

Creating And Enforcing Expense Policies

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Finding a happy medium between cost control and employee satisfaction

Corporate travel and expense policies have long been a hot-button issue for HR departments. On one side are traveling employees, who want to be able to choose the airlines and hotel chains where they have high status, or select flights and lodgings that are more convenient for them.

On the other side are CFOs and corporate controllers, whose primary focus is to manage costs and minimize unnecessary spend. While these may seem like two groups that will never find common ground, a combination of reasonable policies, intelligent enforcement, and smart technology tools can keep all parties happy.

The Perils of Penny Pinching

The increasing corporate adoption of online travel booking and expense solutions has led to an ever-greater ability for organizations to control travel spend. Based on organizations' travel policies, the parameters for flights, for example, can be made as tight (or relaxed) as desired. Organizations can choose to enforce the lowest possible fare between two points, regardless of routing or schedule.

Alternatively, they can mandate the lowest logical fare ([although the definition of this sometimes varies](#)), the lowest fare offered by the organization's preferred carrier, or maybe the flight of the traveler's choice, as long as it's within a certain threshold of the lowest logical fare. Similar restrictions can be implemented for booking hotels.

Having preferred air, hotel, and car partners certainly has benefits for an employer. The vendors will offer a discount over standard rates in return for a commitment for a certain volume of travel spend. If travelers choose other vendors and the spend falls below this agreed level, the discount will go.

For out-of-pocket expenses such as meals, organizations can also make policies more or less restrictive, and enforce these through automated expense management tools, which can prevent out-of-policy expenses from being submitted for reimbursement.

Organizations that most tightly restrict employee travel expense may be helping manage short-term costs, but long-term, this could lead to several major issues. The most obvious issue is unhappy travelers. Those who travel the most frequently on business – and are therefore most impacted by travel and expense policies – are often some of the organization's most valuable and highest producing staff, such as sales leaders and billable consultants.

Alienating these employees and potentially causing them to find alternative employment is a short-sighted move, particularly given that estimates of how much it costs [to replace an employee](#) range from 16% of the annual salary for an hourly employee up to 213% of annual salary for an executive.

Second, making official travel booking channels (such as approved travel agencies or corporate online booking tools) too restrictive will simply lead to employees side-stepping these channels and booking independently through consumer travel sites. For finance departments, this leads to two challenges – the inability to control spend before it happens, and also lack of insight into travel purchasing patterns, both leading to ongoing difficulties in tracking and analyzing costs, and therefore, less accurate decision-making.

Identify Reasons for Non-compliance

Clearly, it's in an organization's best interests to ensure that as much travel as possible is booked within policy. However,

even the most reasonable of travel programs -- which use high-quality airlines and hotel chains, and offer generous out-of-pocket expense policies -- still have a certain level of non-compliance, regardless of whether organizations use official booking channels or allow their teams to use consumer travel booking sites.

For travel managers and HR teams to minimize non-compliance requires an understanding of where, how, and why it happens. This is where an automated expense management tool can prove to be useful, as the system's analytics capabilities can enable organizations to easily identify patterns of non-compliance. Possibly, it's a certain office that constantly books flights less than two weeks before travel, leading to more expensive ticket prices.

Maybe a certain approver is a lot more lenient with their subordinates' steak dinners. Pinpointing where these violations take place can make it easier to work with teams to identify causes and resolve issues.

Travelers themselves can also be a great source of information when determining why they are not adhering to the policy, and this will likely show that not every out-of-policy booking is malicious. If someone is booking a room that's \$40 per night over the preferred hotel, but is within walking distance of where they need to be, this is obviously preferable to staying in the cheaper hotel that's a \$30 taxi ride away.

Maybe a flight offered by the organization's preferred air carrier is \$100 more for the same flight than an employee found themselves. Possibly the traveler is a single parent who needs to drop their child off at school, and therefore, the cheaper, earlier flight simply won't work for them.

There are also employees whose out-of-policy travel is less innocent. Some believe that they are [entitled to stay in higher quality hotels than those mandated](#), deserve to eat expensive meals on the road, or take significantly more expensive flights than allowed.

Regardless of why employees book travel and submit expenses that are outside of the organization's policy, it's critical to get to the bottom of it. If employees don't understand the implications of their actions, a friendly explanation will be much more pleasant for all parties than a stern reprimand.

Those who deliberately abuse policies should be counseled on their actions and encouraged to make more prudent choices in future. In addition, if the policy itself doesn't work for the organization's employees, consider adding in some more flexibility so that it's easier to comply.

Carrots, Sticks and Guidelines

Forward-thinking organizations are beginning to understand that strict policy enforcement isn't the best way forward. They are looking for new solutions that can find the happy medium between the travelers themselves and the finance department.

The fact that so many people attempt to sidestep corporate travel and expense policies shows that the traditional "incentive" for travelers to adhere to guidelines – only that it's mandatory – simply doesn't work as effectively as it should. Therefore, it's becoming clear that organizations need a fresh new approach to travel policy creation and management.

It's evident that simply abandoning expense policies won't work as it will lead to abuse, confusion and possible resentment of employees who are viewed as taking advantage by booking more expensive hotels. Therefore, HR and travel teams need to develop programs that are cost-effective without placing too many constraints on the travelers.

One of the buzzwords we're starting to see more – especially among larger, more mature programs – is expense "guidelines." Instead of mandating exactly which flights to choose or hotels to stay in, providing guidelines empowers travelers to make smart travel purchasing decisions both for them and for the company, while allowing organizations to maintain an element of control over spend. While the parameters for booking travel – suggested costs and classes for flights, types of hotel available, meal costs, etc. – are outlined, employees aren't bound to strictly adhere to these.

One of the key benefits of this program is that most travelers will innately "do the right thing" when it comes to booking travel. They won't make egregious decisions, such as staying in five-star hotels and flying business class. While they may prefer to fly United over American, for example, they will also understand that paying twice as much for the same route isn't a sensible option and isn't in the best interest of the organization.

Treating an organization's business travelers like responsible adults will not only make them feel more respected and trusted, but will empower them to *act* like responsible adults. For example, they likely won't begrudge their employers for forcing them to fly at inconvenient times, or stay in hotels that are too far out of the way. While the overall cost of travel may increase slightly, it will likely be mitigated by increased traveler productivity and happiness, and lower costs associated with replacing unhappy team members.

Of course, monitoring of costs is essential to ensuring there is no abuse of the system. Companies can use expense automation solutions to analyze travel and expense data, and identify either groups or individuals who consistently

exceed guidelines. Travelers whose booking costs are consistently higher than normal may be counseled on appropriate practices. Knowing that their expenses are still being tracked often is enough of an incentive for employees to stop the excessive spend.

However, for those that continue to abuse the travel and expense process, HR teams can introduce a “penalty box,” which enforces policies more strictly, such as allowing zero tolerance over lowest logical fares for flights, and only allowing meal expenses up to the guideline amounts to be submitted. Managing these penalty box enforcements needn’t be an onerous task for the in-house teams.

Modern expense management systems can be configured down to the individual user, so an individual traveler can have different expense submission parameters to their colleague. Users who try to submit expenses over a certain threshold can either be prompted to explain the overage, or can simply be blocked from submitting expenses over the limit. This, combined with enforcing pre-approvals for flight and hotel purchases, can prevent out-of-policy bookings, until the period in the penalty box is over.

Finding a solution that works for both your finance team and your organization’s most important asset need not be an impossible trade-off. Working with all parties to find their goals and objectives, as well as identifying their challenges and pains and then creating and implementing a solution that works for everyone, will lead to long-term financial benefits, and a more content traveling workforce. **L&C**

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