

Chapter 12

Inward Internationalization: Important Challenges Among SMEs

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ABSTRACT

The existing literature on internationalization and purchasing is vast; however, the inward internationalization perspective is an under-researched topic. In this chapter, the authors review the literature on internationalization of small and medium enterprises (SMEs) to understand the main reasons behind international purchasing and the role of experience on internationalization. Using a survey and descriptive statistics, the results from 56 respondents show that SMEs source from a small number of countries and hold those relationships for several years. The main reasons underlying international purchases are lower prices and better product quality, regardless of goods availability on the domestic market. This chapter has some limitations concerning its exploratory nature, pertaining to its sample size. Some future research avenues are presented such as a deeper look on how internationalization processes differ when SMEs begin their activity by inward rather than by outward activities.

INTRODUCTION

The concept of internationalization is comprehensive and has been the subject of extensive analysis, mainly in what pertains to exporting practices, with a strong emphasis on multinational companies. Comparatively, studies on small and medium-sized enterprises (SMEs) are scarcer and have been triggered mainly by researchers from the University of Uppsala (Luostarinen, 1970; Johanson & Wiedersheim-Paul, 1975). Luostarinen (1970) divided the concept of internationalization into: inward; outward; and cooperative.

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Inward Internationalization.

The focus of this chapter is on inward activities – as outward internationalization has already been overly researched – since they are understood to be the core of the internationalization process. As a result, the role of inward internationalization as a process capable of leading companies to develop their sales in the international markets and supporting internationalization has been neglected. In the last two decades, several studies have been conducted on SMEs internationalization process through exports; however, the relationship between SMEs internationalization and international purchasing activities received limited attention. Ribau, Moreira, and Raposo (2017) refer that research on SMEs internationalization has extensively focused on the outward rather than on the inward perspective, calling for the need of more all-inclusive perspectives to properly understand the consequences for scholars and practitioners. Further studies on inward internationalization are important to this field of knowledge as, on one hand, the success of exports depends on international purchases and, on the other hand, international purchasing can contribute significantly to the firms' competitive performance and survival (Gualandris, Golini, & Kalchschmidt, 2014; Horn, Scheffler & Schiele, 2014).

Knudsen and Servais (2007) examined the international purchasing behavior of industrial SMEs and the inward-outward link from the purchasing perspective, diagnosing several differences between firms according with each international configuration. This chapter is based on Servais and Knudsen's research, focusing on SMEs inward activities only. Thus, this study aims to analyze the importance of inward activities in the internationalization process of SMEs, namely, how SMEs use their purchasing budget, the role of experience in the internationalization process and the reasons underlying the choice of international suppliers. Our contribution to the literature stems from offering a deeper understanding on the importance of inward activities to the internationalization process of SMEs, and on what reasons drive them to acquire products in foreign markets. Data were collected using an adaptation of Knudsen and Servais' (2007) questionnaire, and analyzed using descriptive statistics.

The chapter is structured into four main sections. After this introduction, section two reviews the theoretical background and the literature. Section three discusses the methodological approach, and presents the main results. Finally, section four details on the main conclusions, limitations and future research avenues.

THEORETICAL BACKGROUND

Internationalization

It is not new that internationalization is crucial for successful international business activities; however, it has been analyzed mainly following an outward perspective. Existing literature on internationalization has been split into (Benito & Welch, 1997): (1) studies examining decisions related to the entry mode choice and strategy; and (2) studies focusing on the internationalization process. However, the concept of internationalization has evolved over time incorporating the influences of different analytical and theoretical perspectives. The definition of internationalization varies according to the phenomenon under study as it usually includes cross-border collaboration, alliances, investments (such as green field investment, investments in subsidiaries and branches, and joint ventures), all of them following an outward perspective (Chetty & Hunt, 2003). According to Agndal (2006), international activities differ from domestic ones as the former require a trading relationship with companies located in different countries, adding a certain spatial dimension to the complexity of the business.

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