Chapter 16
Can Firm Size Moderate Navigating Economic Performance Through Strategic Purchasing?

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ABSTRACT

This study empirically investigates the relationship between strategic purchasing, environmental purchasing, and economic performance in the manufacturing industry in India. Employing partial least squares (PLS) analysis guided by the dynamic capability view theory, this study examined the direct and moderating linkages between organizational purchasing practices and economic outcomes. The findings reveal a significant positive association between strategic purchasing and economic performance, with firm size acting as a moderator. Conversely, no moderating effect of firm size is found between environmental purchasing and economic performance. This research underscores the pivotal role of strategic purchasing in maximizing a supplier base, enhancing supplier relations, and influencing expenditures and operations across the supply network. This provides insights into the strategic role of purchasing in maintaining quality standards and enabling international growth.

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INTRODUCTION

The manufacturing industry is one of the most vital sectors of the economy, as it contributes to the production of goods, the creation of jobs, and the generation of income. However, the manufacturing industry also faces various challenges, such as increasing competition, changing customer demands, environmental regulations, and technological disruptions. Therefore, it is imperative for manufacturing firms to adopt effective strategies and practices that can enhance their performance and competitiveness in the global market (Park et al., 2018).

One of the key areas that can influence the performance of manufacturing firms is purchasing, which refers to the process of acquiring materials, components, services, and equipment from external sources. Purchasing can affect the quality, cost, delivery, and innovation of the products and services offered by the firms, as well as their relationships with the suppliers and customers. Hence, purchasing can be considered as a strategic function that can create value and competitive advantage for the firms (Wagner et al., 2018).

However, not all purchasing practices are equally beneficial for the firms. Some purchasing practices may be more aligned with the strategic goals and objectives of the firms, while others may be more focused on the environmental and social aspects of the purchasing decisions. Therefore, it is important to examine the different types of purchasing practices and their impacts on the economic performance of the firms. In this regard, this study distinguishes between two types of purchasing practices: strategic purchasing and environmental purchasing.

Strategic purchasing refers to the purchasing activities that are aligned with the overall business strategy and objectives of the firm, and that aim to achieve long-term benefits and competitive advantage. Strategic purchasing involves selecting the best suppliers, developing close and collaborative relationships with them, integrating them into the product development and innovation process, and leveraging their capabilities and resources. Strategic purchasing can help the firms to reduce costs, improve quality, enhance delivery, and increase innovation, thereby improving their economic performance (Somjai & Jermsittiparsert, 2019).

Environmental purchasing refers to the purchasing activities that are concerned with the environmental and social impacts of the purchasing decisions, and that aim to minimize the negative effects and maximize the positive effects of the purchasing process on the natural environment and the society. Environmental purchasing involves considering the environmental and social criteria, such as the emissions, waste, energy consumption, and labor standards, of the suppliers and the products, and selecting the suppliers and products that have lower environmental and social footprints. Environmental purchasing can help the firms to comply with the environmental regulations, improve their reputation and image, and meet the expectations of the stakeholders, thereby enhancing their economic performance (Serrano et al., 2020).

However, the relationship between purchasing practices and economic performance may not be direct and simple. There may be other factors that can influence the strength and direction of this relationship. One of such factors is the firm size, which refers to the scale and scope of the firm's operations, resources, and capabilities. Firm size can affect the purchasing practices and the economic performance of the firms in various ways. For instance, larger firms may have more resources and capabilities to implement strategic and environmental purchasing practices, and to achieve economies of scale and scope, than smaller firms. On the other hand, smaller firms may have more flexibility and agility to adapt to the changing market conditions and customer preferences, and to innovate and differentiate themselves, than larger firms. Therefore, firm size can moderate the relationship between purchasing

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