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A STUDY OF PROCUREMENT BEHAVIOUR IN SMALL FIRMS[1]

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KEYWORDS

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ABSTRACT

The purpose of this paper is to introduce research which analyses buyer-supplier relationships from the perspective of small and medium firms (SMEs). The study to be outlined shows that actors within a supply chain are not homogeneous in terms of their size, resources and business motives, which bring into question the validity and relevance of the purchasing literature when examining small firms. The paper will explain the usefulness and importance of studying purchasing behaviour in SMEs and explain how these relationships might differ depending on the nature of the firm. The methodology for the field research will be explained in the paper. The fieldwork draws principally from a series of interviews undertaken with owner-managers within plastic moulding companies in Lancashire. The empirical data will be explored in some depth with a particular focus on their implications for practice.

INTRODUCTION

Over the past few decades a large number of organisations have made a conscious effort to manage their buyer-supplier relationships. This effort has led to greater recognition of purchasing management as a value adding activity within some firms and yet for a large number of other firms the management of purchasing has remained largely unaddressed.

This paper will explain the nature of procurement behaviour and explore the literature on purchasing behaviour in small firms. It will introduce a study exploring the procurement behaviour of small firms in the plastics moulding industry and illustrate the key results. The study explores the value of understanding such behaviour and highlights how owner-manager's approaches to purchasing might differ from those of 'professional' purchasing managers.

PROCUREMENT BEHAVIOUR

Recent developments in the practice of purchasing have been the subject of academic and practitioner debate some of which has focused on changes to the nature of the relationship between buyers and sellers. Relationships during the 1970s were described as adversarial and arms length, characterised by a strong focus on price and a continual threat of re-sourcing. During the 1990s this approach was reportedly superseded by more collaborative relationships characterised by mutual gain and trust between parties (Lamming, 1993). The principal attributes of adversarial and collaborative relationships are described across five key dimensions identified by Spiers (1997) (see Table I).

[Take in Table I]

The stereotypical account of adversarial relationships shows an image of relationships being short-term where price is the primary focus. The interaction between organisations was restricted to the level of buyer and supplier, typified by formal transactional systems which were used as the most frequent medium of communication (Saunders 1997; Langfield-Smith and Greenfield 1998). Negotiations were often confrontational and underpinned by a win-lose philosophy, the outcome of which led to a change of suppliers

(Saunders, 1997). Power was leveraged (or abused) for the achievement of maximum organisational gain and there was a distinct lack of trust between trading parties. During the late 1980's and early 1990's firms recognised that the 'total cost of acquisition' was more important than price alone and that traditional or confrontational attitudes towards suppliers were inappropriate for this new approach (Hines, 1994). Similarly, pressure from global competition quickly led to an increased demand for improvements not only in cost but also in quality and innovation. Businesses no longer competed on price alone, instead all elements of service needed to be taken into account. The shift in focus to the total attributes of the relationship offering helped to fuel the debate with regard to the inappropriateness of the traditional relationship types.

Although this apparent shift from adversarial to collaborative relationships has been well-publicised (Hines 1994; Schmitz 1995; Holmlund and Kock 1996; Saunders 1997) it is still not clear what is meant by these terms and to what extent such types could exist in practice. More fundamentally these conceptions have been based on 'theoretical models' or 'best practice models', which have often captured the purchasing practices of large firms while ignoring the implications of such practices within smaller firms. For example, Bates and Slack (1998) bring into question the tactics and strategies recommended by many of these models and in particular question the apparent assumption of an equal balance of power for all actors within a supply chain.

> 'The advice focuses on customer expectations which must be met in order for suppliers to 'stay in the game' which normally infers achievement of some degree of operational integration, a well developed policy on just in time, exchanging technical staff to optimise product development and facilitate early problem revolution, as a minimum. In situations where companies are confronted with larger and / or more powerful suppliers it would be questionable if they could ever enforce such a modus operandi' (Bates and Slack 1998, 74)

Further observations can be made about the accepted accounts on adversarial relationships. At the time the negotiation methods were confrontational, such tactics were an accepted way of transacting and individuals were able to develop strong personal relationships with their counterparts. Although competitive alternatives were a threat, they would often be little more than a lever to be used against the incumbent and not as Spiers (1997) claims lead to the introduction of a new supplier. The fact that certain parties in the supply chain would leverage their power in a consistent and identifiable manner meant that they could indeed be 'trusted' to act in a predictable way. Spiers' (1997) account of the concept of collaboration chooses to ignore the motivational element of the relationship. Organisations exist for many purposes and in many instances they seek to create profit from their activities. Similarly, individuals within organisations are employed to fulfil certain tasks. In a commercial role this may mean maximising profitability from external transactions, collaboration in purchasing becomes a means to an end and not an end itself. Relationships of this nature are often found between Original Equipment Manufacturers (OEMs) and their 1st Tier suppliers, supporting the claim that organisational resources will only be used in collaborative relationships when there are few alternatives. Even within such 'collaborative' approaches organisations and individuals may seek to maximise personal gain under the guise of 'collaboration'. It is possible to suggest therefore that the concepts of 'collaboration' and 'partnership' include many adversarial elements.

THE IMPORTANCE OF PURCHASING IN SMALL FIRMS

The aspects of an organisation's 'offering' which can be viewed as significantly impacting on continued success are: quality, price and service. Each of these attributes are crystallised as the product goes through various phases of supply up to and including the point of delivery. These value adding activities are under the direct control of the producing firm; however, in most cases the extent to which a firm can enhance these elements is directly dependent upon the quality, price and service of their suppliers. An example of the importance of each of these attributes is explained (see Table II). The importance of managing these buyer-supplier relationships is fundamental to continued organisational success. What is questionable, however, is how the methods used to manage these relationships actually become operationalised in SMEs (Mudambi and Schrunder, 1996). For example, Quayle (2000) proposes that for many SMEs purchasing seems to have received little attention from owner-managers being ranked 14 out of a total of 19 attributes valued by them when managing their firms. He also argues (Quayle 2001) that the buyer-supplier relationships that exist tend to be in the traditional adversarial type as opposed to the collaborative type.

[Take in Table II]

Quayle's (2000) study of small firms raises a number of important points. As already indicated in the previous section, the adoption of, or shift towards, more collaborative types of relationships is not as widely used in smaller firms as the general models of purchasing would suggest. The point is emphasised by Moore (1999; p.182) who cites Cox and Townsend's conclusions that:

> ‘There is growing evidence that the fragmented, self-interested and adversarial culture of the industry (construction) still persists’. Moore goes on to suggest that; ‘The typology of a partnership, in which the supplier and purchaser adopt a co-destiny approach to their relationship rarely exists in practice.’ Moore, 1999,182

Given this view, it is not surprising that SMEs treat the concept of collaboration with some cynicism (Mudambi and Schrunder, 1996). A secondary, but important, issue here is the implied view that traditional adversarial relationships are generally inappropriate for SMEs. The prevailing levels of risk and uncertainty associated with purchasing combined with the frequency and methods of exchange used by SMEs may make adversarial approaches the most relevant; although this clearly depends on the SMEs’ particular context. Adversarial or traditional approaches are not synonymous with unprofessional ones, as Dobler and Burt (1990) point out traditional buyer-supplier relationships can be good relationships so long as each party treats each other with respect and courtesy and maintains ethical levels of disclosure.

Those businesses whose objectives are not necessarily solely profit driven, for example, owner-manager’s who are motivated by independence or lifestyle objectives, may choose to avoid fully collaborative and integrated relationships. As Raymond and Blili (1997) point out, SMEs are organisations that reflect beliefs and attitudes of the owner-manager, highlighting the potential conflict between cooperation-collaboration and the need for autonomy that many owner-managers seek. Owner-managers can add value to their external relationships by acting in a trustworthy manner and by seeking to build their social capital through personal relationships. Such behaviour may need to fit with the partners’ attitude to relationships otherwise it may well lead to nothing more than an abuse of trust. As highlighted by Sako and Helper (1998):

> ‘Customers can be made to behave in a predictably trustworthy or non opportunistic manner if they cannot replace their existing suppliers easily, regardless of other factors. It is when easily accessible alternative suppliers exist that suppliers give careful consideration to safeguards in deciding how much opportunistic or trustworthy behaviour to expect from customers’ Sako and Helper, 1998, 407.

The use of consortia has also been put forward as one way in which small firms might benefit from co-operation in supply chains (Quayle, 2000); although it has been recognised that they are difficult to establish and maintain. Axelrod (1984) concluded that one of the insights of game theory research is to illustrate how difficult cooperation can be to establish even where the benefits are evident. Powell (1990) suggests that to be effective in network forms members are expected to:

> ‘…forgo the right to pursue self-interest at the expense of others … and recognise their co-dependence with upstream and downstream partners’ Powell, 1990, 103

Any consortium is likely to comprise a wide range of SME owner-managers, each one having a discrete set of motives, values and needs, influencing not only their actions but also their perceptions of other members. Such diversity will give rise to a complex and potentially conflicting value set within the group that may well restrict the formulation of trust. Without too much deliberation it can be seen that even for the simplest of products different dimensions of trust may be of importance; trust in quality; trust in price; trust in timeliness and availability of deliveries; trust in the other’s actions. Perhaps this lack of homogeneity in the cognitive attributes of actors combined with the varied objects of trust found in a singular transaction will continue to restrict the formulation of trust and ultimately the consortium itself.

This review of the purchasing literature illustrates that there is only limited research that examines buyer-supplier relations from the perspective of the SME. Two key issues support the argument for an increase in research in this area. Firstly, globalisation has brought increased pressure on manufacturing SMEs who have to continually reduce prices against a backdrop of improving quality and service. Secondly, for many SMEs the expenditure on goods and services account for a high proportion of turnover and it is influential in the achievement of business objectives.

[Take in Table III]

Existing models that seek to illustrate more general buyer-supplier relations are somewhat linear and one dimensional in their approach, revealing only a small proportion of a much richer and complex picture. Despite the apparent shift towards collaboration and partnership there is still insufficient evidence to support or reject the idea that collaboration occurs in practice within smaller firms. The majority of the existing literature also assumes homogeneity of actors' motives and resources, which brings into question the relevance and validity of many of the existing models of the purchasing behaviour of owner-managers. The literature review explains the current thinking about the differences that might exist between the purchasing behaviours and strategies of larger firms when compared to their smaller 'owner-managed' counterparts (see Table III).

These theoretical differences derived from the literature and the theoretical models are explored in some detail in the field work. In the next part of the paper the field research will be introduced and explained in further detail.

METHODOLOGY

This exploratory stage of the research involved detailed interviews with the owner-manager's of SMEs in the North West. For the purposes of this research an SME was defined according to business size measured by the number of employees. The sample of firms chosen targeted the plastics moulding industry as it was considered to provide a fair representation of manufacturing firms. Plastics moulding firms provide a useful focus for this study because they operate in markets that tend to be dominated by relatively monopolistic suppliers and they supply products to relatively powerful profit maximising customers. The firms in the sample were selected from Kompass, were located in the North West of England and varied in size from 17 to 80 employees. Turnover in the companies ranged between £0.7 to £4 million.

Initial introductions were made over the telephone, when the researcher explained the purpose of the research, summarised the experience of the researcher and negotiated access with the owner-managers. The interviews were carried out at the business site of the owner-manager and typically lasted between 1½ to 2 hours. The interviews were recorded and transcribed, thus allowing further detailed analysis. In each case the interviewee also received a copy of the transcript and was asked to confirm that their interpretation of the data was represented in the transcript. During data analysis the full transcripts were analysed using coding, individual transcripts were subsequently summarised and common themes were identified from all of the interviews. The data from all of the interviews informs this paper and leads to a number of research propositions for future study. In the next section the paper explains briefly the nature of the companies included in the field research.

OVERVIEW OF THE COMPANIES

Due to the sensitive nature of the information gained an assurance of anonymity was given to each interviewee. Companies are given alphabetic references and the identity of the interviewee is disguised.

Company A

The current owner was John A and his parents established the business in 1978. His father, who over a period of almost 30 years had run a number of plastic moulding companies, decided that it was time he had ‘a do’ himself. In 1983 John A’s mother was suffering from ill health whilst he was faltering at University which resulted in a desire to work for his father. He joined the business when the turnover was £55K per annum and there were four employees including the directors. When the interview was conducted the business had grown and 74 employees were employed, with a turnover in excess of £4 million. ISO 9002 and Investors in People plaques, along with numerous customer commendations decorate the reception area. The most significant factor influencing the growth of the company was the chance introduction to what has now become a major manufacturer of domestic appliances. Company A quickly became established as the designer / manufacturer of components for this rapidly expanding new customer. The growth of this customer led to significant investment in plant and equipment but also resulted in 65 to 70% of Company A’s entire turnover coming from one source. Despite the perceived strength of the relationship between Company A and its major customer many of the products once sourced from Company A are now being bought from overseas. With sales volumes dropping and capacity being run at around 50% the future does not look good for Company A.

Company B

John B's father established the business in 1968 to supply one customer with Glass Resin Products (GRP). During the early 1990's the sons took over the business. As a consequence of a top-heavy management structure and a general lack of clear direction Company B went into liquidation. With the exception of the current owner who had been frustrated for some years by its lack of success none of the other sons were particularly interested in saving the business. By the end of 1995 John 'B' controlled the business which now employers 40 staff enjoying a turnover in excess of £1 million.

Company C

Managed by David, Company C was established in 1974. Whilst the business is now 100% owned by a PLC one of the original owners still works within the business. It has been through a number of acquisitions and is now a subsidiary of a small conglomerate of which plastics is a significant part. Recent consolidation of a sister plant resulted in eighty people working at the site producing £3.5 million turnover. The business is dependent on five or six main customers which account for about 80% of turnover, although a further 50 customers make up the remaining 20% of turnover. Company C does not have any proprietary products and consequently they have to compete on price with a large mass of other moulders.

Company D

Before buying Company D, Jim was a joiner / repairer in the fibreglass industry concentrating on repairing boat parts. Jim bought mouldings from the original owner of Company D and, after learning that the owner wanted to sell, thought it was a good idea to buy the business. That was 25 years ago – now turnover is approximately £1.6 to £1.8 million with a workforce of 40 employees. The firm considers itself a general moulder, its customers are generally large firms and they have diversified into the yellow goods market. Jim's personal intentions are to expand the business, thus adding value so that he can sell the business sometime in the near future. Interviewee John C is the commercial manager for Company D and his role, whilst not fully defined, included responsibility for external suppliers which on average accounted for 30% of his time. As a senior manager within a small company he also plays a key role in general management; assisting Jim on strategic issues, pricing, and customer management.

Company E

The father of current owner Alan formed the company in 1981 prior to which he ran numerous injection moulding companies. Originally the company was a distributor buying off the shelf mouldings or getting moulds made and placing them with moulding companies and then selling them to customers who were mainly in the DIY sector. This worked well until one day his customers wanted to see his injection moulding facility. Not having one, he threw caution to the wind acquiring manufacturing facilities. Alan joined at 16, as he had the same eye disease as his father he felt his best option was to work for his Dad. In

1986 Alan started work on the shop floor learning about the granulating and grinding of plastics. At this time 70% of the business was DIY and furniture but now it is closer to 20% following a significant shift to their own products including electrical, conservatory, kitchen and automotive products. Unfortunately at the time of interview Alan had recently lost his father and found he had not only to continue managing production but to come to terms with all aspects of ownership of a small company. Turnover was running at £700K per annum and the number of employees was 20.

Company F

Established in 1942, Company F had just celebrated its 60th anniversary. Originally started by two brothers as a general engineering factory it moved into plastic mouldings in the late 1960s. Now managed by Steve they employ 17 staff and have a turnover of £800K. They predominantly mould engineering materials and the bulk of production is related to the gas industry although they have diversified into other markets such as leisure, brewing, electronics and industrial appliances. Whilst a large proportion of their business is developing customer's tooling, they do have their own product range, though this is customer-specific. Continued overseas sourcing by their customers in their view is restricting their growth potential.

DISCUSSION OF RESULTS

As outlined in the methodology section data from the interviews were collated and analysed to identify key themes. Three themes that are most relevant to this paper will be analysed in detail. Table IV explains the common themes arising from the six interviews and briefly describes them.

[Take in Table IV]

Purchasing Consortia were Rejected

Companies in the research were prepared to collaborate with local competitors if they found themselves unable to satisfy customer needs. This collaboration tended to be short-term as a way of solving an immediate problem. The fear of other's opportunism was the greatest barrier preventing collaboration in the acquisition of materials, which questions the viability of consortia for these firms.

David of Company C, for example, felt that: 'everybody instinctively is going to look after his own. That would be a higher priority than looking after the interest of the consortium as a whole'. Restrictions are not only limited to instinctive individuals demonstrating opportunistic behaviour. He also argued that customers would frown upon the idea as it could lead to a 'price-fixing cartel'.

Jim of Company D thought that whilst consortia were 'a good idea on the face of it' he felt that people in manufacturing SMEs were too busy to get involved in non-core activities especially where this involved developing relationships with a competitor. When one combines this with his 'suspicions' regarding the motivations of other firms in consortia Jim clearly believed they were impractical.

Two years prior to the interview John of Company D tried to work with local firms to form a purchasing consortium. Despite the fact that the firms did not directly compete with each other there was a general reluctance to share information. Similarly within the five potential members one company bought far more materials than the other four and recognised that the benefits would be skewed in favour of the smaller members of the consortium. On this basis the larger firm refused to cooperate with the other four members who met further resistance from their suppliers when they refused to quote because 'we've seen this before, it didn't work previously… more the fact that historically things like this hadn't worked, and in their opinion it wouldn't work.'

Alan of Company E also thought that purchasing consortia were a good idea but that they may not work in practice. For example: '…we get on well with every one of them (competitors), I'd say so, to the effect if one of them drops a heater band they would ring up and say is it alright to borrow one, and if we had one fine. Have you got a bag of materials? Yeah no problem and its reciprocated. As for joining together for work No! I don't think it would benefit any of us. It probably would but I don't think individuals would allow it, it's like they say if you are in partnership you are bothered about how big the other slice of the cake is.' Alan further describes the relationships he has with other owner-managers (friends) in the region, in particular the limit of information exchanged during social interactions. For Alan vagueness and individualism was paramount.

Steve of Company F, whilst cooperating with local competitors to resolve immediate shortfalls in equipment and capacity, did not view a purchasing consortium as feasible. In particular the relinquishing of control was of concern: 'If somebody else is buying material and he's got half a ton left, and I've got a job to run and he's got a job to run who gets priority?' Steve does go on to suggest that a consortium could work but there would need to be a lot more examples of 'partnerships in the industry' for people to give it any serious consideration.

Quayle (2000; 2001) suggests that SMEs may improve their current supply chain activities by using purchasing consortia. Whilst the concept of a group of SMEs enjoying benefits from pooled resources and economies of scale is appealing, the preliminary work carried out in this study illustrates that the SMEs view the concept with some scepticism and consider it to be largely impractical. The one example that was encountered in these interviews illustrates that such initiatives also encounter barriers from existing perceptions regarding the value of current practices within an industry context.

Individual Motives of Owner-Managers

The general perception from the literature reviewed was that larger organisations pursue value-adding activities to contribute to the overall profitability of the firm. It is also suggested that smaller, owner-managed businesses may pursue financial motives less vigorously and other motives such as 'lifestyle' may be of equal importance. Even those who choose to pursue other non-financial objectives, however, remain dependent on some financial gain from their respective venture. Similarly there will be owner-managers who are less concerned with non-financial gains and whose primary focus of concern is profit maximisation (see Figure 1).

[Take in Figure 1]

The owner-manager's motives and the way they affect their procurement behaviour are both complex and diverse. Categorising between financial and other intentions as hypothesised in the literature and as demonstrated (see Figure 1) is considered an over simplification. In this study, underlying financial motives continue to exist in parallel with less financially orientated ones. For example, in the interview with Jim the owner-manager of company D revealed his primary motive was to sell the business. In order to achieve an acceptable return on the sale it was felt that turnover would have to be doubled. The need to double the business meant that the owner-manager was quite prepared to increase his dependency on any one customer. Furthermore he was prepared to do this in the automotive sector; a market that he had previously avoided. Neither action in this sector would have been considered particularly sensible strategically. Without understanding the full details of his motives it could have been incorrectly assumed that his motives were to grow the business or move into the automotive sector, however, these actions were a means to an end and not the end that he sought.

During the interview Jim also advised of his 'non-financial' preference to solve customer problems as opposed to focusing his efforts purely on maximising profitability. His motive was to ensure these customers were happy to facilitate the sale of his business enabling him to retire comfortably. Taken out of context his relational behaviour might seem strange, however, when one takes into consideration his principle objective behaviours that fall outside the normal pattern of 'accepted' purchasing practice make sense. Jim's example also demonstrates the inseparability of the personal motives of the owner-manager, those of the business and resulting customer/buyer behaviour. This inter-relationship between personal motives and the firm's operation becomes less relevant as business size increases and this interaction is less likely to occur in the procurement behaviours used by larger firms. A summary of the motives of the interviewees in this study can be shown (see Table V).

[Take in Table V]

The diversity of motives between the interviewees and between them and the profit maximisation agenda of larger companies illustrates that tension may well exist in the relationships between small firms and their larger counterparts. This tension may explain a need to move away from the view that profit maximisation is the rational goal of organisations when engaging in procurement as it cannot readily explain the motives impacting on the purchasing behaviours of small firms. In economic terms, the SME may repeatedly lose out as a consequence of the profit maximisation of customers. If the primary motive of the owner-manager is to achieve a particular 'lifestyle' or to sell the business, their motives may still be achieved and hence both parties can happily remain in a relationship which on initial inspection is not equitable to the small firm. The owner-manager is also likely to be in a number of alternate exchange relationships capable of generating sufficient financial return to the business, which does allow for some balance if all relationships of the firm are considered. Despite these clear differences the larger firm's pursuit of profit maximisation regardless of other factors is likely to be a source of tension. In terms of this study the degree of emphasis the owner-manager places on non-financial motives could be described as 'relational slack' or ability to tolerate the actions of its financially driven partners. The point arising from this study that will be taken forward in the future is the question: how does the owner-manager behave once 'relational slack' becomes 'relational tension'?

The Notion of 'Partnership' is Treated with Scepticism

Many of the SMEs were aware of the concept of 'partnership' as a type of relationship promoted by larger customers though many of those interviewed argued that customer behaviour did not support the rhetoric of partnership and suggested that the concept was often abused in practice. John of Company A for example argued '…they tell you nothing, or as little as they can get away with' going on to suggest that 'in many cases if the customer is under pressure then this cascades down the supply chain until we become a victim of the big stick'. John of Company B suggested that although he felt the phrase is overused to describe relationships he felt that he was in a partnership type arrangement with many of his long standing customers and argued that 'a good understanding' existed between him and the parties concerned. David of company C considered he was in partnerships with a number of major customers and whilst formal agreements did not exist their fortunes were interlinked. Jim of Company D remained unconvinced of the viability of achieving a partnership 'Business is hard, business is business, its one word….. every decision has to be commercially viable, and the only way a partnership can work is if the other things are there – cost, service and quality …. there's no loyalty'. Jim further expanded on the term and, in relating to his experiences, explained that despite all the initial rhetoric from his customers a lack of commitment was clearly evident when faced with more long-term decisions.

Alan of Company E was cynical about the whole concept…. 'Its getting more and more difficult to look on it as a partnership because of the pressures… you've got everything down to the bone and they still want more'. Not too dissimilar to the other firms Company E had been supplying certain customers for a long period of time when suddenly the relationship started to break down. Instead of meeting face to face with a manager Alan now found himself talking to a sales person. The apparent 'distancing' by someone with whom Jim had dealt over some considerable time sent a signal to him that the relationship was now reduced to single transactions.

Steve of Company F described most of their relationships as good, though they do seem to ‘fall down in larger companies’. He attributed this to the fact that a company may have a good relationship with a particular individual that does not transcend to others. Often key decision makers in the company are more distant from the actual relationship and make decisions that harm it without being aware that this is what they are doing. This has led to conflicting opinions of Company F being held by individuals within the same customer which can be difficult to manage. Mixed messages subsequently surfaced in meetings. For example, in one situation they received praise for their design excellence but still encountered aggressive price negotiations to a point where Alan considered the customer was dictating price. The cost of the design excellence did not seem to affect the price and as a consequence in recent years Alan has been hardening his attitudes to such inequitable relationships.

The sample for the study is small, enough evidence is provided in the data to confirm the view that many large organisations have ‘adopted’ a partnership philosophy there is little evidence that this approach has filtered into the supply chain. Perhaps the partnership model as outlined in the literature only works for a privileged few, typically large, firms that are interdependent OEMs and 1st tier suppliers. The exploratory data supports the view that for partnerships to work effectively they need to operate at all managerial levels in a larger business or ‘relationship discontinuity’ can occur. Small firms in this data were often the ‘victims’ of such discontinuity. In this data it was also evident that beneath the veneer of collaboration old habits remain; organisations and individuals do seek to maximise profits, where they can take an opportunity to reduce costs they will and many older adversarial tactics appear to 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 and such concepts seem to be inappropriate to SMEs.

CONCLUSIONS

This paper has examined some of the general purchasing literature and explored its perspective of SMEs, it has developed some preliminary ideas about the differences that may exist in the procurement behaviour of small firms and explored these within the Lancashire plastics moulding industry. Models of purchasing behaviour have been shown to be limited in a number of respects. They have lacked complexity when focusing on the dichotomy between adversarial and collaborative types. Further, these approaches have lacked awareness of the heterogeneity of SMEs and do little to help explain their procurement behaviour. The literature on small firm procurement appeared rather limited and substantial further study is needed to improve our understanding of the subject. When exploring the data from the empirical work this study found that:

- The concept of partnership has yet to be embedded in SME relationships or indeed does not address the 'real' purchasing relationships that SMEs encounter.
- The data do show that SMEs are reluctant to collaborate with competitors in order to improve material supply, despite the conceptual models and arguments made about purchasing consortia.

- In confirmation of other studies focusing on small firms the motives of the owner-manager are not always focused on the maximisation of profit. Other issues such as having a particular lifestyle and selling the business influence their procurement behaviour. Such influences show that ‘rational’ models of procurement behaviour based on the concept of profit maximisation may have limited validity when trying to explain the purchasing behaviour of owner-managers.

There are a number of research implications that arise from this study. The notion of collaboration advocated by a large proportion of the purchasing literature appears questionable; although it has been critiqued more recently (Ramsay and Caldwell, 2003). The concepts do appear to be embedded in the behaviours of large firms and do not adequately represent what small firms experience in supply chains or what they do in practice.

At face value Quayle’s (2000) concept of increasing purchasing power through the consolidation of purchases amongst a common set of SMEs makes sense when one applies the concept of profit maximisation as the motive for collaboration. Owner-managers need for autonomy and independence combined with their interest in the social aspects of relationships prevents them from seeing any value in developing consortia. In this sense the individual motives of owner-managers play a much greater part in the procurement behaviour of their firms than would be the case in larger firms. Consequently, exploring how different motives impact on different approaches to purchasing behaviour emerges as an interesting subject for more extensive empirical analysis.

The common theme that links all of these findings is that current purchasing models, when viewed from the perspective of large organisations, seem to make sense even though there are weaknesses in the models. When applied to SMEs, these models appear to fail and they need to be reconsidered based on empirical evidence grounded in the actual procurement behaviours of small businesses. Unless we understand the demands placed on SMEs, their heterogeneity, the underpinning motives of owner-managers and the objectives they pursue, it seems unlikely that we will fully understand their procurement behaviour. Without fully understanding such behaviour it seems unlikely that we will be able to develop recommendations for more effective purchasing practices appropriate to smaller firms.

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TABLES AND FIGURES

Table I: The principles of adversarial and collaborative relationships

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

Source: Spiers (1997)

Table II: Key attributes of a firm's performance

Factor	Explanation
Quality	The quality of the final offering is heavily influenced by the quality of the supply of inputs, no more so when they become an integral part of the final product. More often than not failure of such components has a greater adverse effect on the supplier of the finished product than that of the component manufacturer. Although financial compensation can be sought from offending parties, the damage to the reputation is not transferable within the supply chain.
Price	Whilst the producing firm has the ability to control its in-house efficiency i.e. the ratio of inputs to outputs, it is the economy, or cost of the inputs that it needs to be secured from the market. Considering these inputs usually represent more than 50% of organisational turnover then their potential impact on profitability cannot be understated.
Service	With the continued increase in global competition many products have tended towards commodities leaving little scope for price or product differentiation. Successful organisations are now competing on service elements such as after sales service, delivery or lead-time all of which can be enhanced through a focused supply base.

Table III: The different relationship behaviours of purchasing professionals and owner-managers

	Diversity in Relational Variables	
Key Variables	**Corporate Entity**	**Owner-managed Firm**
Motives	Profit maximisation	Various although not necessarily profit driven. Congruence between business and self
Resource	Substantial, including access to third party support services i.e. legal	Finite – in particular access to capital
Skills	Functional professionals pursuing both organisational and personal motives	Entrepreneurial having many technical and managerial qualities
Significance of relationship to turnover	Relatively low	Relatively high
Transaction Costs	Proportionally low	Proportionally high
Disposition to risk	Calculated, structured approach to minimise risk Risk averse	Intuitive approach, seeking opportunities from risk
Supply Chain Focus	High downstream Medium upstream	High downstream Low upstream
Supplier demands	Outsource problems – maximise wealth	Solution to problems

Table IV: Common themes in the data

Common Themes Arising from Interviews
Despite the perception of good relationships the majority of firms, had in recent times, lost business.
Price was not considered more important than quality or service which the majority of firms felt was the source of their competition
There was a common reluctance to get involved in the automotive sector as the demands were seen as unduly high and the returns low.
Customer's demands for a flexible and responsive service were sometimes perceived as the customer outsourcing their problems to the smaller firm
Collaboration with competitors was restricted to the short-term acquisition of surplus production assets. Purchasing consortia were generally rejected
Despite continuous downward price pressure supply management received little attention with faith being placed in market forces to generate the lowest price.
Most felt that they had better relationships with their suppliers than their buyers
Individual motives were not solely focused on the maximisation of profit, an issue that was influential for the type of relationships established.
E-commerce was only being used to exchange information with customers and not suppliers
The notion of 'partnership' was treated with a degree of scepticism
Despite firms making continuous decisions on price very few firms had accurate costing systems
Intervention in the supply base was shown to result in dramatic cost improvements

Figure 1: Proposed relationship between motives and size of firm

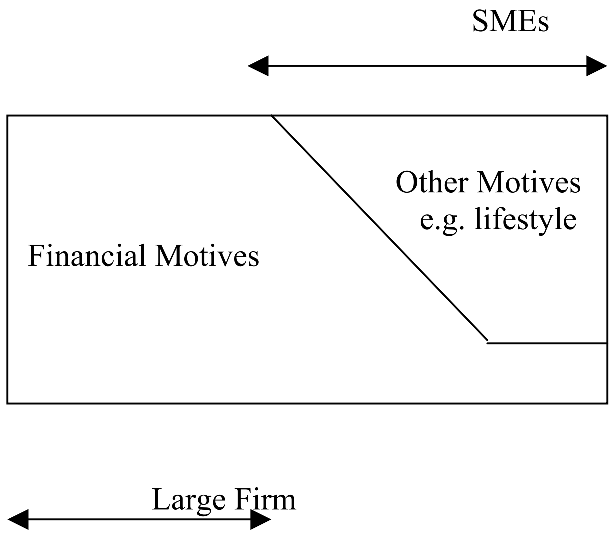

Table V: Summary of personal and business motives in the study

Summary of Motives
John of Company A was motivated by the lifestyle, wanting a stand-alone profitable business capable of running despite his absence.
John of Company B just wanted to make money and had allowed one business to account for 2/3 of his turnover.
As a third party manager survival was the primary motive for David at Company C.
Jim, the owner-manager of Company D wanted to work because he liked working for himself. This was transcended by a desire to add value to the business in order to make it more saleable. To this end Jim was, in theory, prepared to tolerate 100% of his sales with one customer so long as it was "good enough business"
Alan of Company E was motivated by survival in answering the questions on business objectives he simply replied "to be here"
Steve of Company F wanted to increase his turnover from £800K to £1m through increasing sales into existing market sectors.