

Analyzing internationalization configurations of SME's: The purchaser's perspective

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Received 18 September 2003; accepted 11 June 2007

Abstract

This article focuses on the international purchasing behavior of small- and medium-sized industrial firms in Denmark. Based on taxonomy of internationalization configurations defined by the import and the export share of firms, the article explores the differences in these configurations seen from a purchasing perspective. The taxonomy reveals four internationalization configurations: international sourcers, globals, locals, and international sellers. Based on the taxonomy, the researchers diagnose the differences between firms in each of the configurations and find that psychic distance, risk, and control are unimportant factors compared to conventional findings. On the other hand, close cooperation between the firm and the international partners is important when explaining differences in internationalization configurations. The paper concludes by recommending possibilities for future research and by advising managers as to increase their success.

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Keywords: Internationalization; Export; International purchasing

1. Introduction

While there has been extensive research in the last two decades on the internationalization process of small- and medium-sized firms, particularly through export, the connection to the very same firm's international sourcing activities has received only limited attention (Buckley and Ghauri, 1993; Welch and Luostarinen, 1993). This limited attention seems surprising for two main reasons: first, the ultimate success of exporters depends on the extent of foreign purchases and on the purchasing process itself. In fact, Biemans and Brand (1995) assert that buyer–seller relationships have changed considerably in recent years; from seller initiation to an increasingly active search process by the buyer (i.e. reverse marketing). Although not referring specifically to import behavior, Biemans and Brand (1995) point to four international trends that contribute to the increased strategic relevance of purchas-

ing; reduction in the number of suppliers, up-scaling of demands on suppliers, increasing cooperation with suppliers, and decreasing time from producer to market.

Second, international sourcing activities contribute significantly to firm performance and future competitiveness. International purchasing fosters competition among suppliers in the domestic market through imports of products and services even though these products and services may be available in the domestic market, but at less-favorable terms (Arnold, 1989). International purchasing also has a direct impact on the performance of the firm, in general, through improved quality, lower prices, and an increasing array of available products (Quintens et al., 2005, 2006a).

The aim of this paper is to identify configurations of connections between import and export activities of firms and to analyze the distinguishing features of the resulting configurations. The key motivating factor for this paper is the lack of research on both international sourcing activities and, in particular, the interplay between firm's import and export activities. The need for this particular type of research increases once it is recognized, that import activities have an important impact on the likelihood and

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outcome of international export activities and the performance of the firm, in general. Unfortunately, research efforts have focused particularly on downstream activities like export behavior and, thereby, largely ignored the strategic importance of international sourcing activities (Liang and Parkhe, 1997).

The article draws on a definition of importer behavior that explicitly includes the link between import and export: “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 import–export relationship” (Liang and Parkhe, 1997, p. 498). Our view of international sourcing is also in accordance with Quintens et al. (2006b) definition of Global Purchasing being the activity of searching and obtaining goods, services and other resources on a worldwide scale, to comply with the needs of the company.

Apparently, the lack of theory development disregards the need for an understanding of how firms set up their internationalization strategies with respect to both purchasing (import behavior) and sales (export behavior). This paper set out to expand on the literature by analyzing research question 1:

What are the possible configurations of internationalization deriving from particular combinations of firm’s import and export activities?

The identification of possible combinations of import and export activities explicitly takes into account both international and domestic activities, and import and export activities. Knowing the combinations of activities, raises the question of what are the differences between, e.g. firms pursuing only domestic purchases and sales (i.e. no import and export activities) and firms that are highly internationalized. Hence, the paper contributes to the understanding of internationalization configurations when analyzing research question 2:

What are the distinguishing features of firms with different internationalization configurations in terms of structural and behavioural aspects?

The paper is primarily empirical in nature and focuses on exploring the above two research questions by using survey data on manufacturing SME’s in Danish industry. The data used to analyze research question 1 are collected from the persons responsible for sales and purchasing, whereas the data used for analyzing research question 2 have been collected from those responsible for purchasing activities in the firms. Hence, the data used for analyzing the two research questions combine responses from the responsible persons in the companies. This has the advantage that the input into the analysis becomes more varied and also less subject to the criticism of a single respondent’s subjectivity. Based on the identified differences, the authors aim at providing managers with recommendations for their future internationalization activities.

The contribution of this paper extends the work by Arnold (1999) by clarifying some of his definitions and operationalization. Arnold (1999) identified four ideal organizational types for global sourcing within the organizational structure of a firm and its strategy. The presented analytical model was based on different dimensions. Internationalization was described by two properties: internationalization in general and internationalization of procurement. These two levels, the company as a whole and purchasing function, were examined concerning their degree of centralization in the organization. As a result, four organizational types were identified and each positioned in an internationalization and in a centralization matrix. Where Arnold (1999) dealt with internationalization of the firm in general, this paper relies on export activities in relation to total sales. With regards to procurement, this paper uses the firm’s international purchasing expenditures in relation to the total purchasing budget. The authors, therefore argue, that compared to Arnolds paper, their measures are more precise as they explicitly include both sales and purchasing. Hence, the results should be directly applicable to the ongoing discussion in the wider literature on import and export behavior.

In addition, the paper has a different aim than Arnold, since this article identifies the differences underlying the combinations of activities in terms of behavioral and structural variables, whereas Arnold analyzed the link between internationalization and organizational structure and strategy aiming at identifying an optimal degree of centralization.

Another contribution of this paper is that most research on international purchasing has been concentrated largely on North American firms; especially MNC’s from the United States (see Murray et al. (1995) for an overview). This article makes an additional contribution by focusing on small industrial firms operating in a small and “open” economy, and thereby responding positively to the call for further empirical research on SME’s in non-US settings (Quintens et al., 2006b).

The applied data follows the distinction by Liang and Parkhe (1997) of importers by dividing them into two groups: Producers, who import for their own operational needs and Imports Brokers, Trade Intermediates or Merchants, who resell the imported goods.

The data also limits the research in the article to import of intermediate goods (components and parts) by manufacturing firms for their own operational needs. Another data limitation is that, even though the study categorizes both import and export activities, the configurations are studied from the perspective of the purchasing manager alone. Here, it would be relevant to include the perspective of the person responsible for sales as well.

The paper proceeds by exploring the literature on the connections between import and export activities within industrial firms, especially focusing on existing typologies (Section 2). The literature survey continues by identifying a

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