



The University of  
**Nottingham**

## **Operations Management Dissertation**

“How does purchasing behaviour vary between SME companies and larger companies?”

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## **Abstract**

**Background problem:** Procurement has been recognised as important to small companies. However, there remains a lack of focus in the literature on procurement for SMEs and purchasing within the smaller firms themselves receives little or no attention. The literature on purchasing practices in SMEs has typically drawn from work on larger firms. Prior research has not sufficiently explored what small firms 'do', consequently critiquing SME practices without fully appreciating what these practices are. Models and approaches used to describe an organisation's position and progress in procurement are focused too much on large organisations and are not sufficiently relevant to SMEs.

**Purpose:** The purpose of this study is to investigate whether the purchasing behaviour of large enterprises is transferable into the world of Small & Medium Enterprises (SMEs)

**Method:** In this thesis secondary data was collected. The study focused on existing literature from various purchasing professionals and SME owner managers to form an in-depth comparison of the different facets of the purchasing department and how they impact upon the overall success of a firm. Data from both SME and large enterprises from different business sectors were compared to obtain a general overview of differing behaviour and how firm size influences this.

**Findings:** The research reveals that there are a number of significant factors that differentiate the behaviour of SMEs from those of large enterprises. The major obstacles that SMEs face when trying to adopt the purchasing practises of large enterprises are attributed to: lack of access to resources, management competence, lack of skilled labour, lack of trust amongst suppliers etc.

**Keywords:** SMEs, Purchasing, Portfolio Approach, Large Enterprises, Strategic Purchasing, Buyer-Supplier Relationships

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# Table of contents

## Chapter 1

<b>1.0 Introduction .....</b>	<b>6</b>
<b>1.1 Aim of the Research Study .....</b>	<b>6</b>
<b>1.2 Method of the Research Study .....</b>	<b>7</b>
<b>1.3 Organisation of the Study .....</b>	<b>8</b>

## Chapter 2

<b>2.0 Literature review.....</b>	<b>9</b>
<b>2.1 Small- medium enterprises (SMEs) .....</b>	<b>9</b>
<b>2.2 Purchasing .....</b>	<b>11</b>
2.2.1 Strategic Purchasing .....	12
2.2.2 Purchasing Portfolio .....	12
<b>2.3 Buyer-Supplier Relationships.....</b>	<b>14</b>
2.3.1 Buyer-Supplier Relationship Type.....	15
<b>2.4 Purchasing in SMEs .....</b>	<b>18</b>
2.4.1 Strategic Purchasing in SMEs.....	19
2.4.2 Purchasing Portfolio Model and SMEs .....	20
2.4.3 Supplier- Buyer Relationships within SMEs .....	21
<b>2.5 Summary of Literature Review.....</b>	<b>22</b>

## Chapter 3

<b>3.0 Methodology.....</b>	<b>24</b>
<b>3.1 Research Strategy.....</b>	<b>24</b>
<b>3.2 Scientific Approach .....</b>	<b>25</b>
<b>3.3 Secondary Data Collection.....</b>	<b>26</b>
<b>3.4 Reliability and Validity .....</b>	<b>26</b>
<b>3.5 Summary of Methodology.....</b>	<b>27</b>

## Chapter 4

<b>4.0 Findings, Analysis and Discussion .....</b>	<b>28</b>
<b>4.1 Purchasing function within SMEs .....</b>	<b>28</b>
<b>4.2 Strategic Purchasing.....</b>	<b>30</b>
<b>4.3 Purchasing Portfolio .....</b>	<b>35</b>
<b>4.4 Supplier-Buyer Relationship.....</b>	<b>36</b>

## Chapter 5

<b>5.0 Conclusion.....</b>	<b>40</b>
<b>5.1 Summary.....</b>	<b>40</b>
<b>5.2 Managerial contributions .....</b>	<b>41</b>
<b>5.3 Theoretical contributions .....</b>	<b>41</b>
<b>5.4 Limitations of the study &amp; areas for future research .....</b>	<b>42</b>

## **List of Figures**

FIGURE 1: PURCHASING PORTFOLIO MANAGEMENT .....	13
FIGURE 2: DIFFERENT TYPES OF RELATIONSHIPS.....	15
FIGURE 3: POWER MAP OF POTENTIAL BUYER-SUPPLIER EXCHANGE RELATIONSHIPS .....	17
FIGURE 4: PROPOSED RELATIONSHIP BETWEEN MOTIVES AND SIZE OF FIRM .....	19
FIGURE 5: FACTORS AFFECTING THE LEVEL OF STRATEGIC PURCHASING.....	20
FIGURE 6: PROPOSED APPROACH TO EXPLAIN LACK OR LOW LEVELS OF STRATEGIC PLANNING IN SMES .....	35

## **List of Tables**

TABLE 1: DEFINITION OF SMALL-MEDIUM ENTERPRISES.....	9
TABLE 2: FEATURES OF SMES VS LARGE FIRMS.....	10
TABLE 3: ADVERSARIAL VS. COLLABORATIVE RELATIONSHIPS .....	16
TABLE 4: STRUCTURE OF PURCHASING IN SMES .....	29
TABLE 5: SUMMARY TABLE OF STRATEGIC PURCHASING CHARACTERISTICS AND ITS IMPLEMENTATION IN SMES .....	31
TABLE 6: SUMMARY SWOT ANALYSIS OF STRATEGIC PURCHASING .....	33
TABLE 7: BUYER-SUPPLIER RELATIONSHIPS IN SMES AND LARGE ENTERPRISES.....	<b>ERROR!</b>

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# Chapter 1

## 1.0 Introduction

The ability to provide high levels of customer satisfaction has been considered an essential ingredient of business success and in many industries the increasing demands of customers have led to a need for lower prices and improvements in quality and service. Such pressures have forced many firms to review their approach to operations management and, in order to remain competitive; they have examined the potential contribution suppliers can make. (Quayle 2000). Purchasing has developed into a crucial management discipline and the functional purchasing practices that were prevalent in the early years have been superseded by more strategic approaches, drawing on an array of 'best practice' techniques, to secure competitive advantage and continued contribution to financial performance (Weele, 2010)

The topic of purchasing behaviour in SME companies has long been recognized in the management literature. Despite a growing body of research on purchasing practices in small- to medium-sized enterprises (SMEs), some key issues remain under-examined (Brown, 2009). Differing purchasing behaviour between SME's and well-established companies is an area yet to be explored in greater detail. SME companies operate under circumstances that pose different purchasing challenges compared to larger firms e.g. lack of capital, experience, power, supplier/customer relationships, market share etc. (Ellegaard, 2006). This research, will therefore explore the literature on purchasing practices in SMEs, which has typically drawn from work on larger firms, and to assess its contribution to understanding the actual purchasing practices of both SMEs and large companies.

The purpose of this chapter is to introduce the framework of the whole study. In the next section, aim of the study will be clarified. And then a general background of the purchasing behaviour in SMEs will be presented. Next the methodology employed will be described and the results gathered from the study. Finally, the results of the study will be concluded and any further research will be explained.

## 1.1 Aim of the Research Study

Mainstream purchasing practices and techniques, grounded from the perspective of dominant and highly resourced companies, are being used to measure the efficiency and effectiveness of SME's. It is questionable how appropriate these practices are when applied too much smaller firms with fewer resources. I will be investigating whether these general practices in purchasing behaviour do in fact fit with the operations of SME's.

It is argued that those organisations able to recognize and use power during purchasing will benefit accordingly (Boodie, 2002). There is limited research exploring the subject from the perspective of the SME. In the absence of uniqueness, the basic problem facing SMEs can be their size and lack of power. My aim is to address the factors, which may affect the final purchasing

decision, taking into account size, power, collaborations etc. Mudambi et al. (2004) for example, confirmed that size and experience in the industry were determining factors affecting the levels of cooperation a purchasing SME could expect from a larger supplier.

Small and medium sized companies have different presuppositions to larger firms and therefore it is interesting to see how these firms encounter the task of performing purchasing in an effective and sustainable way. How can purchasing behaviour in these firms influence daily operations? Do they consider purchasing as a tool to be successful in the future? Is it generally possible and meaningful for small and medium sized enterprises to make effort within the purchasing area? Mentioned facts about the importance of purchasing, the importance of small and medium sized enterprises and the importance of the firms that are engaged in relationships should be a part of this research. As Mudambi and Schruender (1996) outlined in their research, the strategic importance of purchasing, the purchasing partnership paradigm and the importance of the SMEs for the economy are interrelated and therewith worth to be a topic of research

In order to have a better understanding of purchasing practices in SMEs and increase the utility of research, it is important that studies are more focused. Such research needs to explain what SME firms 'do' when they engage in purchasing relationships, rather than applying the conventional wisdom of purchasing behaviour, which is derived from the practices of much larger companies. This study seeks to identify the factors that affect the purchasing behaviour of SMEs based on a study of various SME firms and large organisations.

#### Main Research Questions/Topics

- How does an SME perform its purchasing activities?
- What factors determine the purchasing behaviour of SMEs?
- What kind of relationship does an SME have with its suppliers?

### **1.2 Method of the Research Study**

The aim of this study is to discuss how purchasing behaviour varies between SME companies and larger companies. To accomplish this, a qualitative method will be employed using research data of secondary nature.

In this area of research there are different sources of literature available. There are primary, secondary and tertiary literature sources. The primary sources 'are the first occurrences of a piece of work' and could be for example reports, theses, emails or company reports (Saunders et al., 2009; p.69). Tertiary literature sources are 'search tools' which are existent in order to introduce some-thing or to find primary or secondary sources (Saunders et al., 2009; p.69). It could be for example indexes, abstracts or encyclopaedias. Secondary sources, which are the most used source for this dissertation, are books, online data or journals that are 'the subsequent

publication of primary literature' (Saunders et. al., 2009; p.69). The secondary data used will be critically evaluated and will be collected from relevant literature, databases and internet sources.

This thesis is largely characterised by an inductive research approach because of the use of qualitative data and the attempt to come up with some new theory about small and medium sized companies' purchasing behaviour. The study will be based on existent theory from the area of purchasing and from the area of small and medium sized companies and their purchasing behaviour as well as those of the large companies.

### **1.3 Organisation of the Study**

**Chapter 1:** In this part of the dissertation, the reader will be provided with a short introduction into the research area. In order to give the reader a clearer picture, the problem is discussed. This will lead to the thesis purpose. Finally, the outline of the thesis is presented.

**Chapter 2:** In this part of the dissertation, important theoretical knowledge within the area of purchasing is presented. It is divided into three parts. Firstly, the notion of small and medium sized enterprises is defined. Further, the concept of purchasing is presented in a general manner while in the third part it is explained in the context of SMEs.

**Chapter 3:** In the method section of this thesis, an outline of which research method is selected will be described in detail. It will include descriptions of the research approach and design and the way in which the data analysed was found and used.

**Chapter 4:** In the fourth part of the dissertation, the findings of the study are presented. The findings are the results of the data collected from previous studies concerning large and SME companies. Findings regarding purchasing behaviour are summarized and the analysis takes place. The findings from the frame of references are connected to the findings from previous literature in order to enable a valuable conclusion for this paper.

**Chapter 5:** In this part of the paper, the whole study is summarised in order to determine whether the research questions have been answered and in that way, fulfil the purpose of this dissertation. This chapter will also provide ideas for future research that appear throughout the writing process.



## Chapter 2

### 2.0 Literature review

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In this part of the thesis, important theoretical knowledge within the area of purchasing is presented. It is divided into several parts. Firstly, the notion of small and medium sized enterprises is defined. Further, the concept of purchasing is presented in a general manner while in the third part it is explained in the context of SMEs.

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### 2.1 Small- medium enterprises (SMEs)

Multi-billion takeovers, global expansion plans and more recently risks of mega bankruptcies dominate the headlines. Thus it is easy to get the impression that the economy is dominated largely by large multinational enterprises. However, 80% of most businesses in a country are in fact, SMEs (small and medium sized enterprises). There is no generic definition to describe an SME as it varies widely between different countries. Any definition or classification of an SME can therefore only be considered particular to the country in question. Some of the most commonly used criteria's are the number of employees, total net assets, sales and investment level (Gomes, 2001). However, the most common basis for definition is employment wherein there is still variation in defining the upper and lower size limit of an SME. EU Member states have their own definition of what constitutes an SME, for example Germany has a limit of 500 employees, while, for example in Belgium the limit is 100 employees. (European Commission, 2010). More recently the EU has started to standardise the concept, its current definition categorizes companies with fewer than 50 employees as "small" and those with fewer than 250 as "medium" (Analoui, 2003). By contrast, in the United States, small businesses are those with less than 100 employees, while medium-sized business are those with less than 500 employees (Ou, 2009).

**Table 1: Definition of Small-medium enterprises**

Enterprise Category	Headcount	Annual Turnover	Annual Balance Sheet Total
Medium-size	<250	<= 50 million Euro	<= 43 million Euro
Small	<50	<= 10 million Euro	<=10 million Euro
Micro	<10	<=2 million Euro	<= 2million Euro

Source: The European Commission 2005, Downloaded from [http://ec.europa.eu/index\\_en.htm](http://ec.europa.eu/index_en.htm)

SMEs play a major role in economic growth of a country and are the main source for providing most new jobs. As larger firms downsize and outsource more functions, the weight of SMEs in the economy is increasing. In addition, productivity growth and consequently economic growth

is strongly influenced by the competition inherent in the birth and death, entry and exit of smaller firms. Unfortunately, SMEs have high failure rates. A major cause for the high failure rates of new SME businesses is the fact that these organisations often lack the management expertise and the information systems that larger organisations possess. The challenges faced by SMEs in a globalised environment include lack of financing, low productivity, lack of managerial capabilities, access to management and technology and heavy regulatory burden (Nelson, 2006).

According to Tam (2007) SMEs cannot be as flexible or efficient as larger firms due to their unsophisticated organisational structures. They are in possession of less power, when dealing with larger firms. Hence, they cannot be as demanding as larger firms, regarding prices or product quality. Therefore SMEs are often more vulnerable and have to find other sources of competitive advantages (Tam et al., 2007)

The unsuitability of applying large organisation concepts to SMEs presents the question of how does SME differ from their larger counterparts. Many studies (MacGregor et al, 1998; Cragg and King 1993; DeLone, 1988) have examined the differences in management style between large businesses and SMEs. These studies have shown that among other characteristics, SMEs tend to have a small management team (often one or two individuals), they are strongly influenced by the owner and the owner's personal habits, they have little control over their environment (this is supported by the studies of Reynolds et al, 1994; Poon et al. 1996 and Barnes et al, 2008) and they have a strong desire to remain independent. Some of the main characteristics, which differentiate SMEs from large firms, are shown in Figure 2 below.

**Table 2: Features of SMEs Vs large firms**

<b>Internal/external characteristics</b>	<b>SMEs</b>	<b>Large Firms</b>
<b>Ownership Structure</b>	Often, owner-operated and fewer shareholders	Large number of “public” shareholders
<b>Business Culture</b>	Less formal	More formal
<b>Organisational and capital structures</b>	Less likely to have divisional structures capital structures are simpler	More likely to have divisional structures, capital structures are more complex
<b>Employees' knowledge, values, skills and experiences</b>	Relative influence of key role player is high due to the small size of SMEs	Relative influence of key role players is lower in large firms
<b>Role of external personal relationships and social capital</b>	Higher social capital and reliability on external personal relationships	Lower social capital and reliability on external personal relationships
<b>Business networks</b>	Business networks are more critical for SMEs	Business networks are important but less critical than they are for SMEs

**Source: Elizabeth Stubblefield Loucks, Martin L. Martens, Charles H. Cho, (2010)**

## 2.2 Purchasing

Purchasing, supply management, material management, sourcing and procurement are used almost interchangeably (Leenders, 2002). They refer to the integration of related functions to provide effective and efficient materials and services to an organisation. 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 (Cousins and Spekman, 2003). In today's competitive environment, companies need to find ways to create more value in supply chains. Purchasing has been an integral and important part of supply chain formation. Building a strategic relationship with similar companies in the field of purchasing practices is one way of achieving this. Traditionally, purchasing was seen predominantly as an operational activity and defined as: a function used to obtain the proper equipment, material, supplies and services of the right quality, in the right quantity, at the right place and time, at the right price from the right source (Aljian, 1984). Nowadays, from a business perspective, purchasing is considered: the management of a company's external resources in such a way that the supply of all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the company's primary and support activities, is secured at the most favourable conditions (Weele, 2009). An effective and efficient purchasing system is crucial to the success of a business. Purchasing consists of all the activities involved in obtaining required materials, supplies, components, and parts from other firms.

During the last 20 years a new view of purchasing has gradually emerged. From being considered a clerical function with the ultimate purpose of buying as cheaply as possible - it is today regarded in many companies as a major strategic function (Ellram and Carr, 1994). This new attitude towards purchasing is not surprising, as purchasing (or supply) is one of the major determinants of corporate success. Procurement of goods and services typically represents the largest single category of spending, ranging from 50 to 80% of revenues, in most companies purchasing is responsible for more than half the total costs (Wedel, 2009). If a firm spends a large percentage of its available capital on materials, the absolute magnitude of expense means that efficient purchasing can produce a significant savings. Even small unit savings add up quickly when purchased in large volumes. When a firm's material costs are 40 per cent or more of its product cost (or its total operating budget), small reductions in material costs can increase profit margins significantly. In this situation, efficient purchasing and purchasing management again can make or break a business.

There are a number of purchasing strategies that can be adopted by a firm. These may include but are not limited to negotiation, sourcing, developing and maintaining good relationships with suppliers, developing suppliers, protecting the cost structure of the company and minimising costs (Kiser, 1976). These strategies when well implemented have the ability to improve performance of a supply chain by reducing costs, improving quality, ensuring timely deliveries and customer responsiveness (Nyati, 2010). Purchasing concepts and theories have evolved over the last two decades to focus on how purchasing can be exploited to improve competitive advantage.

### **2.2.1 Strategic Purchasing**

Purchasing has moved towards a strategic function within many firms, partly due to competitive pressures (Ellram and Carr, 1994). According to Carr and Smeltzer (1997), strategic purchasing involves the process of planning, implementing, evaluating, and controlling strategic and operating purchasing decisions for managing all activities of the purchasing function toward opportunities consistent with the firm's capabilities to meet its long-term objectives.

The key strategic matters and options that deal with the purchasing function are the make or buy decision, supplier technology, the type of supplier relationship desired, external market factors, and how purchasing function is able to support the company's competitive strategy. Much of the purchasing literature states that purchasing strategy should be part of the overall corporate strategy (Porter, 1985; Ellram and Carr, 1994). Purchasing plays a strategic role when comprised in strategic planning and implementation at the same level as other functional areas. This appears when the significance of purchasing is acknowledged, generally approved, and implemented by top management (Ellram and Carr, 1994).

When purchasing is recognized as a strategic function, it is accepted as a key decision maker and participant in the company's strategic planning processes. The purchasing function's activities and strategies are then especially fitted to support the corporation's overall strategies (Coban, 2012). Furthermore, purchasing will join into the strategy formulation and offer different ways in which the purchasing function is able to provide support and develop the firm's strategic success (Ellram and Carr, 1994). Based on the literature, the indicators that are used to measure the construct of strategic purchasing are (1) purchasing is included in the firm's strategic planning process; (2) purchasing performance is measured in terms of its contributions to the firm's success; (3) the purchasing function has a good knowledge of the firm's strategic goals and has a formally written long-range plan; and (4) purchasing professionals' development focuses on elements of the competitive strategy; (5) top management considers purchasing to be a vital part of the corporate strategy; (6) purchasing's focus is on longer-term issues that involve risk and uncertainty (Carr and Smeltzer, 1997, Reck and Long, 1988).

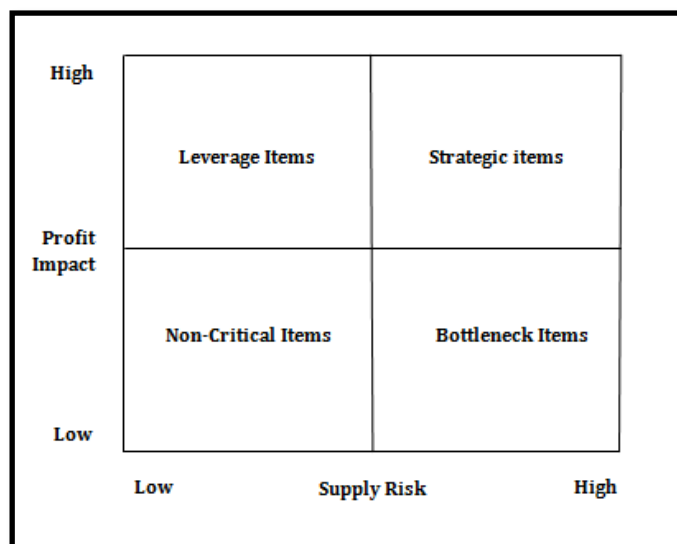
### **2.2.2 Purchasing Portfolio**

Kraljic (1983) introduced the first comprehensive portfolio approach for use in purchasing and supply management. Not every product a company wants to buy can be sourced in the same way. Different situations demand different strategies regarding supplier-buyer relationships and due to changes in relationships or the firms' situation, strategies have to be adjusted. The Kraljic's portfolio approach is a basic tool to determine appropriate purchasing strategies. Not only is this model useful for understanding the underlying strategies in purchasing but also for the interaction of buyer – supplier relationships in the SMEs business area.

According to Kraljic a firm's supply strategy depends on two factors 1) Profit Impact and 2) Supply Risk. Key components of the profit impact factor are the percentage of purchased goods and services in relation to total costs and the impact purchased goods and services have on

organisational profitability (Jeffry, 2004). The general idea of the portfolio approach is to minimise supply vulnerability and make the most of potential buying power (Gelderman, 2005). The relative power and dependence position of buyers and suppliers are therefore expected to be factors of importance in explaining the condition that influences the choice of purchasing strategy within each quadrant.

**Figure 1: Purchasing Portfolio Management**



**Source: Kraljic 1983**

The routine products (leverage items) have a high profit impact but a low supply risk meaning that the usual value of every item is low and many suppliers are available. The buyer power is high because of various suppliers and therefore the competition between the suppliers is high. Competitive bidding is the recommended sourcing strategy to achieve the best financial result (Bensaou, 2000)

Strategic items are important for the financial side of the firm however the supplier risk is high as there are no alternatives. Often these products are delivered on the buyers' specification and only one supplier of this product is available (Kvale, 1997). The information exchange between the participants is usually high and the recommended sourcing strategy is to develop a kind of partnership with the supplier. In this case three different partnership characteristics could occur, namely supplier dominance, buyer dominance or a balanced partnership (Barber, 2012)

Bottleneck products are characterized by a low value within its price but a high supply risk (Kotler, 2007). Also in this case, only one source of supply is available which results in the recommendation to perform a secure supply (safety stock) and/or searching for other supply alternatives. Normal products (non-critical items) are easy to source and do not have a significant impact on the financial result of the firm. Because the time and resources used for supplying the routine products are often higher than the value of the product, the recommendation is to reduce the number of suppliers and develop efficient purchasing routines. (Gelderman, 2002)

Ford (2003) used the model to describe conditions conducive to supplier development, which "aims to create and sustain alignment between a buyer organisation and a supplier for the benefit of both parties (p. 30)." He suggested that supplier development is best under conditions of high supply risk/complexity, i.e., within the strategic and bottleneck quadrants. Under these conditions, the long-term relationships arising from supplier development provide the buyer with protection against supplier power. However, in the noncritical quadrant, Ford argued against supplier development, since such close relationships constrain sourcing flexibility.

According to Kraljic (1983), supply managers should develop long-term relationships with their suppliers when strategic quadrant conditions prevail. In contrast, in the noncritical quadrant, buyers should spread purchase volume among multiple suppliers. Here, the focus is on forecasting demand and planning for the short-term. Campbell (1985) compared conditions favouring "competitive" versus "cooperative" buying. In the case of competitive buying or transactional exchange, the buying firm is larger than the supplying firm, and the supplier's industry is fragmented. On the other hand, cooperative buying or relational exchange involves firms of similar size and more concentrated industries.

Portfolio approaches can be used to improve the allocation of scarce resources. A portfolio model provides framework to understand and to focus a company's supply strategy. This approach can make the difference between an unfocused, ineffective purchasing organisation and a focused, effective one (Pedersen, 2002), especially for those companies that have never thought systematically about their procurement expenditure. It convinces top management of the effective role that purchasing can play in contributing to a company's profit and success (Carter 1997).

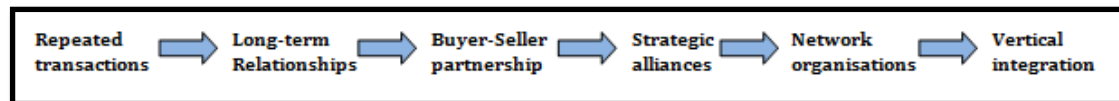
### **2.3 Buyer-Supplier Relationships**

In this highly competitive incentivised market, the best strategy for winning and retaining business is for buyers and suppliers to work together (Sheard 2010). It is now widely accepted that improved relationships between buyer and supplier are desirable, and forward-thinking companies are realising that developing and enhancing such relationships is an effective way of improving the level of efficiency of the whole supply chain (Burnett, 2004).

The two most important questions regarding buyer-supplier relationships concern the nature of the commercial outcome and the nature of the interaction between the two parties (Lonsdale and Watson 2008). In order to get an impression of the term relationship, one should have a look at the possible interactions between purchaser and supplier. Interaction concerning the product could relate to the frequency of purchase or the product complexity while the interaction variables of the industrial character could be the number of alternative partners or the intensity of competition (Campbell 1985; cited in Hines, 2004; p.173). Regarding the buyer- and supplier side, the interaction variables could be the preferred interaction style, centralisation of purchasing or risk aversion (Hines, 2004). These interaction variables influence the

characteristic of the relationship between buyers and suppliers. Managing buyer-supplier relationships involves the consideration of a multiplicity of different relationship types. Webster (1992; p.5) conceived these types as representing a continuum of pure transaction on the one end to fully integrated hierarchical firms on the other end

**Figure 2: Different types of relationships**



**Source: Webster 1992, p.5**

Starting from the left end of the continuum, independent (pure market transactions) are the kinds of exchanges, which include defined product with buyers and sellers entering and leaving the market transaction as strangers, co-ordinated by price mechanism (Jackson, 2005). Repeated transactions are the next step in the continuum. According to Webster, this refers to a situation in which the transaction takes place between the same parties frequently for some reason, but the parties have not developed commitment to a particular supplier/buyer. Long-term relationships can be sealed with contractual arrangements, but still the co-operation between the parties can be arms-length in nature. More complex exchange mechanisms are the ones in which mutuality and also non-contractual commitment emerges (Barringer & Harrison 2000). Then comes the buyer-seller partnership that changes the adversarial behaviour and the participants are dependent on one another. Strategic alliances are characterised specifically by the fact that there exists an intention on the part of the parties to move both of the partners towards the achievement of some jointly defined long-term strategic goal (Todeva, 2008). Network organisations are defined as 'corporate structures that result from multiple relationships, partnerships and strategic alliances' (Webster, 1992, p 5). Finally, at the far right end of Webster's continuum there is a situation in which companies are vertically buying each other, customers are buying their suppliers and vice versa. This is described as vertical integration.

### **2.3.1 Buyer-Supplier Relationship Type**

The intensity of involvement within a relationship range from adversarial or arm's length to collaborative relationships (Langley 2009). These relationships are often referred to as being a 'win-lose' relationship characterised by adversarial negotiation techniques (Hines, 2004). Furthermore they are portrayed as short term relationships where price is the primary focus. The collaborative relationships building on the ideas of Kauffman (1966) and Henderson (1990) have attributes that include cooperation, mutual benefit and trust. Strategies such as cross-functional team decision-making, supply base rationalisation, and long-term contracts are categorised as collaborative. The principal attributes of adversarial and collaborative relationships (Table 3) can be described across five key dimensions, as identified by Spiers (1997).

**Table 3: Adversarial Vs. Collaborative Relationships**

	<b>Adversarial relationships</b>	<b>Collaborative relationships</b>
<b>Behaviour</b>	Individual gain seeking, transitory, defensive, aggressive	Mutual respect, committed, open/sharing, trust, focused on group gains
<b>Attitudes</b>	Retain expertise, centralised authority, power overt and active, buyer knows best, problem drive, homogeneous suppliers, passively responsive	People involvement, devolved authority, power covert, inactive, differentiated suppliers, proactively innovative, prevention driven
<b>Measurement</b>	Unidirectional, one-dimensional, inspect outcomes, limited and infrequent feedback.	Multidimensional- total acquisition cost, relationship positioning, measure process, self-regulation, extensive frequent evaluation and feedback, success shared through network
<b>Processes</b>	Buyers specs, hands off – distant few boundary spanning roles, static systems	Shared design, open into exchange, hands on – close, many boundary spanning contracts, leaning organisations, team-based, supplier investment – people-processes
<b>Time</b>	Limited life, frequent resourcing, low switching costs, discrete transactions	Extended guaranteed life, single sourcing, high switching costs, infrequent resourcing

**Source: Spiers 1997**

Development of relationships to key suppliers is beneficial on both operational and strategic dimensions. The operational level of closer relationships to suppliers conduces to the improvement of quality, delivery services and enhances cost reductions. The benefits of such a close buyer supplier relationship can offer improvements to the firms’ product through enhanced innovation possibilities, higher competitiveness and hence a higher market share (Kannan & Tan, 2006). Recent developments in the practice of purchasing have focused on the changes of the relationship between buyers and sellers.

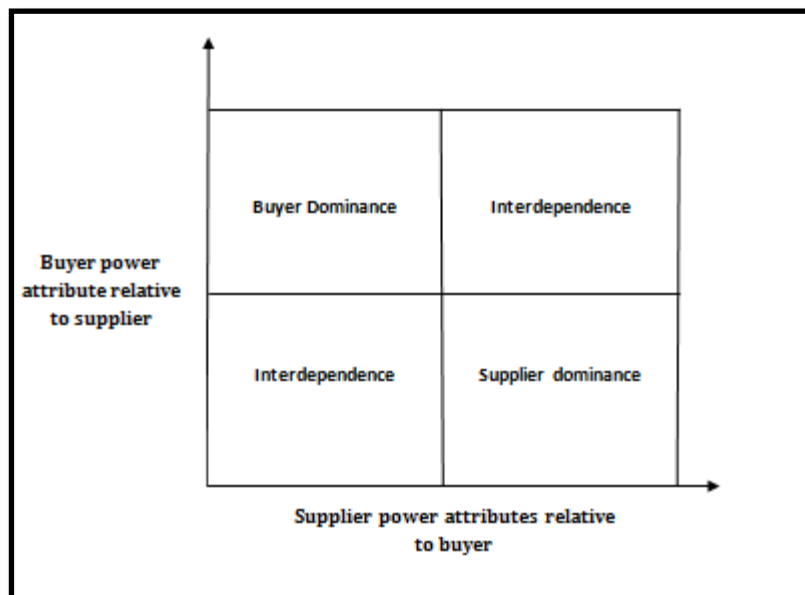
According to Lambert (2008, p.54) ‘supplier relationship management represents an opportunity to build on the success of strategic sourcing and traditional procurement initiatives. It involves developing partnership relationships with key suppliers to reduce costs, innovate with new products and create value for both parties based on a mutual commitment to long-term collaborations and shared success’ (Lambert, 2008). Different kinds of partnership can include for example co-operations, collaboration, joint ventures, vertical integration or strategic alliances.

As mentioned in the portfolio approach part above, supplier – buyer relationship are characterised by different power circumstances. According to Cox (2001), there are four typical power circumstances in supply chains and thus in buyer supplier relationships. In a buyer



dominant supply chain the buyer side has more power in the supply chain than the supplier. The extended interdependence supply chain is characterised by balanced power circumstances between buyer and supplier, whilst in the extended independence supply chain no dependences exist at all. The last typical supply chain structure is the extended supplier dominance where the supplier has the greater power regarding the relation between supplier and buyer in a supply chain (Cox, 2001).

**Figure 3: Power map of potential buyer-supplier exchange relationships**



**Source: Cox et al 2003 p.54**

To sum up, there are many different types of relational circumstances a buyer could be situated in. As named by Webster (1992) a relationship could be represented by a simple transaction, a buyer-supplier relationship up to a vertical integration in the firm. In this concept the arm's length relationships, which means the involvement is low, would be situated in the pure transaction direction up to the simple buyer-supplier relationship (Hines, 2004). The contrary side would be a more integrated relationship, hence a partnership or co-operation. Different power circumstances have influence on the partnerships. It is a very complex process to develop a working co-operation, as huge investments of time, trust and other resources are necessary to gain a mutual beneficial partnership (Radkevitch, 2009)

After defining the purchasing concept, including the portfolio approach, the purchasing process model and the relational dimension in purchasing, one has the basis to go on and apply it to the business area of small and medium sized enterprises.

## 2.4 Purchasing in SMEs

Despite the critical role of SMEs in a nation's economy, very few empirical studies exist regarding purchasing and supply management in SMEs (Quayle, 2003). Rather, most of the studies in purchasing and supply management have focused on the purchasing activities of large organisations. As a result, little is known about the state of purchasing activities in SMEs.

SMEs are often characterised as managed by the owner or a few employees that are closely related with the owner (Kolchin, 2006). Often purchasing is not considered as an important or key function but more a part of the day-to-day operation in the SMEs (Gadde, 2001). In his study, Quayle (2002) found that purchasing was ranked as less important for the organisations success when compared with other issues like leadership, strategy, waste reduction, or teamwork. Further Ellegaard (2006) stated small company owners perform operational acquisition of components, but do not develop their purchasing skills and procedures. In his interviews of small and medium sized company managers, only one out of sixteen had seen purchasing as a key activity (Ellegaard, 2006). Quite contrary the finding of a recent study from Pressey et al. (2009, p.223), which stated that, 'purchasing in the majority of SMEs appears to play an essential role, especially amongst SMEs offering high-tech products and operating in markets where competition is based on product characteristics'.

The small company attracts increasing attention from academia. Some previous studies (Gadde 2001) have agreed that SMEs would particularly benefit from effective purchasing, since in order to be successful, their own limited resources need to be complimented by external resources. Compared to the large firms, SMEs operate under circumstances that pose different purchasing challenges (Ellegaard, 2006).

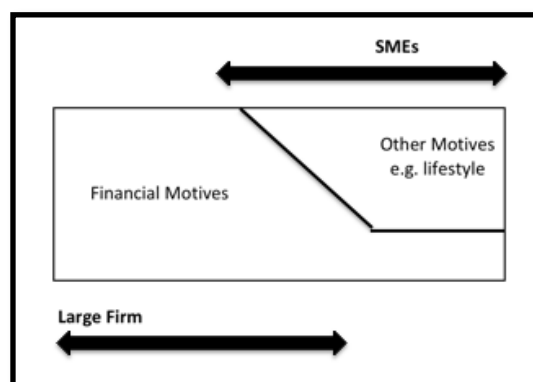
A typical characteristic of the small company is its limited resources, and one critical effect of this shortage is lack of attention to strategic purchasing. As the European Commission, stated SMEs often have problems in obtaining financial resources such as capital/credit. This often results in lower access to innovations or new technologies. Due to the limited resources of capital, knowledge and time, the purchasing abilities and activities lack. Moreover the vulnerability of the small and medium sized companies is also high (Ellegaard, 2006). In addition, the small company owner typically has limited supply market knowledge. Purchasing is a critical task in the small company, which is particularly dependent on external resources due to its limited size (Gadde and Hakansson, 2001).

The general perception is that all organisations whether small, medium or large pursue value-adding activities that contribute to the overall profitability of the firm. However according to Morrissey (2004) smaller, owner-managed businesses may view financial motives less vigorously and see other motives such as "lifestyle" to be of equal importance. These owner-manager motives are likely to affect the procurement behaviour of a firm. In his case study Morrissey interviewed several small medium sized firm managers, and confirmed his findings on the existence of these important non-financial motives. In the interviews carried out, several

owner-managers advised of their “non-financial” preference to solve customer problems as opposed to focusing their efforts purely on maximising profitability. Their motive was to ensure that these customers were happy to facilitate the sale of their business, enabling them to retire comfortably.

These findings demonstrate the inseparability of the personal motives of the owner- manager, those of the business and resulting customer/buyer behaviour. Morrissey further suggested that the inter-relationship between the personal motives and the firm’s operation become less relevant as the business size increases. Such interactions are more likely to occur in the procurement behaviour’s demonstrated by SMEs rather than larger firms.

**Figure 4: Proposed relationship between motives and size of firm**



Source: Bill Morrissey and Luke Pittaway (2004)

### 2.4.1 Strategic Purchasing in SMEs

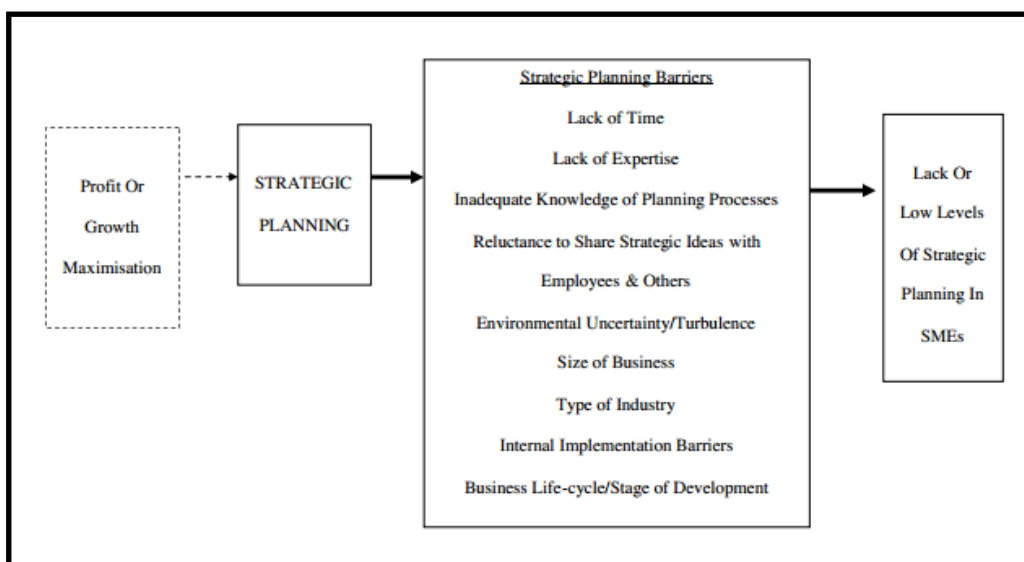
Pearson, (1999) expresses concerns that strategic purchasing may be unsuitable for SMEs, which often lack the flexibility to devote resources to such initiatives. Quayle M. (2000) concludes from empirical analysis non-importance of strategic purchasing in SME, due to its resource limitation and vast size asymmetries in the markets. Furthermore, Zheng et al. (2004) argues that purchasing management is fragmented and non-strategic as small-medium size enterprises usually buy in small quantities due to cash flow.

On the one hand, limitation of resources in SME leads to significant differentiation of purchasing practices in SMEs and large-scale enterprises; and hence, is an obvious hinder for strategic purchasing adaptation. On the other hand, there are a number of authors who consider strategic purchasing as opportunity for SME to obtain lacked resource. According to Pressey et al (2009) literature analysis “Several authors agree that small- to medium-sized enterprises 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” (Pressey et al., 2009, p. 214)

On the base of conducted researches several authors report that supplier selection, supplier development and other functions of strategic purchasing barely find use in small to medium size businesses (Overby J. and Servais P et al., 2009). Quayle M., (2002) suggests that large firms were positive about the role that purchasing plays in comparison to smaller firms, who were less positive about the contribution of purchasing to the organisation's performance. Finley (1984) notes one obvious hinder for SMEs to develop long term close collaborative relations with suppliers, it is their lack of purchase volume- which in many cases place small buyers in asymmetrical power positions to larger scale company suppliers. This reduces the possibilities of obtaining buyer bargaining power, to request low prices.

Zheng et al. (2003) furthers this view by explaining how a lack of purchasing power may affect the purchasing behaviour of SMEs. In their study, SMEs that lack purchasing power are reluctant to engage in the market, resulting in a fragmented approach and lack of strategic direction in their purchasing activities.

**Figure 5: Factors affecting the level of strategic purchasing**



### 2.4.2 Purchasing Portfolio Model and SMEs

Many large companies have benefited from strategically managing purchasing and relations with their suppliers. However according to Gelderman, small and medium size enterprises' (SMEs') use of portfolio models is much lower than that of large enterprises. Instead, purchasing decisions in small firms are generally made by the owner or a chosen few on the basis of intuition and personal experience (Cagliano and Spina, 2002), or possibly misconception. This can lead naturally to poor performance. As mentioned above, small firms may find it difficult to gain interest in development and collaboration from their suppliers because they have little purchasing power (Quayle, 2002) (Gonzalez-Benito et al, 2003) and lack the management resources needed to find and develop alternative suppliers and solutions (Gadde and Hakansson, 2001). Moreover it is particularly difficult for an SME to acquire accurate data from suppliers, as SMEs do not have the 'power' of large customers to command the attention of suppliers. In a case

study of purchasing strategy of five small manufacturing companies, the staff members reported that they certainly did not have the data required to adopt portfolio models in their purchasing strategy. (Myung, 2009).

### **2.4.3 Supplier- Buyer Relationships within SMEs**

As previously mentioned the importance of managing buyer-supplier relationships is fundamental for continued organisational success. In the general purchasing literature, discussions about supplier-buyer relationship take on the perspective of large organisations (Schruender and Mudambi, 1995). Only rarely do these studies reflect the perspective of SMEs (Mudambi et al., 2004; Schruender and Mudambi, 1995)

Since the 1990's, there has been an apparent shift in the nature of the buyer-supplier relationship from the traditional adversarial type towards one of collaboration. Quayle suggests that the buyer-supplier relationships that exist in SMEs tend to be in the traditional adversarial type as opposed to the collaborative type. Quayle's (2000) study of small firms suggests that the adoption of, or shift towards more collaborative types of relationships is not as widely used in smaller firms as one would assume from general purchasing models.

A review of the small firm purchasing literature confirms that cooperation between small firms remains problematic even though it is one method for increasing power and reducing dependency on larger firms (Morrissey and Pittaway, 2004). Hines (1995) argues that there is a lack of evidence to support the idea that firms make a sustained effort in establishing a foundation for lasting relationships. Instead the partners have a tendency to choose the best parts from a cooperative relationship with little regard for their partners.

In comparison to larger companies, SMEs lack the resources in terms of both human and financial to control their supply relationships. Erikson (1999) argues that because of resource scarcity, the elasticity of firm's switching cost is negatively related to its size. This means that the smaller the firm, the more its performance is affected by high switching costs. In addition to this vulnerability, resource scarcity problems also prevent SMEs from acting freely when coordinating multiple supply relationships (Mudami and Helper, 1998) or building network exchange structures with critical resource suppliers (Larson, 1992)

As a result of this SMEs tend to have only one or two key suppliers, whose performance are mainly evaluated according to the reliability of delivery and quality due to the deficient knowledge of the market (Prough, 2006). Smaller companies, as it has already been shown by other studies (e.g. Knudsen and Sarvais, 2007), are willing to change their supplier only as a last resort, since they do not have the knowledge necessary for finding and involving new suppliers, and also because their transaction costs are very high due to the low IT support. Larger companies tend to engage in short term contracts with numerous suppliers (arms-length relationship) whereas the main priority of smaller ones is maintaining a long-term relation with their suppliers.

Barringer (1997) lists four disadvantages associated with resource scarcity problems. First, an SME that establishes a long-term relationship with a single large supplier often relinquishes the possibility of forgoing ties with other firms (opportunity cost). Second, on average, having a limited number of exchange partners makes small firms more vulnerable to supply problems than larger firms. Third, as small firms lack the resources to adjust and meet large suppliers' requirements, an interdependent relationship cannot be formed. Any joint planning and shared decision-making may result in a loss of decision autonomy for the small firm (organisation cost). Fourth, opening communication channels leads to the sharing of privileged information, which in turn may reduce the small firm's future growth opportunities.

Large enterprises also tend to adopt strategic alliances in comparison to SMEs. In general, "alliance" has been seen as a strategic option for SMEs to overcome the problem of their small size (Pratten, 1991). By linking with resourceful player(s), SMEs can share risk with alliance members and gain economics of scale. However, results from a survey by Mishra (2011) showed that the adoption of a formal strategic alliance was not popular with SME. This is because the majority of SMEs studied were more concerned with short-term profit rather than with achieving long-term objectives.

Furthermore, there are motives and behavioural characteristics of the owner-manager, which also influences the desired relational type (Morrissey and Pittaway, 2004). Certain motivations, such as lifestyle goals, can lead to preference for different forms of relationships.

## **2.5 Summary of Literature Review**

The literature review provides a critical and in depth evaluation of previous research and highlights the areas that are yet to be covered in substantial detail. The information is drawn from articles and journals conducted by purchasing professionals with the aim of highlighting the importance of the subject. The first section provides a detailed over view of SME characteristics and the concept of purchasing as a whole, as well as discussing the different models currently employed by firms. It is clear that purchasing is no longer regarded as a clerical function but more of a strategic function used to reduce costs and thus increase profits. It can be seen that depending on location and business type, the definition of an SME can vary in terms of size. A comparison between SME and larger firm features is also provided to highlight the differing characteristics between them. The concepts of strategic purchasing and purchasing portfolio are discussed in detail and how they can help a company improve performance through reduced transactional costs. These models are usually implemented by larger firms- who have separate purchasing departments focused primarily on influencing the bottom line. Next the section on buyer-supplier relationships is addressed. This section highlights the importance of having strong, trusting relationships with vendors and how this collaborative relationship influences business success. There has been a general shift from the conventional, adversarial arms-length relationship to a more collaborative, teamwork-based relationship. The following section addresses the above points with respect to SME firms. Although the concepts of strategic

purchasing and purchasing portfolio are beneficial to the procurement departments of companies, it is evident that these concepts are not so easily transferrable into the world of SMEs. This is due to the fact that most SME firms lack the resources, manpower and knowledge to successfully implement such models. They usually have owner managers who deal with the purchasing and so do not feel the need to employ a whole department solely for purchasing. Because of the fact that they experience high levels of information asymmetry in conjunction with the above reasons, SMEs rarely employ strategic purchasing and purchasing portfolio concepts. SMEs do not have the same buying power as their counterparts and as a result their buying practices are very different. A large company would have a few key suppliers with whom they build strong lasting relationships, whereas SME firms usually have numerous suppliers with focus on short-term relations. Finally, when discussing buyer supplier relationships with regard to SME firms, it is evident that these firms are not just driven by profit. Although studies conducted on SME firms are very limited, it is apparent that owner managers are driven by motives other than profit such as lifestyle gains- which are considered just as important as profit if not more so.

## Chapter 3

### 3.0 Methodology

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This chapter will provide the detail of the research strategy adopted to address the research issues identified above, together with the means of collecting data for analysis and the analysis approach to be adopted. In addition, the reader will be directed towards validity and reliability of the data used.

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A valuable aspect of this research work relates to the opportunity to study SME's purchasing strategy and implementation in practice. As mentioned before, despite a growing body of research on purchasing practices in small- to medium-sized enterprises (SMEs), some key issues remain under-examined (Brown, 2009). Differing purchasing behaviour between SME's and large enterprises is an area yet to be explored in greater detail. The opportunity, therefore to gain a variety of views from different SME's ought to contribute significantly not only to the study of purchasing behaviour in general, but to richer understanding of SME's issues in particular.

Chapter 2 identified a gap in existing research in that there was evidence on the need for exploring the different purchasing practices adopted by SME's. An important contribution of this research work will be the study and analysis of theoretical data on how SMEs purchasing behaviour differs from that of the larger companies. Although much of the focus of the work will be gathering data on purchasing strategies adopted by SME's, data will also be collected on purchasing strategies of larger companies in order to compare and contrast. By comparing theory with practice i.e. comparing the literature review with the actual behaviours of SME's a fuller understanding of the issues surrounding the implementation of purchasing strategies within SME can be understood. Thus this research will be better placed to contribute useful knowledge in relation to purchasing behaviour in the SME context.

### 3.1 Research Strategy

There are two types of research methods, which are normally the most used in the collection of data; these are identified as quantitative and qualitative methods (Ghauri et al., 1995). The quantitative methods consist of systematic empirical studies, which involve quantifying data through the assistance of mathematics and statistics (Bryman and Bell, 2007). Data is collected and transformed into numbers, which are empirically tested to see if a relationship can be found in order to be able to draw conclusions from the results gained. In other words, quantitative methods are related to numerical interpretations. On the other hand, qualitative research does not rely on statistics or numbers. Qualitative methods often refer to case studies where the collection of information can be received from a few studying objects. Furthermore, qualitative methods emphasize on understanding, interpretation, observations in natural settings and closeness to data with a sort of insider view (Ghauri et al., 1995).



The type of research approach to select depends on the kind of studies that will be conducted. However, Gunnarson (2002) argues that the benefit of applying a qualitative method in a research is that the method takes into consideration the overall picture in a way that the quantified method cannot. A qualitative approach will be more suitable in order to fulfil the purpose of this research, since this thesis is researching purchasing behaviour of SMEs which takes into account perceptions, beliefs, ideas and opinions that are difficult to measure in a quantitative way.

### **3.2 Scientific Approach**

According to Saunders et al. (2009) there are two kinds of research approaches. The first approach is deductive which represents the commonest view of the nature of the relationship between theory and research. The research is built on existing theory tested by the researcher. It is carried out by first finding related theory and based on those theories hypothesis are formulated (Hyde, 2000). The author will have some findings that help the researcher to confirm or reject their hypotheses. The second way to conduct a research project is the inductive method. In inductive theories conclusions are derived from empirical observations leading the researcher to theories and hypotheses, although hundreds of observations are carried out, researchers can never achieve 100 % certainty about the inductive conclusion (Ghauri et al., 1995)

As Bryman and Bell (2007) mentioned sometimes it is not that clear cut between the two approaches as it is often presented in methodology literature. Often it is stated that a deductive approach comes along with quantitative data and the inductive approach is associated with qualitative data. Saunders et al. (2009) stated that the deductive approach could even use qualitative data.

This thesis is largely characterized by an inductive research approach because of the use of qualitative data and the attempt to come up with some new theory about small and medium sized companies purchasing performance. The study is also based on existent theory from the area of purchasing and from the area of small and medium sized companies and its purchasing practice. Due to this fact, the research is also characterized as deductive.

Several authors, such as Brown et al (2009), Ellegard (2006) and Qualye (2000), have addressed in various articles, that there is limited theory and research conducted in the field of purchasing behaviour within the context of SMEs. In addition, the theory that has been developed, and the research that has been established, is angled in various directions that are not necessarily relevant for the problem statement in this thesis. With the limited data that is available within the field of SME's, the theoretical framework is composed based on multiple authors' theory that will best suit the problem statement, as well as observations. Secondary data collected from various sources will be analysed thoroughly and comparisons will be made in order to justify existing assumptions as well as build upon new theories discovered.

### **3.3 Secondary Data Collection**

This exploratory study is based on a solid theoretical framework. Secondary literature on the research topic was reviewed and the theoretical structure was built up, aiming at behaviour as a clear and comprehensive basis of the thesis. This means that the data “was not gathered directly and purposefully for the project under consideration” (Hair et al., 2007, p. 118). The secondary data was of specific use to get an insight into the field of study. A general overview has been established in order to define the scope of the paper as well as its limitations and to identify particular variables of interest for further investigation. Thus, the theoretical framework represents the foundation of the topic, upon which further data collection is deduced.

Information on the purchasing behaviour of SMEs will be collected from books from the university library, scientific articles from online libraries and journals as well as company reports and reliable websites. In order to obtain important background information and knowledge about the field of research, different sources of data were used. By means of creating a deeply rooted theoretical part, terms and definitions, the underlying question of how the purchasing behaviour in SMEs may differ from that of larger firms, could be elucidated.

Moreover, controversial views of various authors on the research matter will be illustrated and evaluated. So, secondary data is adequate to cover these aspects as it serves to place the research objectives into context and different reliable sources dealing with the subjects of purchasing and SME are available. Although secondary data has been collected for a specific purpose differing from the research questions of this thesis, or being not up to date as the data had been collected a few years earlier, it was chosen to make use of secondary data, because larger data sets have been analysed over the years, thus providing a strong basis for further research (Saunders et al. 2007, pp. 257-260).

In this regard it should be mentioned that purchasing literature is a wide-ranging field. There is various literature on purchasing practises (e.g. Van Weele, 2004), but purchasing in SMEs literature does not yet contain more than a few general volumes (e.g. Mudambi, 2004). Thus, in order to supplement this literature with additional material on purchasing and SMEs, two strategies will be used, namely searching in academic article databases (e.g. Emerald, SAGE journals online) and in selected journals (e.g. Journal of Supply Chain and Management; Small Business and Enterprise Development) to find articles in the context of purchasing in SMEs.

### **3.4 Reliability and Validity**

The two concepts reliability and validity are very important to take into consideration when carrying out a qualitative research since they help to determine the objectivity of the research. Reliability and validity could be seen as two different measurement instruments that illustrate the level of trustworthiness and credibility of a research. (Blumberg et al., 2005) explain that reliability and validity are separated into internal and external concepts. Internal reliability refers to whether there is more than one researcher within the study group thus the observers can agree as regards to what they see and hear. External reliability means to what extent a

research can be completed again with results comparable to the original study. It might be difficult to achieve high external reliability since the scene and the setting is likely to change from the time of the original research to the time of a second one. However, a strategy mentioned by Strauss and Corbin (1990) is to adapt a similar role as taken on by the original researcher in order to be able to replicate the initial research. Subsequently, to achieve high reliability in this thesis, this chapter describes in detail the process of gathering data. This detailed description increases the ability for other researcher to replicate this study under the same conditions with comparable results.

Internal validity refers to what degree the researchers are able to agree and come to the same conclusions i.e. if there is a good match between their observations and theoretical thoughts that they expand throughout the research Blumberg's et al. (2005) Internal validity is usually perceived as a strength within qualitative research since the researchers tend to observe the social setting over a long period of time which generally results in excellent correspondence between observations and concepts (Bryman and Bell, 2007). In this thesis it will be difficult to know for certain if the research conducted is valid for the research question. The reason behind this is that the theoretical framework will not be tested and measured in an SME. Opinions and conclusions will be based on data previously found by researchers regarding different purchasing practises. External validity, on the other hand, can be seen as a problem within qualitative research, since it refers to the extent that findings can be applicable in other social settings and qualitative researchers generally make use of small samples and case studies (Bryman and Bell, 2007). As mentioned in the secondary data paragraph, the majority of the data collected is from established academic international journals, and it is therefore reason to believe that the data gathered is reliable and valid to a certain degree.

### **3.5 Summary of Methodology**

Based on the theory in the literature review, the secondary data will be critically analysed and interpreted in the analysis part. Observations will be made in regards to how SMES do their purchasing as well as their intentions behind it and if there are any common patterns in purchasing behaviour amongst the different SMEs observed. Further, it will be examined if SMEs follow the purchasing strategy of larger firms whether they go a step beyond the policy standards. These specific facts will be inductively researched. The underlying aim is to evaluate the theoretical findings with practice and thus, analyse if SME companies' buying behaviour does in fact differ from those of larger firms

## Chapter 4

### 4.0 Findings, Analysis and Discussion

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In this chapter the findings of the study are presented. These findings are the results of the data collected from previous studies concerning large and SME companies. Findings regarding purchasing behaviour are summarized and analysed. In the analysis, the findings from the frame of references are connected to the findings from previous literature in order to enable a valuable conclusion for this paper. The purpose of this study has been to identify and analyse the differing purchasing behaviours in SMEs and large enterprises. Hence, the discussion section of this chapter aims to answer the research questions.

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SMEs face a number of challenges, which are likely to explain the performance of their supply chains and their survival. A study on SMEs in Europe by Onugu (2005) found that less than 5% of the SMEs survive beyond their first year of existence because of the numerous challenges that limit their competitiveness.

This study investigated the differing purchasing behaviour of SME's and large companies. Specifically, this study was designed to answer the following research questions:

- How does an SME perform its purchasing activities?
- What factors determine the purchasing behaviour of SMEs?
- What kind of relationship does an SME have with its suppliers?

Since this is an exploratory study, the results were obtained from respondents of a wide range of industries, including engineering, electronics, textiles, plastics, food and beverages, construction etc. Therefore a general overview of purchasing behaviour of large and small companies is obtained instead of industry-specific findings.

#### 4.1 Purchasing function within SMEs

The findings with regards to the role of purchasing confirm many of the arguments in the reviewed literature. There is a notable lack of agreement between studies on whether SME owners recognise the importance of purchasing and whether they are competent in this area. The study found that many of the SMEs have a purchasing department of low sophistication which is viewed primarily as a clerical function with little decision making power. Owner managers in a non-sophisticated purchasing function solve day-to-day problems with suppliers and spend their time mainly on clerical and administrative tasks. Large enterprises on the other hand were found to have a highly sophisticated purchasing function where purchasing professionals have the skills to effectively participate in cross-functional teams.

In terms of structure the results of this study suggest that the separate purchasing function is more of a feature in the more mature, typically larger enterprises. Drawing on from the findings, it is evident that the purchasing structure and the role of purchasing in organisations appear to be different within SMEs and large enterprises. In all the SMEs studied the owner-managers remain sufficiently active in the purchasing relationships. In large enterprises it was found that purchasing responsibilities are transferred to the other departments and operational activities of purchasing were executed by the departments in which there was a need for a specific good or service. Furthermore, it was found that the purchasing function within these companies was in charge of handling orders, negotiating and contracting phase of goods and services required and development of close collaborative relationships with suppliers. By transferring some of the responsibilities to other users within the company, the manager has more time to focus on strategic issues such as developing close relations and cooperation with the suppliers, being involved in the creation process of new products and integrating the purchasing strategy with that of the organisation.

The findings of the current study are consistent with those of Quayle (2002) who found that 81% of the SMEs in his survey had a designated employee (often the owner manager) whose duties included purchasing. Moreover, he found that only 19% of the surveyed firms had a separate purchasing function, and that purchasing was a very low priority to the firms. This also accords with our earlier observations, which showed that the separate purchasing function is more of a feature in large enterprises. Surprisingly, in an earlier study conducted by Simmons (2000) contradicting results were found. 80% of the responding firms in his study indicated that they utilize some sort of centralization of purchasing authority. Furthermore, a large percentage (54%) of the respondents had centralised the authority for purchasing in a separate purchasing department. This finding is in agreement with Morrissey and Pittaway's (2004) findings; they found that there was greater tendency amongst manufacturing SMEs in creating a separate procurement function (35% in their second survey versus 19% in their first survey).

These findings indicate the progression that many companies have made, from a clerical function to a strategic function. It can also be concluded that SMEs do see purchasing as important, although they may not always have a discrete purchasing function.

**Table 4: Structure of Purchasing in SMEs**

	<b>Separate Purchasing Function (%)</b>	<b>Designated/Assigned person (%)</b>
<b>Simmons (2000)</b>	54	46
<b>Quayle (2002)</b>	19	81
<b>Morrissey &amp; Pittaway (2006)</b>	35 (Manufacturing SMEs), 19 (Other SMEs)	-

## 4.2 Strategic Purchasing

The purchasing functions within an organisation can be performed in a traditional or strategic way. Recently, due to the triggers of external and internal environments, the strategic approach to purchasing in the organisation is becoming more popular. However in this study it was found that SMEs tend to focus on areas that require immediate attention, and are forced to take a short-term focus with little room for strategic thinking in purchasing and supply management. This observation is surprising when considering the benefits SMEs can gain from engaging in strategic purchasing.

Previous studies have highlighted the differences between large firms and SMEs. In this study one of the key differences found was that a high proportion of time in purchasing is spent dealing with crises, quick problem solving, and handling routine transactions in SMEs, compared to large firms. This result leads us to believe that the mind-set of managers in SMEs is more tactical than strategic. This viewpoint is consistent with that of Morrissey (2006) who found that most SMEs do not strategically plan because the majority of owner-managers do not pursue profit/growth maximising goals and therefore, do not perceive the need to plan to any great extent, especially at a strategic level. This is further substantiated by studies into the growth aspirations (or lack thereof) of SME owner-managers. For example, Rosa, Carter and Hamilton (1996) found that only a third of SMEs in their study had intentions to expand. Similarly, Gray (1998) reported that 33% of SMEs in his study could be classified as growth orientated while the remaining 67% were either growth-averse or were exiting/retiring or selling their businesses. Drawing on evidence from this study and those of previous authors, it is found that the levels of strategic planning tends to be higher in SMEs which have owner-managers who are growth orientated and lower in those which have owner-managers who pursue non-economic personal agendas.

Findings of this study indicate that the motivations of owner-managers are fundamental to the basic operations of SMEs. These motivations influence such things as managerial style, organisational structure and culture, decision-making, pattern of business development and the level of strategic activity (i.e. whether and how much strategic planning is carried out) within the enterprise (Beaver 2003). Consequently, ownership motivation—not organisational barriers to planning, seem to emerge as a starting point to understanding why most SMEs do not engage in strategic planning.

All the firms studied in the literature had low levels of strategic purchasing and comprised mostly of SMEs therefore it can be argued that strategic purchasing may not be suitable for SMEs. An emerging theme amongst a wide range of literature was that these firms lack the flexibility to devote resources to such initiatives and as a result the significance of strategic purchasing is regarded as limited. Our findings support the views of Ramsay (2001) and Quayle (2000) who argued that strategic purchasing might be unsuitable for SMEs, mainly due to resource limitations and size asymmetries in the markets. As a result, SMEs with limited purchasing power in comparison to large enterprises, may find it difficult to develop formalized supply relationships.

However, the findings of the current study do not support the previous research conducted by Paulraj et al (2006). In their study of more than 500 medium to large enterprises, 26% of the firms were highly evolved in terms of strategic purchasing adoption, while a further 51% of firms had adopted some aspects of strategic purchasing. Firms that had not adopted any aspect of strategic purchasing were very much in the minority. This unexpected result may be explained by the fact that purchasing practices across SMEs differ significantly from entity to entity. This is further supported by Morrissey and Pittaway (2004) who concluded from their study that SMEs cannot be considered as a homogeneous group as purchasing practices within SMEs varies greatly.

It is interesting to note however, that further analysis of the literature reported that partial elements of the strategic purchasing approach does in fact play a considerable role in small to medium size enterprises. In this sense, it is necessary to mention the general agreement of researchers about CEOs and/or owners' involvement in firms' purchasing issues. Findings from the literature analysis confirm that small and medium size firms' executives are aware of the key role their strategic suppliers have for their business development and success. Top managers are personally responsible for developing collaborative relations with their suppliers.

Furthermore, according to the literature findings supplier selection process in small to medium size firms is mainly performed in a traditional way due to the following reasons. Firstly SMEs tend to rely on few supplier evaluation criteria such as price/cost or quality. Secondly, companies do not employ rationalising methods of supplier selection and lastly, researchers agree that general level of formality procedures in SMEs tends to be low. These same supplier selection characteristics within SMEs were reported by participants in previous studies, conducted by Pressey et al (2009). Respondents stated that a lack of companies' resources prevents them from introducing advanced methods of supplier selection in purchasing practices. Furthermore, the applied criteria to supplier selection is usually limited by issues regarding: price/cost or quality. Respondents also stated that they considered formality procedures as an additional "useless" job for employees. Hence, in spite of the fact that supplier selection is the main function of strategic purchasing, it is performed mostly in a traditional rather than strategic way in SMEs.

**Table 5: Summary table of strategic purchasing characteristics and its implementation in SMEs**

Characteristics of Strategic Purchasing	Implementation in SMEs	Recommendations
<b>Long term purchasing planning</b>	No long range planning (Pressey et al., 2009)	SMEs could really benefit from a long term purchasing plan. It will allow organisations to establish realistic goals and objectives consistent with that mission in a defined time frame within the organisation's capacity for implementation. It will also ensure the most effective use is made of the organisation's resources by focusing the resources on the key priorities.

<p><b>Consistency of purchasing plan and corporate plan in the organisation</b></p>	<p>It is reported that there is tendency to incorporate purchasing plan with corporate plan (Pressey et al., 2009)</p>	<p>SMEs should continue to incorporate their purchasing plan with corporate plan as this will provide them with a clearer focus for the organisation, thus producing more efficiency and effectiveness.</p>
<p><b>Long term purchasing decision</b></p>	<p>SMEs mainly support long term relations, as a result of trust and partnership relations</p>	<p>Academics and practitioners collectively agree that trust plays a key role in close, partnering relationships. SMEs should therefore continue to focus on building trustful partnerships with their suppliers in order to achieve the full strategic advantage of long term relations.</p>
<p><b>Close cooperation with top management in a firm</b></p>	<p>Purchasing duties are mainly handled by company's owner (Ellegaard C., 2006)</p>	<p>Strategic purchasing requires that the people involved in implementing the strategy are knowledgeable, making it possible to add value. Thus SMEs are encouraged to form cross-functional teams similar to large enterprises so that there is a wealth of knowledge and skills within an organisation. By having purchasing operationalised by people who have the required purchasing knowledge and skills, the desired outcomes will be realised, thus improving supply chain performance.</p>
<p><b>Focus on strategic suppliers and relationship with them</b></p>	<p>Small companies are reported to put focus into relations with key suppliers (Pressey et al., 2009)</p> <p>Small company owners perceive close relationship with suppliers as a critical necessity for success (Ellegaard C., 2006)</p>	<p>SMEs should continue to focus on developing their relationship with key suppliers as the benefit to a buyer of developing close relationships with key suppliers comes in the form of improved quality or delivery service, reduced cost, or some combination thereof. At a strategic level, it should lead to sustainable improvements in product quality and innovation, enhanced competitiveness, and increased market share.</p>
<p><b>Supplier selection criteria</b></p>	<p>Traditional criteria (quality, price, product reliability)</p>	<p>The set of relevant supplier selection criteria is believed to change over time, reflecting business and competitive environments. The criteria included in the supplier selection process may frequently contradict each other (lowest price against poor quality). Therefore, SMEs are encouraged to make substantial judgments to assess the wide range of trade-offs present, to recognize all the alternatives available and to make a decision, which balances both the short- and long-term needs of the organisation.</p>
<p><b>Formality level</b></p>	<p>Formality is generally low</p>	<p>SMEs should increase the level of formality, as it requires additional reporting requirements. This promotes the availability of information on a business, the lack of which can also be an impediment to accessing resources from external parties. In this regard, interventions to increase the levels of formality in the SME sector would have a positive impact on the SME sector being able to access additional resources.</p>



<b>Evaluation of purchasing performance</b>	Formal supplier evaluation is not undertaken	SMEs should undertake more formal evaluations, as this will provide them with a base from which progress can be measured and it will allow them to establish a mechanism for informed change when needed.
<b>Attitude to strategic purchasing</b>	Limited evidence purchasing employed strategically (Pressey et al., 2009); 65% perceive purchasing to be unimportant (Quayle M., 2002).  Companies use little time on strategic purchasing (Ellegaard C., 2006).	SMEs are encouraged to adopt a strategic approach to purchasing as they can reap many benefits from it. A strategic approach to purchasing gives an opportunity to SMEs to complement their limited resources by external resources in more efficient ways. Moreover when the strategic approach is well implemented it has the ability to increase the performance of a supply chain by reducing costs, improving quality, ensuring timely deliveries and customer responsiveness.

**Table 6: Summary SWOT Analysis of Strategic Purchasing**

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>- Overall improvements of firm's outcome</li> <li>- Efficient achievement of corporative goals</li> <li>- Effective sourcing of strategic items</li> <li>- Gaining competitive advantage at the market</li> </ul>	<ul style="list-style-type: none"> <li>- Misunderstanding among SME's employees goals and processes of strategic purchasing and its functions</li> <li>- Lack of strategic supplier selection methods knowledge among employees</li> <li>- Resource (e.g. time, finance) spends on training for employees</li> <li>- Strategic purchasing requirement of considerable firm's human/ time resources involvement</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>- Many SMEs have already been following some principles of strategic purchasing management (e.g. develop long tem relations with key suppliers, CEO participation in key supplier relations)</li> </ul>	<ul style="list-style-type: none"> <li>- Limited resources</li> <li>- Not possible to reach supplier with interest to communicate open and develop close relations</li> <li>- Underestimation of strategic purchasing formalities (e.g. planning, routine evaluation, etc.)</li> </ul>

A SWOT analysis has been created using the findings from the study of various literatures regarding the implementation of strategic purchasing in SMEs. According to SWOT analysis, there are significant strengths of strategic purchasing implementation in SMEs. A strategic approach raises efficiency of purchasing and other management functions within SMEs as well as enhancing a company's outcome performance.

There are several opportunities for implementing strategic purchasing approaches in SMEs. By having top management involvement in purchasing issues, SMEs are in a better position to

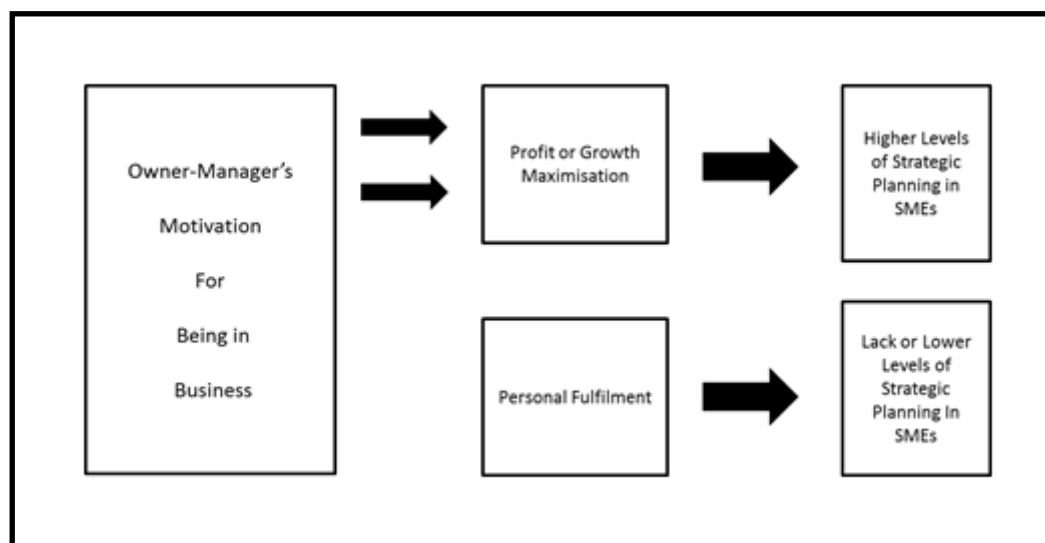
resolve any issues hindering their growth. As previously mentioned one of the main reasons for not employing strategic purchasing was due to the fact that applied criteria to supplier selection was usually limited by issues regarding price, cost, quality etc. Top management help SMEs to progress as they have the specific knowledge of why and how to produce their product, such knowledge is unlikely to exist in employees. Another opportunity of employing strategic purchasing is having cooperation with other functions in the organisation. This is particularly beneficial for SMEs as they can pass on some of the responsibilities to other functions, thus allowing the owner-manager to concentrate on other important areas such as developing collaborative relationships with key suppliers.

This leads us onto the opportunity of having a close and long term relationship with a few key suppliers. In situations of multiple suppliers, both buyers and suppliers feel a high level of uncertainty, and therefore there are multiple controls to ensure successful transactions. Controls increase cost and decrease the efficiency of relationships. In contrast having a few key supplier relationships reduces uncertainty, and therefore controls- increasing the efficiency of transactions. Moreover, such relationships increase competitiveness by locking in good suppliers. Today, intense competition is coming from existing rivals, new entrants, and the threat of substitutes. Close relationships with key suppliers can be an effective method of reducing competition's negative impact on an industry and help the SMEs to grow. Furthermore, by choosing a long-term collaborative strategy SMEs are in a better position to achieve economies of scale. Previous studies by several author (Quayle 2002; Simmons 2004; Pressey 2004 et al) found that the lack of purchasing power in SMEs meant that price was given low importance. By maintaining collaborative relationship with suppliers, SMEs can achieve significant reductions in price.

Meanwhile, the threats to implementation of strategic purchasing management in SMEs are: limited resources of SMEs; this problem is severe for small- and medium-sized firms because they often lack the internal resources to acquire essential information, while large firms frequently have special departments geared to gathering information and promoting their products. Almost all the previous studies have indicated that the lack of resources makes it difficult for SMEs to engage in strategic purchasing, adopting purchasing management models such as the portfolio approach, investing in training and development etc.

Another obstacle for SMEs is to reach suppliers with an interest to communicate and develop close relations with. Establishing trust with a new supplier is seldom easy. Time is needed for partners to get comfortable with one another. Effort has to be invested in communicating expectations and figuring out the right model for a sustainable relationship. And patience is required to enable all of the above. These resources are in short supply among SME suppliers as their main priority is often simply making it through to the next quarter. As it is seen from SWOT analysis, implementation of strategic purchasing management in SME has both significant advantages and considerable threats, which should be taken into account when employing strategic purchasing in SMEs.

**Figure 6: Proposed Approach to Explain Lack or Low Levels of Strategic Planning in SMEs**



### 4.3 Purchasing Portfolio

Based on the literature study the company size, the share of purchasing, the position of the purchasing department, purchaser's professionalism, resource availability and the orientation of purchasing were identified as explanatory variables for the lack of use of purchasing models within SMEs. The findings of our study indicate that the position of the purchasing function is positively associated with portfolio usage. In cases where purchasing has a better position within the company, a portfolio approach is more likely to be used. Larger companies deal with a larger number of products, more suppliers and more complex purchasing situations and thus are shown to have a greater use for the portfolio model. These results are consistent with those of Boodie (1997) who found a positive relationship between company size and portfolio use. Less than 10% of the smallest firms used the purchasing portfolio, whilst the largest companies (with more than 5,000 employees) show a use percentage of 85%. In addition, he confirmed that a positive relation exists between the use of portfolio models and the percentage of total purchase cost (purchasing share)- as was confirmed in this study.

The same conclusion holds for the professionalism of the purchasing function. Purchasing portfolio methods were used more by professional purchasers than by their less professional colleagues. In other words, the usage of portfolio models increases significantly as purchasing's professionalism increases. Reasons for not using the portfolio were found to be a lack of knowledge, a lack of time as well as perceptions on the limitations of the tool. These findings are further supported by Yorke (2006), who found that 25.3% of the respondents that had used the portfolio model a few times, stated that they would like to use the model on a regular basis- however the lack of resources (both human & financial) impacted their learning and testing of new concepts.

Findings revealed that the majority of respondents that used the portfolio model were employed with larger companies and had to deal with higher purchasing shares. Comparing the results, it was found that users of the portfolio: contribute more to the competitive position of their company; have more skills in working in cross functional teams and in developing purchasing and supplier strategies and are less involved in clerical and operational activities. In other words, the user group are distinguished in a positive way from the non-user group. Their position is better, regarding their contribution to the competitive position of the company. Their professionalism is related to important attributes, namely the skills of professional purchasers to work in cross-functional teams and to develop strategies. Therefore, it is not surprising that these professionals are not (heavily) engaged in clerical activities and day-to-day routine work.

The application of purchasing portfolio management seems to have prerequisites both in terms of professionalism that needs to be present and the exposure, i.e. locus that the purchasing domain has within the overall company organisation. The application of purchasing portfolio techniques requires skills extending beyond traditional administrative competences. In addition, the purchasing function needs to have a clear presence and position within the organisational hierarchy.

A conclusion drawn from this is that the level of purchasing complexity can vary widely between organisations even within specific industry sectors. Furthermore, it is evident that organisations with a high level of purchasing development are likely to be larger organisations with higher percentages of purchased goods and services to total costs and have more people working on purchasing activities than in low purchasing development organisations. There is a significant positive relationship between the level of purchasing leverage and the level of purchasing development within SMEs.

#### **4.4 Supplier-Buyer Relationship**

Research into business relationships continues to focus attention on the collaborative efforts of member firms to create greater opportunities for success. Looking across the SME literature on supplier buyer relationships, a number of important themes are apparent. Findings suggest that businesses lack the resources necessary to develop more formalised relationships.

Results from our findings suggest that small firms and large firms differ in perceptions of effective strategic options. Several strategies favoured by large firms (e.g. establishing closer relationships with preferred suppliers and ceasing service to unattractive markets) were perceived to be ineffective by small companies. It was found that only large firms had the power to form close relationships and choose their markets. The concept of collaboration is a concept that is a luxury of large organisations and is not accepted as a reality by smaller firms according to the findings. This finding is supported by Morrissey and Pittway's study (2004) that showed the different perspectives in the purchasing behaviour of UK SMEs, similar to those observations made in our study. They reported that the notion of collaboration seemed to be embedded in the purchasing practices of large UK firms, but not in UK SMEs. However, recent studies indicate

findings contrary to this. Long-term collaborative relationships with critical suppliers are becoming increasingly popular within SMEs. This is supported by the research carried out by Simmons (2007) who found that the majority of respondents in his study, which emphasized long-term relations with their suppliers, stated that they also maintained a positive collaborative relationship with them. This contradicts our findings along with Quayle's findings, which suggested that the adoption of more collaborative types of relationships is not as widely used in smaller firms.

In addition to this, findings from our study show that amongst the differences which can be detected between SMEs and large companies, price was at the top of the list and has somewhat more importance in large companies. One reason for the lack of importance given to price by SMEs is that they have limited options for price reduction. SMEs do not purchase in large quantities, as compared to larger enterprises, they are much smaller and do not have the necessary knowledge, (negotiation techniques, value analyses etc.) thus it is not possible for them to achieve economies of scale or demand price reductions from suppliers.

However, the findings from this study do not support the previous research conducted by Morrissey and Pittaway (2004). Analysis of their data suggested that owner-managers tend to be more price-driven in their management of supplier and customer relationships. The financial exposure of the owner manager is seen as the main reason for a price focused approach. However it is interesting to note that the data collected in their study focused specifically on owner-managers, therefore, is in direct contradiction to current theories of collaboration.

From the findings, the role of trust emerges as a key success factor when focusing towards a long-term relationship. The various SMEs analysed in the literature show a lack of awareness of their relative power position (between themselves and their customers and suppliers) but show awareness of the relationships that have importance to the business. Many of the survey respondents and interviewees stated that although strong relationships would not necessarily guarantee continuous business, many felt that such relationships provided them with an opportunity to respond if circumstances in the relationship changed (i.e. if a major supplier was to leave). Results from Morrissey & Pittaway's (2004) survey support the current findings as they also found 'trust' to be a fundamental element of the way in which owner-managers manage relationships. Both the control group and the industry specific group highlighted socially based factors (e.g. openness; honesty) as the key factors that mattered. This result was found to be correct for the sample as a whole. These findings are further supported by Cambra & Polo (2004) who found that trust is a direct antecedent to the level of collaboration that the supplier and customer may develop, the level of satisfaction perceived by the customer and the level of commitment shown towards the relationship. Thus it can be concluded that owner-managers in SMEs use social factors in commercial relationships to build trust and manage their relationships. These findings are in direct contrast to the practices of larger firms that tend to be governed more by formal arrangements (such as, contracts; credit terms).

The study further indicated that many enterprise owners lacked the knowledge, and therefore, the tools needed to move their business relationships to the next level. This is evidenced by the

low levels of education recorded among the vast majority of the respondents analysed. Study of the larger firms on the other hand showed that they had better resources and managers with a higher education level. These companies opted for long-term relationships with their suppliers, as they were aware of the theoretical and practical benefits of such an approach. Literature analysis also found that because of resource scarcity, the elasticity of a firm's switching cost is negatively related to its size. This means that the smaller the firm, the more its performance is affected by high switching costs. In addition to this vulnerability, resource scarcity problems also prevented SMEs analysed in the current study, from acting freely when coordinating multiple supply relationships. As a result, these SMEs suggested developing niche strategies or aiming at building network exchange structures with critical resource suppliers.

SMEs seem to be following the lead of the large firms in the area of partnership development. However, this research has found an interesting insight. SMEs are not a monolithic group in the area of partnering. Firm size has different effects on the adoption rates of partnership. The actual prevalence of partnership indicators in SMEs is still relatively low. Further, the last few years have witnessed only small changes. However, all changes have been favourable to the implementation of buyer-supplier partnerships. The changes have occurred across a broad spectrum of partnership indicators, and while small, virtually all of them are statistically significant. Overall, we are able to conclude that SMEs are making slow but broad ranging moves in the direction of implementing supplier partnerships. However, our analysis also suggests that although SMEs are adopting more collaborative relationships, some of the old habits remain; organisations and individuals seek to maximise profits where they can, take an opportunity to reduce costs and many of the older adversarial tactics still remain. In this sense the concept of partnership in supply chains does not currently meet the experiences that small firms have of their procurement relationships.

**Table 7: Comparing attributes of SCM for large enterprises vs. SMEs**

Attributes	Large Enterprises	SMEs
<b>Competitive priorities SCM view</b>	Market dominance through sustaining large market share.  Considers SCM as strategy to compete  Focus is on the reduction of system wide cost to capture a greater market segment of end customers	Market niches through sustaining profitable market position.  Considers SCM as operational level task  Owner-led myopic and short term view to earn the profit for only immediate future
<b>Complexity of supply chain objectives</b>	Very high in the presence of complex supplier and customer network	Moderate in the case of limited supplier and customer base
<b>Key strategies</b>	Exercise influence in supply chain mainly at upstream; strategic alliances with supplier and distributor	Focus on specialized market, build on unique competencies; effective customer/supplier management
<b>Key sourcing related activities</b>	Supplier scoring and assessment, supplier selection and contract negotiation, design collaboration, procurement, sourcing planning and analysis	Evaluates supplier mainly on cost and quality criteria. Long term view of collaborative design and responsiveness to fluctuating demands is missing

<b>Time frame and relationships</b>	Most beneficial to have long-term design collaborations and relationships to reap the rewards of consistent quality, timely delivery, cost advantage, early design modifications etc.	Less likely to have the long-term time frame required to build and reap the rewards of relationships. However, recent literature shows a trend towards collaborative relationships
<b>Purchasing</b>	Long term view, collaborative or alliance relationships with few/single dedicated supplier(s)	Short-term view, adversarial relationship with many suppliers
<b>Customer relationship management</b>	Considers customers as part of their business	Considers customers as power exerting entities
<b>Motivation</b>	Top management is profit orientated and engages in all the necessary activities with a profit or growth maximisation objective in mind.	Owner-managers are in business to pursue primarily personal, non-economic goals and most have "capped" or "limited" desires in relation to business performance and expansion

## Chapter 5

### 5.0 Conclusion

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The purpose of this chapter is to provide a summary of the findings based on the analysis from the previous chapter. Suggestions for further studies will be discussed as well as managerial implications, limitations of the study and theoretical contributions.

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#### 5.1 Summary

The aim of this dissertation was to study how purchasing behaviour varied within SMEs and large enterprises. It has examined some of the general purchasing literature and explored buyer-supplier relationships from the perspective of SMEs. Research questions were posed earlier in the study- these questions have been thoroughly investigated and they have yielded the following results:

- **How does an SME perform its purchasing activities?**

SMEs usually have owner-managers in charge of their purchasing tasks and therefore, rarely have separate purchasing departments. These managers have a big influence over the way an SME firm purchases. Strategic purchasing is rarely adopted by SMEs due to a lack of both personal and financial resources, as well as differing managerial goals. However, recent literature reported that partial elements of the strategic purchasing approach are evident in some SMEs. Evidence shows that managers, who are profit-orientated, are more likely to engage in strategic purchasing as opposed to managers that are less profit-orientated and more drawn towards lifestyle incentives. Our analysis suggested that beyond a certain point, these owner-managers will deliberately ignore opportunities to increase profits and growth and, likewise, deliberately ignore any exultation to apply 'best practice' management activities. In the analysis section it was also found that users of the portfolio model contribute more to the competitive position of their company; have more skills in working in cross functional teams and are less involved in clerical and operational activities. Although purchasing portfolio adoption is considered beneficial to SME firms, due to constraints such as: lack of resources, knowledge and skills and information asymmetry in the market place, they cannot fully implement this strategy.

- **What factors determine the purchasing behaviour of SMEs?**

The purchasing behaviour of SMEs does not fit a specific stereotype due to the fact that every owner-manager has a different take on the business and its goals. Factors that influence purchasing behaviour include: buying power, trust in suppliers, types of suppliers (short/ long term), availability of resources (capital and knowledge) and owner manager motives. Analysis suggested that ownership motivations (one of the most influential factors) are central to understanding the purchasing practices within SMEs, as they are a direct indication of business goals and direction. A lack of knowledge creates uncertainty and the result is a managerial



barrier towards employing strategic purchasing and other purchasing models, which are proven successful in large enterprises.

- **What kind of relationship does an SME have with its suppliers?**

Adversarial (or arms length) and strong collaborative relationships are the two emerging behavioural themes from this study. SME firms generally treat their suppliers with a degree of distrust and caution. This acts as a barrier to partnerships and the result is generally characterised by poor, un-streamlined, dishonest relations. However recent trends show the adoption of a more collaborative, candid approach to their suppliers. This trend has been triggered by the success of their larger counterparts, as well as the growing pressures of current markets- through technological advances and the use of more 'lean, green purchasing practices'.

## **5.2 Managerial contributions**

Building and maintaining a long-term collaborative relationship with key suppliers plays an important role in enhancing the purchasing performance in SMEs. Thus, small business managers need to craft their purchasing strategies to build a successful partnership with their crucial vendors. Successful organisations rely on a variety of activities, including learning about suppliers' businesses, getting senior managers involved in solving problems, sending monthly performance measurements to core suppliers, and so forth. Along with this, small business managers also need to develop a systematic approach to monitor and evaluate purchasing performance of their organisations.

The training of employees on relationship making within the strategic context, can play a major role in strengthening the relationship. Employees can be selected based on their soft skill and attitude, so that they can understand and implement suitably the meaning of terms like trust, commitment, and loyalty in the context of relationship building. According to Cambra and Polo (2008); satisfaction, commitment, communication, co-operation and trust are all considered as key factors in sustaining relationships and SMEs need to tend towards these in order to maintain a long term orientation in their relationships.

## **5.3 Theoretical contributions**

Previous literature has always discussed the general purchasing practices within firms and has mentioned that some of the purchasing practices of larger firms may be unsuitable for SME firms. They fail to provide a thorough comparison between the individual practices and the impact that firm size has on the success of implementation. This study has provided a detailed comparison between the purchasing behaviour of SMEs and large enterprises as well as discussing the specific motives of managers and how this impacts the practices employed.

This paper has studied how SME firms and large enterprises differ in terms of success upon the implementation of specific models. Owner manager objectives are not always profit orientated

and thus, practices vary from firm to firm- not only between different sizes but also different sectors.

The shift from traditional, adversarial relationships with suppliers to collaborative trusting relationships has been highlighted, as well as the positive influence that this shift brings towards the firm's well being.

Previous literature has examined the benefits of strategic purchasing within large enterprises but has failed to suggest how, if possible, SME firms could implement this tool. This study has looked at the pros and cons of strategic purchasing implementation into an SME firm. It was found that although difficult to implement without the relevant knowledge and skills, SME firms that employ elements of strategic purchasing have shown significant savings.

#### **5.4 Limitations of the study & areas for future research**

This study has several important limitations that provide good opportunities for further research. Firstly, while the findings of this study provide evidence that the purchasing behaviour is directly related to the firm's size, for more valid claims, further studies must be conducted over a larger population of firms to reaffirm these preliminary results. Secondly as there is very little information regarding purchasing practices within SMEs, it was difficult to find a small company and a large company within the same business sector to make valid comparisons. For future research, pilot studies could be conducted to create a database of questionnaires and answers to facilitate the comparison process.

Another limitation of this study was the fact that we used secondary data as a basis for investigation, much of which was in excess of 5-10 years- further reducing the validity of some of the data. To improve the accuracy and reliability of the results arising from this study, future researchers may decide to conduct some primary, field research. Future research may also look to see what similarities or differences there are in purchasing between different sectors i.e. manufacturing and nonmanufacturing for both types of firm (large & small) as Morrissey found in his study that SMEs are not homogenous and have different purchasing behaviour depending on the sector.

Lastly some of the data collected in this study might have been influenced by other factors not specifically related to purchasing behaviour, such as buying power. Therefore, future research needs to identify and account for those factors.

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