

Sustainable purchasing and business performance in manufacturing industries

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Abstract

The literature review initially introduces an evaluation of the literature concerning the fundamentals of sustainable supply chain management, the research related to the application of sustainable purchasing relevant to the manufacturing industries. The sustainable purchasing aims to extend corporate social responsibility (CSR) issues in the purchasing function, to include an environmental aspect of the sustainability, which otherwise would mainly focus on the social aspect. However, very few existing studies have considered the impact of sustainable procurement on improving performance outcome of the buying firm. Previous studies were conducted to focus on drivers that enhance the company's ability to work on social and environmental issues. Moreover, the majority of reviews have determined that environmental sustainability is more than a social issue. Thus, this is a conceptual model which proposes to study in detail on how the implementation of sustainable purchasing affect firm performance through purchasing performance (cost side) and competitive advantage (revenue side) from the perspective of developing countries.

Keywords: Sustainable purchasing, Competitive advantage, Purchasing performance, Firm performance.

1. Introduction

During the last decade, sustainability has been recognized by global organizations as an essential strategic goal (Closs, Speier, & Meacham, 2011). Many suggest that sustainability practices are a source of competitive advantages (Carter, 2005; Flint & Golicic, 2009; Rao & Holt, 2005) and play a role in the firm's corporate reputation (Hoejmose, Roehrich, & Grosvold, 2014; Phillips & Caldwell, 2005). Moreover, the trend of increased outsourcing to and purchasing from the developing countries is now considered to be an important reason behind the more significant interest in CSR. In addition, it has come to be one of the significant and vital issues in purchasing because of its practice of being responsible towards society and environment. Such practice does not only focus on the self-interests of the firm, but also on the non-cooperative practice with suppliers who could behave negligently towards the social and environmental issues. Such self-centred firms are seriously opposed by societies which can result in damage to the reputation and consequent litigations which occur mostly in developing countries where social and environmental issues are not the primary interests.

Research along with the corporate interest in sustainability has risen considerably in recent years. There has been a vast amount of research on sustainable supply chain management that has focused primarily on the environmental issue in the supply chain as its green practices (Vachon & Klassen, 2008; Zhu, Liu, & Lai, 2016; Zhu & Sarkis, 2004). Some researchers combine both environmental and social issues like CSR in the supply chain (Faisal, 2010) or purchasing social responsibility (Carter & Jennings, 2004). However, there are only a few studies which have examined the link between the sustainable purchasing and performance outcomes. In this context, one recent study addressed some gaps in the research that has been conducted on the desire to find out the relationship between sustainable purchasing and performance outcomes. Its focus is on buyers' aspect regarding CSR within a purchasing function that impacts the performances of both buyers and supplier, especially in developing countries, which provide the base for production to the developed countries.

2. Literature review

2.1 Sustainable Supply Chain Management (SSCM)

There are several relevant studies on the implementation of SSCM. They have found that SSCM's important principal depends on the integration of sustainable theory and Supply chain management (SCM) (Masoumik, Abdul-Rashid, Olugu, Ghazilla, & Ariffin, 2014; Morali & Searcy, 2013; Signori, Flint, & Golicic, 2015). The sustainable development and SCM are a two-way concept created independently in the last decade (Seuring & Müller, 2008). SCM is one of the most important research areas that focus on "corporate sustainability,"

reflected in ongoing research on green supply chain management (GSCM) and SSCM (Steurer, Langer, Konrad, & Martinuzzi, 2005). Besides, sustainability issues have become increasingly prominent within business organizations. The initiative on business's sustainability relates to "Corporate Social Responsibility" There is research available on SSCM focusing on environmental issues in the supply chain's eco-friendly practices (Zhu et al., 2016). SSCM's purpose is to improve the business effectiveness and environmental performance in the supply chain (Chan, He, Chan, & Wang, 2012; Lin & Tseng, 2016). According to the literature review on sustainability in the supply chain in the developed countries, sustainability has found its importance and has since continuously developed (Gopalakrishnan, Yusuf, Musa, Abubakar, & Ambursa, 2012; Varsei, 2016), but its role in developing countries is still insufficient (Galal & Moneim, 2016). Silvestre (2015) has found that there are more barriers in the supply chain in developing countries and emerging countries as compared to the developed countries. Nevertheless, the improvement of the supply chain's sustainability in the developing countries may affect global sustainability because the developing countries are a main manufacturing base for the world.

2.2 Effect of sustainable purchasing on purchasing performance

The corporation's purchasing function, which relates to the suppliers having interest in society and environment as the purchasing function, is being recognized as one of the critical elements for improving the sustainability of the company. The purchasing function affects all socially responsible activities throughout the entire supply chain (Hollo, Blome, & Foerstl, 2012; Krause, Vachon, & Klassen, 2009). The developed countries focus on high-level CSR since it can be used as a tool to attract and develop an image of the company given the various stakeholders (Li & Zhang, 2010). Previous research has shown that there are contradictory results on sustainable purchasing and performance outcomes of which sustainable purchasing has some impacts while others have revealed no impact on supplier performance (Carter, 2005; Carter & Jennings, 2002). However, no study has been undertaken to confirm that sustainable purchasing can improve the performance outcomes in developing countries. In line with these arguments, we argue that CSR in purchasing should directly support purchasing performance.

2.3 Effect of sustainable purchasing practice on competitive advantage

In order to gain or maintain a competitive advantage, sustainability has been increasingly focused on many organizations. Previous research has stated that CSR is one of the main factors in identifying the company's long-term sustainability of business excellence (Gartner and Bellamy, 2010). Customers have the inherent potential of translating their environmental and social consciousness into pressure, which they eventually exert on the companies, which, after that, feel it incumbent to adopt a more socially and environmentally responsible attitude and strategies. This subsequently puts pressure on the stakeholders to drive their organization to pay attention to society and the environment in order to reduce the risks which may lead to corporate reputation destruction. Hollos et al. (2012) have noted that sustainable supplier cooperation (which includes, for example, environmental supplier development), via green practices, has positive effects on cost and operational performance (ability to innovate, quality and lead time). Also, implementation of social responsibility in purchasing can improve suppliers' performance through organizational learning that consequently leads to cost reduction (Carter, 2005). When companies help their suppliers on the environment, the company image in public opinions may be enhanced (Carter, Kale, & Grimm, 2000; Min & Galle, 1997). It would be prudent to expect that suppliers' performance will generate similar benefits, which would be garnered by both direct and indirect buyers. Also, the competitive advantage that results in the increase of market share and revenue is the corollary of the augmented environmental performance (Klassen & McLaughlin, 1996; Rao & Holt, 2005). The improvement of the environmental performance by a company can also resultantly improve its green corporate image, thus creating new avenues and business opportunities and contemporaneously raising its competitive advantage (Chen, 2008). Chiou, Chan, Lettice, and Chung (2011) also concur that the greening of suppliers through green innovation significantly impacts the competitive advantage and performance of the company. Vachon and Klassen (2008), in their survey of North American companies, have noted the relationship between the organization's competitive advantage and its environmental performance. On the contrary, Rao (2002) who studied companies in Southeast Asia (Malaysia, Philippines, Indonesia, Thailand, and Singapore) could not find a link between environmental performance and economic performance. However, this research is aimed at advancing some of the previous research, especially in the context of large manufacturing industries by

collecting more empirical evidence which demonstrates if there exists a relationship between the sustainable purchasing practices on the competitive advantage of an organization.

2.4 Effect of sustainable purchasing on firm performance

Our models aim to find research gaps in both direct and indirect effects of performance. This research attempts to understand the mediating effect of competitive advantage and purchasing performance variables in achieving firm performance to show how and why sustainable purchasing influences firm performance. Firm performance is vital for an organization. Purchasing performance concerning social and environmental responsibility refers to the ability of buyers and suppliers regarding the quality of the materials purchased, timely (on-time) delivery along with the comparison of the actual cost of materials against the target cost (Chao, Scheuing, & Ruch, 1993). Thus, it is expected that purchasing outcomes mediate improvements in firm performance by sustainable purchasing. Moreover, frameworks are conducted to attain competitive advantage through managerial principles of improving the firm's market share along with the image, value and the competitive ability of the firm (Swafford, Ghosh, & Murthy, 2006). A competitive advantage is essential, particularly in firm performance. The competitive advantage in manufacturing depends on customer needs, as Winsemius and Guntram (1992) have stated that the rise in the number of paying customers whose preference includes environmentally safe products has borne a positive impact on the firm revenues. Hence, running a sustainable business gives an organization a source of competitive advantages in global competition (Gupta, 2012). Based on the literature review, there is evidence concerning the relationship between sustainable practices and performance outcomes (Ağan, Kuzey, Acar, & Açıkgöz, 2016; Blome, Hollos, & Paulraj, 2014; Saeidi, Sofian, Saeidi, Saeidi, & Saeidi, 2015).

3. The conceptual model

Most researches on SSCM have been conducted in developed countries and China. The current study emphasizes on SSCM, especially in developing countries. This research is based on the resource-based view; we develop the theoretical model of the role of sustainability and its effect on performance outcome. Due to increased pressures exerted by the social and environmental issue on companies, significant concerns have arisen in the corporate world. Results will facilitate an understanding of the impact of implementation of sustainable purchasing on business performance, the mediating effects of purchasing performance (cost side) and competitive advantage (revenue side) by large manufacturers. This study develops a conceptual model, presented in Figure 1 that captures the relationship between sustainable purchasing and the potential to improve the company's performance: operational aspect of purchasing function, competitive advantage and firm performance. The conceptual framework is summarised into five hypotheses derived from the main research of this study (Figure 1). The results of this research will benefit academics in future research, and corporate executives will know how to conduct their operations, particularly in connection with organizations through industry procurement in developing countries.

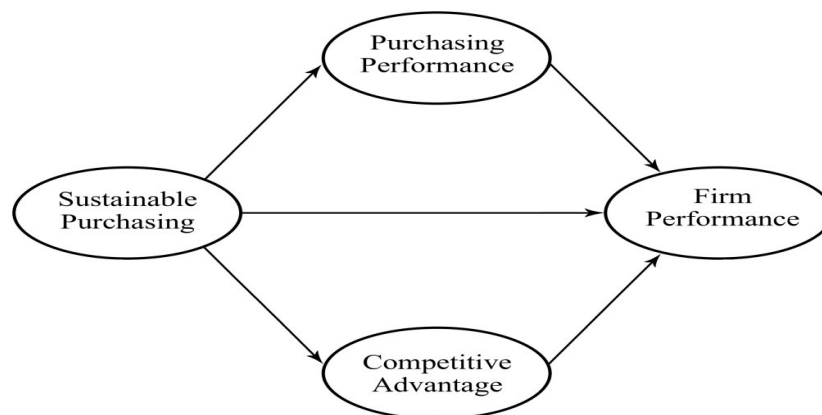


Figure 1. The conceptual framework

Based on the above conceptual framework we propose the following propositions:

- H1: Sustainable purchasing has a direct positive influence on purchasing performance.
- H2: Sustainable purchasing has a direct positive influence on competitive advantage.
- H3: Purchasing performance has a direct positive influence on firm performance.
- H4: Competitive advantage has a direct positive influence on firm performance.
- H5: Sustainable purchasing has a direct positive influence on firm performance.

4. Conclusion

Hopefully, the results will enable to create better understanding of managing the supply chain in a socially responsible way and, at the same time, answer the question of how companies' social and environmental practices affect the performance outcomes. The conceptual model can be considered; the model extends the available research on sustainable procurement to consider the mediating effect of purchasing performance (cost side) and competitive advantage (revenue side) on firm performance. Also, previous studies have paid attention primarily to the operational performance and cost of the firm, whereas, at the same time, research which focuses on the financial and commercial outcomes is felt necessary (Holloos et al., 2012). Hence, no research has been conducted to investigate the revenue side. This research is the first empirical study to analyze the extent of both cost and revenue sides at the same time. Finally, the knowledge obtained from this research will be useful for researchers interested in studying similar areas and purchasing management.

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