

# Purchasing And Supply Chain Management Practices In Greek Small And Medium Sized Business Enterprises (SMES)

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## ABSTRACT

*This paper presents information concerning the purchasing and supply management practices of Greek small and medium sized business enterprises (SMEs). Findings from site visits to SMEs located in the metropolitan Athens area are presented. The results from this study are compared and contrasted with the existing academic and practitioner literature. Unique aspects of Greek SME organizations are identified and discussed.*

**Keywords:** Purchasing, Supply Management, SME, Small Business, Greece

## INTRODUCTION

Small and medium sized business enterprises (SMEs) are an important part of the Greek economy. Voulgaris et al (2004) write that SMEs create 50,000 new jobs in Greece annually, and represent 60% of the employment in the manufacturing and service sector. SMEs with less than 100 employees amount to 99.9% of the total business enterprises in Greece OECD (2000). Despite the importance of SME organizations to the Greek economy little information exists about the management practices of these organizations within Greece. In addition, information regarding the purchasing practices of Greek SMEs is almost nonexistent. Since SMEs are an important sector of the economy in Greece, this is a major gap in the research literature that needs to be addressed.

This paper presents information concerning the purchasing and supply management practices of Greek SMEs. Findings from site visits to six SMEs located in the metropolitan Athens area are presented. The results from this study are compared and contrasted with the existing academic and practitioner literature. Unique aspects of Greek SME organizations are identified and discussed.

The remainder of this paper is divided into four sections. In the following section, the methodology used to conduct this research is described. The second section presents the results of the research. Implications and recommendations regarding the results are discussed in the third section of this paper. Finally, in the fourth section the conclusions of this paper are presented.

## RESEARCH DESIGN AND METHODOLOGY

The primary purpose of this research is to investigate the purchasing practices within SMEs in Greece. There are numerous definitions of a SME.<sup>1</sup> The European Union definition of a small or medium sized business is 249 or less employees, an annual turnover not to exceed forty million euros, an annual balance sheet total of less

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<sup>1</sup> U.S. SME Administration, Office of Advocacy, *SME Expansions in Electronic Commerce*, Government Printing Office, Washington, 2000, p 2.

than twenty-seven million euros, and the business must have no more than 25% of its capital controlled by a large organization.<sup>2</sup> For this research project the European Union version of SMEs was used.

A multiple case methodology was used to gather data for this study. This research effort involved on-site visits in May 2004 to six metropolitan Athens SMEs. Interviews were conducted at each of the six SMEs with the owners/CEOs and/or the head of the purchasing function. All interviews were carried out in person and used a semi-structured interview methodology. A standardized list of 42 questions was used as the basis for conducting the interviews. The list of questions consisted of three major sections:

- 1) Characteristics of an Organization's Purchases
- 2) Purchasing Organization Demographics
- 3) Organization Demographics

The questions in the "Characteristics of an Organization's Purchases" section were designed to measure the overall impact of purchased goods and services on the organization. A key point that has been missed in much of the literature is that the importance of the purchasing function is determined by the impact that purchased goods and services have on the organization.

SMEs where goods and services have a major impact on the organization are more likely to have a better developed purchasing function. The "Characteristics of an Organization's Purchases" section measures three key factors that determine the overall complexity of the goods and services purchased by an individual SME. The first factor is the percentage of purchased goods and services in relation to total costs. Interviewees were asked to provide the percentage of total goods and services to total costs. Firms that have a high percentage of purchased goods and services to total costs increase the importance to the organization of having effective purchasing practices. The results of this question are shown in Chart 2.

The second key factor in the "Characteristics of an Organization's Purchases" section is the amount of purchased goods and services that are technically complex. Interviewees were asked if the amount of technologically complex goods and services were low, medium, or high. High levels of technologically complex goods and services require a more professional purchasing function. The results of this question are shown in Chart 2.

The third key factor in the "Characteristics of an Organization's Purchases" section is the buying organizations level of influence with the supplier. Both Ramsey (2001) and Quayle (1999) state that a major problem in implementing more strategic forms of purchasing within SMEs is that they lack influence with suppliers. This lack of influence is a result of the fact that SMEs often purchase less than large organizations and so therefore have less leverage with their suppliers. As a result suppliers may be unwilling to engage in long term relationships with SMEs. Since SMEs may lack leverage with their suppliers they may be unable to gain any competitive improvement through their purchasing practices. Interviewees were asked to rate the amount of influence they have with their suppliers. Low levels of influence should result in a less developed purchasing function. The results of this question are shown in Chart 2.

"Purchasing Organization Demographics" was the second section in the list of interview questions. The questions contained within this section were designed to identify the characteristics and size of the purchasing function within the subject organization. The questions address major commodities purchased, who the head of purchasing reports to, average years of purchasing experience, and the education level of the head of purchasing. The questions in the "Organizational Demographics" address, the size, type, and age of the organization. The percentage and location of international affiliations is also shown. The results of these questions are shown in Table 1.

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<sup>2</sup> The European Commission Community Research, *Promotion of Innovation and Encouragement of SME Participation*, <http://SME.cordis.lu>

**RESULTS**

This section reviews the findings concerning organizational and purchasing demographics based on the site visits to six organizations in Athens. Table 1 lists organizational demographic results for each of the six organizations. The organizational demographics presented in Table 1 include: number of employees, annual sales, type of industry, primary customers, percentage of exports, location of international customers, and year the business was founded. All six of the organizations visited are privately owned businesses. As noted in Table 1, all of the businesses are young, with the oldest founded in 1983. The six organizations are in a variety of businesses, which are representative of industries in the Greater Athens area. An interesting finding of this study is that the percentage of exports for all the businesses is small to nonexistent. This result indicates that the sales of Greek SMEs are almost exclusively domestically based with very few international sales. This result is even lower than found by Droukopoulos & Thomadakis (1994) whose study showed that fewer than half Greek SMEs engage in export. Liargovas (1998) states that the reason for the lack of international business could be that many Greek SMEs use a passive marketing strategy. As a result, they wait for potential customers to approach them rather than seek out new business. The lack of international sales could also indicate that the goods and services of Greek SMEs are not competitive in international markets.

**Table 1**  
**Company Demographics**

<b>Company</b>	<b>Number of Employees</b>	<b>Annual Sales (in Euros)</b>	<b>Type of Industry</b>	<b>Primary Customers</b>	<b>Percentage of Exports</b>	<b>Location of International Customers</b>	<b>Year Company Was Founded</b>
A	Less than 50	Less than 1 million	Technology – Software	Banking and Shipping Industry	5%	Italy	2001
B	115	5.3 million	Printing, Insertion of Material, Mailing Center	Producers of Consumer Goods	Less than 1%	Bulgaria, Romania, Bosnia, Albania, and Cyprus	1995
C	78	2.8 Million	Newspaper Printer	C- Stores (Kiosk) and some individual subscriptions	None	N/A	1995
D	43	9.2 Million	Commercial Refrigeration/ Industrial Machinery Manufacture	Grocery Stores	None	N/A	1989
E	240	2.9 million	Computer and Electrical Product Manufacturing	Large and Small Retail Stores – who sell to companies and individuals	None	N/A	1991
F	21	1.1 Million	Printing	Other SME	None	N/A	1983

Table 2 lists purchasing demographic results for each of the six organizations. Purchasing demographics consist of items such as major goods and services purchased, number of years experience in purchasing, education level of purchasing manager, reporting hierarchy for purchasing function, percentage of total cost of purchased items, perceived level of influence with suppliers, and level of technical complexity of goods and services purchased.

The six Greek companies have flat organizational structures with short lines of communication from the purchasing function to the President/CEO. As indicated in Table 2, the head of purchasing reports directly to the President/CEO in two-thirds of the businesses. In a just completed survey that the authors of this paper conducted of purchasing practices of Indiana small manufacturers it was found that 66.1% of heads of purchasing report directly to (or is) the President/CEO. So the Greek SMEs are roughly comparable to American SMEs in reporting hierarchy for the purchasing function.

Our research found that in the six business organizations the purchasing function contains between two to six people. As shown in Table 2 the majority of purchasing personnel employed by the six organizations have at least some college experience and some had completed an MBA. The relatively high level of education could be a symptom of a weak Greek job market as opposed to a more professionally developed purchasing function.

According to the respondents, purchased goods and services make up a high percentage of total costs. As indicated in Table 2, the total spent on goods and services was between 25 to 75 percent of total costs. In the author’s study of Indiana small manufacturers, only 29.3% of the respondents indicated that purchased goods and services are 50% or more of their total costs, and 11.6% indicated that purchased goods and services are 65% or more of their total costs. Moreover, in a past survey of small manufacturers in the Pittsburgh area Presutti (1988) found that 71% of small manufacturers spend at least 35% of sales on purchased goods and services.

Both Ramsey (2001) and Quayle (1999) write that a major problem in implementing more strategic forms of purchasing practices in small manufacturers is the lack of leverage with suppliers. Similar to what Ramsey (2001) and Quayle (1999) discuss concerning buying leverage with suppliers by small manufacturers, the results of this study found the Greek organizations have a low level of purchasing leverage. More specifically, all of the Greek manufacturers indicated that suppliers rather than buyers have the majority of the power in the relationships.

**Table 2  
Purchasing Demographics**

Company	Major Goods and Services Purchased	Directly Reports to whom	Years of Experience	Education Level	Percentage of Total Costs Spent on Goods and Services	Perceived Level of Influence With Suppliers	Technical Complexity Level of Purchased Goods and Services
A	Computer components	CEO	2	MBA	25	None	Medium
B	Paper printing material Printing Equipment	Marketing Director/Account Executive	2.5	MBA	60	Medium	Low
C	Paper and printing material Printing Equipment	Production Manager	10	Bachelors	25	Medium	Low
D	Components and Tools	CEO	20	High School	75	Equal	Low
E	Computer components	CEO	4	High School/Some College	70	Medium	Medium
F	Paper and printing material Printing Equipment	CEO	20	High School/Some College	35	Low	Low

## LIMITATIONS AND RECOMMENDATIONS

There are several limitations in this research. The first limitation is the small number of firms visited and the fact that they were all in the Greater Athens area. Also, the companies visited were often the organizations that local contacts wanted the researchers to visit; thus, a distorted view of the state of organizations could be an issue. More research is needed to determine what method or methods of research would be best to ensure that external validity in the study is not compromised.

The results of this research project, which is presented in this article, involved the visit to six organizations in Athens Greece in June 2004. Further research is needed to determine if the results are representative of the various industries and the entire Greek market, regardless of the size of the organization. In addition, research comparing other EU members to Greece would be beneficial with regards to the demographic and purchasing variables. More specifically, research is needed comparing other EU countries to determine what factors, if any, impact purchasing leverage. The authors plan to further the research in other countries with organizations of like sizes to those in this study. With the growth of international business, there is a need to compare Greek SMEs to other like economies to determine if there is a relationship between the levels of economic development and purchasing variables. Finally, cultural issues need to be compared and contrasted with other countries with regards to data collection and managerial styles in Greece.

## CONCLUSIONS

This study provided information regarding the characteristics of Greek SMEs and their purchasing functions. Greek SMEs are young and primarily focused on domestic business. The goods and services they purchase was rated medium to low in regards to technical complexity. The perceived level of influence with suppliers is fairly weak with no SME indicating they have a high level of influence. The percentage of purchased goods and services to total costs was high in half of the SMEs. However, there appears to be no relationship between the percentage of purchased costs/ technical complexity and experience or education of purchasing professionals.

The results of this research provide the groundwork for other studies regarding the purchasing and supply management practices in Greek SMEs. From the lack of empirical research available in this area, it is clear that there is a strong need for additional empirical research concerning Greek SMEs and their purchasing and supply management practices. Additionally, further research comparing other countries to Greece would be beneficial with regards to the aforementioned variables. More specifically, research is needed comparing Greece to other like economies to determine if there is a relationship between the level of economic development and purchasing leverage, percentage of total cost spent on goods and services, and the ratio of purchased goods from international sources.

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**NOTES**