2 rather uses common sense and looks at how clean the areas are in general. C2 has created a control form that C2 and S2 uses on the monthly meeting to inspect the cleaning. S2's way of looking at the measuring differs from S3's as S3's supplier uses the quality control sheet from Company X. S3 says that it is quite hard to measure the performance but that S3 and C3 has found a way to use the cleaning standard anyway. S1 finds it impossible to measure the outcome of the cleaning. S1 thinks that the quality control sheet is really hard to work with as in S1's mind there are just two alternatives, an area is either clean or not clean. In the same time the contract states that an area is considered clean if there are less than X deviations. S1 knows it is impossible to keep the store completely clean with no deviations at all times. A problem when measuring the areas is that it is poorly stated in the contract where the area begins and ends. S1 states that the cleaning company has to be given guidelines for how often certain areas should be controlled in order to plan their work. The need for cleaning might also change as the seasons change, for example during the winter with snow and gravel. Today this is not a parameter when planning and scheduling the cleaning hours which it probably should be, according to S1.

When discussing management of the cleaners all respondents from the stores say that they do not manage the cleaners at all. S1 says that they have their own manager, C1, and S1 only tries to influence the cleaning company's employees indirectly through constantly showing that their work is important. S2 adds that the only hands-on way of managing the cleaning company's employees is the monthly control together with C2. S1 wants the cleaning staff to feel that they are important since this might influence them to get more involved and to do a better job. S3 works in a similar way and encourages the supplier and the cleaners through e-mail.

According to S1 the Group does not try to involve the cleaning company's employees in the Group's company culture at all. S3 states that at the store the supplier is neither included nor excluded. S1 thinks that it is important that the cleaning staff follows their company's culture and listen to their manager instead of following the Group as long as they still keep the customer in focus. S2 says that it would increase the store's influence on the suppliers and its employees if they could have meetings with the entire cleaning staff, their managers and involved people from the store's side. S2 states that this would probably clarify for the cleaning staff what S2 expects from them and how the Group wants the store to be cleaned. S2 says that it would also result in bringing the cleaning staff closer to the store and giving them a feeling of belonging. Another possible way of managing the cleaning staff and making them perform better is, according to S2, to encourage job rotation. S2 tries to make the cleaners eat breakfast with the store's personnel since this could increase the team spirit and strengthen the relationship with the Group.

## **4.6 The cleaning suppliers**

The respondents from the supplier are head of cleaning at the store from the supplier's side. They are responsible for making sure that the cooperation with the store runs smoothly and that the cleaning personnel do what they are supposed to do. The respondents are named C1, C2 and C3 and have had their current positions for a number of years.

### **4.6.1 The contact- and contract phase**

When discussing the possibilities for the suppliers to influence the contract during the negotiation phase all respondents say that they did not have any possibility to do that.



According to C1 this is due to the fact that the cleaning supplier has a joint procurement process with Company X and hence other people were the ones involved in the negotiations. C1 and C2 agree that this is a good way of working and do not think that they need to have any influence in the negotiations phase. C3 adds that if there will be a renewal of the contract C3 hopes to be given the chance to influence.

The joint procurement process that C1 mentions decides what the contract looks like. As all stores look a little bit different the contracts vary a little from store to store according to C1. They usually differ since different stores need different extra services. C2 and C3 mean that the contract is very well specified in a good way. Further C2 states that the contract is very clear and that there is no room for misunderstandings and according to C2 both they and the store understand it. C3 finds the contract to be too detailed. C1 does not want to participate in the negotiations but wishes that the contract was even more specified than it currently is. For instance, C1 thinks that the fact that the store is divided into several areas is good but that the contract should define exactly what is included in each area and what should be done. This would help the cleaners to do a better job, according to C1. C1 also states that a good contract should not leave any room for interpretation, which the current contract does, and says that:

*“The possible downside with a more specified contract is that it may be harder to understand it.”*

After the contract is set up and in use it is possible for the supplier to propose changes in the services performed according to all respondents. C3 says that if the store needs additional services during the running time they are billed separately for each extra chore they chose. Usually it is C2 or the cleaners who discover a new need and suggests the added service to S2. C2 adds that:

*“At the store where I work the services performed can be changed during the cooperation although the physical contract itself is never changed.”*

C2 says that the contract runs over a three year period. C1 and C3 have one year contracts that are prolonged as long as none of the parties choose to end the cooperation. When talking about irrational behavior among the cleaning staff and the contract's role in decreasing the risk of it, C2 and C3 state that the contract is not written so that the cleaners are controlled. C3 adds that irrational behavior is avoided through education and information from C3 to the cleaners. According to C3 the cleaners sign a paper that states that they have understood what is to be done. C1 agrees that irrational behavior among the cleaners is not a problem as the cleaners are perfectly aware of what they are supposed to do since this is stated in the contract.

#### **4.6.2 The exchange phase**

When implementing a new contract C2 uses an orientation program with special educators who go through the cleaning routines, the cleaning description, the job description and how the job should be performed. Thereafter the project starts and after some time C2 does a follow-up in form of a quality control together with the store to check how the work is progressing and that both parties are satisfied. C3 has a similar way of working where a lot of information is shared and the personnel are educated. Another important factor when implementing is, according to C3, that experienced staff is used as a foundation when setting up a new crew at a new location. C1 states that 100% presence from C1, who is in charge of the implementation, is the most important aspect when implementing a new contract or

project. C1 has to have control and give clear, direct instructions to the staff, otherwise the implementation will fail. C1 explains that the staff has to be informed and there has to be documents for everything: schedules, job descriptions etcetera when implementing a project. According to C2 and C3 there is a team leader present all days at the store, not just during the implementation, even though C2 and C3 are not at the stores at all times. All three respondents say that they get all information they ask for and do not feel that the store tries to withhold anything from them. All respondents say that there are no problems with dissatisfied staff or high staff turnover.

The stores and the suppliers work together to lower their costs according to all respondents. An example mentioned by C2 and C3 is the fact that the supplier only cleans when needed and focuses on problem areas. Further C2 states that C2 and S2 always try to meet in the middle when making changes to create a win-win situation. C3 adds that S3 has given C3 the statistics regarding the number of visitors that are to be expected for each day. C3 says that this makes it much easier for C3 to schedule the personnel in the best possible way. C3 adds that in order to improve the cost cutting further, C3 would like to have a meeting for instance four times per year with S3 to discuss the cleaning needs during the upcoming quarter. C1 explains that C1 and S1 have developed a process description that will lower costs for both parties. The aim is mainly to evaluate schedules and routines. For instance they go through what the cleaning staff can do to ease the job for the store's personnel, so that they can better focus on the customers and be able to sell more.

The suppliers' way of cooperating with the stores and providing extra services do affect the dependence in the relationship a bit according to all respondents. C2 concludes that the extra services added could be one thing that makes the store dependent on them. The goal for C2 is to make the store feel that they have to have the specific supplier C2 represents, to do the cleaning at the store. C1 and C3 look somewhat different at the dependency situation and thinks that the Group and the supplier are mutually dependent in the long run. One important reason is the fact that they are very similar as companies according to C1 as they both think that the staff should enjoy their job and focus a lot on their coworkers. Further C1 states that:

*“It is important for us to keep such a large customer as the Group. This makes us somewhat more dependent on the Group than the other way around.”*

All respondents say that the Group is quite dependent on them as a supplier in the short run. This is because if the cleaners do not do their job the store's own personnel will have to do it instead and it would impact both the store's sales and the customers' impression of the store.

Both C2 and C1 describe the cooperation with their stores as being close. C3 on the other hand states that the relationship is quite close but C3 would like it to be even tighter. For example C3 would like S3 to in advance communicate expected peak-days and also that S3 joined C3 and the group leader when inspecting the store. C2 and S2 have monthly meetings, but they usually bump into each other more often and can always call each other if something comes up. C1 states that the cooperation between them as a supplier and the store is pretty close and they are at the moment working with the “department manager project”. Earlier it was just C1 and S1 who discussed what should be done or not but now they are trying to work in a different way which means that C1 will work more proactively and investigate where they as a supplier and the Group can save money. C1 states that the cooperation is better now than before but there is always room for improvements. The difference now is that they as a supplier are focusing more on the customers and how they perceive the store. Today C1 and

the cleaners feel more as a part of the Group which makes it easier for them to understand each other. This is especially seen when C1 and the cleaners get feedback from the store's department managers. Nowadays when they have realized the "department manager project" C1 considers the feedback to be constructive instead of just complaints as it was before.

All respondents say that there is a high level of trust between the parties and that the store and the Group are benignant towards them. C1 says that today they feel trusted even though they have not always felt this way. This was because they had problems understanding what the Group demanded from them. Today C1 thinks that they understand since they have started the project mentioned earlier. C2 states that:

*"Otherwise we would not have stayed this long at the store. The relationship is about completing each other."*

Trust is for instance shown when the store's staff helps with some of the cleaning to ease for the cleaners according to C2. It is added by C3 that the fact that S3 shares the statistics for number of expected visitors is a sign of trust. C1 also feels that they can trust that the Group wants what is best for them and adds that the S1 is trying to include them in everything that is happening in the store that affects them. At the same time the store demands counter performance, honesty and directness. According to C1 the goal in the long run is that the store should see the supplier C1 represents as a cooperation partner rather than just an external supplier. C1 thinks this will change through the department manager project they are working on right now.

The respondents look at the cleaning standard in different ways and in the beginning C2 tried the quality control sheet developed by Company X but did not feel that it worked very well since they felt that the store was not clean enough when using it. Therefore C2 has developed two own sheets for quality control. One is used daily by the cleaners and gives the different areas a grade, pass or fail. The grade is based upon the overall impression of the department from the supplier's and from the store's side. The other sheet is used once a month and it is S2 and C2 who do the control together. After the control C2 makes sure to correct the errors before the next quality control.

C2 and C3 state that it is easy to measure or conclude if an area is clean or not. If the degree of cleanliness is acceptable or not is based upon what the store thinks is an acceptable limit, C2 adds. According to C2 the cleaning staff is aware of what level of cleanliness that is acceptable. C2's way of measuring with the two control sheets gives the cleaners feedback on what is good and what can be done better. C3 states that the cleaning standard is easy to use and that it is a good, objective tool. According to C3 the document provides strict guidelines that are used in combination with common sense. C1 agree with C2 in the fact that the quality control developed by Company X is not that good since it allows the store to be quite dirty. C1 states that:

*"It is not acceptable that the customers get the impression that the store is even slightly dirty."*

C1 says that the cleaners go rounds anyway to see with their own eyes if the store is dirty or not, and do not just do what the document tells them to. C1 cooperates with the store in order to investigate what can be improved even though they have passed according to Company X's quality control sheet. C1 states that through this the cleaners use their time better, for instance

spend more time in the store and less in the rooms that the customers never enter. C1 says that they try to understand what is important for the Group and hence in this way try to be a better cooperation partner. Further C1 states that:

*“The important thing is not if the document says that it is clean, the important thing is that the customer thinks that it is clean.”*

When asked if there is another way to measure the cleanliness, C1 says that this way is probably the best. C1’s, S1’s and the department managers’ quality controls in the store is a way to make the coworkers aware of how they are cleaning and what they should think about.

When asked about the operative control C1 and C3 say that Company X’s quality control sheet is important. C1 and C3 state that there is a need to measure quality and to have control in some way. Further the control sheet is a confirmation of that they are following the contract. The document is not always brilliant, but it is necessary to have anyway, C1 says. C1 and C3 use the control sheet to ensure that the store is clean and for the purpose of making the coworkers understand how clean the store should be.

C1 returns to the new way of working with the department manager project. According to C1 the thought behind this is not that the responsible person only cleans his/her own department, but to have responsibility for it and handle the communication with the department manager. C1 says that everyone has different levels for what they consider to be clean and everyone cleans in different ways. The point of the responsibility for different departments is to make the parties cooperate, communicate, give and receive feedback. C1 thinks that this makes the cleaners grow as persons. C2 states that the quality controls are done in order in order to get an impression of how well they are performing. According to C2 it is easy to get blind to flaws and therefore quality controls are a good tool for seeing that they are doing everything right. It is not done to control people or to punish the cleaners if something is done wrong, solely to improve the cleaning.

Further, none of the respondents say that they as suppliers get to share the Group’s company culture and that the Group does strive to include them in the Group spirit. According to C2 the Group does not encourage certain types of behavior, for instance employee of the month or similar. C2 manages the cleaners and strives for an increased cooperation. This is done through a system where the cleaners rotate around the store to get a better view of the store and meet new people. C2 says that a lot of the employees feel more secure when cleaning the same part of the store every day and are against the rotation. This attitude affects the team spirit negatively according to C2. C3 says that they as the employer of the cleaning staff encourage good behavior through for example flowers or an extra coffee break. C3 adds that the team spirit in the firm is strong and that it makes the cleaners want to do a good job. According to C3 it is important to use both results control and team spirit to handle the staff. C3 thinks that feedback is crucial as it motivates and keeps the cleaners on the right track.

## 5. Analysis

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*In this section findings from the interviews are presented and connections with the frame of references are made. In this section, Company X is known as the strategic buyer and the stores as the operational buyers. Some possible explanations to differences between the strategic and operational level found when investigating the case company are also provided.*

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### 5.1 Transaction characteristics of the case settings

As Williamson (1979) has written, transactions can be characterized in uncertainty, frequency and asset-specificity. Since the transactions in the case study can be considered to be standardized and the contracts cannot be regarded as being complex, the uncertainty in the cooperation should not be regarded a big problem. At the same time some of the respondents think that the contract is not always easy to understand and as Speklé (2001) says, uncertainty partly stems from inadequate descriptions. Regarding the level of frequency it is found in the case study that the cleaning service is performed daily and hence the frequency pattern can be said to be recurrent. The service performed can be regarded to involve medium asset-specific investments. The cooperation does not require any investments in physical objects, such as buildings, but during the exchange phase the operative cooperation requires a lot of time and money. The reason why the asset-specificity not is regarded as high here is because the stores are willing to renegotiate the contract every third year, which could imply that the interfirm relationship not is highly important.

### 5.2 Relationship characteristics

#### 5.2.1 Trust and information asymmetry

Even though the strategic and operational cooperation only requires medium asset-specific investments and the future is not affected by great uncertainty, as mentioned by Van der Meer-Kooistra and Vosselman (2000), the operational collaboration between the stores and the suppliers rely heavily on trust. At the case company there seems to be an increased importance of trust as the service is performed at the buyer's facilities. This is caused by the fact that any misbehavior from the suppliers' side affects the stores immediately. Another result of the high level of trust in the operational relationships studied is the possibility to share information without the store having to fear any misuse. This makes the cooperation much smoother as no information asymmetry occurs which is also argued by Dekker (2003). During the strategic cooperation it is shown that control is much more important than trust.

#### 5.2.2 Dominating buyers

It is found in the relationships studied that the Group can be considered to be a dominating buyer, which is especially prominent on the strategic level. This is since Company X has some requirements that they always stick to regardless of what the counterparty wants. If a supplier on the market wants to cooperate with the Group they have to accept the standardized contract, the cleaning standard and use need-based cleaning. Further the attributes that Donada and Nogatchewsky (2006) say are characterized by a situation with a dominating buyer fits well into the case study presented in this thesis. Company X usually has a number of potential suppliers and they look for suppliers based upon some criteria, although as it is not hard for them to find suppliers the criteria cannot be considered to be that specific. The only thing that goes against is that the asset-specificity is considered to be at a medium level in this case, which goes against that the asset-specificity should be low, according to Donada and Nogatchewsky (2006).

Referring to Donada and Nogatchewsky (2006) and Cäker (2008) dominating buyers often

use market control, but in their studies it is shown that this control is also blended with bureaucratic and trust based control. This finding fits the relationships between Company X, the stores and the suppliers well. This is since the strategic cooperation between Company X and the suppliers can be seen as controlled by the market based pattern and the operative cooperation between the stores and the suppliers rely more on bureaucratic and trust based control.

According to Cäker (2008), a dominating buyer may put price pressure on the supplier or suggest changes that lower the supplier's costs. The buyer expects the supplier to realize these changes and consequently, in the next procurement process, the buyer demands lowered prices. This could be compared to the case study performed here since the operative buyer believes that after a couple of years the suppliers have found ways to lower their costs. Therefore the operative buyer demands a new round of negotiations to lower their cleaning costs. This means that Company X, and in the extension the stores, could push the suppliers to lower their profit.

### **5.3 The contract**

Belcourt (2006) emphasizes that it is easier to control the other party if the outsourcing contract is specified. In the interviews it is discovered that the contract between the supplier and the store is considered to be both very detailed and not detailed at all depending on who is asked. The different views are probably based on that people interpret the contract differently. Belcourt (2006) states that it is easier to make changes in outsourced services than in services performed by the company's staff. This is shown in the case study when Company X and the stores renegotiate a contract since they always try to get more for their money.

When characterizing which type of contract the relationships fit into, the findings are the same as when characterizing dominating buyer above. The strategic relationship could be characterized by the classical contract since it is standardized, the organization form market is dominant in the cooperation and the parties may end the cooperation without large costs. On the operational level there are always costs associated with changing supplier, since both the procurement process and the implementation of a new supplier is costly. Therefore the operational cooperation can be regarded to have elements of both neoclassical and relational contract law as well. The neoclassical character stems from the fact that the cooperation gives space for unexpected occurrences and deviations. The third contract form, relational, is seen in the changes that occur during the everyday work, based upon discussions and relations between the supplier and the operative buyer.

### **5.4 The contract and human behavior**

Referring to for example Van der Meer-Kooistra and Vosselman (2000), irrational behavior and opportunism are commonly prevailing problems in contracting. The strategic buyer, Company X, tries to avoid irrational behavior with the supplier by stating in the contract what they expect from the supplier. Examples of this are the regular controls that should be made and that a team leader should be present at the store at all operational hours. Further the strategic buyer tries to avoid opportunism by always using the cleaning standard and their own contract templates. The contracts are written for relatively short periods to avoid that the supplier feels too comfortable in their role and Company X expects their suppliers to constantly strive for improvements. According to most respondents on the operational level problems with irrational behavior and opportunism are not an issue in their relationships. The reason for this is not the way the contract is stated but rather the way that the suppliers and the managers at the stores cooperate. Other important factors for avoiding these problems are that

the stores' and the suppliers' work with clear and frequent communication as well as the information given to the cleaners. One operational buyer thinks that the contract handles irrational behavior through the quality control.

### **5.5 Market-, bureaucracy- and trust based pattern**

The strategic buyer, Company X, usually has many potential suppliers and the chores performed by the supplier are highly repetitive. This description suits the definition of market based control made by Van der Meer-Kooistra and Vosselman (2000) quite well. The strategic cooperation in the contact and contract phase is suiting for the market based pattern for the reasons previously described, but also because the contract is written on a short-term basis. An important reason for this is the fact that the negotiations are of ad hoc character rather than long-term and recurring. On the operational level, in the exchange phase the market based pattern is somewhat seen through the measurings, evaluations and the recurring competitive biddings.

Based upon the many potential suppliers and the highly repetitive chores the cooperations between Company X, the stores and the suppliers do not correspond well to the description of the bureaucracy based pattern. What can be considered to be a good match is that the asset-specificity is regarded as medium and that the bargaining power is asymmetric. The quality control sheet is a bureaucratic tool and all parties say that it is important to evaluate the performance. The control is performed differently in the different stores and the most important method used seems to be visual screening that determines if the store is clean or not, and not the control sheet. The contract is sometimes considered to be very detailed and the strategic buyer is searching for suppliers based on some criteria. This means that the description of the bureaucratic pattern is somewhat suiting on the strategic level in the contact and contract phase. The use of a quality control sheet seems to be important on the operational level and in all exchange relationships studied. This means that the bureaucracy based pattern is somewhat applicable since it says that output should be measured on contractual grounds.

The cooperations between Company X, the suppliers and the stores are, to different degrees and in different levels, characterized by trust. The trust based control is slightly, but not significantly, important during the strategic cooperation in the contact and contract phase. This is shown as the strategic buyer uses its experience from earlier cooperations when choosing a supplier. Regarding the operational level, some respondents think that the contract is not at all detailed and they all say that they have possibilities to make changes from what is contracted. This implies that the operational relationship is dependent on mutual reliance instead of just on what is stated in the contract. The trust based pattern is very well suiting on the operational level in the exchange phase because of the reasons stated above, but also because of the relationships between the stores and the suppliers that allow the parties to make changes and conform the services. The output is hard to measure at times, which implies a reliance on trust that the chores will be done anyway. Further do all respondents on operational level think that their counterparty is benignant and everyone emphasize that trust and adaptability are important factors for the cooperation. The trust based pattern is also seen in the fact that the payments are decided in advance. Some stores try to make the cleaners feel that they are important to them, which could be interpreted as a way to influence the cleaners to do a good job. This is an important factor in trust based control according to Cäker (2008). What goes against the trust based pattern is that, as mentioned above, the chores are highly repetitive and the asset-specificity is just at a medium level.

## 5.6 Implementation and cooperation

On the operational level, all suppliers say that their staff is educated and given sufficient and right information when implementing a project, as for example Al-Mashari and Zairi, (1999) emphasize the importance of. One of the suppliers thinks that a crucial breakthrough in their operational cooperation with the store was when they understood exactly what the store wanted them to do. This is compared to the importance of understanding goals mentioned by Al-Mashari and Zairi, (1999). All operational buyers state that their staff is informed greatly when implementing a new supplier. For example Fui-Hoon Nah et al (2001) emphasize the importance of involving people from different departments when implementing a new project. In the case study it is shown that respondents from two stores and their counterparties from the suppliers' side are trying to improve the cooperation between their staff through the department manager project.

For example Al-Mashari and Zairi (1999) emphasize the importance of open and frequent communication in and between companies to succeed with the cooperation. In the case study it is shown that communication on the operative level is a crucial aspect for succeeding both during implementation and in the daily work. All suppliers say that they get all the information they need to do their job. The communication on operational level is not always working, but some of the respondents are trying to improve it. An example of this is the department manager project.

It is emphasized by for example Fui-Hoon Nah et al (2001) that a strong, committed leader brings inspiration, guidance and support to the staff. One supplier says that 100% presence from the leader is crucial when implementing a project. Further it is found in the case study that all respondents think that the presence of a team leader both before and after the implementation is of utmost importance. The main reason mentioned is the leader's role as a mediator between the cleaning staff and the store's manager in charge of the cleaning service. The leader functions as an inspector that provides support and makes sure that the work is done in the right way.

All of the respondents have different opinions concerning the role of clearly defined goals and measures that are mentioned by for example Vrakking (1995). The operative buyers purchase "a clean store" but a common criticism is that different people view cleanness differently. In the cleaning standard it is said that some deviations are accepted, which means that the store is not totally clean anyway. One supplier has quit using the quality control, made on the strategic level by Company X, and has developed one on its own. This sheet only states whether it is clean or not and do not accept a certain number of deviations. Both this respondent and the counterparty at the store think that this way works well for them. Another operational buyer do not think that the quality control with deviations is good, but now when they have gotten used to it they have learned to make it work. The supplier from the same store thinks that it is easy to measure since it is just to see if it is clean or not. Further the same supplier adds that the quality control is a good, objective tool that should be used with common sense. Yet a third operational buyer says that it is impossible to measure cleaning and agrees with other respondents on the fact that the store may not be clean even though the supplier has passed on the number of deviations. The same respondent adds, together with the supplier for the same store, that the quality control with deviations could probably not be any better, although neither of them is satisfied with it. Depending on how the cleaning standard is interpreted, the different respondents on the operational level find it useful or not. All respondents think that a clean store is a good definition on what should be done. Everyone



objects to the fact that deviations from this cleanness is accepted but at the same time they all understand that it cannot be clean everywhere at all times.

### **5.7 Reduction of shared costs**

Referring to the essence of Agndal and Nilsson (2009) and Cooper and Slagmulder (2004) an important part of the cooperation is the possibility to decrease costs. The case study shows that there is not much work done on the operative level in order to decrease shared costs. The only thing mentioned is some cooperation regarding choices of equipment and sometimes which cleaning method to use. The prices are decided and hence fixed on the strategic level between Company X and the representative from the supplier that is in charge for the negotiations.

The negotiations and cooperations between Company X, the stores and the suppliers seem to be of both target costing character and quality-function-price model character. On the strategic level, Company X is trying to find the best available price in the market, whilst at the same time they cannot go too low since cleaning is a special service that demands relationships that works. Further the operative buyers have a certain amount of money that they can spend on cleaning and hence they are trying to include all services needed in this price. Later on, during the operative cooperation the parties often find that the chores stated in the contract may be impossible to fulfill in real life to the price stated. This leads to a discussion similar to the one that the QFP-model advocates. Several respondents from both sides on the operational level emphasize that it is important to reach an optimal solution where both parties are satisfied. This seems more plausible when using the last model mentioned.

### **5.8 Dependency risks and increased areas of implementation**

The dependency risk discussed by Adler (2003) is interesting to consider when looking at the company studied. On the strategic level, Company X does not seem to be dependent on any specific supplier since they usually have a couple to choose from in every procurement process. Regarding the operational level, there seems to be a distinction between dependency in the long run and in the short run. In the short run all the respondents from both sides agree that the parties are mutually dependent. The operative buyer would suffer badly if the cleaning companies would not show up one day as the stores' customers would be affected by the messy stores. The suppliers on the other hand would suffer financially as the stores are an important source of income. When discussing the dependency situation in the long run with the parties on operational level it is clear that they perceive the long run situation differently. The stores' representatives all say that they could probably find a new supplier to perform the chores. It is also stated that they think that the supplier is a bit more dependent on the store than the other way around since the stores are rather big and generate a substantial income for the suppliers. When listening to the suppliers' side of the story they all proclaim that the stores are as dependent on them as they are on the stores in the long run, due their good relationships.

### **5.9 Operative management control mechanisms**

Referring to the essence of for example Merchant and Van der Stede (2007) there are several ways of controlling the staff on the operative level. All the managers at the stores emphasize the importance of the suppliers' employees serving the store's best interest. The most commonly used control by far is result control where the outcome of the cleaning service is measured. All respondents from both sides think that this kind of control works well. The result control enables follow-ups and dialogues with the cleaning staff on how the cleaning

service performed can be improved. In order to make this control work all respondents from the store's side say that the supplier and its employees must be aware of the goals and what is expected of them. None of the respondents mention or recognize personnel control and the use of cultural control seems to be low. The only sign of cultural control is some events that the suppliers arrange for their employees and the use of work wear. As no incentives or bonuses are used by any of the suppliers action control is not used either.

## 6. Conclusion

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*In this section conclusions are provided as well as the answer to the research question “How is the interfirm cooperation between a buyer and a service supplier handled on the strategic- and operational level, when the service is performed at the buyer’s facilities?”*

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It is found that there is a distinction between the operational and strategic level in an outsourcing relationship of this character. This means that the different levels of the relationship should be handled and governed differently. When trying to choose the control pattern that fits the cooperations between the strategic buyer, the operative buyer and the supplier best it is found that a mixture of market-, bureaucracy- and trust is most suitable, depending on which phase and what level that is examined. The strategic cooperation is characterized by the market based pattern, with some features of the bureaucracy based pattern. Trust is somewhat important but definitely not the predominant control factor on this level. The cooperation on strategic level is mostly prominent during the contact- and contract phases. The operative based cooperation in the exchange phase is dominated by a mixture of the bureaucracy- and trust based pattern with an emphasis on the last pattern mentioned. The service performed is considered to be simple regarding the chores but the relationship, the importance of the service and the fact that the services are performed at the buyer’s facilities make the cooperation more complicated than presumed at first glance. Further the use of bureaucratic control is important since the quality control sheet is needed to evaluate the job.

In operational cooperations that are similar to the cooperations studied it is of utmost importance to have a high level of trust as it enables a good cooperation and exchange of information. As there is a lot of trust in the relationship the need for control decreases. The tradeoff between trust and control looks differently on the operative and strategic level. On the strategic level control is more important than on the operative level where trust is crucial. If there were no trust on the operative level there would be a high need for control which is time consuming and costly.

Companies in this kind of relationships fit well into earlier studies about how a dominating buyer exerts control over its suppliers. These studies show that market based pattern is predominant in the earlier phases but later on, during the exchange phase, the trust based pattern and the bureaucracy based pattern are more applicable. This means that the strategic level is well suiting the contact and contract phase, whilst the bureaucracy based pattern and the trust based pattern are to a great extent applicable on the operative level in the exchange phase.

On the strategic level, irrational behavior and opportunism are tried to be avoided by stating different requirements in the contract. The case study shows that the contract is not used for this on the operative level. On this level, human behavior is instead handled by informing the staff clearly on what should be done and to have relationships that make the staff want to do their best. Unwanted behavior can sometimes be avoided through bureaucratic control, such as quality control sheets and follow-ups that state if the cleaners have done what they should or not.

The buyer on the strategic level is usually not present during the implementation of a project. To ease the cooperation they could visit the operative buyer and inform both the supplier’s staff and the operative buyer’s staff about the impact of the contract and how it should be

interpreted. This should be done to make sure that everyone understands how the cleanliness should be measured and what is included in the price. The operative buyer and the supplier should try to communicate better and work closely so that both parties understand what “a clean facility” means. Two important factors in succeeding with the service are shown to be the use of some kind of control sheet and the presence of a strong leader from the supplier's side.

Depending on the way that the operational based relationship is structured it is more or less reliant on specific persons. In the case where the parties develop a routine where they include staff from both the operative buyer and from the supplier, the reliance on specific persons can be considered to be quite low. This is because if a person quits his/her job there is still a structure to follow. If the relationship instead is built solely on good communication between the operative buyer and the representative from the supplier's side, the cooperation is much more reliant on those two persons in order to function. Therefore this kind of relationship is more vulnerable. Hence good communication is important but should be supported by routines that ease the cooperation if people quit. The strategic level could ease the implementation and cooperation on the operational level by informing about different ways to structure the collaboration.

The most applicable form of operative management control in this kind of relationship is result control. The reason for this is probably the simple character of the service where some of the other control forms would not work that well. The lack of cultural- and personnel control is more surprising as it is not affected by the character of the service. A reason why cultural control is hard to use could be because the service is performed at the buyer's facilities. This fact could affect the use of personnel control as well although the latter seems to be much easier to execute, in the buyers' facilities as well, if the supplier decides to implement it.

To summarize, the interfirm cooperations on the strategic- and operational levels are handled differently due to many different aspects. The cooperation on strategic level do not involve any day to day work which implies that it is easier for them to exert formal control. The contract is written on the strategic level and is rather used as a backbone for the operative cooperation than as a set of strictly regulating rules. This is due to that differences here are solved through communication and trust. Further the operational relationships is structured by a tradeoff between trust and control since the parties work side by side and have to interact with each other.

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## 8. Appendices

### 8.1 Interview guide: Company X

1. How many potential suppliers are there in the contact phase?
2. How long is the running time for the contract?
3. Do you search for suppliers on the basis of certain criteria?
4. How controlled are the suppliers?
5. Do earlier relations matter in the search for a new supplier?
6. How detailed are the contracts?
7. Are there any possibilities of making changes during the exchange phase even though there is a contract?
8. Would you say that the cooperation basically relies on trust or on the contract?
9. Which advantages are there with joint procurement?
10. What does the contract look like?
11. How often are the contracts renegotiated?
12. Does the Group have to make any large investments in one specific supplier or is it easy to switch between suppliers?
13. Do the suppliers work under uncertainty, for instance about the future?
14. How are the contract and the relationship set up to take care of peoples' irrational behavior?
15. How are the contracts set up to avoid opportunism?
16. How do the Group and the supplier cooperate to lower their costs?
17. Are the tasks that the supplier performs firm-specific or can they be performed anywhere?
18. Is the outcome of the supplier's work hard or easy to measure?
19. Have we forgotten anything or is there anything you would like to add?



## **8.2 Interview guide: The head of cleaning from the stores' side**

1. How detailed is the contract between the store and the supplier?
2. Do you have any possibility to affect the contract during the negotiations phase?
3. Is it possible to make changes in the contract during the cooperation?
4. How is the contract and the relationship set up to take care of people's irrational behavior?
5. How is the contract set up to avoid opportunism?
6. Are there any conflicting goals between the store and the supplier?
7. How do you work with implementing the staff when you start working under a new contract?
8. How do the store and the supplier cooperate to lower costs?
9. Do the extra services added affect the dependency situation between the store and the supplier? If it does, how?
10. How close is the relationship between the store and the supplier?
11. Do you feel that the supplier is benignant and is not misusing any information given to them?
12. Do you trust the supplier or do you feel a need to control them?
13. Are there any risks with the information given to the supplier?
14. Are the tasks that the supplier performs firm-specific or can they be done anywhere?
15. Do you find the outcome of the supplier's work easy or hard to measure?
16. How does the store control the supplier operatively?
17. Have we forgotten anything or is there anything you would like to add?

### **8.3 Interview guide: The head of cleaning from the suppliers' side**

1. How detailed is the contract between the store and the supplier?
2. Do you have any possibility to affect the contract during the negotiations phase?
3. Is it possible to make changes in the contract during the cooperation?
4. How is the contract and the relationship set up to take care of people's irrational behavior?
5. How do you work with implementing the staff when you start working under a new contract?
6. Do you feel that you get all the information you need from the store?
7. How do the store and the supplier cooperate to lower costs?
8. Do the extra services added affect the dependency situation between the store and the supplier? If it does, how?
9. How close is the relationship between the store and the supplier?
10. Do you feel that the store is benignant towards you as a supplier?
11. Do you feel that the store trusts you as a supplier?
12. Are the tasks performed firm-specific or can they be done anywhere?
13. Do you find the outcome of your work as a supplier easy or hard to measure?
14. How does the store control you operatively as a supplier?
15. Have we forgotten anything or is there anything you would like to add?