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Enhancing cost savings through early involvement of purchasing professionals in sourcing projects: Bayesian estimation of a structural equation model

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ABSTRACT

As in many organizations the role of the purchasing department is shifting from a clerical buying function to an internally integrated, strategic business function, purchasing professionals are increasingly involved in sourcing projects. Building on Social Exchange Theory, this study explores the effects of early purchasing involvement on internal customer satisfaction and cost savings in sourcing projects, as well as how this involvement is bounded by the strategic impact of the sourcing project. To this end, the authors gathered data on 644 sourcing projects from a database of a large, private financial services company. A research model deploying the research hypotheses was analyzed using Bayesian structural equation modeling. This technique introduced and highlighted as a valuable and more correct estimation procedure in hypothesis testing research involving ordered-categorical data. The results confirm that early purchasing involvement enhances the cost savings outcome in sourcing projects. However, this involvement has remained underutilized for projects with high strategic impact. This study empirically establishes the importance of purchasing professionals for realizing cost savings in sourcing projects.

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1. Introduction

During the past decade, (early) purchasing involvement has received increasing attention, especially in the context of new product development and innovation processes (Lakemond et al., 2001; Luzzini et al., 2015). One reason for this is the transition, or development process, of purchasing towards a more strategic and integrated business function in which it increasingly fulfills a role as manager of the supply base (Cousins et al., 2006; Úbeda et al., 2015). From its intermediary position, purchasing facilitates improvements in (product and process) quality, innovation and mobilization of supplier know-how (Luzzini et al., 2015). Besides purchasing's growing impact in terms of value creation, though, cost savings are still considered to be purchasing's primary contribution, especially in the context of the lagged effects of a recent global economic crisis, which saw firms pushing to reduce costs as much as possible (Hartmann et al., 2012). However, despite certain

empirical studies demonstrating a positive impact of purchasing maturity on a firm's cost savings and financial performance (Foerstl et al., 2013; Schiele, 2007), descriptions of purchasing involvement's impact on cost savings appear to be merely conceptual and exploratory in nature (Ellram and Tate, 2015).

To address the increasing importance of purchasing involvement, as well as the limited existing empirical insights in regard to its cost-reducing impact, the authors undertake quantitative approaches to test the effect of purchasing involvement on cost savings. More specifically, because of the prominent impact purchasing can have, especially in the early phases of purchasing processes (Bals et al., 2009; Ellram et al., 2007), the authors seek insights into the impact of early involvement of purchasing professionals in sourcing processes. In doing so, the purchasing-internal customer relationship is considered, and more specifically, purchasing as an internal partner serving its internal customers. Along this line, early involvement of purchasers in the purchasing decision process reflects the internal customer's belief in purchasing's added value and is driven by the internal customer's degree of trust in and openness toward purchasing (Bals et al., 2009; Barratt, 2004; Werr and Perner, 2007). Thereby, the internal customer's trust often builds on previous successful experiences of

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purchasing involvement (Ellram and Tate, 2015). Hence, to secure their role in future sourcing projects, it is important for purchasing professionals to satisfy their internal customers. However, empirical research into such socially-desirable outcomes, stemming directly from purchasing involvement, appears to be limited. Moreover, insights into the role of social benefits (e.g., internal customer satisfaction) in the relationship between purchasing involvement and economic sourcing outcomes, such as cost savings, appear quite scarce. Similarly, further quantitative hypothesis testing research is required with regard to the determinants of purchasing involvement. Conceptual and exploratory studies often refer to organizational (e.g., department structure, position, company size) and (inter-) personal (e.g., skills, motivation, awareness, attitude, experience) aspects as influencing factors of purchasing involvement (Bals et al., 2009; Werr and Perner, 2007; Wynstra et al., 2000). However, to a lesser extent, determinants are identified at the sourcing project level. For instance, a growing assumption that purchasing is increasingly involved in sourcing projects relating to more complex spend categories (Tate et al., 2010) requires further empirical testing.

Grounded in Social Exchange Theory (SET), the purpose of this empirical case study is to explore the effects of early purchasing involvement (EPI) on internal customer satisfaction (ICS) and cost savings in sourcing projects, as well as to verify to which extent this involvement is bounded by the degree of strategic impact of the sourcing project. With this focus, the paper addresses several substantial research questions: Does EPI impact on the cost savings outcome of the sourcing project? Moreover, is this effect mediated by the degree with which internal customers are satisfied by the purchasing professional's "entrepreneurial ability" demonstrated during the sourcing project? Finally, is EPI bounded by the level of strategic impact of the project?

This study is set up in the context of purchasing's development process, in which purchasing involvement, and serving internal customers well, are key (Sánchez-Rodríguez and Martínez-Loriente, 2004; van Weele, 2010), but for which quantitative hypothesis testing research is limited. More specifically, with this study, the authors respond to the rather conceptual and exploratory descriptions of purchasing's role in sourcing initiatives and processes, while contributing to the limited existing empirical insights into the impact of involving purchasing professionals, in terms of both social and economic sourcing outcomes (Bals et al., 2009; Luzzini et al., 2015).

In the next section, the authors elaborate on the constructs and theoretical background upon which the research model and hypotheses are built. After an explanation of the quantitative research design and method being utilized, the results of our hypothesis tests are presented. Finally, the authors conclude with the research findings, scholarly and managerial implications and suggestions for further research. In the Appendix A, a research note is provided elaborating on the characteristics and advantages of the statistical analysis technique applied, i.e., Bayesian structural equation modeling.

2. Background and hypotheses

2.1. Theoretical background

In comparison to the rather large amount of literature on supplier involvement, research attention on purchasing involvement has remained limited in the purchasing and supply management (PSM) domain (Luzzini et al., 2015). This may be explained by the fact that in many, but mostly public, organizations, purchasing involvement is imposed and hence mandated. However, in the private sector, purchasing involvement is often

dictated by the budget owners, referred to as internal customers in this study, who have full decision power (Ellram and Tate, 2015). Moreover, in light of purchasing's development process, namely, the transition of the purchasing function from a clerical and reactive buying function toward a strategic, internally integrated business function and (co-) manager of the supply base (Paulraj et al., 2006; Úbeda et al., 2015), the purchasing department is increasingly taking the lead in the firm's sourcing initiatives (Tate et al., 2010). Recently, more attention has been paid to the role of the purchasing department in facilitating value creation (Luzzini et al., 2015). For instance, purchasing professionals may reveal new opportunities in the external environment, enhance purchase quality and lead time or facilitate supplier involvement (Ellram et al., 2007; McGinnis and Vallopra, 1999; Schiele, 2005; Werr and Perner, 2007). Along this line, researchers consider purchasing involvement a keystone of a mature purchasing organization (Schiele, 2007; Wolf, 2005) and a potential source of sustainable competitive advantage (Luzzini et al., 2015). However, despite purchasing's growing contribution in terms of value creation and supply risk reduction, a primary contribution of the purchasing department remains its cost savings capability (Hartmann et al., 2012; Úbeda et al., 2015). Regardless, quantitative hypothesis testing research specifically seeking to explore whether purchasing professionals contribute to cost savings outcomes in the context of sourcing processes, has remained scarce.

For this study, the authors investigate the earliness of purchasing involvement (EPI), pointing to the scope of purchasing involvement in the sourcing process. This examination builds on the fact that EPI depends on the budget owner's (internals customer's) trust and belief in purchasing's added value and therefore relates closely to the purchasing-internal customer relationship (Barratt, 2004; Ellram et al., 2007; Werr and Perner, 2007). Moreover, the authors consider EPI as an incentive for purchasers to perform well, i.e., to meet or even exceed internal customer expectations, hence to satisfy internal customers (Jun and Cai, 2010).

In line with internal services literature, describing the internal customer service as a "two-way exchange process between individuals in different functional departments of a firm in which the provider is charged with responding to the needs of his/her internal customer, resulting in a satisfied internal exchange partner" (Marshall et al., 1998, p.382), the authors apply the tenets of Social Exchange Theory. This theory stresses the two-way character, as well as the interactional dynamics, of dyadic relationships (Miles, 2012). SET emphasizes that parties enter into an exchange because one expects that doing so will be rewarded in terms of either social (e.g., trust, social approval, respect) or economic (e.g., information, goods, services, assets) resources (Blau, 1964; Emerson, 1976). Should exchanges turn out to be rewarding for both parties, trust and commitment in the exchange relationship will increase (Emerson, 1976).

Applying SET, the authors consider purchasing involvement as a social resource received by the purchaser from a satisfied internal customer. In order to ensure their involvement in future projects, purchasing professionals must engage their internal customers by proving their added value, which is done by meeting internal customer needs (Ellram and Tate, 2015). Furthermore, the authors argue that internal customer satisfaction which, in this study, reflects the extent to which the internal customer is satisfied with purchasing's entrepreneurial ability as executed during the sourcing process, plays a mediating function between EPI and cost savings. In our view, ICS will stimulate the internal customer during the project to increase openness toward the purchasing professional involved. Finally, the authors include the strategic impact of the sourcing project as a potential boundary condition for EPI and investigate its implication with regard to cost

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