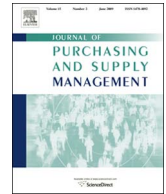




Contents lists available at ScienceDirect

## Journal of Purchasing and Supply Management

journal homepage: [www.elsevier.com/locate/pursup](http://www.elsevier.com/locate/pursup)

# The effect of external supply knowledge acquisition, development activities and organizational status on the supply performance of SMEs

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## ARTICLE INFO

### Keywords:

Exploration and exploitation  
Knowledge acquisition  
Structural equation modelling  
Small and medium-sized enterprises

## ABSTRACT

Given the increasingly strategic role of external resources, acquiring knowledge about current suppliers and the broader supply market is an important and demanding task for the purchasing and supply management (PSM) function of a firm. Performance-improvement-oriented application of external supply knowledge present further challenges for the function. To examine this, we draw on the knowledge-based view and develop a hypothesized model in which supply knowledge acquisition drives PSM exploration and exploitation orientations which in turn mediate the organizational status of PSM function in terms of supply performance. We test the model on an SME-focused and survey-based dataset, using structural equation modelling. Our results indicate that an exploitative orientation is associated with knowledge gained from the supply base, whereas an explorative orientation is predominantly associated with supply market knowledge and less with supply base knowledge, suggesting natural pairings. The findings also show how an exploitative development orientation mediates the positive association of the PSM function's organizational status with supply performance. Driven by supply base knowledge, a status-empowered exploitative PSM orientation may suppress supply market based explorative orientation in resource-scarce SMEs, thus appearing to serve as the sole path to supply performance. Our research contributes by pointing out the significance of the knowledge-resource, and the knowledge-based view, in understanding performance in PSM.

## 1. Introduction

When the purchasing and supply management (PSM) function is upgraded and attains a more strategic role (McIvor et al., 1997; Zheng et al., 2007), in many organizations it is theoretically put in charge of external resource management (e.g. Cousins, 2005; van Weele and van Raaij, 2014). In this role, it seeks the best available external resources while matching internal and external resources to capture business opportunities (Tanskanen et al., 2014). In other words, the PSM function links the supply market with internal customers, thus contributing to the financial performance of the firm (Paulraj et al., 2006; van Weele and van Raaij, 2014).

The prerequisites for functioning in such an advanced role include a high level of acquired knowledge and an understanding of the capabilities and opportunities available both internally in the company and, crucially, externally in the supply market. Indeed, leveraging knowledge about a firm's actively managed suppliers, in other words its supply base (Choi and Krause, 2006), and the broader supply market (including all potential suppliers currently not part of the supply base), is essential in the design and implementation of appropriate supply

strategies and tactical levers to improve supply performance (Schiele, 2007). We therefore propose that external “supply knowledge,” in other words knowledge about the firm's supply base and supply market, is a critical enabler of performance improvement in PSM (Bierly et al., 2009).

Inherent in this proposition is a positive association between the external supply knowledge acquisition, defined here as the scanning, searching and monitoring (Huber, 1991) of the supply base and market (Eriksson et al., 1997), and supply performance. The aim in this research is to see if this proposed association exists. Our main research question is: *Is the acquisition of external supply knowledge associated with supply performance?* From the resource-based view (RBV; e.g. Barney, 1991) perspective such an association would constitute a dynamic capability because it would integrate different operational capabilities and resources (Helfat and Peteraf, 2003; Teece et al., 1997), and allow the firm to “sense and seize” opportunities within the supply base and the market on which it draws (cf. Eltantawy and Giunipero, 2013; Teece, 2007).

We suggest in this research that the way the PSM function applies and acts on the external supply knowledge it acquires is of significance.

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<http://dx.doi.org/10.1016/j.pursup.2017.08.001>

Received 29 February 2016; Received in revised form 23 July 2017; Accepted 1 August 2017  
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Such activities may be oriented towards exploiting the firm's existing paradigms, strategies and policies, as well as its existing competences and the technologies in its supply base and market (March, 1991). Alternatively, the function may exhibit actions which are oriented towards exploring new ways of working with suppliers and internal customers, and experimenting with the new technologies and solutions on offer in the supply base and the market (March, 1991).

Furthermore, exploitative and explorative PSM orientations enabled by “sensing” (O'Reilly and Tushman, 2008) could be expected to thrive in certain circumstances. The strategic activities of PSM – being by default a highly cross-functional area – tend to be enabled by top-management support (Cousins et al., 2006; Wagner and Kemmerling, 2014), indicating its relatively high status within the organization (Carr and Smeltzer, 1997). A high status implies empowerment (Seibert et al., 2004) and the ability to carry out development activities (Tassabehji and Moorhouse, 2008), hence the status of the PSM function is an important element in terms of the circumstances that are favourable towards development activities.

Based on the above, we pose the following two sub-questions to shed light on the manner and the organizational circumstances of knowledge application. Both questions concern the nature of the proposed association: (a) *Do PSM exploitation and exploration as PSM orientations affect the association between the external supply knowledge and the supply performance?* (b) *Does the status of the PSM function affect the association between external supply knowledge acquisition and supply performance?* We address the research questions and test the associated model on a survey-based dataset, drawn from a sample of manufacturing SMEs operating in Finland. SMEs provide an interesting research context given their potential heterogeneity in terms of resources for knowledge acquisition and development-orientations of PSM.

Our research builds on knowledge-based view of the firm as a particular strand of the RBV (Kogut and Zander, 1992; Grant, 1996). As we elaborate on knowledge-based “instance” (Priem and Swink, 2012; Ramsay, 2001) and a “setting” (Barney, 2012) in which the PSM function achieves high performance and potentially sustain competitive advantage of the firm, we contribute by pointing out the significance of the knowledge-resource, and indeed the KBV, in understanding performance of PSM function. According to Spina et al. (2016), the literature lacks similarly positioned contributions. In addition, we believe this study is the first to address exploitation and exploration as orientations in the PSM context, and therefore that it is a useful starting point for further research on organizational ambidexterity (Raisch et al., 2009) in the purchasing function.

We also contribute to the sparse literature on PSM in SMEs in identifying some of the differentiators in supply performance. The research was conducted in the SME context for two reasons. First, SMEs play an important role in many developed economies (de Wit and de Kok, 2014): in the EU, for example, they produce almost 60 per cent of the added value and employ 67 per cent of the workforce in non-financial enterprises (Eurostat, 2011). There is thus a need to understand which PSM factors contribute to SME success. Second, the acquisition and application of external supply knowledge may serve as a “game changer,” particularly in SMEs, making the phenomenon more salient in the chosen setting. There is evidence suggesting that PSM is fragmented, and that it lacks an appropriate strategic role and internal support within SMEs (Quayle, 2002; Zheng et al., 2007). In general, SMEs suffer from the “liability of smallness,” implying, for example, a scarcity of resources and competence (Aldrich and Auster, 1986; Flatten et al., 2011). At the same time, a body of SMEs could also be quite heterogeneous in terms of capabilities (Arend, 2014). In fact, the leading incumbents may well have invested in developing the appropriate capabilities for external resource management. Hence, supply knowledge resources (cf. Hunt and Davis, 2012) and related capabilities may well contribute to the PSM function's superiority in comparison to other firms, particularly if they meet the conditions of being valuable, rare, imperfectly imitable and not substitutable (Barney, 1991).

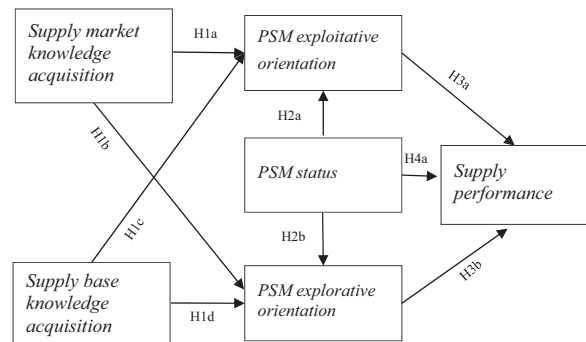


Fig. 1. Research model and hypotheses. Note: Supplementary Hypotheses H1e and H1f compare the effects of knowledge acquisition of supply base and supply market to exploitative and explorative orientations. H2c compares the effect of PSM status to both orientations. H3c compares the impact of exploitative and explorative orientations to PSM performance. H4b and H4c hypothesize mediator role of PSM orientation between PSM status and supply performance.

Moreover, given the liability of smallness, PSMs may act as salient differentiators in terms of supply performance.

We present the research model and construct the hypotheses in the following section. Section three charts the data-collection process and explains the measurement instrument in detail. The tests of the structural model and their results are presented in section four. The results are discussed in section five in relation to previous research literature, and section six presents the conclusions and offers suggestions for further research.

## 2. The Research model and the hypotheses

The hypothesized research model, defining both the variables and the associations proposed above, is depicted in Fig. 1. The starting point is the acquisition of external knowledge about the supply base of firms and their broader supply market. We focus in our research on the acquiring and noticing dimension of knowledge acquisition, comprising sub-processes such as scanning, searching and monitoring (Huber, 1991). Knowledge acquisition is therefore about the generation of intelligence (Jaworski and Kohli, 1993) on the supply base and the supply market (Eriksson et al., 1997), and the extent of exploitation of acquired knowledge in connection with the regularity of the generation activities (Yli-Renko et al., 2001). It is also “an external integration mechanism that facilitates the absorption of critical knowledge from external market sources” (Zhou and Li, 2012). For example, to conduct supply base knowledge acquisition (Hult et al., 2004; Zhou and Li, 2012), firms engage with some degree of regularity in activities such as visiting suppliers (cf. Jaworski and Kohli, 1993), monitoring past performance, and discussing plans and future designs with suppliers (Modi and Mabert, 2007; Sánchez-Rodríguez, 2009). In other words, through scanning and searching they “generate intelligence” in collaboration with their actively managed suppliers (cf. Jaworski and Kohli, 1993, p. 57), i.e. the supply base (Cheung et al., 2010; Choi and Krause, 2006). They may also scan, search and monitor the wider supply market and acquire knowledge about prices, alternative suppliers, technologies and risk (Ellram et al., 2002; Huber, 1991), for example, as supply managers seek to identify relevant changes and opportunities and bring them to the attention of decision makers in the firm (Handfield et al., 2009). Indeed, tracking new trends and learning new technologies serve to strengthen the integration of the PSM function with other organizational activities (Zsidisin et al., 2015).

Kogut and Zander (1992) suggest that knowledge in a firm relies on “combinative capabilities,” in other words a combination of internal learning and acquired external knowledge that leads to organizational and technological opportunities. A firm is, in fact, a knowledge integrator, thus the “ability to identify, assimilate and exploit external

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