



Purchasing practices in small- to medium-sized enterprises: An examination of strategic purchasing adoption, supplier evaluation and supplier capabilities

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ABSTRACT

The benefits that can be derived from effective purchasing have long been recognised in the management literature. Despite a growing body of research on purchasing practices in small- to medium-sized enterprises (SMEs), a number of key issues remain under-examined. We investigate SME purchasing practices in terms of (1) the degree to which purchasing is regarded as a 'strategic' activity by SMEs, (2) the use of supplier evaluation systems by SMEs and (3) the supplier capabilities emphasised by SME buyers. Through a survey of UK SME managers, we find that purchasing practices varied greatly across SMEs. Purchasing formality is generally low with limited evidence of purchasing being employed strategically and with many firms not undertaking formal supplier evaluations. In terms of supplier capabilities, we find that SMEs differ in the capabilities they prioritise, with three distinct groups evident. These groups are labelled 'holistic', 'process' and 'logistics' based on the supplier capabilities they emphasise. These three groups of firms also differed in terms of the emphasis they placed on strategic purchasing, supplier evaluation, technological focus and how they compete in their main markets, but not in terms of firm size or number of suppliers utilised. The implications of these findings are discussed and areas meriting future research are proposed.

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1. Introduction

The literature is replete with studies supporting the value that effective purchasing can add to the firm beyond that of an order-processing role (for example, Kraljic, 1983; Carr and Pearson, 1999; Cousins and Spekman, 2003). Several authors agree that small- to medium-sized enterprises (SMEs) would particularly benefit from effective purchasing (Dollinger and Kolchin, 1986; Gadde and Hakansson, 2001) since in order to be successful their own limited resources need to be complimented by external resources. Despite this importance, Ellegaard's (2006, p. 272) recent review of SME purchasing practice led him to conclude that although there is a growing body of research on SME purchasing, 'research on purchasing in small companies is still limited, despite the recognised dependence of small companies on external resources.' In addition, empirical evidence is somewhat contradictory, indicating SMEs should not be regarded as a homogenous group as purchasing practices vary (Morrissey and Pittaway, 2004).

As a consequence, it is relatively unclear whether the buying practices of many of the leading industrial firms have filtered down to SMEs. Our understanding of SMEs is crucial in today's business climate as they are a major source of innovation and an important catalyst for economic development, both in Europe and in the US (Homer, 1985; Ghobadian and Galleary, 1996). In the UK (the context for the present article) the Department for Trade and Industry estimates that of the 4.3 million enterprises that exist, 99.9% are small- to medium-sized, employing 58% of the private sector workforce and producing 51% of UK GDP (DTI, 2005). Against this background we aim to explore three issues that have attracted considerable scholarly interest, but, as we will argue later, have not yet received sufficient attention in academic research in an SME context, namely

- (i) the degree to which purchasing is regarded as a 'strategic' activity by SMEs,
- (ii) SMEs' evaluation of existing supplier relationships and
- (iii) supplier capabilities emphasised by SME buyers.

We find that purchasing practices varied greatly across SMEs. Purchasing formality is generally low with limited evidence of purchasing being employed strategically and with many firms not

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undertaking formal supplier evaluations. In terms of supplier capabilities, we find that SMEs differ in the capabilities they prioritise. Three distinct groups were evident (labelled 'holistic', 'process' and 'logistics' based on the supplier capabilities they emphasise). These three groups of firms also differed in terms of the emphasis they placed on strategic purchasing and supplier evaluation. These findings contribute to the understanding of how purchasing is viewed in SMEs, the evaluation of suppliers, the abilities that SMEs expect their suppliers to possess and potential differences across SMEs. These issues are particularly important for SMEs owing to resource scarcity and a need to draw on the skills of suppliers to help ensure the long-term success of the firm (Park and Krishnan, 2001; Presutti, 1988; Mudambi et al., 2004).

This article is organised in the following way. Firstly, we discuss the literature concerning SME purchasing. Next, we examine the literature related to strategic purchasing, supplier evaluation systems and supplier capabilities. The remainder of the paper explains the research methodology and presents the results and implications of the study.

2. Purchasing and the small- to medium-sized firm

The role purchasing plays in increasing firm performance (Carr and Pearson, 1999) and the contribution it can make when aligned to company strategy are widely acknowledged (e.g. Wouters et al., 2005; Cousins and Spekman, 2003), particularly as SMEs stand to gain considerably from drawing on external resources such as suppliers (Dollinger and Kolchin, 1986; Gadde and Hakansson, 2001). In a comprehensive review of the SME purchasing literature, Ellegaard (2006) identified 18 papers on small firms in specialist purchasing journals, with some 58 papers in total on purchasing in small firms. In this and subsequent sections we draw on some of the key contributions to highlight the status of purchasing in SMEs present purchasing practices.

Empirical studies have shown that purchasing in SMEs falls generally within the remit of the owner or a few key employees (Dollinger and Kolchin, 1986). Purchasing is not seen as a separate function; instead it is an integral part of running the company (Gadde and Hakansson, 2001).

Several studies (Ogden et al., 2007; Quayle, 2002) have concluded that purchasing is afforded low status in UK companies in general, attributed to a lack of resources, a view long held in the literature concerning SMEs (Dobler, 1965). In contrast, Crichton et al. (2003) suggest that large firms were actually quite positive about the role that purchasing plays in comparison to smaller firms, who were less positive about the contribution of purchasing to the organisation. Similarly, in an examination of SMEs in the Lancashire region of the UK, Morrissey and Pittaway (2004) found that SMEs were often reluctant to collaborate with competitors in purchasing consortia and may even eschew rational models of purchasing behaviour in order to support lifestyle choices and to facilitate the sale of the business.

The sophistication of SMEs in terms of specific purchasing practices would appear to be limited. For example, the adoption of modern purchasing practices including e-business activities (such as the use of e-catalogues and e-auctions) were virtually non-existent in SMEs (Zheng et al., 2004; Foley and Ram, 2002). Further, most SMEs are thought to source locally and nationally rather than internationally (Agndal, 2006) in order to help reduce risk (Ellegaard, 2008). The lack of sophistication in purchasing is attributed to a number of issues including a lack of awareness that an efficient purchasing function can influence profitability and that SMEs perceived few shortcomings with their limited purchasing capabilities, even though evidence suggests that purchasing activities can influence firm performance in SMEs

(Dollinger and Kolchin, 1986). In addition, Holter et al. (2008, p. 21) contend that "Many SMEs lack competence in purchasing transport services and a subsequent lack of 'purchasing power' may cause SMEs to be treated as 'order takers' rather than 'order makers'". In support, Rooks and Snijders (2001) found that when problems occur with suppliers that are not rectified most SMEs do not pursue this further, presumably due to not wishing to expend valuable resources on litigation and also owing to size disparities in some instances between SMEs and larger supplier firms.

In contrast to these studies a small number of papers have emphasised that purchasing might not be viewed as a low priority in all SMEs. For example, Mudambi et al. (2004) examined successful SMEs in engineering and related manufacturing industries and found that few firms engaged in co-operative arrangements with suppliers, instead favouring adversarial modes of interaction. They did find evidence, however, to suggest that some SMEs were successfully imitating the strategies of larger firms through their deliberate co-operative purchasing strategies with suppliers. In a study of Welsh SMEs' business practices, Quayle (2003) found that procurement rated highly out of 18 issues, fifth only behind leadership, strategy, waste reduction and team working. Similarly, Morrissey and Pittaway's (2006) examination of SMEs in the North West of England found that some did appear to value the role played by purchasing. International sourcing was widespread amongst a sample of US firms (Scully and Fawcett, 1994), a finding also confirmed by Overby and Servais (2005) who reported that Danish SMEs were involved in sourcing both within the EU and outside, not motivated by domestic unavailability, but by a desire to attract reduced prices and increased quality. Finally, in a study of Australian SMEs and environmentally friendly purchasing practices, Schaper (2002) provides evidence that owner/managers having the time and access to environmental information (that is business-related) were positively associated with 'green' purchasing practices (for example, sourcing goods that are recyclable) for their internal consumption.

Based on the articles examined it would seem that purchasing practices of SMEs vary considerably and that SMEs should not be regarded as a homogenous group (see also Morrissey and Pittaway, 2004). Further, research concerning SME purchasing practices is somewhat fragmented with a number of issues and areas requiring comprehension (Ellegaard, 2006). Exploring the differences across SMEs, we contribute to some of these 'research gaps'. Firstly, we examine the level of strategic purchasing adoption to enhance our understanding of the purchasing practices developed by SMEs. Secondly, we explore supplier evaluation and thirdly the capabilities of suppliers as desired by SME customers, thus contributing to our understanding of how SMEs manage and utilise supplier relationships. The following sections provide an overview of three aspects of purchasing and supply management that have attracted considerable attention in these areas.

2.1. Strategic purchasing

Purchasing has been elevated to that of a strategic function within many firms in part due to competitive pressures (Roze-meijer, 2000; Ellram and Carr, 1994; Rajagopal and Bernard, 1994; Wouters et al., 2005; Pearson and Gritzmacher, 1990). In practice, strategic purchasing calls for an alignment of the objectives of purchasing with the objectives of the organisation requiring a more proactive role in the management of suppliers and their continual evaluation and appraisal (Carr and Pearson, 1999). The adoption of strategic purchasing requires certain key activities such as having a formally written long-range purchasing plan,

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