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Strategic purchasing, supply management, and firm performance

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Abstract

Purchasing has increasingly assumed a pivotal strategic role in supply-chain management. Yet, claims of the strategic role of purchasing have not been fully subjected to rigorous theoretical and empirical scrutiny. Extant research has remained largely anecdotal and theoretically under-developed. In this paper, we examine the links among strategic purchasing, supply management, and firm performance.

We argue that strategic purchasing can engender sustainable competitive advantage by enabling firms to: (a) foster close working relationships with a limited number of suppliers; (b) promote open communication among supply-chain partners; and (c) develop long-term strategic relationship orientation to achieve mutual gains. Using structural equation modeling, we empirically test a number of hypothesized relationships based on a sample of 221 United States manufacturing firms. Our results provide robust support for the links between strategic purchasing, supply management, customer responsiveness, and financial performance of the buying firm. Implications for future research and managerial practice in supply-chain management are also offered.

Keywords: Strategic purchasing; Supply management; Buyer performance

1. Introduction

With the growing importance of supply-chain management, purchasing has assumed an increasingly pivotal strategic role, evolving from an obscure buying function into a strategic business partner (Ellram and Carr, 1994; Cooper and Ellram, 1993). Researchers have documented how strategic purchasing actively participates in corporate planning process (Cavinato, 1999), facilitates beneficial organization-environment alignment (Carter and Narasimhan, 1996), and fosters cross-functional integration among supply-chain activities, among other things. Moreover, purchasing plays a key liaison role between external suppliers and internal organizational customers in creating and delivering value to external customers (Novack and Simco, 1991).

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Although the role of strategic purchasing in promoting cross-functional, intra-organizational relationships has been relatively well documented (Ellram and Carr, 1994; Porter, 1985), its role in fostering effective strategic collaboration between a focal firm and its suppliers has not yet been rigorously investigated (Landeros and Monczka, 1989; Young and Varble, 1997). Given the increasing emphasis on building and managing buyer–supplier relationships (or *supply management*) as the basis of sustainable competitive advantage (Dyer and Singh, 1998; Kale et al., 2000; Leenders et al., 2002), a systematic empirical investigation of the extent to which strategic purchasing contributes to the development of supply management capabilities is warranted. These capabilities include the firm's ability to: (a) foster close working relationships with a limited number of suppliers; (b) promote open communication among supply-chain partners; and (c) develop long-term strategic orientation to achieve mutual gains. Collectively, these capabilities can engender sustainable competitive advantage by enabling a firm to build and leverage beneficial inter-organizational relationships. Additionally, extant research, though anecdotal and disjointed, has stressed that customer responsiveness is an essential component of competitive advantage (Stalk and Hout, 1990; Jayaram et al., 1999; Stank et al., 1999) and that purchasing and supply management can have a profound impact on a firm's financial performance (Ellram and Liu, 2002; Singhal and Hendricks, 2002).

Therefore, in this paper, we examine the extent to which strategic purchasing fosters supply management capabilities. Using structural equation modeling, we empirically investigate the relationships among strategic purchasing, supply management, customer responsiveness and financial performance. A systematic empirical investigation of these relationships would go a long way in establishing the extent to which strategic purchasing contributes to the firm's "bottom line". Furthermore, such an investigation would document the extent to which strategic purchasing, in fact, fosters the organizational capabilities necessary for effective supply-chain management. Structural equation modeling provides a robust basis for empirically corroborating or falsifying these claims.

The rest of our paper is structured as follows. In Section 2, we develop a synthesis of the literature in dynamic capabilities to provide a conceptual foundation for our model. Then, we develop the logic of the substantive relationships among the study variables and state hypotheses. In Section 3, we explain our research methodology and analysis, including data collection procedure, construct operationalization and measurement, hypothesis testing and results. Section 4 presents discussion and implications of the study findings. In Section 5, we highlight limitations of the study along with suggestions for future research.

2. Conceptual framework and hypotheses

2.1. Dynamic capabilities and competitive advantage

Dynamic capabilities refer to "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece et al., 1997, p. 516). As invisible, knowledge-based phenomena, organizational capabilities enable firms to acquire, develop, and deploy resources, convert these resources into value-enhancing products, and transform resources into "distinctive competencies" (Itami and Roehl, 1987).

Organizational capabilities can engender sustainable competitive advantage in so far as they: (1) are not tradable in strategic factor markets; (2) take a long time to develop and are historically based and path dependent; and (3) entail socially complex relationships with other organizational resources (Barney, 1991; Reed and DeFillippi, 1990). Further, sustainability of competitive advantage is enhanced when it is difficult to decipher causal relationships between organizational capabilities and outcomes (Lippman and Rumelt, 1982). In contrast, organizational capabilities that are "supplemental" or "enabling" may only "establish the minimum basis for competition", but, by themselves, are not sufficient to engender sustainable competitive advantage (Leonard-Barton, 1995, p. 18). When organizational capabilities erode in value over time either because of shifts in environmental conditions or organizational complacence, or both, they can become "core rigidities" and lead to competitive disadvantage (Leonard-Barton, 1995).

Researchers who take a dynamic capabilities perspective focus on investigating the processes by which