Benjamin Ståhl

BUYING ABROAD

The case of inward internationalisation processes
ABSTRACT

Recently, some research has focused on and acknowledged the significance of buyer-initiated international exchange in the field of international business studies. In these cases, it is the importer that actively engages in international exchange and drives the internationalisation process. However, relative to the volume of research into the internationalisation of exporting firms, there is a clear lack of research that seeks to unravel the process of internationalisation when it is “inward-driven”. This paper presents two cases studies of Swedish importing firms, providing insight into the mechanisms that underlie inward internationalisation. The paper thereby adds to the knowledge about such phenomena, especially through the use of qualitative, longitudinal case studies which also include the pre-internationalisation history of the firm and its founders. It also provides implications for management regarding the need to recognise the strategic significance of international purchasing, and for policy makers regarding the attitudes towards imports and import promotion.

The paper shows that inward internationalisation can be conceptualised as a process whereby knowledge about foreign markets is used to satisfy a local demand, i.e. accessing foreign assets for the purpose of engaging in domestic market exchange. An increasing commitment to international markets could be seen, relating to the growth of marketing activities in the domestic market as well as an increasing stock of experiential knowledge arising out of the international operations. The paper also demonstrates that presently available approaches and models developed for outward internationalisation can be used to understand inward internationalisation. Particularly, the discussion is based on both the network approach and the Uppsala model of internationalisation, and indicates that such a theoretical integration can be a fruitful approach to explain relationship development in a network. Finally, the paper reveals that much more empirical research is needed in this area, especially as a incorporating both inward- and outward-driven processes of internationalisation gives rise to a dynamic framework that can provide insights into why international exchange occurs in the first place.
INWARD INTERNATIONALISATION

Does a novel field need a new theory?

Introduction

The practice and theory of international business has expanded rapidly in the last three decades. However, the literature does not reveal the entire picture. It has treated the subject almost exclusively from the perspective of the seller (Korhonen 1997, 1999; Liang & Parkhe 1997), and as such has been concerned mostly with the varying marketing and production aspects of foreign market entry. Yet some research has shown that activities concerned with purchasing, rather than marketing, drive much international exchange (Korhonen 1999; Liang & Parkhe 1997; Saimee, Walters & Dubois 1993; Barker & Kaynak 1992; Cavusgil 1980; Bilkey 1978; Simmonds & Smith 1968). Neither is this a new phenomenon. The evolution of international trade has to a large extent been based on such arrangements: to travel far in order to obtain exotic goods that can be traded on the domestic market. In today’s world, many industries exhibit similar characteristics. Consider, for example, consumer goods and textiles. Though the definition of internationalisation often acknowledges such an arrangement (e.g. Johanson & Matsson 1988; Welch & Luostarinen 1988), the focus of research has almost exclusively been the study of marketing activities.

This paper focuses on two case studies of firms that have undergone an inward-driven process of internationalisation, i.e. where international exchange is initiated and driven by the purchasing firm. The objective is to examine if presently available theories, developed for cases of outward internationalisation, can be used in the study of such cases. The analysis integrates research on importer behaviour, network theory and a process model of internationalisation. Furthermore, it argues that the integration of both the seller’s and the buyer’s perspective on internationalisation in one theoretical framework can provide an explanation for why internationalisation occurs, an explanation that current models of internationalisation fail to provide (Andersen 1993).
The analysis is descriptive and theory-oriented, thereby differing from import sourcing studies which predominantly are prescriptive and strategy-oriented (Liang & Parkhe, 1997). The paper responds to the call for (1) theory development in the field of importer behaviour (Liang & Parkhe, 1997); (2) qualitative, longitudinal research of small and medium-sized enterprises which include the pre-internationalisation history of the firm (Johanson & Matsson, 1988; Blankenburg, 1995; Korhonen, 1999); and (3) development of the internationalisation process model (Johanson & Vahlne, 1990).

**Inward activities**

A classical view of the firm is that it is mainly concerned with production (Dunning, 1988), which implies that competitive advantage is derived from the production conditions of the firm. Activities such as purchasing and R&D are of interest only in how they enhance these production conditions. The following discussion takes a different view, namely that competitive advantage is a result of the acquisition and disposal of goods through exchange activities on the market (Andersson & Johanson, 1997; Snehota, 1990). In this light, production is only interesting in how it enhances the exchange ability of the firm. The business enterprise can be defined as “a pattern of activities that link together a set of actors and resources with the purpose of exploiting exchange opportunities in a market” (Snehota, 1990: 42). “Inward” activities pertain to situations when the firm is the buyer in an exchange situation, “outward” to when it is the seller.

It follows that in order to exploit exchange opportunities, knowledge of them must be present. The foundation of business enterprise and its growth can be seen as utilising knowledge about both supply and demand, and linking these two together. In this perspective it is not the lack of knowledge which is overcome by competitive advantage, but the presence of it which is a precondition for successful business enterprise and confers competitive advantage.

Exchange between business enterprises tends to occur within the framework of a limited set of reasonably stable relationships (Håkansson, 1982; Turnbull & Valla, 1986), especially on industrial markets. This is the central focus of the network. The raison d’être of business relationships is to manage exchange, e.g. in order to obtain or dispose of resources or
knowledge in the market. Executing exchange and developing relationships is thus a way to overcome an organisational ‘weakness’ by accessing external resources (Chen & Chen, 1998; Kock 1991), be it products, services or knowledge.

Relationships grow out of interaction, a process which creates ties between actors. As the actors are tied to each other, they perceive ways in which to improve products, production systems or processes in order to boost their joint productivity, i.e., a mutual adaptation occurs (Hallén, Johanson & Seyed-Mohamed, 1991). Particularly, new knowledge is obtained by both parts, some of that knowledge emanating from the interaction itself (Dahlquist 1998). It follows that the capabilities and competitive advantages of firms is to a large extent dependent on their exchange relationships with external actors, indicating that the management of exchange with other actors can therefore be seen as the source of a firm’s capabilities and competitive advantage (Snehota, 1990; Axelsson & Easton, 1992; Håkansson & Johanson 1993). Thus, business is not only competition, but to a great extent concerns co-operation and co-ordination between firms. Internationalisation can be viewed as the process by which such co-ordination transcends national borders.

In this light, it is not difficult to envisage international exchange as importer(buyer)-initiated rather than exporter(seller)-initiated, as it is knowledge of business opportunities that precede exchange, knowledge which can reside in either part of the exchange. It may well be the buying firm that perceives a local need for a foreign good. The need may arise as a business opportunity, when a component or system is better, or cheaper, than local alternatives, or not available locally. Research has indeed shown that international exchange is often importer-initiated, even that such an arrangement may be responsible for the majority of international exchange (Korhonen 1999; Liang & Parkhe 1997; Leonidou, 1995).

A network approach has implications for purchasing as it stresses the importance of closer ties to suppliers, observed in real life, for reasons of product development and the rationalisation of material flows, such as just-in-time arrangements (Gadde & Håkansson 1988). Except for the rationalising role of purchasing, there are also developmental and structural roles (Axelsson & Håkansson, 1984). I.e., apart from the traditional role of minimising direct and indirect costs in the purchasing and production activities of the firm, purchasing should also act to ensure such a co-operation with suppliers that products and technologies are developed optimally within the exchange relationship. This entails a closer integration between
marketing, production and purchasing activities, and points to the strategic significance of relationship management. The structural role is to develop and maintain an appropriate relationship with an appropriate number of suppliers. Again, the implication is that there is a need for relatively stable relationships with suppliers, where both parts may be actively attempting to improve quality, reduce costs and develop new technology, thereby enhancing the capabilities of both parts and reducing uncertainty.

Concerning international purchasing, the network approach per se does not distinguish between national and international sourcing. It is more appropriate to discuss supply markets than national markets (Hallén 1982). A supply market is defined "not by production technology of the supplying firm but by the needs of the buying firm” (ibid., p. 103). Thus, a supply market may consist of both domestic and foreign suppliers. As such, the functions of exchange in a network remain the same, the only difference being that they involve actors of different nationality. Following Liang & Parkhe (1997), international purchasing is therefore distinct from domestic purchasing primarily in the sense that decision makers’ rationality is more likely to be 'bounded' when considering foreign markets, as the international network and the information associated with all the actors on it is larger than when only domestic suppliers are considered.

International purchasing is of growing importance for the firm (Hallén 1982; Monczka & Trent 1991), and it is likely to become even more so as international trade and investment keeps outpacing world GDP growth (WTO 1999). The most significant motivations for international purchasing seem to be lower price, improved quality and a more dependable supply (c.f. Leonidou 1998; Liang & Parkhe, 1997; Min & Galle 1991; Monczka & Guinipero 1984). Other relevant factors are better technology/access to technology, a greater willingness of foreign suppliers to adapt and increasing the size of the supply base. A final factor, especially important for small national markets such as Sweden, is the unavailability of domestic suppliers. Liang & Parkhe (1997) note that whereas similar bid-related criteria, e.g. price and quality, seem to underlie the motivation for, and benefit of, international purchasing, vendor-related criteria, such as the financial condition and production capability of the supplier, underlie the actual vendor selection. It seems as if the selection is based more on factors which determine the ability to sustain a relationship than the lowest cost of a single transaction.
In the last two decades, some research has focused on and acknowledged the significance of inward activities in internationalisation (Welch & Luostarinen, 1988; Korhonen, 1997, 1999; Leonidou, 1995, 1998; Liang, 1995; Liang & Parkhe, 1997; Hallén, 1982; Reichel, 1988). However, relative to the volume of research into outward internationalisation, there is a clear lack of research that seeks to unravel the process of internationalisation when it is inward-driven. The theoretical scarcity is perhaps due to a neomercantilist mindset (Korhonen 1997, 1999; Leonidou 1998; Liang & Parkhe 1997; Håkansson & Melin 1978), rooted in a misunderstanding of a nation’s balance-of-payments, which views imports as malicious to a nation’s well-being. Such a view fails to take into account that the international specialisation of production is contributor to overall welfare. The modern standard of living in industrialised countries would be impossible without foreign products. Moreover, it has been argued rather comprehensively that imports stimulate competition and contribute to improved productivity in domestic firms (Porter, 1990; Lawrence & Weinstein, 1999). Another factor might emanate from within the firm, the belief that purchasing activities are not as strategic compared to e.g. marketing, and to be lacking in an ’entrepreneurial’ dimension (Korhonen 1997, 1999; Liang & Parkhe 1997). The case-studies below paint the contrary picture.

**Case studies**

The following two case studies are of a wine producer and a apparel agent. They were selected as they both exhibit a pattern of inward internationalisation. The analysis is based primarily on source material from the companies involved, written questionnaires and in-depth interviews with people involved in the relationship. The interviewees were encouraged to describe the activities of their companies in their own words. Questions focused on how the business had developed, its current status and possible future developments, and moreover on the depth, scope and structure of supplier relationships. The cases are first presented with a general background, followed by a case discussion on relationships, ties, knowledge and business development. The results from this very limited survey should be seen as an exploratory study rather than the basis for any generalising theory. However, it can point to shortcomings of existing theories as well as any other research method. Furthermore, it fills a gap considering the lack of studies on importer behaviour which take a longitudinal perspective.
Åkesson & Söner Vin AB - background

Åkessons is a producer and importer of wine that has quickly established itself as the leading independent actor on the Swedish market. It is a family company with a history dating back to the 1930ies when Kiviks, a producer of fruit juice, was established. The story of Åkessons, however, begins with Anders Åkessons education to be an oenologist in the early 1970ies in Switzerland. It was there that he was exposed to wine production and met various persons that were later to play an important role in the success of Åkesson.

Returning to Sweden and to Kiviks, Mr. Åkesson started experimenting with the production of sparkling wine. In 1983 he thought he had hit upon a good product, a sparkling white wine made from imported still wine which was carbonated and flavoured in Sweden. It was launched in 1985 under the name “Amadeus” and became an immediate success. This was followed by the launch of “Henric Åkesson” in 1988, a sparkling wine made from an imported wine and carbonated through fermentation in Sweden.

At this time the production occurred within Kiviks. Because the company was associated with fruit juices, and not wines, the company Åkesson & Söner Vin AB was formed, controlled by Kiviks. Mr. Åkesson, the president of the new company, was interested in selling still wines, but the rest of the family (and thus Kiviks) were against the idea. Thus another company was formed, Åkesson Vinhus, wholly owned by Mr. Åkesson but sold and operating as part of the Åkesson brand. Then, as now, the bulk of wine supplied to Åkesson came from an acquaintance of Mr. Åkesson from his stay in Switzerland, a North Italian producer. Prepared there, the wine is loaded into tank containers and transported to Sweden for final treatment and packaging.

In 1995 the wine and spirits market in Sweden underwent a profound change as the import monopoly of the state-owned company Vin & Sprit AB was abolished. Åkessons was already established on the market and had contacts with suppliers in southern Europe (mostly old acquaintances of Mr. Åkessons), and thus in a good position to expand. Turnover reached SEK 50 million, but the real expansion came with the launch of still wines packaged in Tetra Brik rather than bottles.
Tetra Brik is convenient for many reasons: cheap, light, hard to break, good dimensions for bulk packaging. However, in this case another factor was prevalent. Kiviks was an early user of Tetra packaging and were among the first companies in the industry to have Tetra Pak machinery in their own factory. The relationship with Tetra Pak dates back to the 1960ies and is still functioning very well. For Åkessons, offering wine in Tetra Brik was a natural step to take.

Wine had been offered in Tetra Brik for some time in other countries. In Sweden, however, the alcohol retail monopoly, Systembolaget, resisted the idea. It considered that such packaging might increase the consumption of wine, presenting it as an everyday beverage. This was deemed contrary to the monopoly’s role as mandated by the Swedish government. Åkessons appealed the decision, insisting that as a member of the EU (from 1995), Sweden must allow the sale of wine in Tetra Brik as was allowed in other member-states. Systembolaget changed its decision and “Terra dell’Oro”, based on an Italian red still wine, was launched in March 1997.

The initial plans were to sell 500,000 units of Terra dell’Oro annually. These plans had to be revised 10 times, and the total amount of units sold the first year was 5 million. The wine enjoyed the biggest success in Swedish history. The company also launched two other wines in Tetra Brik, white and rosé, also instant successes. This had a huge impact on the industry in Sweden. Competitors launched similar products, and the amount of wine products in either Tetra Pak or bag-in-box rose from 70 to 270 products, and the share of total wine sales from 2% to 16% over a two year period. Today Åkesson sells more than 7 million litres of wine annually, with approximately 7.5% of the wine market and 44.5% of the market for wine in Tetra Pak. This makes it the largest independent supplier (3rd largest totally) on the Swedish market (Systembolaget 1998, 1999).

Åkessons continue their expansion. Their product range now includes Italian liquors and very fine spirits, and they are selling some products in Finland. Future plans include the launching of a range of “Åkesson selected” independent wines from all over the world, and they are considering an expansion in Scandinavia. Furthermore, the firm considers investments in foreign production facilities (possibly as a joint venture with the North Italian supplier) as
feasible and strategically desirable, but is not deemed to be economically possible at this point in time. Nevertheless, Mr. Åkesson already owns a minor vineyard “for fun”.

**Oriental Pacific Scandinavia AB - background**

Oriental Pacific Scandinavia AB (OP Scan) is a trading company and an agent for clothing goods, importing primarily from China (Hong Kong) and Italy, but also from other countries. Its turnover is approximately 100 million SEK annually. The company is active in Sweden, Norway and Finland, and to a lesser extent in Denmark and Iceland. The customers are mostly medium-sized retail chains. In addition, mail-order firms have traditionally been important customers. The main activities performed are identifying clothing collections (two collections per year) and selling these to Scandinavian customers. In some cases OP Scan buys a range and resells it, but more commonly it acts as an agent between a Scandinavian retailer and a foreign supplier. Acting as a wholesaler was feasible until the mid-eighties when a significant concentration of retail outlets occurred, as retail chains acquired independent stores.

OP Scan was formed by Mr. Palo and two associates in 1973. By that time Mr. Palo had worked for the International Wool Secretariat (IWS), a promotional organisation controlled by wool producers in Australia, South Africa and New Zealand. In this position he had established contacts with retailers in Scandinavia as well as producers of knitwear in China and Hong Kong. His associates also had considerable experience of the industry.

The direct reason for the establishment of OP Scan was that Mr. Palo secured the exclusive right to market the products of Oriental Pacific Ltd., the world’s largest producer of knitwear, in Scandinavia. In 1976 some of Oriental Pacific’s employees set up their own business, South Ocean. They approached OP Scan, who they knew personally from the time at Oriental Pacific, and offered them exclusive rights for their products as well, which they have retained. Together, these two contacts still supply the bulk of OP Scan’s business.

In 1975, OP Scan also started activities in the Italian market, considering it a reasonably priced market with good reputation and quality. Furthermore, as an EC – EFTA member the increasing obstacles to trade in textiles was not an issue. The first engagement was acting as agent for a factory, Umberto Severi, with which there had been prior contacts when Mr. Palo
worked for the IWS. This relationship worked well until the Italian company attempted to launch a more up-market range, which OP Scan could not sell in Scandinavia. In 1978 they switched to another supplier as a previous employee of Umberto Severi had moved to the Florence region in Italy and established a contact with Cose di Lana, an up-and-coming manufacturer of woollen products in the area. For Umberto Severi previously and now Cose di Lana, OP Scan is the exclusive agent for Scandinavia.

OP Scan also deals with a Portuguese supplier, which is actually owned by South Ocean and exists as a means of avoiding various trade barriers. Furthermore, OP Scan has dealt with a large number of suppliers from India, Pakistan and the United States, but these relationships have never lasted for long nor constituted a major part of OP Scan’s business, primarily because good relationships did not develop.

The firm has never attempted an investment in production facilities abroad. In the opinion of the management it would be necessary to own retail outlets or operate several agencies for this to be feasible.

Case discussion

For both Åkesson and OP Scan, there are no problems to find a good product – the problem is to find a good relationship. Thus, both Åkesson and OP Scan rely on a limited number of relationships on the supply side. These relationships date back 10 to 30 years, but require continuous investment and supervision. In selecting suppliers, value-for-money is critical, but both firms list understanding, knowledge and respect as the most important criteria.

In Åkesson’s case, a North Italian business is of special importance, led by a friend of Mr. Åkesson from his youth in Switzerland. Together with this contact, Åkessons buys and selects wines from the whole of Italy. Since more than 75% of Åkesson’s wine is from Italy, this contact is of crucial strategic importance. The old relationship with Tetra Brik is another case. As Tetra Brik wines constitute the larger part of Åkesson’s business, this relationship can also be said to have been of crucial strategic importance. Similarly, OP Scan started as the exclusive agent for one Chinese manufacturer which it had contacts with prior to start-up. The relationships with the two other main suppliers were also initiated due to personal contacts, rather than a systematic vendor search.
Consequently, the most important ties for both firms were social in the initial phases, and remain crucial in the present. The antecedent contacts of Mr. Palo and Mr. Åkesson enabled them to identify business opportunities and provided firm foundation of trust upon which the business relationship could be built. Such a background is consistent with Liang & Parkhe’s (1997) finding that international vendor search is usually based on known contacts. In the network approach, social ties complement legal ties and facilitate interaction within a relationship. Social ties build trust, the lack of which is an important obstacle to beneficial exchange. Two examples from the cases illustrate this.

OP Scan once decided to purchase from an American supplier on behalf of a customer who wanted to bypass an expensive agent. This was the first contact with the supplier and OP Scan had only negligible knowledge of the American market. The contract was set up, but just before delivery the supplier demanded a higher price, hinting that delivery otherwise would not be made on time. In the fashion industry, this means that the collection will not reach the market in the right season, in effect rendering it unsalable. The supplier thus succeeded in forcing the price above the contracted amount. The relationship did, needless to say, not develop. For Åkesson, considerable trust has been built up in many relationships, but there have been some problems with a major Spanish supplier. As a relatively new contact, there is a lack of trust between the parties and Åkesson perceive the quality of the purchased goods as uneven. This has necessitated frequent visits and controls, increasing costs.

The cases depict several adaptation processes. OP Scan (backed by the IWS) persuaded the Chinese suppliers to chemically treat the wool fibre prior to production so that the finished products could be machine-washed. Another adaptation concerns the problem that the Scandinavian market is somewhat particular since it requires earlier samples than other markets. In this case, some adaptation has taken place and OP Scan can obtain earlier samples than customers in other markets. On the reverse side, OP Scan has adapted to its suppliers’ product range. Originally the company only marketed woollen products, but as the Chinese suppliers have started to manufacture products that also contain cotton, as well as other garments such as shirts, they now also market these goods.

In the case of Åkesson, there is considerable joint product development together with Tetra Pak. Likewise, with the North Italian supplier, technical co-ordination is notable. New
methods of production are tested in Italy, often on Åkesson’s initiative. Moreover, Åkesson and the North Italian supplier select all Italian wine (75% of Åkesson’s sales) together from vineyards. It could be argued that there is total adaptation. In fact, this is very important to Åkesson. All their suppliers must respect that it is Åkesson that knows its market. An example is that Åkesson do not tell all suppliers that their wine will be sold in Tetra Brik, as the Terra dell’Oro brand is of a higher quality than what is customary for Tetra wines in southern Europe. If the suppliers know that the wine will be sold in Tetra Brik, they may offer a lower quality than otherwise.

These adaptations enhance the capabilities of both parts, and implies that a firm may improve sourced resources within a relationship. That is, through business relationships, firms may access and develop resources, thereby overcoming weaknesses. Put differently, relationships can provide and develop strategic assets. Thus, contrary to the view that firms internationalise because they have a competitive advantage, internationalisation is a way to acquire such advantage (Chen & Chen, 1998).

Implications

The internationalisation process

The two cases are a weak empirical base from which to draw general theoretical findings, but they do illustrate that firms can undergo a process of internationalisation due to purchasing activities alone. Moreover, inward internationalisation sheds light on the impetus for international exchange and the cases have implications for the understanding of why and how firms internationalise for inward reasons.

Concerning the bias towards the seller as the active part in international transactions, this case was made more than 20 years ago (c.f. Korhonen, 1999) yet as the bias persists, it is worth stating again. Viewing international exchange as the domain of active sellers going abroad may hinder a proper understanding of what drives international trade and investment. In the present cases, for example, one would (with a conventional perception) infer that it is Åkesson’s and OP Scan’s suppliers that have actively sought internationalisation. They have obtained it through the use of an agent, and could possibly increase this commitment if they
judged that this would be a profitable or necessary step to take. As the supplier, it would also be the more active part. Even proponents of the network approach often lean towards such an interpretation - if it is acknowledged that “a buying firm takes the initiative”, the focus is on the supplier that “can become established in a network” (Johanson & Mattsson 1988: p. 292).

A common perception is that a focus on marketing activities is not a limitation since “…marketing operations in this sense are predominant among the international activities of at least the Swedish firms. Furthermore, it has been shown that the marketing side is often a determining factor in the development of the firm” (Johanson & Wiedersheim-Paul, 1975: 309, quoted in Korhonen, 1999: 21). There is a logic behind the statement which is consistent with the present cases, i.e. that the growth of the firm is directly linked to its marketing performance. However, viewing the firm as an exchange agent linking other market actors, marketing performance is to a large extent dependent on the underlying good, which in turn is determined to a some degree by the supplier and consequently the relationships with the same. Moreover, that marketing activities are predominant among international activities of Swedish firms appears to be a conclusion based on a limited focus on exporting and outward FDI. For example, when a sample consisting of Finnish exporting companies was tested for inward activities, it was revealed that 55% of the sample commenced international operations through inward activities, and only 44% through outward activities (Luostarinen et al, 1994, quoted in Korhonen, 1999: 46).

The case studies show that active importers which in their pursuits of greater market share in Scandinavia desire contact with a number of appropriate suppliers across the globe in order to be able to provide a competitive product range within its chosen market segment. In this endeavour, they become internationalised and drive the internationalisation of other companies (their suppliers). Furthermore, the importing firms determine price, promotion efforts, sales effort, etc. The present cases thus demonstrate a different process from the one commonly described in the literature, a process of inward internationalisation. Definitions of internationalisation should therefore accommodate also inward activities, as suggested by Welch & Luostarinen (1988), and implicitly in the network approach (Johanson & Matsson 1988).

Inward internationalisation processes can facilitate the understanding of international business. Models that view internationalisation as a process do not readily identify how
international exchange commences (Andersen, 1993). The cases suggest that exporting firms may be “pulled” into international exchange as a need arises in one national market and a local firm attempts to satisfy that need by accessing resources external to the market. Furthermore, the cases indicate that it has been antecedent knowledge which has enabled entrepreneurs to identify business opportunities. Initiation of international exchange in the cases is thus not commensurate with overcoming a lack of knowledge of foreign markets but rather with the presence of knowledge of opportunities for initiating exchange which transcends national borders.

Concerning the motivation to purchase internationally, if one regards the firm as an agent of exchange linking other actors in order to exploit exchange opportunities in the market (Snehota, 1990), there is no reason to suppose that the motivations differ from those underlying local purchasing. In the present cases, the only option for successful exchange was international purchasing. For firms operating in small economies, inward internationalisation is more often necessary than firms from larger economies, due to the scarcity of suppliers in the local market (Korhonen, 1999).

Does the process of internationalisation differ when it is inward- rather than outward-driven? Andersen (1993) identifies two internationalisation process models, the Uppsala-model (Johanson & Vahlne 1977, 1990) and the innovation-models (Bilkey & Tesar, 1977; Cavusgil, 1980, 1984; Czinkota, 1982; Reid, 1983), and concludes that while the models are similar, the Uppsala model is more generally applicable. The model posits that internationalisation is an incremental process arising out of a learning process, whereby experiential knowledge (Penrose, 1959) grows out of market operations. Such knowledge reduces the uncertainty of operating on foreign markets, as well as extending the boundaries within which business opportunities may be identified.

The case studies show that the inward internationalisation process can be conceptualised in similar terms. The international vendor search has not been based on the ‘rational choice’ framework, wherein the information search proceeds until the marginal benefit of the search is equal to the marginal cost (Ratchford, 1982, quoted in Liang & Parkhe, 1997). Rather, the cases indicate the importance of social ties, knowledge and the pursuit of lasting relationships. Antecedent social ties provided information and relevant market knowledge that enabled the firms to identify viable business opportunities based on international exchange. Since the
competitive advantage of these firms consists of the international relationships which enable them to obtain and refine a foreign good for local marketing, the importance of network knowledge residing in the individual is considerable (Blankenburg, 1995).

As the firm grows, routinisation in exchange and more formal modes of vendor search develop, particularly evident in the case of Åkesson, which now decides on regions/countries from which they want wine and then rather systematically searches in that area for suitable suppliers. Thus, the individual’s knowledge becomes of less importance relative to that which is inherent in organisational routines as the internationalisation process proceeds (Johanson & Vahlne 1990; Simmonds & Smith 1968). However, whereas the Uppsala model suggests that experiential knowledge is specific to the national market where it was generated, the cases suggest that an element of the knowledge can be thought of as a general, “internationalisation” knowledge, which can be utilised in other countries. This finding is consistent with more recent research on the internationalisation process (Eriksson et al, 1997).

Some studies have highlighted a pattern of internationalisation in procurement, apparently based on increasing experience (Monczka & Trent, 1991; Korhonen, 1999), where there is an increasing commitment to foreign purchasing in terms of the complexity of goods purchased as well as operation modes, such as procurement/production and non-investment/investment. The present cases similarly display increasing levels of commitment to international purchasing, though not as yet including foreign purchasing offices or foreign production.

Nevertheless, inward-driven internationalisation may also explain much of FDI, when there is actual investment in a foreign market to support such purchasing operations. Two examples of Swedish firms with significant investments overseas are IKEA, a furniture retail-chain, and Hennes & Mauritz (H&M), an apparel retail-chain. Both firms have established foreign subsidiaries concerned only with purchasing, i.e. the FDI is not caused by upstream-vertical objectives but by aims to co-ordinate a large number of suppliers. IKEA co-ordinates 2,330 suppliers in 64 countries; H&M has 15 permanent production offices, 7 in Europe and 8 in Asia, which co-ordinate approximately 1,600 suppliers. The production offices keep an eye on the purchasing market, monitor production and perform quality checks.

It is thus not difficult to envisage the possibility of stronger linkages between national networks in the form of direct investments, for the same reasons as those described in the two
case studies. The difference would rather lie in the scope of business activity necessitating an enlargement of the supplier-monitoring and –selection operations. It is not unreasonable to propose that the underlying process does not differ from the case studies, as the objective of such investments is to co-ordinate and facilitate similar trade transactions.

Hence the cases suggest that it is an interplay between commitment and knowledge which underlies a growth process and a learning process that drives internationalisation. I.e., knowledge of opportunities was operationalised into successful exchange in the market, which has generated more knowledge and consequently new avenues for exploiting exchange opportunities. The underlying mechanism of inward internationalisation is thus consistent with the Uppsala model (Johanson & Vahlne, 1977; 1990) which was developed with outward internationalisation in mind. Moreover, the preceding discussion indicates that a framework which integrates the network approach with a process model of internationalisation provides a fruitful framework for analysing the development of relationships in international business, an area which deserves further research.

Finally, a note regarding psychic distance can be made on the basis of the present discussion. Psychic distance is “the sum of factors preventing the flow of information from and to the market” (Johanson & Vahlne 1977: 25), and is thought to affect which markets are entered into as the firm expands. The few attempts that have been made to systematise inward internationalisation has readily adopted the concept (Korhonen, 1999). However, it can be argued that in the case of inward-driven internationalisation, psychic distance is a less important factor than when the process is outward-driven. One factor is that many products and supply markets are bound to or clustered around specific locations. With this in mind, and if the world market is increasingly a “buyer’s market” (Liang & Parkhe, 1997), then it is also probable that firms’ outward internationalisation patterns are increasingly less convergent with psychic distance as they are pulled by other firms’ procurement from any part of the globe. As the amounts of available information of foreign markets increase, transportation costs decrease and trade and investment barriers are reduced, this development will probably persist. Furthermore, if social ties and prior experience is important for the initiation of international exchange, entry patterns are difficult to predict.

**Implications for management and government**
For management, the recognition of the importance of inward internationalisation has substantial implications. Primary among these is for management to adopt a strategic view of purchasing. In order to utilise the purchasing function as a strategic operation, the profile of purchasing activities within the firm must be high. All too often, purchasing is seen as a clerical operation which only serves marketing or production operations (Liang & Parkhe, 1997; Korhonen, 1999). In ongoing activities, it could be beneficial to include key personnel from purchasing in production and marketing decision-making groups. Moreover, a purchasing strategy which considers not only the local market but the global supply market may provide competitive advantage. Especially important is to become involved in clusters where relevant technology is being developed, or at least to monitor such developments closely. The firm should actively try to take advantage of any knowledge that the firm, or individuals within it, may have of foreign markets, and likewise consider such experience in recruitment and acquisition policies.

The concept of inward internationalisation matters also for (potential) exporting firms. A clearer understanding of how importing firms select their suppliers can be of aid in marketing. For example, if firms supplier relationships are broken only by significant shocks, it might make sense for an exporter to enter a market in recession when firms are more likely to switch suppliers (Liang & Parkhe, 1997). Furthermore, if international vendor search is not characterised by “rational choice”, a seller should formulate their export strategies on a broader basis than the 4Ps marketing mix (ibid.). Overall, marketing is probably more appropriate when a good understanding of the potential customers is present.

For policy makers, the implication is, once again, to take a two-sided view of free trade and its benefits. Not only exports and export promotion contribute to a nation’s welfare, but also the cost and quality of the imports. Assisting would-be importers could aid in building the competitive advantage of these firms and indirectly contribute to economic growth, and even to export performance (Korhonen, 1999).

**Conclusions**

This paper has attempted to show that internationalisation can take place due to purchasing activities, that it can be inward-driven. This has been an overlooked phenomenon in the
literature on internationalisation, even though some research has been present. Two cases were presented in this paper, providing insight into the mechanisms that underlie inward-driven internationalisation. The paper thereby adds to the knowledge about such phenomena, especially through the use of qualitative, longitudinal case studies which also include the pre-internationalisation history of the firm and its founders (Blankenburg, 1995; Korhonen 1999). The cases show that inward internationalisation can be conceptualised as a process whereby knowledge about foreign markets is used to satisfy a local demand, i.e. accessing foreign assets for the purpose of engaging in domestic market exchange. In both cases, the antecedent experience of the founder was found to be crucial, and relationships grew out of social ties that were established prior to start-up. An increasing commitment to international markets could be seen, relating to the growth of marketing activities in the domestic market as well as an increasing stock of experiential knowledge arising out of the international operations.

The paper has also demonstrated that presently available approaches and models developed for outward internationalisation can be used to understand inward internationalisation. Furthermore, the discussion was based on both the network approach and the Uppsala model of internationalisation, indicating that such a theoretical integration can be a fruitful approach to explain relationship development in a network. Finally, the paper shows that much more empirical research is needed in this area, especially as the integration of both inward- and outward-driven internationalisation processes gives rise to a dynamic framework that can provide insights into why international exchange occurs in the first place.

References

Publications


**Other**
