

Chapter 12

Inward Internationalization: Important Challenges Among SMEs

António Carrizo Moreira
University of Aveiro, Portugal

Luis Miguel D. F. Ferreira
Universidade de Coimbra, Portugal

Pedro Silva
University of Aveiro, Portugal

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.

DOI: 10.4018/978-1-5225-3543-0.ch012

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.

Adopting a distinct perspective, Calof and Beamish (1995) define internationalization as the process of adapting business operations to the international business environment. This definition includes an inward perspective. Other researchers (Luostarinen, 1980; Welch & Luostarinen, 1988; Ruzzier et al., 2006) defined internationalization as a process of increasing involvement in international operations outside the country of origin. Internationalization theories comprise a wide variety of explanatory elements on how firms behave in international imperfect markets (Moreira, 2009; Ribau et al., 2017). However, this approach deals with an outward perspective ignoring how global sourcing is important in the development of efficient global value chains (Yeniyurt, Henke Jr., & Cavusgil, 2013) and how important purchasing activities are for firms' long-term profitability (Quintens, Pauwels, & Matthyssens, 2006).

Classical theories studying the internationalization of firms focused on trade among countries and on the relationship of multinational players, which was quite limiting on what pertains to the study on how SMEs behave in outward and inward international activities (Moreira, 2009; Ribau et al., 2017). Those classical studies adopted the life cycle theory (Vernon, 1966) and theories based on imperfect markets (Hymer, 1976; Kindleberger, 1969; Caves, 1971; Knickerbroker, 1973; Buckley & Casson, 1976), disregarding the inward and outward operations of SMEs.

Ribau et al. (2015) reviewed the literature on internationalization theories and developed a schematic analysis depicting the various schools of thought, from the economic based perspectives to the integrative models. They focused on four different models that have been extensively used to study the internationalization of SMEs: the Uppsala model; the Eclectic Paradigm; the Network Theory; and the Born-Global firms. However, while it is clear these approaches are important to analyze the outward perspective, they hardly consider the inward perspective.

Johanson and Vahlne (1977) realized that firms follow an evolutionary and sequential internationalization process in which they move from occasional exporting to international production activities. Accordingly, it was possible to identify four stages that differ regarding the company degree of involvement in the market: no regular export activities; exports through agents; sales through wholly owned subsidiary; and international production subsidiaries (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Johanson and Vahlne (1977) claimed that the four steps of this evolutionary process were based on experiential learning, as firms managed to internalize knowledge gained in unfamiliar foreign markets. The growth in knowledge and experience in international activities enables firms to gradually decrease their uncertainty levels, leading them to increase their commitment levels towards specific external markets (Johanson & Wiedersheim-Paul 1975; Johanson & Vahlne, 1977; Luostarinen, 1979). This model, known as the Uppsala model (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977), has been an important bedrock in explaining the growing international involvement of SMEs. Additionally, the Uppsala model has been widely used when analyzing the internationalization of a company, as it is dynamic and simple by nature, being applicable both to outward and inward internationalization processes (Sandberg & Solveborn, 2009).

The Network approach to internationalization emphasizes the relationships that are gradually developed from acting in certain markets and from the interaction and commitment among business partners (Ford, 1998). The unit of analysis of this networked approach is no longer the firm. Instead, the focus is on the relationships among several actors, such as competitors, suppliers, customers and distributors, which make up the overall network (Johanson & Vahlne, 1993). Based on the network approach, internationalization is no longer an outward movement of deploying resources and capabilities abroad but the exploitation of potential cross-border relationships (Andersson, Johanson, & Vahlne, 1997).

Inward Internationalization.

The process of internationalization is understood as a learning process where, through the establishment and development of business relationships, firms exploit their networks, mitigating the uncertainties of operating in foreign markets. Summing up, the network approach provides a distinct explanation of the internationalization of SMEs (Ahokangas, 1998), as they establish long-term relations which go beyond the mere transaction. By entering new countries, firms have the opportunity to develop new relationships opening up markets abroad.

The development of international practices has been driven by the growing need to serve customers in a global environment, to shorten products time-to-market and to simultaneously introduce products in several markets and decrease costs per country, focusing on core competences and reducing brand marketing costs (Fletcher, 2001). Although existing approaches have been developed based on previous export practices, changes in the international business environment have shown they may not be relevant anymore. For Fletcher (2001), these changes in the international setting call for new approaches that embrace a more holistic view of internationalization, considering that:

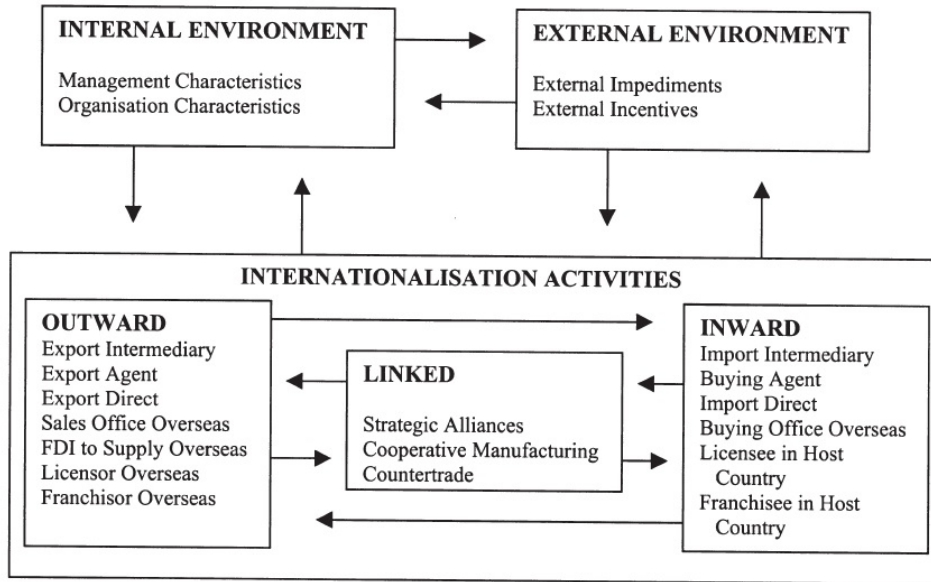
- Firms can internationalize through inward (direct/indirect import) activities, joint ventures with foreign firms in their domestic market, or by producing abroad to supply the domestic market;
- Outward internationalization can lead to inward internationalization and vice versa;
- Internationalization often requires more complex forms of international behavior, in which there is a link between inward and outward activities, as occurs with strategic alliances or cooperative production/manufacturing;
- Internationalization should be understood as a global activity rather than an activity in a specific country.

Figure 1 shows Fletcher's (2001) holistic internationalization conceptual framework. This approach shows the factors that influence the outward internationalization process may also influence the inward internationalization process. Fletcher (2001) supports the notion that outward activities can lead to inward activities and vice versa. Moreover, cooperative activities can also be driven by outward and inward activities (i.e., a desire to ensure the long-term supply of an exclusive product procurement). One can conclude that the concept of internationalization has evolved over time, but has followed mainly the evolution of markets and commercial practices.

Following an econometric point of view, the situation might be slightly different as the analysis of bilateral trade is carried out at a country perspective taking into account trade flows and gross domestic products. There is empirical evidence that the gravity model in international trade is relevant, as the role of distance and economic size are important in international trade (Santos Silva & Tenreyro, 2006; Eaton, Kortum, & Sotelo, 2011). As such, it is possible to explain why the Czech Republic has more trade flows over time with Germany, Poland and neighboring countries than with Portugal, despite public efforts to increase trade between the Czech Republic and Portugal (Novotná, Martins, & Moreira, 2017).

Over the last decades, studies conducted on the internationalization process of SMEs have focused on exports, contrariwise to imports which have received scant attention. Biemans and Brand (1995) offered a distinct perspective on international purchases, supporting the concept of reverse marketing. They claimed that the buyer-supplier relationship has changed considerably due to an ever-increasing buyer demand activity. Biemans and Brand (1995) point out four international trends that contributed to the strategic increase of international purchasing: a decrease in the number of suppliers; increased demand from suppliers; increased cooperation among suppliers; and lower production time.

Figure 1. Fletcher's (2001) holistic approach to internationalization
 Source: Fletcher (2001)



Under a different perspective, international purchasing activities contribute significantly to the competitive performance of firms. International purchasing fosters competition among suppliers in domestic markets through imports of products and services that may be available in domestic markets but with less favorable conditions. International purchasing has a direct impact on firms' performance, usually through product quality improvements and price decreases (Quintens, Matthyssens, & Faes, 2005; Quintens et al., 2006).

The analysis of the SMEs internationalization process is relatively abundant (Ribau et al., 2107). It is easy to see that the process of internationalization of SMEs is strongly influenced by managers' interests and ambitions, and by the limitation of their resources (Agndal, 2006). According to Agndal (2006), the size of the firm can influence the way it operates in foreign markets. For example, after analyzing 554 papers covering the period between 1977 and 2014, Ribau et al. (2017) found 201 different topics regarding internationalization. However, they claim there is a huge concentration on the top six topics – performance, internationalization process, strategic perspective, the entrepreneurship approach, the network-based approach, and the knowledge-based perspective – covering 94.51% of the papers analyzed. As for the inward perspective (international purchasing), it accounted for only seven papers in the analysis of the internationalization of SMEs (Ribau et al., 2017).

International Purchasing

As discussed so far, despite extensive research on the internationalization process, mainly through exports, internationalization through imports has received limited attention (Katsikeas et al., 2000; Liang & Parkhe 1997; Lye & Hamilton 2001; Ribau et al., 2017; Welch & Luostarinen 1993). However, imports are crucial to internationalization due to two factors: first, the success of exports depends on the degree

Inward Internationalization.

of external purchases and on the purchasing process itself; second, international purchasing activities contribute significantly to firms' performance and their competitiveness (Knudsen & Servais, 2007; Quintens et al., 2006; Yenyurt et al., 2013).

There have been several studies dedicated to the analysis of the evolutionary perspective of the process of international purchasing among companies. There is a consensus in the literature that supports that international demand starts, in the vast majority of cases, as a result of a reactive attitude among companies (Agndal, 2006; Monczka & Trent, 1991, 2002) as occurs with the Uppsala model of outward internationalization. In the particular case of SMEs, the reactive perspective is explained by the lack of openness to international markets and by the fact that the organizational structure among small and medium-sized companies is very informal, where the owner / owner plays an important / decisive role (Agndal, 2006). However, with the process of increasing economic internationalization, companies are beginning to view international purchasing as a strategic activity (Nair, Jayaram, & Das, 2015, Overby & Servais, 2005, Quintens et al., 2006; Rexha & Miyamoto, 2000; Sartor et al., 2014).

Several models were developed to explain the evolutionary perspective from international purchasing activities to global sourcing activities. Among the pioneers, Fagan (1991) analyzed the development process of global sourcing activities. According to Fagan (1991), the most effective way to implement global sourcing is to do it gradually.

Monczka e Trent (1991) put forward the concept of international procurement / sourcing in which firms that develop international purchasing activities are driven by the possibility of obtaining drastic improvements in the following critical areas: reduction of product cost; product quality improvement; access to world-wide technologies; and improvement in product delivery. On the other hand, Fagan (1991) identifies six key factors that are indispensable for successfully implementing a global sourcing strategy: support from top management; development of clear objectives; assessment and comparison of total product costs; establishing trust-based relationships with suppliers; the use of information technology to exercise management control of sourcing activities; and the management of risk.

Monczka and Trent (2002) proposed a model based on the *Global Sourcing Research Project*, which involved a quantitative study and the analysis of 162 questionnaire responses of business firms and ten case studies to top companies. According to Hultman et al. (2012), this is one of the most robust models since it involves a five-stage evolutionary model that complements previously presented models (Fagan, 1991; Monczka & Trent, 1991 Swamidass, 1993).

For Monczka and Trent (1991), international purchasing is the act of procuring goods or services in a commercial transaction from suppliers located in a foreign country. In general, product quality, price and the availability of products are some of the reasons to purchase internationally (Birou & Fawcett, 1993). Cost-driven factors are accepted to be the most important reasons to source internationally (Schiele et al., 2011), but there are several reasons. Nassimbeni (2006) clustered the main motives of international purchasing into three main categories: access to less expensive resources and intensification of global competition; access to distinctive resources; and commercial presence in new markets. Kotabe and Murray (1990) point that global purchasing brings the possibility to develop or consolidate a presence in international markets. According to Agndal (2006), in order to proceed with the planning of an international purchasing process, it is essential to understand the motives and factors that trigger an entry into a new market. While the reasons for entering, a new market may be to minimize costs, the factors that trigger it may be an unpredicted/unsolicited offer to buy a new product. Agndal (2006) argued that firms rarely sought new external suppliers as a proactive measure (e.g., looking at innovative supply chains), even though the beginning of buyers' relationships with their external suppliers could be based on reactive

motives. While Nassimbeni (2006) points purchasing as a path to commercial expansion on supplying markets, he further points its scarce utility from that point of view. Clearly, managers do not perceive inward international expansion as an integral part of the success of business competitiveness in the same way as outward expansion. For Agndal (2006), managers are less focused on building knowledge and experience based on international purchases than on international sales. The lack of theory development underlines the need for a better understanding on how firms shape their internationalization strategies concerning purchasing/buyer and exporting/sales behaviors.

Studies on the internationalization process have characterized companies in different groups (e.g., from born global to international new ventures). Oviatt and McDougall's (1994) international new ventures classification has been particularly influential in the literature on firms' internationalization. Oviatt and McDougall (1992) grouped firms by the degree of coordination of the activities of the value chain, and by the number of countries in which they operated. These authors based the measurement of activities of the value chain in four types: sourcing activities (raw materials, components, production, equipment or processes); production activities; sales and marketing activities; and services (installation, maintenance and repair). Thus, internationalization begins not only through marketing and sales overseas, but also, through imports and international cooperation activities managed through the domestic market. Nonetheless, despite the increasing global economics trends, import trade still faces several barriers. Quintens et al. (2006) compiled a list of several barriers to international purchasing involving five levels: product (e.g., limited production volume, different product standard or delivery delays); firm/management (e.g., parallel trade, lack of resources, travel and communication costs, accurate demand forecast or nationalistic purchasing behavior); network (e.g., just-in-time requirements, finding qualified suppliers or foreign supplier image); industry/competition (e.g., diverse business practices, agents/brokers fees or intensity of foreign competition); and environment (import quotas, adverse political and economic environment, customs regulations, lack of government assistance or cultural differences). Regardless the array of existing barriers, they are not sufficient to prevent the firm's involvement in import activities.

Importers are the other side of the coin: as buyers, their role is crucial, as the success of exporters rests on their external importers (Bianchi & Saleh, 2010). Importer's behavior is defined

[...] as the decision process by which formal organizations establish the need for imported products and services, identify and evaluate alternative global suppliers, select a supplier located in another country and manage the international exchange relationship (Liang & Parkhe 1997, p. 498).

These authors claim that close relationships with external suppliers are important sources of competitive advantage for importers. Knudsen and Servais (2007) argued that the benefits of strong relational links between importers and suppliers are numerous, especially for SMEs, allowing: a decrease in overhead/overall costs; an increase in production efficiency; a higher volume of purchases; an increase on long-term contracts; and more accurate product information, among others. This ongoing interaction and cooperation between both parties allows sharing information and the development of joint resources (Hakansson & Snehota, 1989). However, the greatest potential value for buyers is the support that suppliers offer on accessing new markets and on generating new business opportunities abroad (Knudsen & Servais, 2007).

With the globalization of the economy many firms found that sourcing activities are important as competition among suppliers generate increased competition and fosters inward internationalization

Inward Internationalization.

activities (Grossler, Laugen, Arkader, & Fleury, 2013). As such, many firms became more specialized fostering inward internationalization activities (Grossler et al., 2013).

Increasing inward international activities lead firms to exploit cost reduction advantages and to outsource some functions they were not specialized in order to focus on their core competencies (Gunasekaran, Irani, Choy, Filippi, & Papadopoulos, 2015). As such, closer relationships with suppliers emerged as a key component of generating competitive advantages with upstream relationships in the value chain (Gunasekaran et al., 2015; Moreira & Carvalho, 2015; Schiele, 2006). For large firms, the strategy shifted from a concern with international purchasing to global sourcing, as the management of the supply chain emerged as an important competitive advantage as firms were concerned with developing efficient and effective supply chains. For that to be achieved, firms invested on smoother relationships with their suppliers in upstream activities (Yeniyurt et al., 2013), which led to what is called configurational advantage of the value chain (Kim, 2012).

Research on international purchasing and global sourcing emphasize that cost-driven factors, although very important, are not the sole reason for international purchasing activities (Murray, Kotabe & Wildt, 1995; Schiele et al., 2011) as being present in new markets and obtaining distinctive resources are also very important for firms. One important aspect that deserves a deeper analysis is that most of the studies involve large firms, being the analysis of small and medium-sized firms clearly neglected.

Inward and Outward Internationalization

The process of inward internationalization involves the production and purchasing activities in overseas markets such as the importation of goods; the acquisition of machinery; the importation of raw materials; the acquisition of knowledge and coproduction activities with foreign companies (Korhonen et al., 1996). Contrariwise, the process of outward internationalization involves outward business activities such as exports, subsidiary sales and production, production/manufacturing contracts, licensing out activities, among others (Hall et al., 1998).

Korhonen et al. (1996) refer that internationalization begins not only by selling overseas or marketing activities abroad, but also through imports or international cooperation activities managed from the domestic market. For some scholars, the first steps in the process of internationalization of a firm are related with selling activities, whereas buying/purchasing actions are understood to be complementary (Hollensen, 2001). Thus, outward activities are more known to be among the first steps of an internationalization process. Nonetheless, firms' involvement in international business arises when they sell or buy products in foreign markets, or begin cooperative activities with external partners.

Inward Internationalization

Research on inward internationalization activities have been neglected given the scarce number of studies in this area when compared to outward internationalization (Karlsen et al., 2003). Examining inward operations in depth and over time is a difficult task as they are often developed within a business workflow through the purchasing staff, which can be considered 'supporting activities' (Hollensen, 2001). However, in recent years, the perception of the role of the purchasing function has undergone some important changes. Rather than being regarded as merely administrative or service function, in many cases it has turned out to be considered as an important strategic resource for the firm. As a result, there

is a growing importance involving both international supply chain analysis and international marketing management (Hollensen, 2001).

Inward activities are more frequent in the early life of firms, particularly through the imports of raw materials, components and machinery. These may precede and influence the development of outward internationalization activities, in such a way that the effectiveness of inward activities may ultimately determine the success of outward internationalization (Luosterinen, 1970; Welch & Luosterinen, 1993). Inward activities may include for example some types of foreign direct investments such as joint-ventures with foreign partners. They may also involve the imports of physical equipment, staff and specialists (Korhonen et al., 1996).

According to Welch and Luostarinen (1993), international operations through inward activities may be a prerequisite for the establishment of firms' outward activities, e.g., whenever internal sources of technology, management, know-how and marketing are insufficient to start a business. Studies such as the one of Fletcher's (2001) approach the internationalization process as an import-oriented one. Fletcher (2001) argued that firms' international decision-making is limited because it ignores the process by which companies internationalize through inward activities, such as imports. Thus, firms also become international through their import activities.

Luosterinen and Welch (1993) argue that inward activities constitute an opportunity to learn about foreign trade techniques, characteristics of external operations and ways of using the distinct modes of operation. Inward activities allow an increase of knowledge about a foreign market which in turn decreases the risk of failure; additionally, it also increases and extends the firm's networks and the number of business opportunities, leading to a better business performance.

For Agndal (2006), inward internationalization is considered as a driver of outward internationalization. In the case of expansion into new buying markets, inward internationalization should be seen as crucial. However, Agndal (2006) warns that many managers still do not realize inward international expansion to be an integral part of firm's growth. Inward activities generally require lower investments and have lower risks, constituting a good alternative for acquiring market knowledge and information, while simultaneously allowing a valuable contribution to domestic production through the supply of raw-materials, components and technical know-how. This knowledge can be of the utmost importance in selecting potential business partners, reducing the risks of incoming in the typical newcomer mistakes regarding legal issues and cultural differences (Karlsen et al., 2003).

Outward Internationalization

Outward internationalization has been the subject of intense research regarding international business as exports are seen to be in the foundation of internationalization processes. Outward internationalization is considered the easiest way for a firm to internationalize, given that its internationalization process is less complex compared to the inward internationalization process (Meyer & Skak, 2002). Additionally, outward internationalization is more advantageous to firms than inward internationalization. According to Ruzzier and Arc-Kranj (2006), outward operations, in the long-run, are responsible for increasing the competitive advantage of a firm, an organization or a country. The high levels of outward internationalization of countries are responsible for favorable productive results, an increase in external exchanges, positive spillovers, industrial prosperity and social welfare (Ruzzier & Arc-Kranj, 2006). The increasing competition and markets liberalization have led companies to see outward activities as key for their future growth and development.

Inward-Outward Relationships

The link between inward and outward activities and how they affect the internationalization process of firms have received limited attention in the business literature in recent years (Korhonen et al., 1996; Welch & Luostarinen, 1993). This relationship was first identified by studies conducted on specific business operations such as licensing, subcontracting and counter trade.

According to Welch and Luostarinen (1993), the establishment of the relationship between the inward and the outward process of internationalization indicates this connection can be important at early stages of firms' internationalization process. They also found these connections go beyond the modes of operation and can be developed from both the inward and the outward side at the different stages of the internationalization process. Karlsen et al. (2003) refer that inward-outward linkages bring several benefits to firms in generating organizational knowledge, such as: better access to the market of knowledge; an expansion of the business network; more business opportunities; a reduction in the time of the various stages of new operations; and a decrease in risk. Thus, internationalization should be considered, both from the inward and the outward perspectives, rather than just analyzing outward operations.

Welch (2000) argues that many firms begin their international operations through inward activities, where knowledge involving these activities is recognized as the major sources of competitive advantage (Karlsen et al., 2003).

For Korhonen et al. (1996), the strong relationship between inward and outward internationalization activities stems from the fact that inward activities influence outward activities, based on the experience acquired through them, i.e., the opportunities to learn about foreign trade techniques, the characteristics of international purchasing operations, and how to use the different ways of operating in the international market are important drivers influencing outward internationalization activities. Although import activities are usually deployed in the early stages of firms' internationalization process, Jones (1999) argues that imports are not a requirement for international expansion, as firms that begin their internationalization process through exports, only start their import activities afterwards.

Inward and outward activities influence one another, e.g., when goods and services are exchanged for other goods and services, both import and exports are interconnected. Korhonen (1999) found different inward-outward connections in the various stages of the internationalization process and in several contexts where inward-outward relationships took place.

When firms begin their activities abroad, unilateral links play a significant role in the type of direct inward and outward operations. The imports of machinery, technological know-how, raw materials and components take place with the objective of starting production and outward activities (Karlsen et al., 2003).

Bilateral relationships include two modes of interaction or use of international business partners, e.g., resorting to a foreign supplier to help develop export activities. This empowers firms to obtain specific knowledge on market conditions. This lack of knowledge is often understood as a reason for failure in foreign markets. Multilateral relationships involve a broader and interdependent group of actors, which influence the actions/flows of inward to outward operations and vice versa (Karlsen et al., 2003). This is the case of an inward-outward chain connecting the firm, its foreign supplier, the customer, the bank of the supplier and a trade assistance agency (Korhonen et al., 1996).

Table 1 classifies the main elements that characterize inward-outward links, identifying the connections to the activities, stages, advantages and main obstacles.

Table 1. Characterization of the main inward-outward elements

Inward-outward	Description	Authors
Relationship between activities	- Inward internationalization activities: can begin before outward internationalization, the latter can be influenced by the former; - Outward internationalization activities may trigger the process of internationalization, being followed by inward internationalization activities.	Welch & Luostarinen (1993) Korhonen et al. (1996) Jones (1999)
Stages	- Unilateral links; - Bilateral links; - Multilateral links.	Korhonen (1999)
Advantages	- Enhances access to the market of knowledge; - Expansion of the business network; - Bigger business opportunities; - Decrease in the time spent during the various stages of new operations; - Risk decrease; - Explanation on the evolution of the international process and how the various aspects of knowledge are interconnected.	Karlsen et al. (2003) Welch (2000)
Obstacles	- Distance between operations in different locations; - Lack of involvement for the various hierarchical structures of the organization; - Increase in the formality of the communication between network authors; - Knowledge transfer inside the firm.	Korhonen (1999) Karlsen et al. (2003)

METHODOLOGICAL APPROACH

This chapter complements previous research of Knudsen and Servais (2007), focusing on inward activities and their role in SMEs internationalization process. Thus, research is split in four main research objectives:

- **RO1:** Understand how SMEs use their international purchasing budgets;
- **RO2:** Understand the role of experience in the internationalization process;
- **RO3:** Identify the reasons behind supplier's choice;
- **RO4:** Understand the importance of international purchasing for SMEs.

This section is structured into three main groups: a first one presenting the data collection tool; a second one describing the characteristics of the sample; and a third one detailing the results according to each research objective.

Questionnaire

In line with the research objectives, a quantitative approach was adopted. The instrument used was a questionnaire, which was adapted from the work of Knudsen and Servais (2007) to ensure the reliability of the measures. Accordingly, four main constructs were evaluated using multi-items scales. The purchasing budget was measured using six items; the role of experience on internationalization process was assessed through three items; reasons behind supplier's choice were evaluated using 16 items; finally,

Inward Internationalization.

the importance of international purchases for SMEs were assessed through four items. The Appendix presents the questionnaire items.

Sample and Data

Due to feasibility reasons, the questionnaire was distributed in the Centro region of Portugal only. This research is focused on SMEs as they account for 99.9% of the Portuguese industry. Our unit-of-analysis is the foreign supplier choice by the purchasing/buyer responsible at the firm. To ensure the validity of responses, data concerning suppliers was chosen taking into account suppliers from the last five years. The questionnaire was distributed jointly with an e-mail and a letter detailing the research objectives. This was followed by a telephone phone call to identify the responsible of the purchasing department at the firm and describe the instructions to fill the survey questionnaire. From the initial 100 firms detected from the population, several declined to participate in the study due to data sensitiveness issues while other firms were unreachable. As a result, it was possible to get in contact with 70 SMEs that agreed to participate in the survey. Out of those 70 firms only 56 questionnaires were returned, which accounts for an effective response rate of 80%. Data was examined using descriptive statistics.

RESULTS

Research Objective 1: How Do SMEs Use Their International Purchasing Budgets?

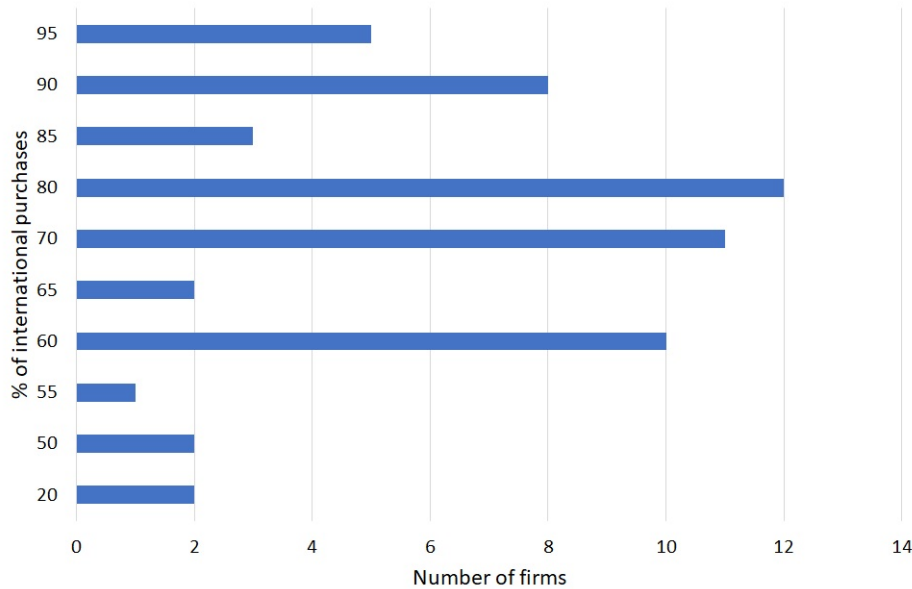
The first research objective concerned to how SMEs use their international purchasing budget. The majority Portuguese SMEs (76.8% of the sample) buy from two or three countries only, Spain (51.8%), Germany (21.4%) and Italy (16.1%), being the leading countries. The results also show that the country where the most important supplier belongs to is the country with the larger volume of purchases.

In what regards to the percentage of international purchases, only two firms had more domestic than international purchases; however, the analysis of Figure 2 shows that 69.6% of the firms spend 70% or more of their budgets in international purchasing.

Table 2. Crosstab between location with higher purchasing volumes and location of the most important supplier

		Location of the Most Important Supplier						TOTAL
		Germany	Spain	India	Italy	Luxembourg	Portugal	
Location with the higher purchasing volume	Germany	12	0	0	0	0	0	12
	Spain	1	26	0	0	0	2	29
	India	0	0	4	0	0	0	4
	Italy	0	0	0	9	0	0	9
	Luxembourg	0	1	0	0	1	0	2
	TOTAL	13	27	4	9	1	2	56

Figure 2. Percentage and frequency of international purchases



It was also possible to examine the following variable: the types of items SMEs purchase internationally. Taking into account four types of items – raw-materials; components; machinery; and purchase of goods for resale – Figure 3 indicates firms mainly source components (45%) and goods for resale (36%).

Research Objective 2: The Role of Experience in the Internationalization Process

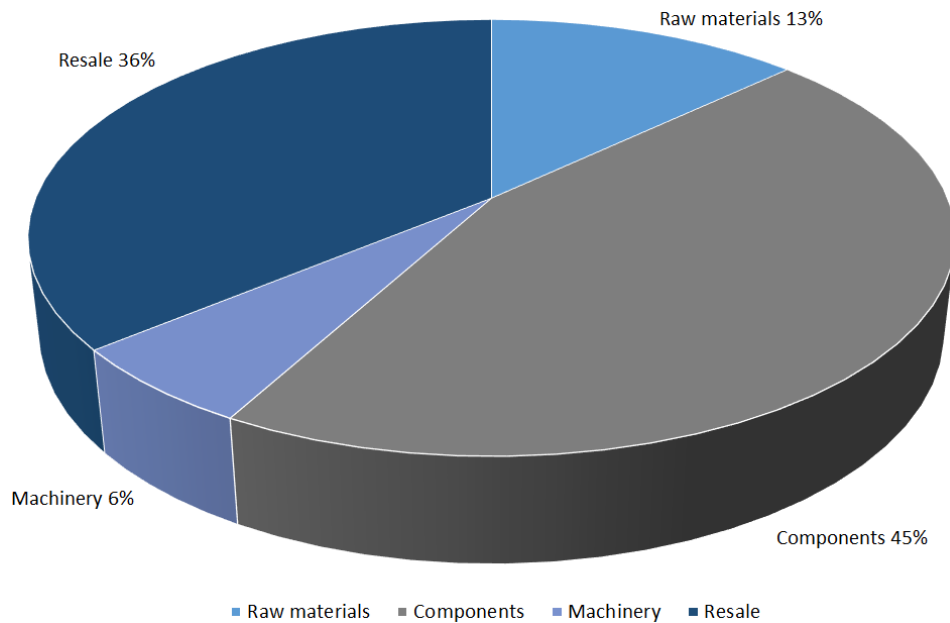
The main objective here was to examine the importance of experience on SMEs internationalization. The buyer/head of the purchasing department was on average 38 years old. Results show that SMEs hold a relationship with their main supplier for at least 11 years, which is also the number of years a firm has experience purchasing a specific product. This means that after initiating their purchasing activities abroad Portuguese firms tend to maintain the relationship over the years.

After this, it was also examined whether SMEs had already previous experiences with other suppliers. Most of the firms (92.6%) indicated they had had previous experiences with foreign and domestic suppliers. However, 68.5% of firms showed previous experience simultaneously with domestic and foreign suppliers, while a small percentage of SMEs only had previous experience with either domestic (11.1%) or foreign (13.0%).

The analysis on the relationship between the year of the first import and the country with the higher purchasing volume (Table 3) shows that Spain is the country with the higher purchase volume, while the interval between 1998 and 2002 was the most chosen year interval for the first import. Spain and Italy were the most important countries during the 1980s and 1990s for the first import activities. During the turn of the century, not only Spain regained importance as the most important country for the first imports, but also Germany stand out as an important import player.

Inward Internationalization.

Figure 3. Percentage of items purchased internationally



The importance of imports after 1998 can be explained by the entry of Portugal and Spain into the European Union (EU) – formerly European Economic Community – whose agreement was signed in 1986, but only after 1992 was effectively adopted. This openness had consequences among SMEs, not only with the European Union countries, but also with India.

Research Objective 3: Reasons for Supplier’s Choice

Our third research objective seeks to identify the main reasons behind supplier’s choice, considering factors such as: product availability among domestic suppliers. Table 4 details the reasons of the existing between suppliers.

The results show that 92.7% of the SMEs indicate the product is available in the domestic market and that the firm has an alternative supplier the firm is aware of, most of them in the domestic market (57.1%); however, firms still choose to source internationally even when having the option to source locally. Also, there is a consensus that suppliers exhibit some degree of dissimilarity among them. It was possible then to proceed to examine the main reasons that drive SMEs to choose between domestic and international suppliers. A five-point Likert-type scale was used with “5-strongly agree” and “1-strongly disagree” as anchors. Price-based and cost-saving motives are the main reasons to purchase internationally although product quality also plays an important role, as shown in Table 5. This confirms previous findings of Murray et al. (1995) and Schiele et al. (2011) – who have indicated cost savings to be the most important reasons for sourcing abroad – and Kotabe and Murray (2004) – who indicated firms purchase internationally to find better quality products or a favorable quality/price ratio.

Table 6 shows availability of inputs per type of market. Although components and goods for resale are available in the domestic market, Portuguese SMEs still choose to source them from abroad rather than domestically.

Table 3. Relationship between the year of the first import and the country which hold for the higher purchase budget

		Year Interval of the First Import					TOTAL
		1988-1992	1993-1997	1998-2002	2003-2007	2008-2010	
Country in which the higher purchase budget is spent	Spain	3	1	20	2	3	29
	Germany	1	1	4	3	3	12
	Italy	3	1	3	2	0	9
	India	0	0	2	2	0	4
	Luxembourg	0	0	2	0	0	2
	TOTAL	7	3	31	9	6	56

Table 4. Product and supplier's availability/differences

Is the product available in the domestic market	
Yes	92.7%
No	7.3%
Knowledge of an alternative supplier for that product	
Yes, in the domestic market	57.1%
Yes, an international supplier	39.3%
No, no other alternatives	3.6%
Are there differences between foreign and domestic suppliers	
Substantially different	5.4%
Very different	37.5%
Different	48.2%
Slightly different	7.1%
Not different	1.8%

Table 5. Reasons to choose between suppliers

	Buy From International Supplier Was a Pre-Requisite to Obtain Export Permission	International Supplier Had a Product With Higher Quality	International Supplier Was Cheaper	Firm Wanted to Increase Its International Orientation
Mean	2.47	4.57	4.64	3.62
Std Dev	1.20	0.71	0.86	0.95

Other variable examined was the technical characteristics of the items purchased as products are frequently too complex and must meet certain standards/criteria, not being available in the domestic market. It was possible to conclude that near 30.4% of our sample indicated they try to purchase standardized products, while 62.5% responded they seek to purchase products with slight adjustments. Clearly, the technical specificity of the products purchased is not the reason why Portuguese SMEs source internationally.

Inward Internationalization.

Table 6. Items market availability

	Not Available in Domestic Market	Available in Domestic Market	TOTAL
Raw-materials	2	5	7
Components	0	25	25
Machinery	1	1	2
Resale	1	19	20
TOTAL	4	50	54

Table 7 exhibits the importance of the characteristics of the products that SMEs tend to purchase internationally. Results are based on a five-point Likert scale where 5 stands for “strongly agree” and 1 stands for “strongly disagree”. While products may range from difficult to use in production and difficult to specify / describe, all those variables hold for a relative importance, apart from products that require further testing or training before use.

Research Objective 4: Importance of International Purchases for SMEs

Our final research objective was to evaluate the importance of international purchases for SMEs. The responses were measured using a five-point Likert scale, with “5-very important” and “1-not important” as the anchors. Overall, the findings show that SMEs recognize the importance of purchasing for firms’ competitiveness, furthermore, purchasing is understood as crucial for firm performance, given the costs savings that can be directly obtained from international suppliers. Regarding product quality and production planning, although SMEs recognized their importance, they seem to be marginally less influential than the financial/cost savings perspective. Table 8 shows the importance of international purchasing for SMEs.

Table 7. Importance of the characteristics of the most purchased products in international markets

	The Product Is Difficult to Specify/Describe	The Product Is Based on Several Parts / Components	The Product Requires Testing or Training Before Use	The Product Was Difficult to Adjust to the Production	The Product Is Difficult to Use in the Production
Mean	3.36	3.55	2.75	3.49	3.67
Std Dev	0.75	1.05	1.10	0.79	0.86

Table 8. Importance of international purchasing for SMEs

	Importance of Purchasing for the Firm’s Financial Performance	Importance of Purchasing on Product Quality	Importance of Purchasing on Production Planning	Importance of Purchasing on Firm’s Competitiveness.
Mean	4.14	4.05	4.02	4.27
Std Dev	0.86	0.94	1.00	0.91

CONCLUSION, LIMITATIONS AND FUTURE RESEARCH

The reviewed literature has shown that inward-outward links can bring advantages such as an increased knowledge on foreign markets, a decrease in risk and uncertainties, an expansion of the business network, a reduction of the time required to establish an international operation. From a theoretical standpoint, clearly, SMEs should include inward activities as an integral part of their internationalization strategies.

Although the purchasing function was traditionally understood as an administrative role, Korhonen (1999) supports the notion that the purchasing function has a more strategic importance and contributes to a positive flow from inward to outward activities. This study tried to characterize the international purchases of SMEs and understand how SMEs envisaged the inward internationalization process. Using descriptive statistics and a sample of 56 Portuguese SMEs, this study found most firms source internationally from no more than three countries, showing a focus on a steady supplier base rather than a wide range of suppliers. Furthermore, the most important supplier is typically located in the same country from which they spend most of their purchasing budget. This provides an indication that firms could have started an initial relationship with a supplier from a certain country and increased their supplier's base on their main supplier's host country through its network of relationships, taking advantage of inward knowledge. Also, purchasing budget of SME's is mainly spent on international purchases of both part/components and products for resale, where firms can easily capitalize existing price differences throughout business-to-business markets. While most products are available in the domestic market, Portuguese SMEs still chose to source internationally, particularly due to low cost and product quality advantages, as suppliers have been claimed to be different. This confirms existing findings that price seems to be the main driver of international purchasing. Additionally, our results have shown that firms tend to buy relatively standardized products from foreign markets, thus, international purchasing is clearly not driven by the search of goods/parts/components specificity.

One of the main messages for SMEs managers is very clear: despite knowing their domestic suppliers, the search for competitive advantages led them to exploit inward internationalization activities. As such, the search for competitiveness is not only a matter of being internationally outward oriented, but also being internationally inward oriented.

The results of the survey have demonstrated that SMEs typically hold their relationship with a supplier for at least 11 years. Apparently, SMEs begin international purchasing with a specific supplier and tend to be loyal in this supplier-client relationship, regardless of other experiences with other suppliers. This may be the result of a certain lack of knowledge / experience in international markets given the lack of resources most SMEs have to explore and exploit advantages abroad. Another explanation may be the lack of strong resources to explore inter-organizational capabilities abroad differently.

SMEs tend to purchase internationally from a very small group of countries, with an emphasis on Spain, which can be explained through the Uppsala model, as SMEs most likely begin their inward internationalization processes through culturally and geographically close countries, extending their activities afterwards to other markets further away. Regarding the importance of sourcing from Germany, it apparently seems to have been driven by new market opportunities and by changes in the political environment. However, the behavior found is similar to the behavior of SMEs in the other inward international markets.

Taking into account the gravity model referred above, one can claim that its application is difficult to explain in this study not only as the number of firms were very few and the origin of the countries

Inward Internationalization.

were limited by the answers given by SMEs, but also as Portugal has only one neighbor country – Spain, involving almost 52% of foreign suppliers.

It is also possible to conclude that being part of the European Union places an important role in international purchasing activities among the Portuguese SMEs analyzed as most of international purchasing activities involved countries with which Portugal has free trade agreements. It is also worth mentioning that India places an important role as it is the only country outside the EU with relevant economic activities SMEs import goods from.

When comparing the behavior of SMEs to that of large firms, one can argue that they both behave alike in what pertains to the main reasons for choosing foreign suppliers: price-based, cost-saving and product quality motives. This clearly indicates that the needs of SMEs are not that different from the needs of large firms, as originally thought. However, one must be parsimonious as one is comparing internationally oriented SMEs. As such, future studies need to compare highly internationalized SMEs versus non-internationalized SMEs to analyze how their behavior differs in international purchasing activities.

It is possible to conclude that after entering the EU international purchasing activities among SMEs gained momentum, not only with the EU countries, but also with India. This is an indication that despite the importance of free trade agreements with countries from the European Union, economic openness brought about changes in international purchasing activities among SMEs.

It is difficult to compare international purchasing to global sourcing behavior among the SMEs analyzed, which might be relevant to large firms as they need to manage multi-site, multi-business activities. However, future studies should address those different activities among SMEs taking into account behavioral differences among them.

Finally, our results have supported the acknowledgement of the importance of international purchasing for firms' financial performance, product quality, production planning and competitiveness, providing evidence for the increasing importance of the purchasing function as a proactive, strategic function rather than a passive role.

Whenever firms focus on imports or exports, an emphasis should be placed on developing and strengthening the relationships with its suppliers. As aforementioned, our implications may also be seen from a geographic location perspective, i.e., firms have mostly been involved in business relationships with suppliers from the EU. The European market seems to be effective with the willingness of most of the firms to overcome cultural problems, as even SMEs can reap the benefits of finding new and better suppliers abroad. Being part of the EU clearly facilitates the inward internationalization perspective; however, it does not prepare SMEs for the globalization of international purchasing activities (Servais & Knudsen, 2003).

Our study carries some of limitations. First, the sample is small, despite starting from a population of 100, this study only managed to obtain 56 responses, which underlines the difficulties of collecting primary data at firm level. Second, this research is mainly exploratory, while the study managed to characterize the main reasons underlying SMEs international purchasing behaviors, a more qualitative approach and a methodology based on interviews would provide more in depth findings in understanding how inward activities have contributed to the increase in the levels of international activities of the SMEs. These approaches can help explain if SMEs began their inward or outward activities first and in what ways have inward activities contributed to the development of the SMEs' internationalization processes. Existing literature provides support that firms typically began internationalizing by exporting, nonetheless, scarce research has examined how internationalization processes differ when firms firstly begin by inward activities rather than outward activities.

It would be of added value to analyze sectoral differences among SMEs. Taking into account that SMEs competing in the electronics industry, in the automotive industry and in the molds industry are “naturally” export-led as they compete internationally and supply international clients, it would be of added value if future research could analyze the inward international behavior of those SMEs vis-à-vis other less international, export-led industries.

Future studies need to analyze the importance of inward activities among service SMEs, when compared to industrial SMEs.

REFERENCES

- Agndal, H. (2006). The purchasing market entry process – A study of 10 Swedish industrial small and medium-sized enterprises. *Journal of Purchasing and Supply Management*, 12(4), 182–196. doi:10.1016/j.pursup.2006.10.004
- Ahokangas, P. (1998). *Internationalisation and resources: An analysis of processes in Nordic SMEs* (Unpublished doctoral dissertation). Universitas Wasaensis.
- Andersson, U., Johanson, J., & Vahlne, J. E. (1997). Organic acquisitions in the internationalization process of the business firm. *MIR. Management International Review*, 37, 67–84.
- Benito, G., & Welch, L. (1997). Des-internationalization. *Management International Review*, 37(2), 7–25.
- Bianchi, C., & Saleh, A. (2010). On Importer Trust and Commitment: A comparative study of two developing countries. *International Marketing Review*, 27(1), 55–86. doi:10.1108/02651331011020401
- Biemans, W. G., & Brand, M. J. (1995). Reverse marketing: A synergy of purchasing and relationship marketing. *The Journal of Supply Chain Management*, 31(2), 28–37.
- Birou, L., & Fawcett, S. (1993). International purchasing: Benefits, requirements and challenges. *International Journal of Purchasing and Materials Management*, 29(2), 28–37.
- Buckley, P., & Casson, M. (1976). *The future of the multinational enterprise*. London: Macmillan. doi:10.1007/978-1-349-02899-3
- Calof, J., & Beamish, P. (1995). Adapting to foreign markets: Explaining internationalization. *International Business Review*, 4(2), 115–131. doi:10.1016/0969-5931(95)00001-G
- Carvalho, A., & Moreira, A. C. (2016). Searching for opportunities and trust in international markets. Entrepreneurial perspective of a traditional industry SME. In L. C. Carvalho (Ed.), *Handbook of research on entrepreneurial success and its impact on regional development* (pp. 675–701). Hershey, PA: IGI Global. doi:10.4018/978-1-4666-9567-2.ch028
- Caves, R. E. (1971). International corporations: The industrial economics of foreign investment. *Economica*, 38(149), 1–27. doi:10.2307/2551748
- Chetty, S., & Campbell-Hunt, C. (2003). Paths to Internationalization among small to medium-sized firms: A global versus regional approach. *European Journal of Marketing*, 37(5/6), 796–820. doi:10.1108/03090560310465152

Inward Internationalization.

Eaton, J., Kortum, S. S., & Sotelo, S. (2012). *International trade: Linking micro and macro*. Working Paper No. 17864. National Bureau of Economic Research.

Fagan, M. L. (1991). A Guide in Global Sourcing. *The Journal of Business Strategy*, 12(2), 21–25. doi:10.1108/eb039398

Fletcher, R. (2001). A holistic approach to internationalization. *International Business Review*, 10(1), 25–49. doi:10.1016/S0969-5931(00)00039-1

Grossler, A., Laugen, B. T., Arkader, R., & Fleury, A. (2013). Differences in outsourcing strategies between firms in emerging and in developed markets. *International Journal of Operations & Production Management*, 33(3), 296–321. doi:10.1108/01443571311300791

Gualandris, J., Golini, R., & Kalchschmidt, M. (2014). Do supply management and global sourcing matter for firm sustainability performance? An international study. *Supply Chain Management: An International Journal*, 19(3), 258-274.

Gunasekaran, A., Irani, Z., Choy, K.-L., Filippi, L., & Papadopoulos, T. (2015). Performance measures and metrics in outsourcing decisions: A review for research and applications. *International Journal of Production Economics*, 161, 153–166. doi:10.1016/j.ijpe.2014.12.021

Haahti, A., Hall, G., & Donckels, R. (Eds.). (1998). *The Internationalization of SMEs – The INTERSTRATOS project*. London: Routledge.

Hakansson, H., & Snehota, I. (1989). No business is an island – The network concept of business strategy. *Scandinavian Journal of Management*, 5(3), 187–200. doi:10.1016/0956-5221(89)90026-2

Head, K., & Mayer, T. (2014). Gravity equations: Workhorse, toolkit, and cookbook. In G. Gopinath, E. Helpman, & K. Rogoff (Eds.), *Handbook of International Economics* (Vol. 4, pp. 131–195). Amsterdam: Elsevier.

Hollensen, S. (Eds.). (2001). *Global marketing*. Harlow, UK: Pearson Education.

Holmlund, M., Kock, S., & Vanyushyn, V. (2007). Small and medium-sized enterprises internationalization and the influence of importing on exporting. *International Small Business Journal*, 25(5), 459–475. doi:10.1177/0266242607080655

Horn, P., Scheffler, P., & Schiele, H. (2014). Internal integration as a pre-condition for external integration in global sourcing: A social capital perspective. *International Journal of Production Economics*, 153, 54–65. doi:10.1016/j.ijpe.2014.03.020

Hultman, J., Johnsen, T., Johnsen, R., & Hertz, S. (2012). An interaction approach to global sourcing: A case study of IKEA. *Journal of Purchasing and Supply Management*, 18(1), 9–21. doi:10.1016/j.pursup.2011.11.001

Hymer, S. H. (1976). *The international operations of national firms: A study of direct investment*. Cambridge, MA: MIT Press.

Johanson, J., & Vahlne, J. (1977). The internationalization process of the firms – A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8(1), 23–32. doi:10.1057/palgrave.jibs.8490676

- Johanson, J., & Vahlne, J. (1993). Management of internationalisation. In Z. L. Zambou & A. M. Pettigrew (Eds.), *Perspectives on strategic change* (pp. 43–78). Boston: Kluwer Academic Publishers. doi:10.1007/978-0-585-27290-0_2
- Johanson, J., & Wiedersheim-Paul, F. (1975). Internationalization of the firm: Four Swedish cases. *Journal of Management Studies*, 12(3), 305–322. doi:10.1111/j.1467-6486.1975.tb00514.x
- Jones, M. (1999). The Internationalizations of small high-technology firms. *Journal of International Marketing*, 7(4), 15–41.
- Karlsen, T., Silseth, P., Benito, G., & Welch, L. (2003). Knowledge, internationalization of the firm, and inward-outward connections. *Industrial Marketing Management*, 32(5), 385–396. doi:10.1016/S0019-8501(03)00012-9
- Katsikeas, C., Skarmeas, D., & Katsikeas, E. (2000). Level of import development and transaction cost analysis. *Industrial Marketing Management*, 29(6), 575–588. doi:10.1016/S0019-8501(00)00130-9
- Kim, S. (2012). Global sourcing of South Korean apparel industry: Sourcing trend and supplier selection. *Journal of the Textile Institute*, 103(12), 1335–1351. doi:10.1080/00405000.2012.685268
- Kindleberger, C. P. (1969). *American business abroad: Six lectures on direct investment*. New Haven, CT: Yale University Press.
- Knickerbocker, F. (1973). *Oligopolistic reaction and multinational enterprise*. Cambridge, MA: Harvard University Press.
- Knudsen, M., & Servais, P. (2007). Analyzing internationalization configurations of SMEs: The purchaser's perspective. *Journal of Purchasing and Supply Management*, 13(2), 137–151. doi:10.1016/j.pursup.2007.06.002
- Korhonen, H. (1999). *Inward-Outward Internationalization of Small and Medium Enterprises* (Unpublished doctoral dissertation). School of Economics Helsinki, Helsinki, Finland.
- Korhonen, H., Luostarinen, R., & Welch, L. (1996). Internationalization of SMEs: Inward-outward patterns and government policy. *Management International Review*, 36(4), 315–329.
- Kotabe, M., & Murray, J. Y. (1990). Linking product and process innovations and modes of international sourcing in global competition - A Case of foreign multinational firms. *Journal of International Business Studies*, 21(3), 383–408. doi:10.1057/palgrave.jibs.8490339
- Liang, N., & Parkhe, A. (1997). Importer behavior: The neglected counterpart of international exchange. *Journal of International Business Studies*, 28(3), 495–530. doi:10.1057/palgrave.jibs.8490109
- Luostarinen, R. (1970). *Foreign Operations of the Firm* (Unpublished licentiate thesis). School of Economics Helsinki, Helsinki, Finland.
- Luostarinen, R. (1980). *Internationalization of the firm* (Unpublished doctoral dissertation). Helsinki School of Economics, Helsinki, Finland.
- Lye, A., & Hamilton, R. (2001). Importer perspectives on international exchange relationships. *International Business Review*, 10(1), 109–128. doi:10.1016/S0969-5931(00)00044-5

Inward Internationalization.

Meyer, K., & Skak, A. (2002). Networks, serendipity and SME entry into Eastern Europe. *European Management Journal*, 20(2), 179–188. doi:10.1016/S0263-2373(02)00028-2

Monczka, R. M., & Trent, R. J. (1991). Global sourcing: A development approach. *International Journal of Purchasing and Materials Management*, 27(2), 2–8. doi:10.1111/j.1745-493X.1991.tb00527.x

Monczka, R. M., & Trent, R. J. (2002). Understanding integrated global sourcing – A framework and case study, *Supply Chain Forum. International Journal (Toronto, Ont.)*, 3(1), 2–11.

Moreira, A. C. (2009). The evolution of internationalisation: Towards a new theory? *Global Economics and Management Review*, 14(1), 41–59.

Moreira, A. C., & Alves, C. (2016). Commitment-trust dynamics in the internationalization process: A case study of market entry in the Brazilian market. In Information Resources Management Association (Ed.), *International business: Concepts, methodologies, tools, and applications*, (vol. 3, pp. 1206-1230). Hershey, PA: IGI Global.

Moreira, A. C., & Carvalho, A. C. (2015). Supply chain management: Identifying innovative suppliers. In L. C. Carvalho (Ed.), *Handbook of research on internationalization of entrepreneurial innovation in the global economy* (pp. 436–457). Hershey, PA: IGI Global; doi:10.4018/978-1-4666-8216-0.ch022

Murray, J. Y., Kotabe, M., & Wildt, A. R. (1995). Strategic and financial performance implications of global sourcing strategy - a contingency analysis. *Journal of International Business Studies*, 26(1), 181–202. doi:10.1057/palgrave.jibs.8490171

Nair, A., Jayaram, J., & Das, A. (2015). Strategic purchasing participation, supplier selection, supplier evaluation and purchasing performance. *International Journal of Production Research*, 53(20), 6263–6278. doi:10.1080/00207543.2015.1047983

Nassimbeni, G. (2006). International sourcing: Empirical evidence from a sample of Italian firms. *International Journal of Production Economics*, 103(2), 694–706. doi:10.1016/j.ijpe.2006.01.003

Novotná, L., Martins, I., & Moreira, A. C. (2017). Trade between the Czech Republic and Portugal: Analysis of the 2000-2015 period. In T. Dorożyński & A. Kuna-Marszałek (Eds.), *Outward foreign direct investment (FDI) in emerging market economies* (pp. 200–225). Hershey, PA: IGI Global; doi:10.4018/978-1-5225-2345-1.ch010

Overby, J. W., & Servais, P. (2005). Small and medium-sized firms' import behaviour: The case of Danish industrial purchasers. *Industrial Marketing Management*, 34(1), 71–83. doi:10.1016/j.indmarman.2004.08.001

Oviatt, B. M., & McDougall, P. P. (1994). Toward a theory of international new ventures. *Journal of International Business Studies*, 25(1), 45–64. doi:10.1057/palgrave.jibs.8490193

Quintens, L., Matthyssens, P., & Faes, W. (2005). Purchasing internationalization on both sides of the Atlantic. *Journal of Purchasing and Supply Management*, 11(2/3), 57–71. doi:10.1016/j.pursup.2005.10.003

Quintens, L., Pauwels, P., & Matthyssens, P. (2006). Global purchasing strategy: Conceptualization and measurement. *Industrial Marketing Management*, 35(7), 881–891. doi:10.1016/j.indmarman.2006.05.009

- Rexha, N., & Miyamoto, T. (2000). International sourcing: An Australian perspective. *The Journal of Supply Chain Management*, 36(1), 27–34. doi:10.1111/j.1745-493X.2000.tb00067.x
- Ribau, C. P., Moreira, A. C., & Raposo, M. (2015). Internationalisation of the firm theories: A schematic synthesis. *International Journal of Business and Globalisation*, 15(4), 528–554. doi:10.1504/IJBG.2015.072535
- Ribau, C. P., Moreira, A. C., & Raposo, M. (2017). SME internationalization research: Mapping the state of the art. *Canadian Journal of Administrative Sciences*. doi:10.1002/CJAS.1419
- Ruzzier, M., & Arc-Kranj, K. (2006). SME internationalizations research: Past, present and future. *Journal of Small Business and Enterprise Development*, 13(4), 476–497. doi:10.1108/14626000610705705
- Sandberg, M., & Solveborn, H. (2009). *The uncertain opportunity to internationalize – A study of inward-oriented internationalization* (Unpublished master thesis). University of Uppsala, Uppsala, Sweden.
- Santos Silva, J., & Tenreyro, S. (2006). The log of gravity. *The Review of Economics and Statistics*, 88(4), 641–658. doi:10.1162/rest.88.4.641
- Sartor, M., Orzes, G., Nassimbeni, G., Jia, F., & Lamming, R. (2014). International purchasing offices: Literature review and research directions. *Journal of Purchasing and Supply Management*, 20(1), 1–17. doi:10.1016/j.pursup.2013.09.002
- Schiele, H. (2006). How to distinguish innovative suppliers? Identifying innovative suppliers as new task for purchasing. *Industrial Marketing Management*, 35(8), 925–935. doi:10.1016/j.indmarman.2006.05.003
- Schiele, H., Horn, P., & Vos, B. (2011). Estimating cost-saving potential from international sourcing and other sourcing levers Relative importance and trade-offs. *International Journal of Physical Distribution & Logistics Management*, 41(3), 315–336. doi:10.1108/09600031111123813
- Swamidass, P. M. (1993). Import sourcing dynamics: An integrative perspective. *Journal of International Business Studies*, 24(4), 671–689. doi:10.1057/palgrave.jibs.8490250
- Welch, L. (2000). Internationalization research: A personal perspective. In R. Edwards, C. Nyland, & M. Coulthard (Eds.), *Readings in international business* (pp. 255-266). Sidney: Prentice-Hall.
- Welch, L., & Luostarinen, R. (1988). Internationalization: Evolution of a concept. *Journal of General Management*, 14(2), 34–55. doi:10.1177/030630708801400203
- Welch, L., & Luostarinen, R. (1993). Inward-outward connections in internationalization. *Journal of International Marketing*, 1(1), 44–58.
- Yeniyurt, S., Henke, J. W. Jr, & Cavusgil, E. (2013). Integrating global and local procurement for superior supplier working relations. *International Business Review*, 22(2), 351–362. doi:10.1016/j.ibusrev.2012.06.004

KEY TERMS AND DEFINITIONS

Global Sourcing: Global sourcing occurs when a firm aims to exploit global efficiencies in the delivery of a product or service from the global market for goods and services across worldwide geopolitical boundaries. For that firms need to integrate and coordinate procurement activities across worldwide business units, involving processes, technologies and suppliers. Normally, it involves exploiting global efficiencies in the delivery of a product or service and is often associated with a centralized procurement strategy of a large firm. Firms seeking to deploy global sourcing strategies normally seek to develop close relationships with suppliers emerged in order to develop a competitive advantage through upstream relationships in the value chain.

International Purchasing: Purchasing refers to the activities related with the acquisition of goods, raw materials or services necessary for firms to accomplish their business goals. This is referred as international purchasing when those purchasing activities are carried out in international markets to support the firm's operations and ensure a reliable source of supply. With the economic globalization process one can experience that domestic and international purchasing activities are becoming blurred and are converging in a single function within firms. The main reasons for firms to purchase internationally are the following ones: insufficient domestic capacity; changes in the business environment; lower prices, better quality, better delivery and access better technology.

Internationalization: It is normally associated with a strategy carried out by firms that decide operate in foreign markets. It involves the implementation of goods and services that can be easily adapted and adopted in different countries. It could involve business to consumer activities, as well as business to business activities. It may involve cross border transactions of goods, services, or resources between two or more firms or organizations that belong to two different countries, as well as foreign direct investment.

Inward Internationalization: Inward internationalization activities pertain to internationalization activities in which the firm is the buyer in a business exchange situation. It normally involves indirect imports, direct imports, purchasing office overseas and license in Portugal for overseas firms.

Outward Internationalization: Outward internationalization activities pertain to internationalization activities in which the firm is the seller in a business exchange situation. It normally involves indirect exports, direct exports, sales branch overseas, license overseas and production activities overseas.

Small and Medium-Sized Enterprises (SMEs): Although there are plenty of definitions across the world, the working definition used in this chapter is the one that was created by the European Commission, to allow a coherent and effective access of SMEs to European community funds.

Supplier-Client Relationship: Is a relationship in which one company is involved in a business relationship in the supply chain with other firm, involving the provision of raw materials, components, spare parts, products or services. Normally this type of relationship is celebrated between two firms to abandon adversarial, transaction-based involvements and to embrace partnership-like involvements.

APPENDIX

Questionnaire

Table 9.

Purchasing Budget
- From how many countries does your company purchase at the moment (excl. Portugal)?
- When did your firm conduct the first import? Year
- From which of these countries do you purchase the most (excl. Portugal)?
- What percentage of the company's total purchasing budget do purchases from the above country make up? - State in percentages the allocation of the present total purchases of your company in Portugal and directly internationally respectively Portugal _____ Internationally _____ Total purchases (must amount to 100%)
- In which country is the most important supplier located

Table 10.

Experience
- For how long have your company done business with the foreign supplier
- At the time when you chose your present foreign supplier, did you know about alternative suppliers? Yes, in Portugal. Yes, internationally. No, no alternatives.
- Years of experience of the firm in buying this type of product

Table 11.

Supplier's Choice
- When you choose a foreign supplier, are you aware of alternative suppliers
- How do you establish the differences between the chosen suppliers and the other alternatives
- What kind of products are part of the purchasing agreements
- Products are standardized without adjustment
- Products have a small degree of adjustment to our needs
- Products have a high degree of adjustment to our needs
- Products are difficult to describe/specify
- Products consists of several parts
- Products need testing or training before use
- Products are difficult to adjust in production
- Products are difficult to use
- Products are accessible in the national market
- Buying from a foreign supplier was a pre-condition with the aim of obtaining an export order
- Products were better at foreign suppliers
- Products were cheaper at foreign suppliers
- We wanted more international orientation

Inward Internationalization.

Table 12.

Importance of International Purchasing for the Firm
- International purchasing is important for firm's finance
- International purchasing is important for firm's product quality
- International purchasing is important for firm's planning/efficiency of the production process
- International purchasing is important for firm's competitiveness