



## Fostering sustainability through sourcing from small businesses: public sector perspectives

Helen Walker<sup>a,\*</sup>, Lutz Preuss<sup>b,1</sup>

<sup>a</sup> Centre for Research in Strategic Purchasing and Supply (CRISPS), University of Bath School of Management, Bath BA2 7AY, UK

<sup>b</sup> School of Management, Royal Holloway College, University of London, Egham, Surrey TW20 0EX, UK

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### ABSTRACT

This article examines the opportunities for fostering sustainable development through public sector sourcing from small- and medium-sized enterprises (SMEs). Buying from small businesses can make such contributions in a variety of forms, ranging from a contribution to local economic development through providing innovative green products and services, particularly in the food sector, to helping the public sector organisation to better align its operations with its community. Sourcing from small businesses also has implications for the governance of sourcing processes and can benefit from a partnership approach. Barriers to public sector sourcing from small businesses are discussed and suggestions made on how these can be overcome.

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### 1. Introduction

Small- and medium-sized enterprises (SMEs) play an important economic role in many industrialised countries and following the recommendation of the European Commission [1] are defined here as businesses employing less than 250 people. Of the 4.3 million enterprises in the UK, over 99% are SMEs and they generate 51% of the country's turnover. SMEs have a significant social impact too, as they account for 58% of employment in the UK [2]. The environmental impact of SMEs is equally far from insignificant, as they could be responsible for up to 70% of all industrial pollution [3]. Hence small businesses have an important role to play in striving for a more sustainable society.

However, when it comes to following these responsibilities through, SMEs demonstrate a number of idiosyncrasies (which is not surprising as defining these companies solely in terms of size hides a large divergence in terms of sector, financial performance or organisational culture [4]). On the one hand, there is evidence that few small businesses introduce formal practices to manage their sustainability impacts [5,6]. A major reason for such a predominantly reactive approach to sustainability challenges is a lack of human and financial resources that can be dedicated to environmental or other sustainability issues [7]. On the other

hand, however, most small businesses, at least in the United Kingdom, today acknowledge that they have a significant environmental impact [7,8], which is an improvement on the situation a decade ago when most SMEs still saw themselves as having little impact on the environment [9]. There is also evidence that some SMEs pursue environmental and social initiatives and proactively address such issues like energy consumption or waste disposal.

One way of encouraging small businesses to more systematically take up the sustainability challenge is through the supply chain. SMEs are, for example, subject to pressure from their customers to avoid certain harmful products, discontinue environmentally hazardous production processes or to get certified to an environmental management standard [10]. Sustainability and other requirements thus turn into commercial ones: the supplier has little choice but to meet these or risk losing business. In this respect the pressure emanating from large original equipment manufacturers in manufacturing or by branded retailers has received significant academic attention [11]. At the same time, some small businesses are innovative producers of novel sustainability technology or processes [12]. In supply chain terms, they could use this innovation potential to prod their customers in a more sustainable direction.

Our attention shall here focus on one specific type of supply chain, namely on the buying processes of local government and health care authorities in the United Kingdom. Their procurement is far from insignificant as the 410 local government authorities in England and Wales have a combined purchasing spend of some

\* Corresponding author. Tel: +44 (0) 1225 383151; fax: +44 (0)1225 383223.

E-mail addresses: [h.l.walker@bath.ac.uk](mailto:h.l.walker@bath.ac.uk) (H. Walker), [lutz.preuss@rhul.ac.uk](mailto:lutz.preuss@rhul.ac.uk) (L. Preuss).

<sup>1</sup> Tel: +44 (0) 1784 414151; fax +44 (0) 1784 276100.

£38.8 billion (\$73 billion) and the National Health Service (NHS) spends £30.1 billion (\$56 billion) on goods and services [13]. The research question this paper seeks to address is thus:

- how does collaboration with small businesses as suppliers influence the opportunities public procurement has to foster sustainable development?

This includes issues like: which goods and services are SMEs supplying that make a contribution to sustainability? What factors can enable or hamper the contribution of SMEs to sustainability? What tools could public procurers use to enhance their supply relationships with small businesses?

This paper makes three novel contributions. There are few studies of sustainable supply in the public sector, so this contributes to emerging literature [14,15]. More specifically, this research contributes to the sustainability, supply chain management and small businesses literatures by weaving these three threads together. Finally, the research seeks to illuminate how policy makers and practitioners in the public sector might pursue sustainable development through sourcing from SMEs. The article is structured as follows. A literature review outlines the importance of local government and health care buying in the context of the United Kingdom. It also considers previous studies – both in the public and private sectors – pertinent to collaboration with small businesses and the implications of these links for sustainability. After outlining the methodology, the findings are presented. Next, the discussion reflects on the findings in the light of the themes that emerged from the literature review. Finally, the limitations of the research are considered, along with the implications for research and practice.

## 2. Literature review

### 2.1. The importance of local government and health care procurement

This research focuses on the two largest sub-sectors within the UK public sector in terms of procurement expenditure, namely local government authorities and health care. Local government provides a range of services to the residents of its area, including education, leisure and social services. The cost of these services is met by grants from central government (52%) as well as the taxation of local businesses (21%) and residents (27%). Local government is also a significant employer, as it employs some 2.3 million people in England and Wales [16]. Given its ubiquitous role in British society, local government has increasingly been charged with making a contribution to sustainable development. At an international level, the *Local Agenda 21* provides a framework for integrating environmental, social and economic policy [17]. At national level, the Department for Communities and local government developed a *National Procurement Strategy for Local Government*, which includes a number of sustainability targets that local government has to meet over the period 2004–2006 [18]. The execution of procurement rests with the individual local authorities and often is devolved to individual departments within the Council.

The National Health Service employs over 1.3 million people and provides health care for all residents that is free of charge at the point of delivery. Purchasing and supply activities occur at a national level through the NHS Purchasing and Supply Agency (NHS PASA), at a regional level through Collaborative Procurement Hubs and Supply Management Confederations that consist of NHS Trusts and Primary Care Trusts (normally within the same regional boundary), and at local level through NHS Trusts. The NHS particularly lends itself to consideration of sustainability issues, being

concerned with the health and well-being of the nation [19]. NHS PASA has developed a sustainable development policy [20]:

“...seeking to increase awareness of sustainable development within the NHS supply chain and to ensure that wherever possible, NHS purchasing and supply activities support the achievement of sustainable development objectives, and support the improvement of the nation’s health and well being.”

The potential impact of local government and health care buying on sustainability is already visible in the huge sums involved, as local government authorities annually spend some £38.8 billion (\$73 billion) and the National Health Service, NHS, £30.1 billion (\$56 billion) on goods and services [13]. Further implication for sustainability arise from the nature and range of services provided by the two sectors, such as the prevention and treatment of diseases in the case of health care or economic development, land use planning and waste disposal for local government [17]. The quality of this service provision is, of course, largely premised on the quality of purchased inputs.

### 2.2. Themes in the literature on small businesses and sustainability

A literature review was conducted to identify previous studies pertinent to sustainability issues around small businesses with a particular focus on their role as members of supply networks. Relevant articles were sought through databases (e.g. Web of Science, Business Source Premier, EBSCO) with key word searches on SMEs, small businesses, sustainability, environment, collaboration, supply and purchasing. Table 1 summarizes the literature identified, which has been grouped into themes. The literature on sustainability focused on environmental performance of SMEs as well as their role in more sustainable forms of food supply. The literature on the importance of collaboration for small businesses mainly drew on a network perspective or focused on clustering of SMEs. Several studies examined government policy to support innovation and/or sustainability in SMEs, while relevant studies on innovation and SMEs were identified too.

At the broadest level, Table 1 shows that the large majority of studies have been conducted in the private sector, investigating inter-organisational relationships between SMEs or between small and large firms. There is less consideration of the perspective of public sector organisations and their collaboration with SMEs. Whilst some studies have had a public sector element, they have often investigated government programmes and policies supporting green behaviour or innovation in SMEs. No studies specifically investigated sustainable procurement and SMEs: how the public sector procures, sources and collaborates with SMEs to support sustainability. Our study therefore makes a novel contribution to the sustainability, supply chain management and small businesses literatures by bringing these three strands together. The table also indicates that the majority of studies have used a case study methodology, something we too have adopted in our research. The literature is discussed in more detail below in sections on sustainability, collaboration and innovation.

### 2.3. Sustainability and SMEs

A major theme in this body of literature concerns the question whether SMEs are proactive or reactive concerning the environment. In a study of the UK screen-printing sector, it was found that SMEs were on the whole improving their environmental performance reactively to achieve legislative compliance, rather than proactively to provide a strategic competitive advantage [8]. There seems to be room for stakeholders to encourage small businesses to shift from a reactive to a proactive pattern of environmental behaviour [21]. The affordability of sustainable business practices

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