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Inward and Outward Internationalization in Malaysian  
Small-Medium Enterprises (SMEs):  
A Learning Approach

Submitted in fulfilment of the requirements of the  
Degree of Doctor of Philosophy (PhD.)

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## Abstract

This thesis investigates the learning processes of internationalizing small and medium enterprises (SMEs) that engage in inward internationalization (international sourcing), and outward internationalization (export). Although the notions of knowledge and learning are well addressed in the literature of internationalization, research on international sourcing from the perspectives of knowledge and learning, as well as research on the connections between international sourcing and export associated with knowledge and learning require serious attention. This research attempts to address this apparent theoretical and empirical deficiencies by providing a deeper understanding on the learning processes associated with international sourcing, export, and connections between international sourcing and export. Based on knowledge-based theories, organizational learning theories, and internationalization theories underpinned by the concept of cross-border buyer-supplier relationship, this research examines 1) the acquisition and exploitation of new knowledge from direct experience in international sourcing, and imitation of key foreign supplier, 2) the acquisition and exploitation of new knowledge from direct experience in export, and imitation of key foreign buyer, and 3) the acquisition, distribution, and exploitation of relevant knowledge by associating inward and outward internationalization. Thus, this research adopts a qualitative case study approach based on 10 case studies of the internationalizing SMEs in Malaysia. Semi-structured interviews with the Managing Director of case firms were conducted over a two-year period. Additionally, participant observations were conducted by attending the meetings related to import-export activities and documentations were gathered for data triangulation. The findings of this research contribute and extend the growing body of research on the importance of knowledge and learning on the internationalization of firm by developing conceptual framework of holistic view of internationalization which embrace inward and outward internationalization in terms of knowledge acquisition and exploitation, and the connections between inward and outward internationalization in terms of knowledge acquisition, distribution, and exploitation. Close relationship with key foreign suppliers empowered the imitation of key foreign suppliers of internationalization and technological knowledge. It also empowered firms to connect inward to outward internationalization through collaborative knowledge sharing. The distribution of knowledge through tacit-tacit and tacit-explicit knowledge sharing underpinned by formal planning was a prerequisite for inward-outward internationalization connections to be established by those firms.

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## Declaration of Originality

“I declare that, except where explicit reference is made to the contribution of others, that this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.”

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Signature: \_\_\_\_\_

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## List of Abbreviations

|      |                                  |
|------|----------------------------------|
| cf.  | compare with                     |
| e.g. | for example                      |
| INV  | International new venture        |
| IP   | Internationalization process     |
| KBV  | Knowledge-Based View             |
| NSDC | National SME Development Council |
| RBV  | Resource-Based View              |
| SMEs | Small and Medium Enterprises     |

## Chapter 1

### Introduction

#### 1.1 Research Background

This thesis investigates the learning processes associated with the development of buyer-supplier relationships among SMEs involved in international sourcing and export. A growing number of SMEs in Malaysia are moving towards the global market and pursuing the opportunity to operate internationally (Chelliah and Lee, 2016). However, the global market does not only epitomize greater room for selling opportunities, but also extends to sourcing opportunities (Servais et al., 2007). This has posed challenges for mainstream literature (Servais et al., 2007), which focuses exclusively on outward internationalization (Karlsen et al., 2003; Agndal, 2006; Holmund et al., 2007; Hernández and Nieto, 2016). Before or while firms move to outward process, and enter the foreign market for international sales, there may be an equivalent inward process of developing international sourcing (Karafyllia, 2009). International sourcing offers possibilities to obtain scarce resources (raw materials, components, manpower, and technology) or cheaper resources, and to develop or consolidate the firm's presence in the foreign market (Nassimbeni, 2006). It also provides a way for SMEs to access resources such as knowledge to build competitive advantage and stimulate firm growth (Hessels and Parker, 2013).

The advancement of technologies in communication and transportation, as well as the support that can be obtained from intermediaries, offers increasing viability of international sourcing to be performed by firm (Rexha and Miyamoto, 2000). Nevertheless, high volume of international sourcing is not a final goal in itself (Servais and Jensen, 2001). Similar to export, international sourcing from several countries provides more opportunities for knowledge development (Demeter, 2014). Even though knowledge has been recognized as a critical component of international sourcing, there is a lack of literature on the development of organizational routines and knowledge processes associated with international sourcing (Pagano, 2009). There is a need to explore the process of organizational learning that occurs between partners in the process of international sourcing (Aykol et al., 2013). This research attempts to fill these gaps by investigating the learning processes associated with direct experience in international sourcing, and imitation of key foreign suppliers through the relationship with key foreign

suppliers during international sourcing in terms of knowledge acquisition and exploitation (Fuerst and Zettinig, 2015).

Malaysia tends to have higher exports as compared to international sourcing as it is believed that this will lead to job creation and economic contributions (Teng, 2013). However, the importance of international sourcing is still being acknowledged but there is a need to examine whether it can lead to further or higher efficiency which can contribute towards export (Teng, 2013). International sourcing is as a means for learning about the international market, and the supply environment, an opportunity for exploiting knowledge created elsewhere and adapting to firm' products and services, as well as a medium for establishing relationships with foreign firms that have the potential to become continuing clients or the channels of distribution into foreign markets (Grosse and Fonseca, 2012). From a network perspective, it is normal to assume that there are connections between inward and outward internationalization as knowledge can be transferred from one activity to another (Holmund et al., 2007; Behyan et al., 2015). However, previous studies on the connections between inward and outward internationalization dealt with all kinds of counterparts, without distinguishing the relationship with suppliers during inward internationalization, and the relationship with buyers during outward internationalization (Holmund et al., 2007). Therefore, the connections between inward and outward internationalization has not been fully observed (Holmund et al., 2007). This research also seeks to fill this gap by associating inward-outward internationalization connections, and cross-border buyer-supplier relationships.

In conclusion, although existing literature highlighted the importance of knowledge and learning in the process of internationalization; the learning processes, the sources of learning, and the content of knowledge, have not been compared systematically (Pellegrino and McNaughton, 2017). The acquisition of knowledge about different aspects of internationalization demands sources of learning and contents of knowledge to be clarified (Pellegrino and McNaughton, 2017). There is a notable need for examining knowledge acquisition from a wider range of sources besides of direct experience in internationalization, and understanding the combination of knowledge sources that are available (Akerman, 2014). As firms typically draws on some combination of experiential and imitative learning (Lieberman and Asaba, 2006), this research attempts to fill these gaps by examining the learning processes, and the content of knowledge from direct

experience in international sourcing and exports, as well as the imitation of key foreign suppliers and buyers. In addition, knowledge processes and learning outcome from the connections between inward and outward internationalization are needed to be explored (Karlsen et al., 2003). Internal mechanisms and processes for sharing external knowledge generated from inward internationalization to fulfil the demand of outward internationalization, and from outward internationalization to fulfil the demand of inward internationalization remain unclear (Karlsen et al., 2003; Hernández and Nieto, 2016). This research also attempts to fill this gap by examining the learning processes associated with inward-outward internationalization connections in terms of knowledge distribution (Huber 1991; Karlsen et al., 2003; Hernández and Nieto, 2016).

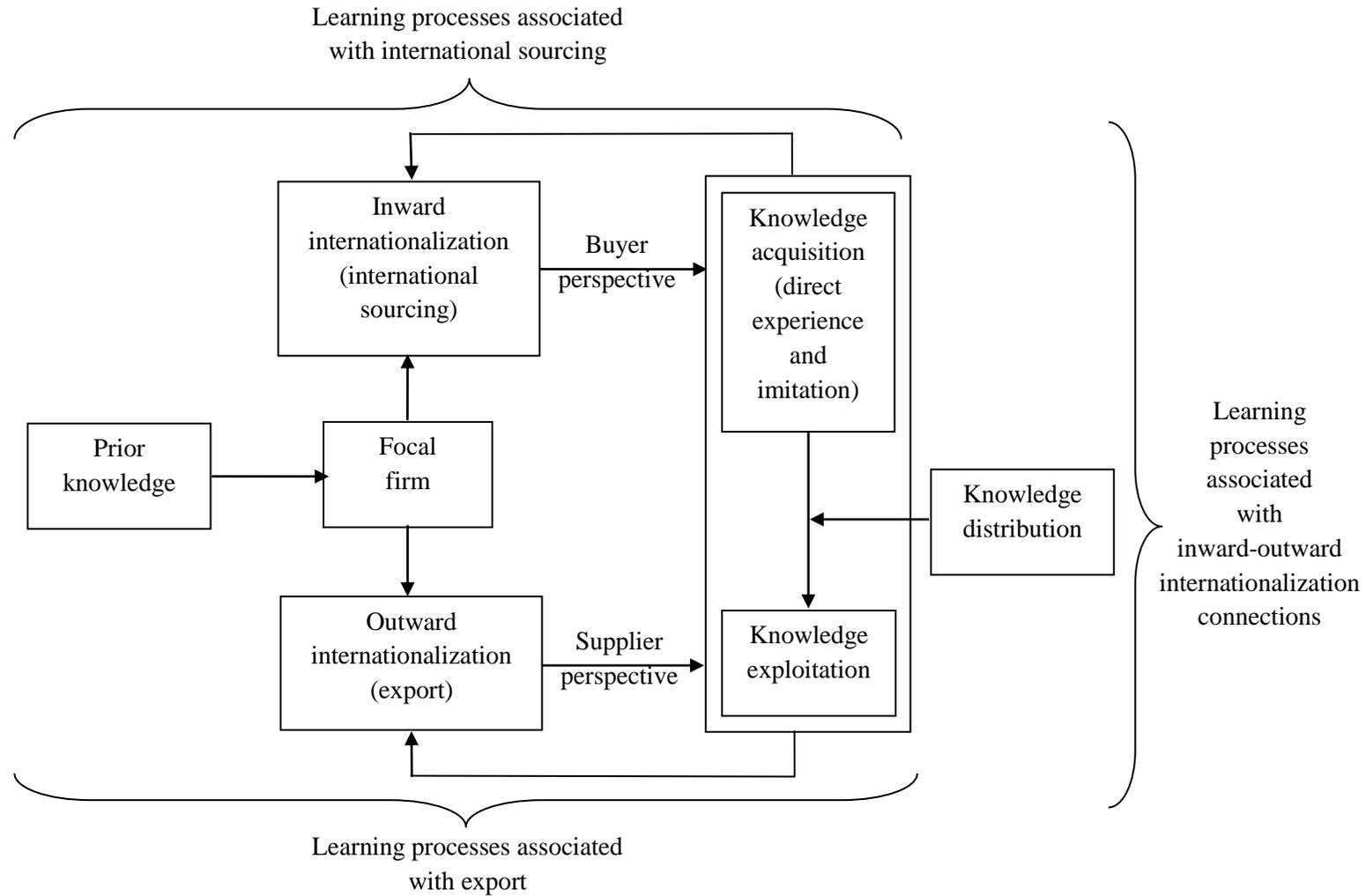
## **1.2 Research Framework, and Research Objectives**

This research takes an integrated approach to investigate the learning processes associated with international sourcing, export, and connections that emerge between these two international operations by the internationalizing SMEs; by integrating knowledge-related theories associated with internationalization (Johanson and Vahlne, 1977; 1990; Oviatt and McDougall, 1994), learning-related theories associated with cross-border buyer-supplier relationship (Dyer and Singh, 1998; Johanson and Vahlne, 2009), as well as organizational learning theory (Huber, 1991, Argote, 2012). Provided that there is a paucity of studies on inward internationalization (Knudsen and Servais, 2007; Hernández and Nieto, 2016) related to knowledge and learning (Pagano, 2009; Jonsson and Tolstoy, 2013), and the connections that emerge between inward and outward internationalization (Oviatt and McDougall, 1997), the scope of research framework was extended to cover the interplay between inward internationalization (international sourcing), outward internationalization (export), cross-border buyer-supplier relationship, knowledge, and learning. The notion of the cross-border buyer-supplier relationship is included in the research framework considering that inward-outward internationalization can be present by buyer-supplier relationships (Welch and Luostarinen, 1993). Buyers can learn and acquire knowledge from suppliers and suppliers can learn and acquire knowledge from buyers, through inward, and outward internationalization (Welch and Luostarinen, 1993; Korhonen et al., 1996; Johanson and Vahlne, 2009). This research develops a research framework as shown in Figure 1.1 below based on the constructs of a firm's prior knowledge (Cohen and Levinthal, 1990; Huber, 1991); inward internationalization (international sourcing) (Rexha and Miyamoto, 2000); outward internationalization (export) (Johanson and Vahlne 1977;

1990); cross-border buyer-supplier relationship (Welch and Luostarinen; 1993; Johanson and Vahlne, 2009); knowledge acquisition (Levitt and March, 1988; Huber, 1991; DiMaggio & Powell, 1983); knowledge distribution (Huber, 1991); and knowledge exploitation (Spender, 1996; Zahra and George, 2002).

Organizational learning theory acknowledges that prior knowledge influence learning in a firm (Cohen and Levinthal, 1990; Huber, 1991). Thus, the acquisition of new knowledge depends on the possession of prior knowledge which include market, internationalization, and technological knowledge (Eriksson et al., 2000; Autio et al., 2000; Yli-Renko et al., 2002) Organizational learning theory also acknowledges that new knowledge can be acquired from direct experience (Huber, 1991; Argote, 2012) in international sourcing and export, as well as the imitation (Huber 1991; Argote 2012) of key foreign supplier and key foreign buyer. The acquisition of new knowledge is positively associated with the exploitation of new knowledge (Yli-Renko, 2001). According to Pellegrino and McNaughton (2017), learning that takes place at the interface between the internationalizing firm. Thus, other external organizations including buyers and suppliers, should be investigated (Pellegrino and McNaughton, 2017). This can be informed by inter-organizational theories, thus uncovering how knowledge developed at the interface with key foreign supplier and key foreign buyer is exploited within a firm as it internationalizes (Pellegrino and McNaughton, 2017) through international sourcing and export. Thus, the first dimension of this research framework engages the perspective of buyers involved in international sourcing to represent how they acquire and exploit new knowledge from the relationship with key foreign supplier. The second dimension engages the perspective of suppliers involved in export to represent how they acquire and exploit new knowledge from the relationship with key foreign buyer. Two sources of new knowledge were outlined: direct experience in international sourcing and export, and the imitation of key foreign supplier and key foreign buyer. The final dimension concerns with the acquisition, distribution, and exploitation of knowledge which represents the connections between international sourcing and export. Connections between international sourcing and export have been acknowledged by scholars in international business through knowledge processes such as knowledge creation (Karlsen et al., 2003), knowledge transfer (Korhonen et al., 1996; Karlsen et al., 2003), and knowledge utilization (Karlsen et al., 2003). However, knowledge distribution is not delineated.

Figure 1.1: Research framework of learning processes associated with international sourcing, export, and connections between inward and outward internationalization



The specific aims of this research are to investigate how the internationalizing firms acquire and exploit new knowledge as they conduct international sourcing and export, and how international sourcing and export are connected in terms of knowledge acquisition, distribution, and exploitation. Thus, the research objectives include the following:

- To investigate the development of learning process from the direct experience in international sourcing and the imitation of key foreign supplier
- To investigate the development of learning processes from the direct experience in export, and the imitation of key foreign buyer
- To investigate the development of learning processes from the connections between inward and outward internationalization in terms of knowledge acquisition, knowledge distribution, and knowledge exploitation

### **1.3 Research Approach**

This research adopts a qualitative case study approach to investigate the learning processes associated with international sourcing, export, as well as connections between international sourcing and export. Thus, an interpretivism paradigm is adopted to establish a subjective approach (Saunders et al., 2009). It is necessary to explore the subjective meanings which motivate the actions of social actors in order for the researcher to fully comprehend these actions (Saunders et al., 2009). Subjective understandings of external world from the perspective of participant are captured, and the task of representing an “objective” unchanging external reality is eliminated (Easterby-Smith et al., 2008). Through induction approach, this research aims for theory building. In addition, a case study method is adopted to establish exploratory, descriptive and explanatory approaches (Yin, 2009). A case study method is preferred when a phenomenon cannot be distinguished from its context, the focus is on contemporary events, and the experience of actors is fundamental (Iacono et al., 2009). This research also adopts a longitudinal study which enables the study of change and development of learning processes associated with international sourcing, export, as well as connections between international sourcing and export (Saunders et al., 2009).

SME Corporation Malaysia, a Central Coordinating Agency under the Ministry of International Trade and Industry Malaysia, provided a list of contact details of Malaysian SMEs involved in exporting. Listed companies were contacted via telephone to clarify whether they involved in international sourcing. This reduce the number of firms entitled

to selection. Ten case firms were selected through purposeful sampling strategies (cf. Patton, 2002; Fletcher and Plakoyiannaki, 2011). This indicated that they were rich with information pertaining to international sourcing and export operations.

Case studies require multiple sources of evidence (Yin, 2009), which is another strength of the case study method (Chetty, 1996). This includes interview, documentations (e.g. personal documents, written reports of events, and administrative documents), archival records (e.g. service records, and organizational records), physical artefacts, direct observation, and participant observation (Yin, 2009). Thus, this research employs semi-structured interviews with the Managing Director of case firms. This allowed the researchers to obtain detailed insights on the learning processes by the internationalizing firms. This research also employs participant observations via the attendance of meetings. The researchers thus obtain detailed insights and better understanding on the learning processes associated with connections between inward and outward internationalization (Noor, 2008). Additionally, data is collected from documentation with authorization from top management. This promotes data triangulation and prevents reliance on semi-structured interviews (Yin, 2009).

Primary data from semi-structured interviews is analyzed through within-case and cross-case techniques (cf. Miles and Huberman, 1994). This is aided by computer-assisted qualitative data analysis using NVivo (cf. Fletcher, 2007).

#### **1.4 Thesis Structure**

This thesis integrates the notions of internationalization, cross-border buyer-supplier relationship, knowledge processes, and learning outcomes. All in all, this thesis consists of seven chapters, which include:

Chapter one starts with the research background which illustrates the importance of international sourcing, exporting, and inward-outward internationalization connection in relation to knowledge and learning, as well as the gaps that needs to be uncovered. The research framework and objectives are presented to explain the theoretical foundation of research, while the research approach is presented to explain the qualitative design of research. This chapter finishes with the thesis structure that briefly explains each of seven chapters.

Chapter two presents the literature review, with a specific focus on knowledge-related theories related to internationalization and learning-related theories related to cross-border buyer-supplier relationship. Firstly, the conduct of inward and outward internationalization, and the connections between inward and outward internationalization, is presented. Considering that knowledge is fundamental to internationalization, knowledge-based theories such as Behavioural Theory, Resource-Based View (RBV), and Knowledge-Based View (KBV) are explained to support and explain the interplay between knowledge and internationalization. As internationalization provides opportunities to create and develop cross-border buyer-supplier relationship, learning-based theories related to buyer-supplier relationship which include Relational View, and the Revised Uppsala Model is explained, to support and explain the interplay between internationalization, cross-border buyer-supplier relationship, and learning. Lastly, drawing from the IP theory, and the INV theory, the content of knowledge is presented. The IP Theory acknowledges the importance of acquiring market knowledge (Johanson and Vahlne, 1977; 1990). Only recently has it acknowledged the importance of acquiring internationalization knowledge (Johanson and Vahlne. 2009). On the other hand, the INVs theory acknowledges the importance of acquiring technological knowledge (Yli-Renko et al., 2002).

Chapter three presents a literature review, with a specific focus on organizational learning theories relevant to research objectives and questions. This chapter starts with the definition of organizational learning, links between individual and organizational learning, and the levels of organizational learning. Drawing from Huber (1991) and Argote (2012), the processes of organizational learning including knowledge creation, knowledge retention, distribution, and interpretation, as well as knowledge transfer, are all discussed. The sources of organizational learning represent how firms learn from the direct experience in international sourcing and export, as well as the imitation of key foreign supplier, and key foreign buyer. The outcomes of organizational learning represent how firms exploit newly-acquired knowledge from the perspective of supplier as well as the perspective of buyer. This chapter finishes with the research framework, objectives, and questions derived from the literature review.

Chapter four presents the research methodology, including research approach, research philosophy, research design, and profile of case companies. This research adopts qualitative approach, and interpretivism paradigm with subjective and inductive

approaches. This allows deep and new insights of learning processes to be uncovered. This research also adopts a qualitative design based on case study. Initially, the background of research in the context of Malaysian SMEs is discussed. Then, justifications for the selection of case studies method and the selection of ten case companies follow. This research concerns with qualitative data collection. Thus, the interview process with the Managing Director of case firms, the important role of researcher, and the triangulation of data, and longitudinal studies are discussed to support and explain the validity and reliability of the research. This research also concerns with qualitative data analysis. Based on Miles and Huberman (1994), and Yin (2009), within-case analysis and cross-case analysis are conducted for case studies method. This involves identifying themes and patterns. This chapter finishes with the profile of case firms. Types of firms, the identification of two case groups (case firms that started with international sourcing before export, and case firms that started with export before international sourcing), and the sales and growth of case firms are discussed.

Chapter five presents the within-case analysis. The findings are presented in two major themes.

1. Learning in cross-border buyer-supplier relationships – This theme examines the possession of prior knowledge which are needed to conduct international sourcing and export, as well as the acquisition and exploitation of new knowledge from the direct experience in international sourcing and export and the imitation of key foreign supplier and key foreign buyer, through the relationships with key foreign supplier and key foreign buyer.
2. Connection of inward and outward internationalization – This theme examines the connections that emerged between inward and outward internationalization in terms of knowledge acquisition, distribution, and exploitation.

Chapter six presents a cross-case analysis. Findings are also presented in terms of the four major themes identified earlier. The cross-case analysis of each group is presented to identify trends and patterns within groups. These groups include case firms that started international sourcing before export, and case firms that started export before international sourcing. Cross-case analysis across groups is presented to identify trends and patterns across groups. This describes the interplay between 1) prior knowledge and new

knowledge; 2) network embeddedness and imitative behaviour; and 3) cross-border buyer-supplier relationship and inward-outward internationalization connection.

Chapter seven presents the conclusions. The findings of research are discussed based on the objectives of research in order to develop the conclusions. This chapter concludes with the implications of research on literature, management, and public policy, as well as the limitations of research, and the recommendations of future research.

## **Chapter Two**

### **Knowledge and Internationalization, and Learning in Cross-Border Buyer-Supplier Relationship**

#### **2.1 Introduction**

The current debate of research on internationalization concentrates on export as the primary way of firm to enter the foreign markets (Almodóvar et al., 2014). However, the internationalization of firm encompasses various modes of foreign entry (Almodóvar et al. 2014; Shearmur et al., 2015). Each of these modes offers potential opportunities for knowledge and learning to be acquired (Zahra et al., 2000; Zahra et al., 2009; Almodóvar et al. 2014). The internationalization of a firm is not solely outward driven, but also inward driven in practice (Welch and Luostarinen, 1993; Korhonen et al., 1996; Fletcher, 2001; Karlsen et al., 2003). inward internationalization, particularly international sourcing, should be included as part of firm's overall internationalization strategy (Karlsen et al., 2003). Therefore, inward internationalization referring to international sourcing, and outward internationalization referring to export are delineated in this research. Previous studies acknowledged that inward and outward internationalization affect and build on each other (Welsh and Luostarinen 1993; Korhonen et al., 1996; Karlsen et al., 2003; Laurin and St-Pierre, 2011; Halilem et al., 2014). As knowledge has been recognized as the essential resource in the process of internationalization (Casillas et al., 2009; Freeman et al., 2010), theories relating to knowledge are used to explain the association between knowledge and internationalization. This provides a foundation for explaining learning in cross-border buyer-supplier relationships. Knowledge can be created through exchanges in a firm's network of interconnected relationships (Johanson and Vahlne, 2009). Buyer-supplier relationships offer opportunities for learning, and trust and commitment building, helping explain how SMEs internationalize (Johanson and Vahlne, 2009).

#### **2.2 Internationalization – Inward and Outward Internationalization**

There are two operations of internationalization: inward and outward internationalization (Behyan et al., 2015). As both sides of the operations have become more closely linked in the dynamics of international trade, internationalization can be defined as “the process of increasing involvement in international operations” (Welch and Luostarinen, 1988). Previous studies largely focus on outward internationalization as compared to inward internationalization (Agndal, 2006; Lamb and Liesch, 2002; Holmund

et al., 2007; Yeoh, 2014). Empirical research has been developed on inward internationalization, but this has been derived from the perspective of purchasing rather than internationalization itself (Fletcher, 2001). The role of inward internationalization in the essence of international business may be more essential than what has been documented earlier in the literature (Rodriguez, 2007). The ignorance of inward internationalization may represent the ignorance of the extent and complexity of a firm's internationalization involvement (Laurin and St-Pierre, 2011; Yeoh, 2014). Additionally, previous studies focused on both inward and outward internationalization as part of a holistic approach to internationalization have been rare and sporadic (few exceptions to Welch and Luostarinen, 1993; Korhonen et al., 1996; Karlsen et al., 2003).

### **2.2.1 Outward Internationalization – Export**

Outward internationalization involving outward operations is related to serving or selling in foreign markets (Hernández and Nieto, 2016). It refers to different activities such as marketing, sales, production and distribution in the foreign markets (Holmund et al., 2007). Most previous studies consider outward internationalization in terms of exporting by a firm (cf. Korhonen et al., 1996; Karlsen et al., 2003).

#### ***Barriers to export***

Barriers to export can be defined as “all those attitudinal, structural, operational, and other constraints that hinder the firm's ability to initiate, develop, or sustain international operations” (Leonidou, 1995). There are both internal and external barriers (Cavusgil and Zhou, 1994; Leonidou, 1995; Tesfom and Lutz, 2006; Pinho and Martins 2010; Kahiya, 2013). External barriers derive from the environment in which the firm operates (Leonidou, 1995) and include home-based market, host-based market, and industry-level barriers (Tefom and Lutz, 2006; Kahiya, 2013). Internal barriers are inherent to the firms, and are usually associated with available organizational resources or export marketing approaches (Leonidou, 1995), and consist of resource-related, managerial-related, marketing-related, and knowledge-related barriers (Kahiya, 2013). Barriers in terms of knowledge and experience are among the most frequently researched constraints (Kahiya and Dean, 2016). Knowledge barriers include a lack of information and knowledge about aspects related to export activity (Suarez-Ortega, 2003; Arteaga-Ortiz and Fernández-Ortiz, 2010), and the ignorance of firms about the basic aspects of exporting (Arteaga-Ortiz and Fernández-Ortiz, 2010). Common barriers in knowledge and

experience include an inability to identify foreign market opportunities, inability to find reliable overseas representation, and limited information to analyze markets (Kahiya and Dean, 2016). There are two contrasting views relating to knowledge-related barriers (Kahiya, 2013), and how the internationalizing firms develop the base of knowledge and experience (Kahiya and Dean, 2016). The first view stresses that knowledge-related barriers are overcome through learning that occurs with internationalization (Kahiya, 2013) as firms develop their knowledge and experience by exporting (Williams et al., 2014; Kahiya and Dean, 2016). The second view advocates that knowledge-related barriers can be overcome before internationalization begins (Kahiya, 2013), as prior knowledge can enhance subsequent learning and experience once a firm commences exporting (Williams et al., 2014; Kahiya and Dean, 2016).

Kahiya (2013) proposed that knowledge and experience barriers are generally perceived as being more influential by conventional firms as compared to INVs. Knowledge and experience barriers entail a learning process and knowledge acquisition, since such barriers decline through the stages of export development (Kahiya and Dean, 2016). However, Kahiya and Dean (2016) extended that knowledge and experience barriers are generally perceived as being less influential by firms at the advanced stages of export development. This was supported by Morgan and Katsikeas (1998), who found that in contrast to higher-intensity exporters, lower-intensity exporters were consistently perceived knowledge barriers as an impediment towards export development. Suarez-Ortega (2003) also found that lack of knowledge about aspects related to export activities is perceived as a smaller barrier by exporting firms; meanwhile, this is a significant barrier for non-exporting firms that have an interest to conduct export activity. Thus, knowledge which develops prior to internationalization, in combination with the learning that occurs after the initial export order, appears to influence how exporters perceive knowledge and experience barriers (Williams et al., 2014; Crick and Crick, 2016; Kahiya and Dean, 2016).

### ***Enablers to export***

Previous studies use the terms ‘drivers’ and ‘enablers’ interchangeably (Love and Roper, 2015). Export can be driven by internal and external enablers (Love and Roper, 2015). Internal enablers may include the skills, financial, and R&D of firm (Love and Roper, 2015). The resource-constrained nature of many small firms means they may depend on the broader eco-system in which they operate (Love and Roper, 2015). Hence,

Love and Roper (2015) considered two main categories of external enablers. The first category concerns the factors that enhance or augment the knowledge base of firm, and provide the basis for export development. The second category concerns the factors that enhance or augment the internal resources of a firm and overcome the constraints of internal resources (Love and Roper, 2015). Knowledge is regarded as one of the vital requisites for successful international expansion (Evangalista and Mac, 2016). Love and Roper (2015) considered three key channels which enable firms to obtain external knowledge, which then contributes to their export activity. This include the channel of “being there”, whereby firms benefit from uncostly and unplanned flow of local knowledge facilitated by social contacts or labour market linkages (Love and Roper, 2015). In addition, this includes the channel of “openness” whereby firm involve in partnering, and engage in deliberate relationships with other firms to accumulate market understanding, and technical knowledge (Love and Roper, 2015), Firm also “learn by exporting” to acquire market and technological knowledge through export (Love and Roper, 2015). On the other hand, resource constraints can be eased through collaborative arrangements (Love and Roper, 2015).

One of the most important enablers of internationalization refers is the use of networks (Ratten et al., 2007). Adapting from work by Leonidou et al. (2007), which describes the role of buyers and intermediaries as external stimuli to export, Francioni et al. (2016) proposed the role of network in supporting the presence of firm in the export market, and provided a more comprehensive view of relevant network actors. This includes buyers, suppliers, intermediaries, consultants, trade associations, government agencies, and those who have formal multilateral cooperation with the firm such as export consortia and R&D projects. Each network partner has certain resources, skills, and knowledge which can contribute to the development of firm export behaviour (Francioni et al., 2016)

### **2.2.2 Inward Internationalization – International Sourcing**

Inward internationalization involving inward operations is related to international supply operations (Hernández and Nieto, 2016). It entails the purchase of products, services, or technologies from foreign sources, either directly or indirectly (Welch and Luostarinen, 1993; Rodriquez, 2007). This often becomes a routine of purchasing personnel, and thus is regarded as supporting activities (Karlsen et al., 2003). However, it has come to be perceived as a major strategic resource at the firm level. This is reflected in

the increasing emphasis on the international supply chain in international marketing and business (Karlsen et al., 2003). Slolars implicitly associated inward internationalization to the conduct of international sourcing by firm (Servais and Jensen, 2001; Rasmussen et al., 2012). Other scholars explicitly associated international sourcing with the purchase of materials and components from foreign suppliers (Petersen et al., 2000; and Nassimbeni, 2006). Various sourcing approaches which encompass different content of firm' international purchases such as raw materials, components, finished goods, technologies, and services, are available to be practiced by firms (Servais et al., 2007). However, the sourcing side of internationalization remains largely unexplored (Servais et al., 2007; Rasmussen et al., 2012).

### **2.2.3 The Connection of Inward-Outward Internationalization**

Little empirical work has been conducted on the connection between inward and outward internationalization (Oviatt and McDougall, 1997). Inward internationalization may support the development of outward internationalization by firm (Welch and Luostarinen, 1993; Korhonen et al., 1996; Karlsen et al., 2003; Laurin and St-Pierre, 2011; Halilem et al., 2014; Welch, 2015). Nonetheless, the nature and extent of inward internationalization may have an essential impact on the likelihood, timing, and pattern of outward internationalization (Welch and Luostarinen, 1993). The connection to outward internationalization is less likely to develop unless direct intervenes of foreign supplier during the process of international sourcing can be maintained (Welch and Luostarinen, 1993). In contrast to inactive search of foreign supplier where international sourcing is initiated by foreign supplier, active search of foreign supplier which include visits to relevant foreign markets develops a foundation that may subsequently assists outward internationalization (Welch and Luostarinen, 1993). Rodriguez (2007) exemplified that inward internationalization may initiate future outward internationalization as firms may select foreign suppliers that can assists their planning on internationalization strategies. When a relationship exists between the products and/or services areas of the buyers and suppliers, suppliers may have a vested interest to assist their buyers' outward internationalization (Welch and Luostarinen, 1993). However, even when such relationships do not exist, suppliers may still have a vested interest to maintain the relationship, and to provide the assistance to their buyers in order to strengthen the relationship (Welch and Luostarinen, 1993). Laurin and St-Pierre (2011) extended this concept, stating that inward internationalization may initiate and develop future outward

internationalization through foreign contacts and international experience which acquired from conducting inward internationalization. Foreign contacts relevant for export may derive from a foreign supplier, import agent, distributor, freight forwarder, or other player in the chain of international sourcing (Korhonen et al., 1996). Experience in inward internationalization particularly international sourcing which include trips to foreign market, investigation of suppliers and prices, negotiation with foreign suppliers, negotiations on foreign operation modes, and learning on foreign trade techniques can often be readily adapted to similar demand of outward internationalization particularly export (Korhonen et al., 1996). Recently, Hessels and Parker (2013) demonstrated that having a foreign supplier may lead to the creation of foreign market networks, and the acquisition of foreign market knowledge, and serve as a catalyst for exporting by firm. This was supported by Welch and Luostarinen (1993), who demonstrated that the activities of international sourcing including the investigation of foreign supplier, and the discussion with foreign supplier may contribute to the development of foreign contact networks, and foreign market knowledge which may enable future outward internationalization. Many firms began their international activities on inward internationalization. This may lead to outward internationalization as they gain knowledge and experience from inward internationalization (Korhonen et al., 1996; Rodriquez, 2007).

Previous studies concentrated on how inward internationalization may facilitate the development of internationalization by firm (Welch and Luostarinen, 1993; Korhonen et al., 1996; Karlsen et al., 2003; Laurin and St-Pierre, 2011; Halilem et al., 2014; Li et al., 2017). Nonetheless, outward internationalization may also support the development of inward internationalization as the former may supply internationalization and technological knowledge which is useful for conducting the latter (Hernández and Nieto, 2016). The connections of inward-outward internationalization in certain cases may not be prompt and direct, rather evolving over time through a number of mechanisms (Welch and Luostarinen, 1993).

### **2.3 Knowledge**

A lack of knowledge generates risk and uncertainty perceptions which tend to limit firm preparedness to make international commitments (Johanson and Vahlne, 1977; 1990; Welch, 2015). Through experience in foreign operation, increased knowledge and reduced uncertainty allow a firm to prepare for commitment of

additional resources by changing how they operate in a particular market (Welch, 2015). This explains why some companies follow an incremental process as suggested by the Internationalization Process (IP) theory (Johanson and Vahlne, 1977; 1990). In contrary, Oviatt and McDougall (1995) stressed that firm's early internationalization can be supported by entrepreneur and top management team through their prior knowledge. Thus, the role of knowledge on the internationalization process of firm is multifaceted and central to gaining an understanding the patterns of firm internationalization in terms of geographic expansion as well as speed (Petersen et al. 2008; Akerman, 2014). Fundamentally, a firm's internationalization behaviour is based on knowledge prior to business action (Casillas 2009; 2010; Akerman, 2014). However, for entering the foreign market, the development of knowledge is required (Petersen et al. 2008). A firm may suffer from a gap between the knowledge that they have and the knowledge that they need for a successful foreign business venture (Petersen et al., 2008). Internationalization can promote learning and the accumulation of knowledge which needed by firm in order to survive and prosper (Sharma and Blomstermo, 2003; Zahra et al., 2000; Zahra et al., 2009). Learning concerns acquiring knowledge, and occurs when firms acquire potentially useful knowledge (Huber, 1991; Akerman, 2014). Through collective memory, knowledge is accumulated within a firm's routines (Levitt and March, 1988; Forsgren 2002) by people involved in the foreign operations (Forsgren, 2002). Forsgren (2002) argued that knowledge accumulated higher up in the organization also influences strategic behaviour of firm in internationalization. This section presents the knowledge-related theories which supports the internationalization of firm.

### **2.3.1 A Behavioural Theory of the Firm**

After Administrative Behaviour (Simon, 1947), Organizations (March and Simon, 1958), and A Behavioural Theory of the Firm (Cyert and March, 1963) were three early foundations of firm behaviour and administration published by the Carnegie School (Gavetti et al., 2012). A Behavioural Theory of the Firm has been viewed as the most mature encapsulation of the early "Carnegie School" approach since it shares numerous foundational ideas of preceding works (Gavetti et al., 2012). Bounded rationality leads to a representation of choice which is informed by the past and operates in the present, whereby the role of calculation and distance forecasts is not needed (Gavetti et al., 2012). In neoclassical theories, organizations identify, choose, and implement optimal alternatives.

However, in behavioural theories, organizations deal with bounded rationality by 1) simplifying decision of a problem; 2) setting targets and look for alternatives which satisfy those targets rather than searching for the best imaginable solution; 3) allocating attention to monitor performance with respect to targets; 4) attending to goals sequentially rather than simultaneously; and 5) following rules of thumb and standard of operating system (Cyert and March, 1992). Standard of operating procedures resulting from bounded rationality influenced work by Nelson and Winter (1982) on routine (Argote and Greve, 2007; Gavetti et al., 2012).

A Behavioural Theory of the Firm proposed four major relational concepts, including: 1) quasi resolution of conflict; 2) uncertainty avoidance; 3) problemistic search; and 4) organizational learning, which underlie the formulations of organizational goals, expectations, and choice (Cyert and March, 1992). Cyert and March (1992) demonstrated that an alternative concept of organizational goals, and alternative assumptions on resolution of conflicts have been proposed by exemplifying goals as independent constraints, and conflicts can be resolved through local rationality, acceptable-level decision rules, and sequential attention to goals. Cyert and March (1992) established that organizations avoid anticipating long-run uncertain events. Their decision rules emphasize on short-run reaction to short-run feedback, in which a problem is solved as it happens and organizations then wait for another problem to happen (Cyert and March, 1992). Organizations may also avoid planning on uncertain future events, and considering on negotiable environments (Cyert and March, 1992). Cyert and March (1992) demonstrated that search is motivated by problem, and directed to solutions. Organizations may search in the neighbourhood of problem symptoms or the neighbourhood of current alternative (Cyert and March, 1992). Cyert and March (1992) established that organizations learn, and exhibit adaptive behaviour. They change their goals, shift their attention, and revise their procedures for search, as a result of their experience (Cyert and March, 1992). These theoretical mechanisms specify how bounded rationality plays out in an organization (Cyert and March, 1963; Gavetti et al., 2012).

Besides of evolutionary economics, the organizational learning theory (Levitt and March, 1988; Huber, 1991) is the most direct descendant of A Behavioural Theory of the Firm (Argote and Greve, 2007). Organizational learning theory uses the concepts and mechanisms of A Behavioural Theory of the Firm and yielded new research questions and

learning mechanisms (Argote and Greve, 2007). A Behavioural Theory of the Firm perceived learning to include reinforcement of attention rules and search paths which proved successful to generate solutions (Cyert and March, 1963). Gavetti et al. (2012) emphasized that an article by Levitt and March (1988) opened this view to also include learning from the external sources, such as the experience of others. This refers to the imitation of other firms (Levitt and March, 1988; Huber, 1991). DiMaggio and Powell (1983) viewed mimetic behaviour as a form of problemistic search at a lower cost to reduce the uncertainty faced by an organization (Cyert and March, 1963)

The basis of research on the internationalization process by firm can be found in A Behavioural Theory of the Firm (Cyert and March, 1963; Ruzzier et al., 2006). There are two underlying assumptions of internationalization model by Johanson and Vahlne (1977) which include bounded rationality, and uncertainty (Johanson and Vahlne, 2009). Cyert and March (1963) proposed on uncertainty avoidance, while Johanson and Vahlne (1977; 1990) extended this by demonstrating that lower uncertainty is associated with the knowledge acquisition from direct experience. Following Cyert and March (1963) on problemistic search, Johanson and Vahlne (1977) assumed that solutions to problems in the market are found in the area of problem symptoms. They extended this by stating that opportunities will be perceived by those who are working in the market, and such opportunities will lead to further market operations (Johanson and Vahlne, 1977). Johanson and Vahlne (2009) stated that to exploit opportunities, firms are needed to learn, and to create or strengthen business relationships. This helps firms to cope with uncertainty (Johanson and Vahlne, 2009).

Drawing from A Behavioural Theory of the Firm (Cyert and March, 1963; 1992), international business literature holds that firms can learn from their own experience in internationalization to reduce uncertainty (Johanson and Vahlne, 1977; 1990). Besides that, organizational learning literature states that firms also can learn from the experience of others through imitation (Levitt and March, 1988; Huber, 1991). These sources of organizational learning; direct experience in international sourcing and export, as well as imitation of key foreign buyers and suppliers, are discussed further at the next chapter.

### 2.3.2 Resource-Based View

Work by Barney (1986) developed core resource-based arguments and proposed that firms must acquire the resource and capabilities which are needed to perceive and implement strategies in imperfectly competitive strategic factor markets to obtain economic rents (Barney, 2001). Later, RBV was used and developed to understand how competitive advantage can be achieved and sustained by firm (Dierickx and Cool, 1989; Barney, 1991; Peteraf, 1993). RBV assumes each firm is a collection of unique resources and capabilities. A given firm's basis of strategy, as well as firm's source of return abilities, are based on that uniqueness (Hanson et al., 2013). This has been supported by Barney (1991), who proclaimed that firms aim to gain sustainable competitive advantage must consider having resources which are 1) valuable for exploitation; 2) rare from competitors; 3) costly to imitate; and 4) unbearable to substitute. This is opposed to the industrial-organization (IO) model, which suggests that firm's returns are determined by external characteristics rather than firm's unique internal resources and capabilities (Hanson et al., 2013). Hanson et al. (2013) stated that firms develop or acquire internal assets and skills merely after they have study the external environment which includes general environment, industry environment, and competitor environment, and then locate an attractive industry to implement strategy for returns. They also stated that the IO model explains the dominance of external environment in influencing the strategic actions of firm. Going back to the concept of RBV, resources have been defined as:

“... stocks of available factors that are owned or controlled by the firm. Resources are converted into final products or services by using a wide range of other firm assets and bonding mechanisms” (Amit and Schoemaker, 1993).

Resources also refer to physical capital resources, human capital resources, and organizational capital resources (Barney, 1991; Hanson et al., 2013). Resources can be either tangible or intangible (Hanson et al., 2013). Capabilities have been defined as:

“... [a] firm's capacity to deploy resources, usually in combination, using organizational processes, to affect a desired end. They are information-based, tangible or intangible processes that are firm specific and are developed over time through complex interactions among the firm's resources” (Amit and Schoemaker, 1993).

Grant (1991) proposed that organizational routines elucidate enlightening insight of relationship between resources, capabilities, and competitive advantage. Types, amounts, and quality of resources may affect performance, and standard of routines in an organization (Grant, 1991). Winter (2003) proposed that routines are behaviours that are learned as a collection of routines form capabilities.

RBV has reached maturity as a theory (Barney et al., 2011). This is reflected on cumulative transition from RBV to resource-based theory (RBT), integration of RBV with other perspectives, publications of assessment on RBV, as well as contribution to prominent spin-off perspectives such as natural-RBV (cf. Hart, 1995), dynamic capabilities, and knowledge-based view (Barney et al., 2011). Teece et al. (1997) argued that the extended version of RBV to dynamic capabilities is due to an inadequate explanation of how and why certain firms gain competitive advantage during swift change. They proposed that competitive advantage lies within firm's routines or patterns of current practice and learning. This has been supported by Eisenhardt and Martin (2000) who suggested that besides of past mistakes and pace of experience; repeated practice shaping the path dependant process of firm which drive the evolution of dynamic capabilities. Practice assists both understanding processes and developing effective routines (Eisenhardt and Martin, 2000). Zollo and Winter (2002) also recognized the role of experience accumulation, knowledge articulation, and knowledge codification in terms of the evolution of dynamic capabilities and operating routines. Zahra et al. (2006) also suggested that different types of organization requires different types of capabilities thus established companies are more likely to learn from experience and new ventures developing and discovering their dynamic capabilities based on trial and error, and improvisation. Ultimately, the central emphasis of dynamic capabilities focuses on the mechanisms of learning (Barreto, 2010).

Conversely, Eisenhardt and Martin (2000) argued that sustainable competitive advantage depends on resource configurations which are build using dynamic capabilities instead of dynamic capabilities itself. Dynamic capabilities are best abstracted as tools to manipulate resource configurations (Eisenhardt and Martin, 2000). These tools can be used to enhance existing resource configurations using path-dependant strategic logic of leverage and to strengthen firm's current position, or to build new resource configurations using path-breaking strategic logic of change thus entering dynamic market (Eisenhardt and Martin, 2000). However, Fiol (2001) questioned whether firms are able to gain a sustainable competitive advantage based on their capabilities in competitive environment. He claimed that firms' capabilities and resources as well as firm's ways of using it are prone to constant alteration. Winter (2003) further argued that firm may change without dynamic capabilities, while exercising dynamic capabilities carries a cost. Thus, the most vital firm capability is the firm's ability to learn and change. It has been suggested that

how these capabilities generated competitive advantage should be investigated (Barney et al., 2001).

### **2.3.3 Resource-Based View and Internationalization**

The RBV of firm has become an influential theoretical perspective in the research of international business (Peng, 2001). The RBV of a firm in the process of internationalization (McDougall et al., 1994) suggests that firms are motivated to enter foreign markets because they are unable to generate all necessary resources from domestic markets (Westhead et al., 2001). However, the appropriate mode of foreign entry depends on the nature of resources required for that foreign entry mode (Kamakura et al., 2012). Firms enter new markets by exploiting available resources and searching for further enhancement of their resources (Kamakura et al., 2012). This claim has been explored by Barney et al. (2001), who claimed that RBV contributes to the research of foreign entry mode by signifying that the internationalizing strategies by firm are pulled by the resources capabilities of firm in the foreign market. According to Andersen (1997), RBV may be used to justify the interplay between firm's knowledge such as firm's experiential knowledge towards firm's foreign entry mode as an establishment chain. However, experiential knowledge alone appears inadequate to explain a firm's choice of foreign entry modes (Andersen, 1997). RBV has also been used to justify the interplay between firm's capabilities especially firm's know-how towards firm's foreign entry mode which is either internalization or collaboration (Andersen, 1997). Drawing from the INVs theory (McDougall et al., 1994), Westhead et al. (2001) used RBV to identify the resource-based factors which lead to SME's entry mode by exporting. They stated that the principal founder of a firm with diverse management know-how will have the ability to undertake more promising competitive strategies, and identify more promising market opportunities. They also stated that the principal founder of a firm with industry-specific know-how about customers, suppliers, or shareholders will exploit their previous experience for beneficial relationships. However, they argued that only certain principal founders have the ability to identify required resources and market opportunities in foreign markets to safeguard the development and survival of their ventures. This idea was also proposed by McDougall et al. (1994), who argued that based on RBV logic, only entrepreneurs possessing competencies associated with networks, knowledge, and background are able to combine resources in the foreign markets to form an INV. Etemad (2004) established that internationalizing SMEs should be more potent on distinct and unique resources as

compared to their affluent competitors, while Liesch and Knight (1999) claimed that of all resources, knowledge is the most critical for the international expansion of SMEs.

The Uppsala Internationalization Process Model (cf. Johanson and Vahlne, 1977; 1990) is based on the concept of RBV, even though it was not explicitly stated (Andersen and Kheam, 1998). This internationalization model is concerned with the gradual acquisition, integration, and use of knowledge about the foreign markets that can lead to increase of market commitment to the foreign markets (Johanson and Vahlne, 1977; 1990). Consequently, the Business Network Internationalization Process Model (cf. Johanson and Vahlne, 2009) has been proposed in light of the fact that there have been changes in business practices and advances in theoretical works since 1977 (Johanson and Vahlne, 2009). Johanson and Vahlne (2009) claimed that central issue of their original model was the relationship to market environment, which Penrose (1966) did not consider as a major issue, while RBV (Barney, 1986) has only been slightly demonstrated. Initially, the business-network view starts with the same assumptions of Penrose (1966) and RBV (Barney, 1986) in which resources are heterogeneous, and idiosyncratic resource bundles lead to value creation regardless of market conditions (Johanson and Vahlne, 2009). Subsequently, the business-network view holds that network exchange allows a firm to acquire knowledge about their partners in terms of resources, needs, capabilities, strategies, and other relationships (Johanson and Vahlne, 2009). On the other side, a vital role has been played by RBV in the emergence of international entrepreneurship by addressing the question of how SMEs are able to success rapidly abroad without undergoing the stages suggested in the “Uppsala Internationalization Process Model” (Peng, 2001). RBV has assisted in specifying resources that entrepreneurs can leverage (Peng, 2001). This was supported by Barney et al. (2001), who grasped the idea that RBV has helped to specify the nature of resources required to overcome the liability of foreignness, and provided a mean for studying the resources used for the basis of product and international diversification. According to Barney et al. (2001) INVs may enjoy an advantage in terms of resources such as significant international experience among top managers and networks (cf. Coviello, 2006).

#### **2.3.4 Knowledge-Based View**

The focus on strategic resources has extended RBV of firm towards KBV of firm (Grant, 1996; Erden et al., 2014). According to this perspective, knowledge is a valuable

resource which can allow a firm to attain competitive advantage (Grant, 1996; Blome et al., 2014). Grant (1996) demonstrated that KBV views firm as a knowledge-integrating strategy. KBV assumes knowledge as the essential input of production, and the main source of value (Grant, 1996). Thus, KBV concerns the role of a firm in integrating knowledge into production (Grant, 1996). There are four mechanisms for integrating individual specialized knowledge into firm production: 1) rules and directives; 2) sequencing; 3) routines; and 4) group problem solving and decision making (Grant 1996; 1997).

A firm may be viewed as a dynamic system (Nonaka et al., 2000) of knowledge production and knowledge application (Spender, 1996). Knowledge production refers to new knowledge creation, existing knowledge acquisition, and knowledge storage which depends on individuals specializes in particular knowledge areas (Grant, 1996). Knowledge application depends on effective knowledge transfer, so that knowledge can be utilized and greater performance can be obtained (Blome et al., 2014). Grant (1996) focused on the application of knowledge and the role of an individual to counterpoise earlier literature relating to both knowledge creation and organizational knowledge. However, Grant (1996) believed that a focus on knowledge application and neglect of knowledge creation is a more critical limitation.

### ***Tacit knowledge and explicit knowledge***

There is a critical distinction between tacit knowledge and explicit knowledge (Spender, 1996; Grant, 1997) in terms of transferability (Grant, 1997). Tacit knowledge is subjective and difficult to formalize (Nonaka et al., 2000). It is not easy to codify (Haldin-Herrgard, 2000). People may not be aware of tacit knowledge, since it consists of mental models, beliefs, and perspectives (Nonaka, 1994). Polanyi (1996) stated that “we know more than what we express” reflecting tacit knowledge is not easy to be expressed. Hence, the problem of diffusing tacit knowledge can be directed by the unconsciousness of having tacit knowledge and the difficulty of expressing it (Haldin-Herrgard, 2000). In addition, tacit knowledge is experiential in nature (Kogut and Zander, 1993; Nonaka et al., 2000). Therefore, it can be accumulated incrementally over time (Kogut and Zander, 1993). Nonaka et al. (2000) proposed that there are four categories of knowledge assets associated with tacit knowledge. These include 1) experiential knowledge assets that can be regarded as tacit knowledge shared through collective experience; and 2) routine knowledge asset

that can be regarded as tacit knowledge routinized and embodied in actions and practices. The others are 3) conceptual knowledge asset; and 4) systematic knowledge asset.

Greater experience promotes higher tacitness of knowledge and leads to greater problem in knowledge articulation (Haldin-Herrgard, 2000). This has been supported by Kogut and Zander (1993) who claimed that tacitness will increase the costs of transfer and decrease the speed of transfer within firm and between partners. Nonetheless, they proposed that difficulty in codifying knowledge represents the platform for market opportunities. They also stated that the gradual process of knowledge acquisition and knowledge recombination is associated with the sequential expansion of market entry. There are two different schools regarding externalization and codification of tacit knowledge (Haldin-Herrgard, 2000). One holds that tacit knowledge must be turned into explicit knowledge for knowledge sharing (cf. Nonaka, 1991; 1994; 2000; and Nonaka and Konno, 1998) while the other posits that tacit knowledge will always remain tacit (cf. Polanyi, 1996). Tacit knowledge can only be learned, but the process of learning takes time and requires active learner participation (Haldin-Herrgard, 2000).

On the other hand, explicit knowledge is objective and can be formalized into data, scientific formulas, specific actions, and manuals (Nonaka et al., 2000). Since it is formal and systematic, it can be easily transferred as compared to tacit knowledge (Nonaka, 1991). Haldin-Herrgard (2000) suggested that diffusing tacit knowledge is tougher than diffusing explicit knowledge. In addition, explicit knowledge is rational in nature (Nonaka et al., 2000). Conceptual knowledge assets and systematic knowledge assets are both explicit knowledge. The former is expressed through images, symbols, and languages such as product concepts, product designs, and brand equity, while the latter is organized and packaged in the forms of documents, specifications, manuals, databases, patents, and licences (Nonaka et al., 2000). It may be argued that knowledge assets determine the cost of knowledge creation, and the process of knowledge creation determines how knowledge assets are built (Nonaka et al., 2000).

### ***Knowledge creation***

Nonaka et al. (2000) demonstrated that KBV views a firm as a knowledge-creating entity. KBV argues that knowledge and capability of creating and utilizing knowledge are critical resource for sustainable competitive advantage of firm (Nonaka et al., 2000). The

knowledge spiral has been proposed to model knowledge creation by a firm through dynamic interaction between tacit knowledge and explicit knowledge (Nonaka, 1991; 1994; 2000; Nonaka and Konno, 1998; Nonaka and Toyama, 2003). Nonaka and Toyama (2003) stressed out that the dynamic interaction between tacit knowledge and explicit knowledge is augmented through the four modes of knowledge conversion. These include the conversion of knowledge from 1) tacit to tacit; 2) from tacit to explicit; 3) from explicit to explicit; and 4) from explicit to tacit. Knowledge creation begins with *socialization*. This refers the process of acquiring and converting tacit to tacit knowledge through shared experience in daily social interaction. *Externalization* takes place after socialization. This is the process of converting tacit to explicit knowledge to be shared by others to become the basis of new knowledge, and includes concepts, images, and written documents. Consequently, explicit knowledge collected from inside or outside firm will be combined, edited, or processed to form more complex and systematic explicit knowledge during *combination* process. New explicit knowledge is disseminated within a firm. Subsequently, explicit knowledge created and shared throughout firm will be converted into tacit knowledge during the process of *internalization*. Knowledge is applied and used in practical situations, and becomes the base of new routines.

### ***Tacit knowledge, learning, and competitive advantage***

Typically, organizational practice explicitly facilitates knowledge movement (Spender, 1994). Much of operational knowledge remains tacit due to slow articulation of tacit knowledge (Nelson and Winter, 1982). This is because it is impossible to articulate all tacit knowledge for firm' successful performance, and language cannot simultaneously serve to describe relationships and characterize related things (Nelson and Winter, 1982). Thus, tacit knowledge is remembered and learned by doing (Spender, 1994). Firms compete with other firms on the dominance of information and know-how as well as the ability of developing new knowledge by experiential learning (Kogut and Zander, 1993). This is because tacit knowledge is a great source of competitive advantage (Spender, 1994). Due to joint qualities of tacit knowledge which refers to novelty, and difficulty to imitate, tacit knowledge may exemplify the competitive advantage of firm for the growth and expansion of firm in the future (Kogut and Zander, 1993).

### **2.3.5 Knowledge-Based View and Internationalization**

KBV of internationalization is driven by early research led by Carlson at the University of Uppsala (1974) (Welch, 2015). The essence was the focus on the restraining effects from a lack of knowledge as the decision makers embark foreign market entry or expansion, which requires a commitment of resources in different types of foreign operations (Welch, 2015). A lack of knowledge creates uncertainty, and it can be reduced by conducting operations in the foreign market, and acquired experiential knowledge (Johanson and Vahlne 1977; 1990; Welch, 2015). As the learning process was unfolded, and the opportunities were perceived, firms may be prepared to commit additional commitment to the foreign market (Johanson and Vahlne 1977; 1990; Welch, 2015). On the other side, Gassman and Keupp (2007) claimed that KBV promotes the notion of international entrepreneurship. Work by Oviatt and McDougall (1994) demonstrated that the knowledge intensity of resource endowment constitutes an important factor for INVs, and knowledge can be combined rapidly and flexibly with more fixed assets in the foreign target markets due to its mobility (Autio, 2005). Knowledge intensity can be defined as the extent to which a firm depends on the knowledge inherent in their activities and output as the source of competitive advantage (Autio et al., 2000) Autio et al. (2000) proposed that greater knowledge intensity was associated with faster international growth. They argued that firms which are more knowledge intensive are more likely to develop learning capabilities necessary for rapid adaptation to a foreign environment, and to perceive opportunities for foreign expansion which are sustainable or accelerated is less costly. This was supported by Yli-Renko et al. (2002), who found that knowledge intensity is positively related with international sales growth.

Both the perspectives of Johanson and Vahlne (1977; 1990), and Oviatt and McDougall (1994) recognize knowledge as the essential resource in the process of internationalization (Casillas et al., 2009) but they are differing on the contents, roles, and sources of knowledge emphasized in each perspective (Prashantham, 2005). The first perspective highlighted the importance of market knowledge (Johanson and Vahlne, 1977; 1990) to regulate resources committed to the foreign market (Yli-Renko et al., 2002; Prashantham, 2005), while neglecting the importance of internationalization knowledge (Forsgren, 2002) which has been highlighted by the recent research (Johanson and Vahlne, 2009; Fletcher et al., 2013). Market knowledge can be acquired by firm through their own experience of foreign operations (Johanson and Vahlne 1977; 1990), or network

relationships (Johanson and Vahlne, 2003; 2006; 2009). Oviatt and McDougall (1994) also acknowledged network relationships as a source of a firm's knowledge resources. Conversely, the latter perspective highlights the importance of technological knowledge (Zahra et al., 2000; Yli-Renko et al., 2001; Wiklund and Shepherd, 2003) as an enabling resource instead of resource regulator which lead to a firm's globally mobile offerings in the marketplace (Yli-Renko et al., 2002; Prashantham, 2005). Vital sources of firm's knowledge resources include the entrepreneurs, from their professional experience (Oviatt and McDougall, 1994; McDougall et al., 1994; Prashantham, 2005), and the key management team, from their internationalization experience (Reuber and Fischer, 1997). Their past experience may lead to faster commitment to enter a foreign market (Oviatt and McDougall, 2005). Sapienza et al. (2003) demonstrated that Johanson and Vahlne (1977; 1990) do not regard prior, individual experience to justify firm-level aversion to new markets. However, some researchers linked to the University of Uppsala have begun to explore the role of decision makers associated with the effect on internationalization decisions by considering their background in terms of experience, knowledge, skills, education, and value system (Wiedersheim-Paul et al., 1978; Welch, 2015). Both perspectives have sufficient commonality in KBV, supporting each perspective to warrant an integrative approach which includes a broader set of knowledge contents, roles, and sources (Prashantham, 2005).

#### **2.4 Learning in Cross-Border Buyer-Supplier Relationships**

Many scholars in international business support the importance of networks and relationships in the internationalization of a firm (Loane et al., 2004; Loane and Bell, 2006; Ibeh and Kasem, 2011). Networks and relationships are the essential mechanisms for firms to learn, acquire knowledge, and gain experience (Loane and Bell, 2006; Hohenthal et al., 2014). According to Johanson and Vahlne (2011), business networks are sets of connected business relationships, while business relationships are exchange relationships between firms which are doing business together. Firms are more likely to have business relationships from which they can acquire market knowledge, and internationalization capabilities (Bruneel et al., 2010). With a focus on knowledge and learning, business relationships, particularly buyer-supplier relationships, are regarded as fundamental (Hohenthal et al., 2014). When firms involved more closely in the buyer-supplier relationship, there are better chances for learning (Yli-Renko, et al., 2002). Both buyer and supplier use exchange relationships to access useful knowledge, and a degree of

dependence can be developed through social bonding (Welch, 2015). As the development of relationship to a large extent can be associated with the process of knowledge development, firms are more likely to learn about its network partner, to learn from its network partner, and to create new knowledge together with its network partner (Johanson and Vahlne, 2011), This gradually increase their ties (Johanson and Vahlne, 2009; Kamakura et al., 2012).

The neoinstitutional theory emphasizes the embeddedness of organizational field (DiMaggio and Powell, 1983). By organizational field, DiMaggio and Powell (1983) mean those organizations that constitute a recognized area of institutional life which include: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products. Firms tend to model themselves after similar firms such as competitors in their field that are perceived to be more legitimate or successful (DiMaggio and Powell, 1983; Fernhaber and Li, 2010). Besides of competing firms, organizational field constitutes relevant actors such as key buyers and suppliers (DiMaggio and Powell, 1983). Johanson and Vahlne (2003) suggested that all firms are engaged in a limited set of business relationships with key buyers and suppliers, which also have relationships with other firms. Thus, every firm is part of an unbounded business network (Johanson and Vahlne, 2003). Key buyers and suppliers are typically more established firms active in multiple markets (Yli-Renko et al., 2001; Bruneel et al., 2006; 2010). They have processes and procedures for managing exchange relationships, and conducting international activities (Bruneel et al., 2006; 2010). Through observation, interaction, and imitation, firm that establishes relationships with such key partners can develop corresponding routines and processes (Lane and Lubatkin, 1998; Bruneel et al., 2006; 2010). Johnsen and Ford (2006) proposed that firms tend to imitate the learned behaviours of larger buyers, and adopted similar management approaches when dealing with new international actors. This enables them to cope with unfamiliar situations in the buyer-supplier relationship (Johnsen and Ford, 2006). Fuerst and Zettinig (2015) observed vicarious learning through imitation, as a CEO may actively observe the marketing activities of their network partner with an intention to replicate their strategies. Apparently, the interorganizational relationships particularly buyer-supplier relationship provides an avenue for firm to imitate and adopt the competencies of other firms (Brunel et al., 2006). According to Bruneel et al. (2006), learning by observing and imitating requires social interaction between firm and their key partner. However, this was not supported by Staber

(2010) who indicates that imitation may occur with the absence of social interaction. Firms may not interact socially, but they may closely observe each other (Staber, 2010).

Recent studies highlighted the importance for a new firm to rely on a limited set of key partners which enable knowledge acquisition through experiential learning alongside the key partners (Fuerst and Zettinig, 2015). The relationships with key partners triggered joint activities which led to the acquisition of experiential knowledge (Fuerst and Zettinig, 2015). This was consistent with Johanson and Vahlne (2009), who posited that the basic mechanism in the business network view is experiential learning which can be complemented with other ways of knowledge development.

#### **2.4.1 Relational View**

The relational view argues that by depending on its own resources and capabilities, firms are often unable to deal with the challenges from global market competitions (Wong, 2011). Thus, firms should seek out cooperation with other firms in the establishment of relational networks and the mobilization of external resources (Wong, 2011). Dyer and Singh (1998) argued that RBV overpass the significance fact that the advantages of firm are associated with the advantages of network of relationships where the firm is embedded. Lavie (2006) attempted to uncover limitations of RBV on explaining competitive advantage in networked environments by integrating and extending relational view. Mesquita et al. (2008) believed that RBV and relational view offer distinct yet complementary contributions, and offer richer analysis of competitive advantage if both notions are being combined.

Dyer and Singh (1998) advocated that the source of relational rent and competitive advantage is idiosyncratic inter-firm relationships which may span over firm boundaries, and may be embedded in inter-firm routines and processes. Relational rent can be defined as “a supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners” (Dyer and Singh, 1998). Competitive advantage generated by partnerships has been documented into four categories including 1) investment in relation-specific assets; 2) substantial knowledge exchange including knowledge exchange that results in joint learning; combination of complementary and scarce resources and capabilities (typically through multiple functional interfaces) results

in joint creation of unique and new products, services, or technologies; and more effective governance mechanisms lead by lower transaction costs than competitor alliances (Dyer and Singh, 1998). The determinants of inter-organizational competitive advantage are based on the determinants of relational rents, including 1) relation-specific assets; 2) knowledge-sharing routines; 3) complementary resources and capabilities; and 4) effective governance as well as sub-processes facilitating relational rents (Dyer and Singh, 1998).

#### **2.4.2 Relational View and Internationalization**

The key issue for the internationalization operations includes the development of relational networks in the foreign market to acquire resources, and market access (Wong, 2011). Initially, the early Uppsala work on internationalization (cf. Wiedersheim-Paul, 1978) recognized the role of network associated with the process of internationalization (Welch, 2015). Wiedersheim-Paul et al. (1978) outlined that the export start can be considered as an orientation process, and thus largely dependent on face-to-face contacts, and other types of informal contacts. Soon, it becomes clear that networks provide access to knowledge about the foreign markets, which may assist foreign market entry (Welch, 2015). However, such relationships must be developed for access to relevant and viable knowledge (Welch, 2015).

The original version of internationalization model by Johanson and Vahlne (1977) was concerned with gradual internationalization process by relying on two interdependent sub-processes which refers to experiential learning and commitment building by focal company (Johanson and Vahlne, 2006). But later, Johanson and Vahlne (1990) realized that these processes should be multilateral rather than unilateral, and it should be inter-organisational not just intra-organisational. This has been developed further by Johanson and Vahlne (2003) who combined experiential learning – commitment mechanism which focus on business network relationship, and experiential learning – commitment interplay which act as a driving mechanism, from previous model. They perceived that firms are learning in business relationships, which enable them to enter new foreign market where they can develop new business relationship, which allows them to enter another new foreign market. They have distinguished three types of business network learning. When firms conduct business in buyer-supplier relationship, they learn certain things which are partner specific, such as the reaction of partner to certain kinds of action, the role of different individuals in the partner firm, and the ability or willingness of firm to adapt in

various ways (Johanson and Vahlne, 2003). When firms interact in the buyer-supplier relationship, they learn some skills which can be transferred, and used in other relationship (Johanson and Vahlne, 2003). They also learn to coordinate activities with the relationship in another relationship (Johanson and Vahlne, 2003). Later, Johanson and Vahlne (2006; 2009) claimed that their original model neglected opportunity. They demonstrated that the learning processes and commitment building that take place in relationships are essential for identifying and exploiting opportunities. As some kinds of knowledge are not accessible, and limited to network insiders, a strong commitment to network partners allows firms to build on their respective knowledge, which also allow firms to discover, and/or create opportunities (Johanson and Vahlne, 2009). The original model has been improved by placing the revised model in the context of a network (Johanson and Vahlne, 2011). The implication of the revised model is an argument for internationalization depending on the relationships and networks of a given firm (Johanson and Vahlne, 2009). The development of buyer-supplier relationships requires interactions between buyers and suppliers to build knowledge together, and to commit further to the relationship, leading to the development of opportunities (Johanson and Vahlne, 2003; 2006; 2009). More attention has been paid to relational shortcomings, knowledge, and commitment as reasons for uncertainty, and indirectly, for location specificity to the revised model (Johanson and Vahlne, 2009).

## **2.4 Content of Knowledge**

Drawing from the IP theory focused on market knowledge (Johanson and Vahlne, 1977; 1990), researchers have recently addressed on internationalization (Johanson and Vahlne, 2009), and the INVs theory which focused on technological knowledge (Zahra et al., 2000), this section presents the content of market, internationalization, and technological knowledge.

### **2.4.1 Market Knowledge**

Johanson and Vahlne (1977) distinguished between general knowledge and market knowledge. General knowledge concerns marketing methods and the common characteristics of certain types of customers regardless of geographical location (Johanson and Vahlne, 1977). In contrast, market knowledge concerns specific characteristics of certain host country (Hilmersson, 2014). It refers to knowledge about the characteristics of specific national market including business climate, cultural patterns, market system

structure, and the most essential, the characteristics of individual customer firms, and its personnel (Johanson and Vahlne, 1977). Both general and market knowledge are required for the establishment and performance of certain operation or activity (Johanson and Vahlne, 1977) but Johanson and Vahlne (1977) focus more on market knowledge (Forsgren, 2002; Johanson and Vahlne, 2009).

Following Penrose (1959), there are two kinds of knowledge: 1) objective knowledge which can be taught; and 2) experiential knowledge which can be acquired through personal experience. Market knowledge including the perceptions of market opportunities and problems can be acquired through experience from current business activities in the foreign market (Johanson and Vahlne, 1990). Experiential market knowledge generates business opportunities and drives the internationalization process (Johanson and Vahlne, 1990). Johanson and Vahlne (1990) assumed that it is the primary way to reduce market uncertainty. However, it is argued that the imitation of other firm also can reduce market uncertainty by firm (DiMaggio and Powell, 1983; Forsgren, 2002). However, Johanson and Vahlne (1977) found that experiential market knowledge is a critical type of knowledge. Experiential market knowledge cannot easily be acquired as compared to objective market knowledge (Johanson and Vahlne, 1977). It is more essential in less structured and well-defined firm activities, as well as in required knowledge (Johanson and Vahlne, 1977). This provides the possibility to perceive solid opportunities to fit into present and future activities as compared to objective knowledge which merely provides the possibility to perceive theoretical opportunities (Johanson and Vahlne, 1977). This is usually associated with the specific conditions of a particular market and thus cannot be transferred to other individuals or markets (Johanson and Vahlne, 1977). Eriksson et al. (1997) proposed two types of experiential market knowledge: 1) business knowledge; and 2) institutional knowledge. They demonstrated that foreign business knowledge refers to experiential knowledge of clients, markets, and competitors. On the other hand, foreign institutional knowledge means experiential knowledge of government, institutional framework, rules, norms, and values (Eriksson et al., 1997).

Inadequate volume and poor access to market knowledge are major obstacles to the development of international operations (Lamb and Liecsh, 2002). Johanson and Vahlne (1977) emphasized that market knowledge, and market commitment has a direct relation. They stated that higher extent of market knowledge lead to higher value of resources, and a

stronger commitment to market by firm. Lack of institutional market knowledge refers to a lack of knowledge about language, laws, and rules is associated with factors related to physic distance, as well as the liability of foreignness (Johanson and Vahlne, 2009). On the other hand, lack of business market knowledge is associated with the liability of outsidership (Johanson and Vahlne, 2009). This factor is related to the firm's business environment, in which referring to the business network view, consists of the firms that they are doing business with or they are trying to do business with, and the relationship between firms in this environment (Johanson and Vahlne, 2009). Tolstoy (2009) proposed that market knowledge is typically associated with customer networks, but may also be acquired from supplier networks.

#### **2.4.2 Internationalization Knowledge**

Recently, Johanson and Vahlne (2009) agreed that internationalization knowledge is more significant than what they assumed in Johanson and Vahlne (1977). Internationalization knowledge is expected to be accumulated at the higher level of the hierarchy, and can function as a driving force to take steps in directions which are new to firm (Forsgren, 2002). This represents the learning capability needed at the firm level for successful entry into successive new markets (Fletcher et al., 2013). According to Eriksson et al. (1997), internationalization knowledge establishes a firm's "way of going international", and remains specific to a firm. This is embedded in routines and structures (Eriksson et al., 2000). Internationalization knowledge is neither specific to country (Eriksson et al., 1997; 2000) nor entry mode (Eriksson et al., 1997). It can be transferred from one country to another, thus facilitating lateral growth and establishing similar business activities in dissimilar business environments (Johanson and Vahlne, 1977). In that sense, organizational learning which leads to internationalization knowledge tends to increase the alternatives as compared to market knowledge (Forsgren, 2002). Eriksson et al. (1997) proposed that internationalization knowledge means "knowing what knowledge is required in different situations and different settings connected with internationalization, and where to seek this knowledge". This concerns a firm's state of knowledge of their capabilities to engage in specific international operations, and their established and required resources for intended international markets (Eriksson et al., 2000). However, the compatibility between existing and needed resources for further international engagement calls for critical consideration (Eriksson et al., 2000). Lack of internationalization

knowledge may lead to lack of business and institutional market knowledge in a firm (Eriksson et al., 1997; 2000).

Fletcher et al. (2013) proposed three categories of internationalization knowledge: 1) market entry internationalization knowledge; 2) localization internationalization knowledge; and 3) international enterprise internationalization knowledge. Market entry internationalization knowledge refers to “knowledge to develop market entry strategies in new territories and how to implement market entry decisions” (Fletcher et al., 2013), while localization internationalization knowledge refers to “knowledge to source competitive knowledge, evaluate necessary and available capabilities to develop competitive strategies, and implement appropriate competitive and/or collaborative strategies in new territories” (Fletcher et al., 2013). International enterprise internationalization knowledge refers to “knowledge to source and evaluate information about international challenges, different ways in which international firms can be structured and managed, and how to implement internal structures and procedures for international business performance” (Fletcher et al., 2013).

### **2.4.3 Technological Knowledge**

Technological knowledge may either be intangible (skills and knowledge) or tangible (patents and databases) (Ensign, 1999). Nonetheless, such knowledge often tacit in nature, difficult to codify, and less readily understandable (Yeoh, 2004). Tacit technological knowledge is idiosyncratic, and firm specific, which other firms may encounter the difficulty to understand, and use such knowledge (Hitt et al., 2000). Technological knowledge in the form of technical know-how can be classified as more context-independent as compared to market knowledge, and can be used without modification to fit local country-specific conditions (Fang et al., 2007). Technological knowledge relating to emergent technologies tends to accumulate among employees in technology-oriented functions such as R&D (Prashantham and Young, 2011). Wiklund and Shepherd (2003) proposed that technological knowledge is capable of enhancing discovery and exploitation of opportunities. This is positively correlated with a firm’s financial performance (Zahra et al., 2000) and international growth (Yli-Renko et al., 2002). Zahra et al. (2000) proposed that technological learning enables firm to gain technological knowledge that can be used for designing and offering larger variety of innovative products (breadth of knowledge), offering highly differentiated and high-quality products

(depth of knowledge), as well as moving products to market more rapidly (speed of developing and using knowledge) thus contributes to a firm's financial performance. The international entrepreneurship literature (cf. Autio et al., 2000; Yli-Renko et al., 2002) often refers to technological knowledge as knowledge intensity (Prashantham and Young, 2011). Yli-Renko et al. (2002) proposed that improved technological learning reflects greater knowledge intensity thus contributing to a firm's international growth.

Tolstoy (2009) also proposed that technological knowledge is typically associated with a supplier network, but may also be acquired from buyer networks. Yli-Renko et al. (2001) found that firms which acquire greater technological knowledge through their key customer relationships produce greater number of new products, develop greater technological distinctiveness, and enjoy lower overall sales costs.

## **2.5 Conclusion**

This chapter highlights the internationalization of firms, with a specific focus on inward internationalization (international sourcing) and outward internationalization (export) to demonstrate how firms can internationalize their operation, and can link between inward and outward internationalization. This chapter also highlights the knowledge-related and learning-related theories associated with internationalization, supporting the interplay between knowledge, learning, and cross-border buyer-supplier relationships. Table 2.1 summarizes the theoretical perspectives of knowledge and learning as derived from the literature to provide a theoretical foundation for this research.

**Table 2.1: The theoretical perspectives of knowledge and learning**

| <b>Theory</b>  | <b>Perspective of knowledge</b>  | <b>Perspective of learning</b>   |
|--|--|--|
| A Behavioural Theory of the Firm (Cyert and March, 1963)               | Knowledge acquisition through direct experience  | <ul style="list-style-type: none"><li>• Learning from direct experience</li></ul>  |
| Resource Based View (Barney, 1991; Winter, 2003)                       | Capabilities   | <ul style="list-style-type: none"><li>• The capabilities to learn and change are the important capabilities</li><li>• Routines are behaviours that are learned, and collection of routines is capabilities</li></ul>   |
| Knowledge Based View (Nonaka et al., 2000; Spender, 1996; Grant, 1997) | Knowledge creation and knowledge transfer  | <ul style="list-style-type: none"><li>• The distinction between tacit and explicit knowledge is based on transferability</li><li>• Dynamic interaction between tacit and explicit knowledge enable knowledge creation – socialization, externalization, combination, and internalization</li></ul> |
| Relational View (Dyer and Singh, 1998; Johanson and Vahlne, 2009)      | Knowledge acquisition and knowledge transfer through cross-border buyer-supplier relationships | <ul style="list-style-type: none"><li>• Learning in relationships with key foreign suppliers</li><li>• Learning in relationships with key foreign buyers</li></ul>   |

## **Chapter Three**

### **Organizational Learning and Internationalization**

#### **3.1 Introduction**

Organizational learning has been analyzed extensively in the literature (cf. Argyris, 1976; Argyris and Schön, 1978; Levitt and March, 1988; Huber, 1991). This research has been extended to international sourcing (Grosse and Fronseca, 2012) and export (Mac and Evangelista, 2017). The sources of organizational learning provide a foundation for explaining how a firm can learn both from direct experience in international sourcing and exporting, and from imitating their foreign buyers and suppliers (Levitt and March, 1988; Huber, 1991; Forsgren, 2002; Oehme and Bort, 2015) through cross-border buyer-supplier relationships (Johanson and Vahlne, 2003; 2006; 2009). Previous studies have proposed that interorganizational relationships create opportunities for knowledge acquisition and exploitation (Dyer and Singh, 1998; Lane and Lubatkin, 1998; Yli-Renko et al. 2001). The processes of organizational learning describe the connections between inward internationalization (international sourcing) and outward internationalization (export).

#### **3.2 Organizational Learning**

This section presents the definition, levels, and processes of organizational learning. This section also describes the connections between individual and organizational learning. The processes of organizational learning include 1) knowledge creation; 2) knowledge distribution, interpretation, and retention; and 3) firm knowledge transfer. The sources of organizational learning are presented in a discussion of how firms learn from direct experience in international sourcing and exporting, and in imitation of foreign suppliers and buyers. The outcome of organizational learning is presented in a discussion concerning how firms exploit such newly acquired knowledge.

##### **3.2.1 Definitions of Organizational Learning**

Debate on definition of organizational learning as a change in cognitions or in behaviour has been scarce (Easterby-Smith et al., 2000). Knowledge manifests in several different ways, including changes in cognitions, routines, and behaviours (Argote, 2011). Acknowledging that the apparent changes of behaviour may not be the result of organizational learning, Huber (1991, p. 89) stated that “an entity learns if, through its processing of information, the range of its potential behaviour is changed”. Information processing may involve the acquisition, distribution, and interpretation of information in

the organization (Huber, 1991). According to Fiol and Lyles (1985), organizational learning can be defined as “the process of improving actions through better knowledge and understanding”. According to Levitt and March (1988), “...organizations are seen as learning by encoding inferences from history into routines that guide behaviour”. They stated that routines include organizational forms, rules, procedures, conventions, strategies, and technologies. They also stated that routines can be transferred through socialization, education, imitation, professionalization, personnel movement, mergers, and acquisitions, and can be retained in collective memory. Changes in an organization’s routines result from experience, and these changes depend on the interpretation of history especially the evaluation of outcomes (Levitt and March, 1988). Tsang (1997) summarized that most definitions bring out both perspectives of cognitive and behavioural changes. Argote (2013) proposed that most of researchers have agreed that organizational learning can be defined as a change in organizational knowledge as a result of that organization’s experience. The organization will create new knowledge when they learn from experience (Argote, 2011). Experience can produce wisdom and improve behaviours (March and Olsen, 1975). Levitt and March (1988) proposed that organization can learn from direct experience as well as experience from others through the imitation of other firms. According to Fiol (1994), organizational learning does not only entail the ability to acquire diverse information, but also the ability to share common understanding and exploit this knowledge.

If individual members are the mechanisms for the occurrence of organizational learning, the knowledge acquired by them should be embedded in the organization such that organization learning can occur (Argote, 2011). Routine or transactive memory systems are two options available for embedding such knowledge (Argote, 2013). These systems ensure that other members can access the knowledge even though the individual is no longer available in the organization (Argote, 2011). Sinkula (1994) stated that organizational learning can be regarded as a means for knowledge preservation which allow for use by individuals other than progenitor. According to Dodgson (1993), the requirement for organization’s adaptation and efficiency explains the need for organizational learning. Kim (1993) stressed that the fundamental requirement for the organization’s existence and sustainability is through learning. That is why all organizations learn, whether or not they deliberately choose to (Kim, 1993). However, some organizations intentionally advance organizational learning by developing

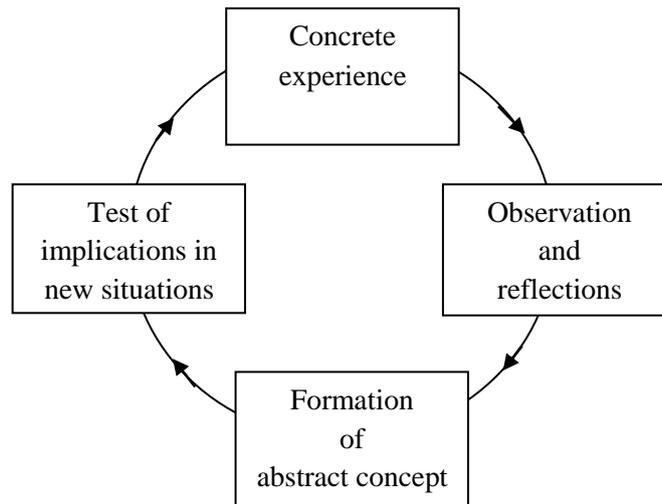
capabilities which complement organizational objectives, while others do not implement such focused efforts and suffer from unfavourable habits (Kim, 1993).

### **3.2.2 Individual to Organizational Learning**

Kim (1993) proposed that organizations ultimately learn from their individual members, and are thus affected either directly or indirectly by individual learning. Thus, the theories of individual learning are essential for comprehending organizational learning (Kim, 1993). Some of the complexity of organizational learning processes can be considered in terms of the individual learning metaphor (Dodgson, 1993). However, organizational learning is not the sum of each member's individual learning (Fiol and Lyles, 1985; Dodgson, 1993; Crossan et al., 1999).

Kim (1993) proposed that two levels of learning, namely operational and conceptual learning. Operational learning indicates how people learn (know-how), while conceptual learning indicates how they understand and apply that knowledge (know-why) (Kim, 1993). This requires the ability to gain an understanding of an experience, and involves the connections between thought and action (Kim, 1993). Building on the work of experiential learning theorists particularly Lewin (1951), Kolb (1984) developed a model which represents experiential learning as a four-stages cycle as shown in Figure 3.1. These cycles include 1) concrete experience; 2) observation and reflection; 3) the formation of abstract concepts; and 4) the test of implications in new situations (Kolb, 1984). The learning process begins when an immediate concrete experience is established by an individual who conducts particular action. This serves as the basis of observations and reflections (Kolb, 1984). Consequently, as new implications for action are deduced, the observations and reflections of experience may be transferred into "a theory" (Kolb, 1984). These new implications for action offer a guideline to act in new situation thus create new experience (Kolb, 1984).

**Figure 3.1: Experiential learning model**

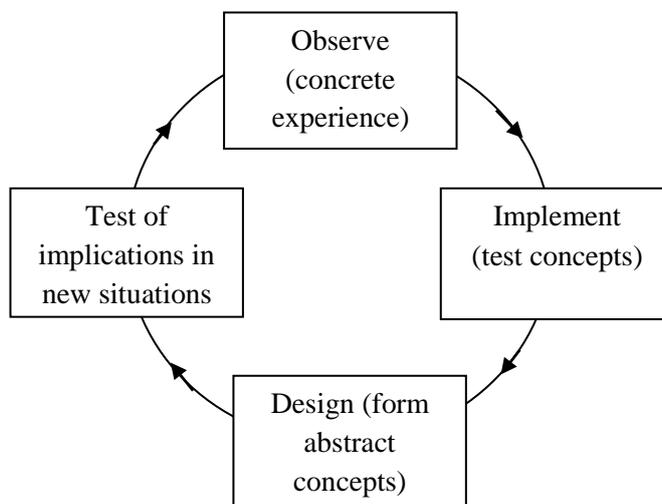


**Source: Adapted from Kolb (1984)**

Noting that the role of memory is critical to link individual to organizational learning (Kim, 1993), Kim (1993) developed a model which represents individual learning as a cycle of operational and conceptual learning that informs, and informs by mental models. It is shown in Figure 3.2. Senge (1990) described mental models as “deeply ingrained assumptions, generalizations, or even pictures of images that influence how we understand the world and how we take action”. Kim (1993) added that mental models represent more than a collection of ideas, memories, and experiences, and represent the individual’s view of world including explicit and implicit understandings. He added that mental models provide context for viewing and interpreting new material, and determine how stored information is relevant. This active memory are the parts of organizational memory relevant to organizational learning (Kim, 1993). It defines the attention of an organization, how they opt to act, and what they opt to remember from their experience (Kim, 1993), It refers to individuals and shared mental models (Kim, 1993). The process of making mental models explicit is critical to the development new shared mental models, allowing organizational learning to be independent of specific individual (Kim, 1993). Operational learning represents the learning of steps to conduct particular task which are captured as routine. Conversely, conceptual learning represents the thought about why certain things are done at the first place, leading to new frameworks in the mental models (Kim 1993). This model incorporates the concept of single-loop and double-loop learning by Argyris and Schon (1978) at the individual and organizational levels. Individual double-loop learning is a process in which individual learning affects individual mental models, and sequentially affects future learning; meanwhile, organizational double-loop learning

occurs when individual mental models is incorporated into organization through shared mental models, and sequentially affect organizational action (Kim, 1993).

**Figure 3.2: Individual learning model**



**Source: Adapted from Kim (1993)**

However, organizational learning is more complex and dynamic than the magnification of individual learning (Kim, 1993). This is often synonymous with individual learning at the early stage of organization's existence. However, a distinction between individual and organizational learning emerges when the organization grows, causing the system capturing individual learning to evolve (Kim, 1993).

### **3.2.3 Levels of Organizational Learning**

Psychological theories on learning are supported by assumption that conflict (caused, for instance, by error or contrary evidence) is essential for learning (Dodgson, 1993). According to Argyris and Schon (1978), organizational learning involves the detection and correction of error. Error is a mismatch between actions and plan which can be regarded as condition for learning besides of match between actions and plan (Argyris, 1976). Hence, Argyris and Schon (1978) developed three levels of learning: 1) single-loop learning; 2) double-loop learning; and 3) deuteron-learning.

#### ***Single loop learning***

According to Argyris and Schon (1978), single-loop learning occurs when an error can be detected and corrected without preventing an organization from operating using its present policies or reach its present objectives. Dodgson (1993) equated single-loop

learning as those activities which increase the level of firms' knowledge base or firms' competences or routines without alteration toward firms' nature of activities. Single-loop learning was referred to as lower-level learning by Fiol and Lyles (1985), and adaptive learning or coping by Senge (1990). Fiol and Lyles (1985) explained that lower-level learning is a routine learning occurs through mere repetition of past behaviours at all levels in the organization. They also explained that it is in well-understood context, and provide control over immediate tasks, rules, and structures. Senge (1990) stated that adaptive learning is an alternative when the complete source of problems cannot be grasped, and firms are left grappling with the symptoms of a problem.

### ***Double-loop learning***

According to Argyris and Schon (1978), double-loop learning occurs when an error can be detected and corrected with modification towards organization's underlying norms, policies, and objectives. Dodgson (1993) equated double-loop learning with changing the firms' knowledge base, firms' competences and routines, similar to intellectual skills. Double-loop learning has been referred as higher-level learning by Fiol and Lyles (1985), and generative learning by Senge (1990). Fiol and Lyles (1985) explained that high-level learning is non-routine learning that occurs through the use of heuristics and insights at upper levels in the organization. They also explained that it is in ambiguous context, and assists in the development of complex rules and associations regarding new actions, as well as the development of an understanding of an action. Senge (1990) stated that generative learning necessitates new ways of seeing situation including comprehension of business operation. It also necessitates determining the system that control events (Senge, 1990).

### ***Deutero-learning***

According to Bateson (1972) deutero-learning occurs when a firm "learns how to learn". Argyris and Schon (1978) emphasized that this allows individual members to learn previous context for learning. They may reflect and inquire on success or failure, discover their actions that may facilitate or inhibit learning, as well as inventing, producing, and evaluating new strategies for learning (Argyris and Schon, 1978). Visser (2007) stated that deutero-learning refers to the adaptation of behaviours to patterns of conditioning at the level of relationships in the organizational context.

#### **2.2.4 Processes of Organizational Learning**

Huber (1991) proposed four constructs and processes related to organizational learning: 1) knowledge acquisition; 2) information distribution; 3) information interpretation; and 4) organizational memory. Argote (2013) proposed three processes of organizational learning: 1) knowledge creation; 2) knowledge retention; and 3) knowledge transfer, all of which are interrelated. These are characterized under three dimensions, which include 1) mindfulness; 2) distribution; and 3) improvisation (Argote, 2013). Argote and Miron-Spektor (2011) proposed a theoretical framework for analysing organizational learning in which organizational experience is conceived to respond with organizational context, and organizational learning processes is conceived to translate experience into knowledge. Organizational learning processes produce knowledge and that knowledge interprets experience (Argote and Miron-Spektor, 2011). Organizational context includes both latent and active components (Argote and Miron-Spektor, 2011). Latent components (such as culture) affect active components (members and their tools to perform organizational tasks) thus affecting learning in the organization (Argote and Miron-Spektor, 2011). There are numbers of contextual factors related to knowledge creation, knowledge retention, and knowledge transfer (Argote and Miron-Spektor, 2011) (discussed further in this section). According to Argote and Miron-Spektor (2011) knowledge creation is when knowledge is created from unit's direct experience; knowledge retention is when knowledge is retained in the organization; and knowledge transfer is when knowledge is developed from unit's indirect experience. Considering that organizational learning processes is conceptualized as a firm's information processing, the organizational learning processes proposed by Huber (1991), and Argote (2013) are aligned and presented in this section.

##### ***Knowledge creation***

Argote (2013) proposed that the relationship between heterogeneity and homogeneity may affect the process of knowledge creation in an organization. Heterogeneity can be fostered by the employment of individual members with different backgrounds, production of different products or services, use of different tools, experimentation with different structures, and the encouragement of different strategies (Argote, 2013). Conversely, homogeneity can be fostered by the employment of individual members with similar background, production and delivery of similar products or services, use of similar tools and procedures, discouragement on experimentation, and intense socialization among individual members (Argote, 2013). Knowledge creation requires both

heterogeneity and the development of common understandings, while knowledge transfer requires a certain amount of homogeneity (Argote, 2013).

The creation of new knowledge by firm depends on prior knowledge that they already possessed at the time they encounter new knowledge, and how they process the newly acquired knowledge (Autio et al., 2000). Cohen and Levinthal (1990) demonstrated that firms without prior knowledge may not be able to acquire new knowledge. The base of prior knowledge refers to the individual units of knowledge already available in the organization (Kim, 1998). The core of prior knowledge is tacit knowledge, and explicit knowledge such as blueprints and standard operating procedures is more useful when tacit knowledge is available (Kim, 1998). Lane et al. (2006) argued that the possession of relevant prior knowledge is important but not sufficient for the development of absorptive capacity (Lane et al., 2006) to create new knowledge.

### ***Knowledge distribution, interpretation, and retention***

According to Huber (1991), the continuous effectiveness of organizational memory is affected by 1) membership attrition; 2) information distribution and organizational interpretation of information; 3) methods for storing information and 4) methods for retrieving stored information. This was further supported by Argote (2013), who stated that the high level of turnover can lead to difficulty to retain knowledge for the development of organizational memory. He also found that the negative effects of turnover can be ameliorated by embedding knowledge in roles and routines. As Huber (1991) stressed, that the key aspect of information distribution is how unit possessing information and unit needing information can find each other quickly and having high likelihood, was not fully discovered, Argote (2013) proposed that the learning process can be distributed by well-developed transactive memory systems. Huber (1991) also stressed that the shared interpretation of new information can be affected by several conditions such as prior cognitive maps owned by organizational unit, and the necessary amount of unlearning. Besides that, the less uniformity of information framing when distributed to different organizational unit, the less richness of communication media when distributed to receiver, and the larger amount of information to be interpreted than organization's capacity (information overload), may result on less effective information interpretation. Argote (2013) held that the interpretation of unit's own direct experience is easier than the interpretation of other unit's direct experience. Huber (1991) proposed that hard information can be embedded in organization's routines and soft information can be

embedded in individual members. He also proposed that computer-based organizational memory can be considered for the storage and retrieval of organizational knowledge. These factors were incorporated by Argote (2013), who stated that the researchers generally agree that individuals including managers, technical support staff, and direct production workers; organization's technology including layout, hardware, and software; organization's structures, routines, and coordination methods; as well as organization's culture, can all be considered as mediums for the retention of organizational knowledge. Argote and Miron-Spektor (2011) added that knowledge can be embedded in the basic elements of organizations such as members, tasks, and tools as well as the networks which are formed by crossing the basic elements of organizations. These networks include 1) a member-member network that can be regarded as the organization's social network; 2) task-task network includes the organization's routines that specify which tasks are performed and their interrelationships; 3) tool-tool network that describes the interrelationships among tools; 4) task-tool network that specifies which tools perform which tasks; 5) member-task network can be regarded as labour division that assigns members to tasks; 6) member-tool network that specifies communication between members and tools; and 7) member-task-tool network that specifies which members perform which tasks with which tools (Argote, 2013).

Argote (2013) argued that the persistence and transfer of organizational knowledge in the organization are affected by where organizational knowledge is embedded including transactive memory system, routines, and tools. This has been supported by Argote and Ingram (2000) who stated that the processes and outcomes of knowledge transfer in the organization are affected by the state of knowledge repositories. Unlike organizational routines and technologies that can be viewed as less sensitive repositories, individuals are a more sensitive way to store, maintain, and transfer knowledge, while remaining capable of capturing subtle and tacit knowledge (Argote, 2013). Organizational routines and technologies are also more resistant to depreciation and easier to transfer as compared to the organizational knowledge embedded in individuals (Argote, 2013).

### ***Knowledge transfer***

Organizations are driven by various types of knowledge that can be transferred into different kind of contexts (Spender, 1994). Objective knowledge can easily be transferred to other countries (Eriksson et al., 1997) and imitated by other organizations (Eriksson et al., 1997; Kogut and Zander, 1992). However, Buckley (1997) outlined that fewer channels

of written instruction such as manuals and technical handbooks are used in SMEs than MNEs, as many skills are acquired from experience, and they may lack personnel for technology codification. In contrast, experiential knowledge is hard to be transferred between firms or business units (Eriksson et al. 1997). Blomstermo et al. (2004) argued that experiential knowledge can be transferred to, and applied in different markets as they found that more operation in the international market leads to more usage of experiential knowledge. Pedersen et al. (2001) proposed that experiential knowledge tends to be transferred by rich communication media or face-to-face communication.

There are numerous mechanisms for knowledge transfer between firms which include training program (Buckley, 1997; Easterby-Smith et al., 2008; Argote 2013). The supply of documents, blueprints, and descriptions as well as the transfer of experienced personnel from donor to recipient firm, are other mechanisms for transferring knowledge between firms (Buckley, 1997; Easterby-Smith et al., 2008; Argote, 2013). The supply of hardware, software, and product from donor to recipient firm, is another mechanism for knowledge transfer between firms (Buckley, 1997; Easterby-Smith et al., 2008; Argote, 2013), as some donor firms' knowledge is embedded in hardware, software, and products (Argote, 2013). All Ultimately, knowledge can be transferred from one firm to another by moving people, technology, and routines to recipient firm as well as modifying people through training, technology, routines of recipient firm (Argote and Ingram, 2000; Argote, 2013). Considering the acceleration of imitation by competitor, knowledge transfer within a firm can be accelerated by reducing the tacitness of technology by encoding it (Kogut and Zander, 1993). Argote and Ingram (2000) suggested that the strength of moving technology can be complemented by the strength of moving people for the mechanism of knowledge transfer within firm. Both tacit and explicit knowledge can be transferred by individuals when they move and adapt their knowledge to new contexts (Argote and Ingram, 2000).

In the context of international business, studies of knowledge transfer take place at two basic levels which include 1) intra-firm knowledge transfer; and 2) inter-firm knowledge transfer (Duanmu and Fai, 2007). The processes of intra-firm and inter-firm knowledge transfer involve different kinds of boundaries with different kinds of problems but both processes are potentially interrelated (Easterby-Smith et al., 2008). The issues of knowledge transfer that being considered in inter-firm context adopt similar approaches to the issues of knowledge transfer that being considered in intra-firm context (Duanmu and

Fai, 2007). Both intra-firm and inter-firm knowledge transfer are essential enablers for supply chain flexibility (Blome et al., 2014).

In the context of inward-outward internationalization connections, knowledge transfer is crucial (Karlsen et al., 2003). Inward and outward internationalization provide access to different kinds of knowledge (Naldi and Zahra, 2007; Hernández and Nieto, 2016). Previous studies recognized that knowledge acquired from inward internationalization can be utilized for conducting outward internationalization (cf. Welch and Luostarinen 1993; Korhonen et al., 1996; Karlsen et al., 2003). Recently, studies have begun to recognize that knowledge acquired from outward internationalization can be utilized for conducting inward internationalization (Hernández and Nieto, 2016). The connection between inward and outward internationalization can be established through the transfer of this knowledge (Behyan et al., 2015; Hernández and Nieto, 2016). Karlsen et al. (2003) found that the creation, and transfer of knowledge through the connection between inward and outward internationalization in their studies faced many obstacles. However, these knowledge processes flowing from the connection between inward and outward internationalization can facilitate deeper foreign market participation (Karlsen et al., 2003). There is a need to more deeply explore intra-firm processes which facilitate the creation and transfer of knowledge generated by the emergence of inward-outward connection in internationalization (Karlsen et al., 2003).

### **3.2.5 Sources of Organizational Learning**

Levitt and March (1988) discussed four sources of organizational learning: 1) learning from direct experience; 2) interpretations of history; 3) retrieval of knowledge from organizational memory; and 4) learning from the experience of other, all of which depend critically on communication (West III and Meyer, 1997). Firms learn by processing their experience, but the ability to process organizational experience differs from one firm to another (Bapuji and Crossan, 2004). Argote and Miron-Spektor (2011) argued that the most fundamental dimension of experience is whether it is acquired directly by focal organizational unit or indirectly from others. This has been supported by significant number of studies which recognized that firms may learn from their own experience, learn from direct experience, learn by doing or learn from experience of others, learn from indirect experience, or learn by imitating (Levitt and March, 1988; Huber, 1991; Bruneel et al., 2006; 2010; Fletcher and Harris, 2012).

The imitation of other firms is attractive highly uncertain environments in which quick action is needed (Lieberman and Asaba, 2006). Such a rule mostly appeals to those with little prior knowledge to base a decision (Lieberman and Asaba, 2006). While the imitation of other firms can be useful to deal with highly uncertain environments, some firms also opt to learn from direct experience, and act quickly by re-applying previous decisions or processes (Moatti, 2009). Imitation and direct experience are two distinct ways of learning but efficient when acting quickly in a competitive and uncertain environment (Moatti, 2009). Firms typically draw on some combination of these learning processes (Lieberman and Asaba, 2006)

### ***Learning from direct experience***

Learning from direct experience is preferred when firms have adequate time and resources to explore their environment extensively (Lieberman and Asaba, 2006). Knowledgeable firms may rely on what they know internally rather than the imitation of other firms (Lieberman and Asaba, 2006). Firms leverage on their supply experience to increase their technological and market capabilities (Alcacer and Oxley, 2014). As firms that involve in the international market may accumulate international experience (Johanson and Vahlne; 1977; 1990; Bruneel et al., 2006; 2010), learning from direct experience has become more important, and firms are less dependent on the imitation of other firms (Bruneel et al., 2006; 2010). Argote (2013) questioned on the kind of knowledge that can only be learned from direct experience.

### ***Learn from direct experience in exporting***

Bigsten et al. (2004) proposed that maximum scope for learning opportunities can be obtained from exporting, as it offers both a maximum scope for competition and contact with foreign buyers. Blalock and Gertler (2004) suggested that knowledge and efficiencies which is obtain from the international market participation contributes to learning from exporting. Exporters can access diverse knowledge inputs which are only available in the foreign market, and this knowledge can spill back to focal firm (Salamon and Shaver, 2005). Through learning from direct experience in exporting, firms acquire market knowledge (Johanson and Vahlne, 1977; 1990; Eriksson et al. 1997; 2000; Naldi and Zahra, 2007). Stronger commitment to a foreign market is driven by better knowledge about a foreign market, constituting as more valuable resources (Johanson and Vahlne, 1977). Exports help determine the nature and size of a foreign market (Johanson and Vahlne, 1977), and provide firms with important insights into the foreign market and

foreign buyers (Naldi and Zahra, 2007). Yeoh (2004) suggested that exports to multiple countries assist in extending the breadth of market learning by firm. In addition, as internationalization knowledge being predominantly experiential, it requires learning from direct experience by managers (Fletcher and Harris, 2012). Additionally, Burpitt and Rondinelli (1998) represented that firms could learn from direct experience in exporting in such ways that they learn new skills, adopt new technologies, broaden existing organizational capabilities, and find new applications for existing organizational technologies. Zahra et al. (2000) found that exports are positively associated with the breadth of technological learning by firm. This may deepen a firm's technological knowledge (Zahra et al., 2000). However, over diversification may lead to complications to transfer technological knowledge from one market to another (Yeoh, 2004). Current studies acknowledged that learning from exporting resulted on innovation (Salomon and Shaver, 2005; Salomon and Jin, 2010; Love and Ganotakis, 2013). As exports generate technological knowledge, they appear to enhance the ability of a firm to innovate (Golovko, and Valentini, 2011; Almódovar et al., 2014). Salomon and Shaver (2005) found that exporters increased their product innovations and patent applications subsequent to exporting. It was also found that both technological leaders and laggards increased their patent applications subsequent to exporting (Salomon and Shaver, 2008; Salomon and Jin, 2010). However, technological leaders learn more from exporting (Salomon and Jin, 2010).

### ***Learn from direct experience in international sourcing***

Global competition means that management is no longer concerned about simply whether to pursue international sourcing, but rather how to produce and augment the strategic value of international sourcing operations (Rexha and Miyamoto, 2000). According to Jonsson and Tolstoy (2014), the perspective of learning is essential for comprehending the development of international sourcing strategies which affect organizational performance. They suggest that the perspective of learning can be used for analyzing international sourcing by using the process models of internationalization (cf. Johanson and Vahlne, 1977). This may explain the process of accumulating knowledge about foreign markets from foreign suppliers, which may lead to the increased volume and frequency of international sourcing (Jonsson and Tolstoy, 2014). However, the interplay between organizational learning and international sourcing has remained elusive in a number of studies (cf. Mol et al., 2005; Agndal, 2006). Existing studies that provided evidence on the connection between organizational learning processes and international

sourcing operations only focused on knowledge sharing (cf. Cerutti and Delbufalo, 2009). There is a need to explore the process of organizational learning that occurs in the process of international sourcing (Aykol et al., 2013).

Demeter (2014) demonstrated that international sourcing can lead to operation flexibility, and knowledge improvement. Through active international sourcing operations, firm familiarity with the foreign supply market may improve (Rexha and Miyamoto, 2000). Accumulated experience in international sourcing may generate management confidence, knowledge, and skills in the foreign supply markets which consequently may generate the development of international sourcing strategy (Rexha and Miyamoto, 2000; Yu and Lindsay, 2011). Accumulated experience in international sourcing makes it easier for future international sourcing that requires more cooperation with the foreign supplier (Mol et al., 2005). Deeper knowledge leads to greater buyers' bargaining power (Senft, 2013) and confidence in pursuing international sourcing (Quintens et al., 2005). Meyer and Gelbuda (2006) proposed that the products of international sourcing, and the processes of international sourcing, together enable the knowledge acquisition of international business practices. In addition, they proposed that the products of international sourcing, and the processes of international sourcing enable the enhancement of technology and skills such as the manufacturing of exported products. Through learning from direct experience in international sourcing, firms acquire technological knowledge (Naldi and Zahra, 2007). Jaklič et al. (2012) found that international sourcing is positively associated with both improved technological knowledge and quality and the introduction of new products.

### ***Learning from imitation***

Firms can learn by imitating other firms (Huber, 1991; Forsgren, 2002; Fernhaber and Li., 2010; Oehme and Bort, 2015), Interorganizational imitation occurs when the use of certain practice by one or more firms increase the likelihood of that practice being used by other firms (Haunschild and Miner, 1997). Based on neoinstitutional and learning theories, Haunschild and Miner (1997) distinguished three selective modes of interorganizational imitation: 1) frequency imitation; 2) trait imitation; and 3) outcome imitation. In frequency imitation, firms tend to imitate the actions taken by large number of other firms (Haunschild and Miner, 1997). With trait imitation, firms employ practices used by other firms with traits such as large size (Haunschild and Miner, 1997). With outcome imitation, firms imitate best practices of other firms in the past which appeared to produce good outcomes, and avoid practices with negative outcomes (Haunschild and

Miner, 1997). Outcome imitation is associated more closely with technical than social processes (Haunschild and Miner, 1997). This is motivated by observing practices which have clearly produced valuable economic returns for others rather than motivated solely by the quest for legitimacy (Fernhaber and Li, 2010). Meanwhile, frequency and trait imitation is involved more closely in social processes (Haunschild and Miner, 1997). Referring to frequency imitation, homogeneity among firms is regarded as a social process in which firms conform to other firms in their population to be perceived as legitimate (Meyer and Rowan, 1977; Fernhaber and Li, 2010). Referring to trait outcome, early neoinstitutional theorists (cf. DiMaggio and Powell, 1983) propose that firms adopt the practices of legitimate firms, and that legitimacy inferred from traits such as large size and success (Haunschild and Miner, 1997). In particular, previous studies acknowledge the occurrence of these selective modes of interorganizational imitation in various aspects of firm behaviours such as acquisitions (Haunschild, 1993; Haunschild and Miner, 1997), and strategic management (Lieberman and Asaba, 2006). Forsgren (2002) proposed that as ideas and practices are diffused among firms, similar processes are expected to be present regarding the internationalization behaviour of firm. Previous studies have also acknowledged the imitative behaviours relating to the firm' internationalization (Forsgren, 2002; Lu, 2002; Fernhaber and Li, 2010; Oehme and Bort, 2015). Current research adopting an institutional based approach suggests that SME internationalization is strongly influenced by the imitation of other firms (Oehme and Bert, 2015).

Based on institutional theory, uncertainty encourages mimetic behaviour by firms, and firms may model themselves on other firms (DiMaggio and Powell, 1983; Haunschild and Miner, 1997). However, uncertainty augments frequency imitation, and only certain trait and outcome imitation occurs (Haunschild and Miner, 1997). This has been supported by Fernhaber and Li (2010) who found that firms are more likely to imitate actions and behaviours which are frequently exhibited in the period of high uncertainty. Based on organizational learning theory, outcome imitation can be regarded as a form of vicarious learning by the imitating firm (Bandura, 1977; Haunschild and Miner, 1997). Vicarious learning entails a modelling effect in which a firm imitates competitor behaviours (Bingham and Davis, 2012). The decision makers gather information about the characteristic and outcomes of competitors through observation, and the frequent result is the imitation of seemingly successful practices as compared to failure (Denrell, 2003; Bingham and Davis, 2012). The strength and direction of outcomes, and the degree of

uncertainty in the context of learning, may augment or diminish the potential power of vicarious learning by imitating other firms (Haunschild and Miner, 1997).

Imitation can facilitate the diffusion of essential practices (Owen-Smith and Powell, 2008; Oehme and Bort, 2015). In the context of internationalization, the imitating firms can reduce its perceived uncertainty about the foreign market without having to wait its own market knowledge to reach the required level by imitating other firm with high degree of legitimacy (Forsgren, 2002). Firms observe how they enter the international market, and try to imitate their behaviour (Saarenketo et al., 2004; Fernhaber and Li, 2010). Internationalization itself can be regarded as a legitimacy-creating activity that stimulate other firms to enter the international market much earlier than they would otherwise have done (Forsgren, 2002). Firms tend to imitate actions that have been taken by large numbers of firms, because such practices practically have survived the test of market selection, and hence are considered to be legitimized (Forsgren, 2002; Saarenketo et al., 2004).

Fletcher and Harris (2012) precluded mimicking as a source of internationalization knowledge. This is because a high degree of interaction between the source of knowledge, and the manager receiving it, must be sustained over a period of time to be internalized (Fletcher and Harris, 2012). However, Denrell (2003) proposed that through interaction and observations, firms accumulate information about the characteristics and performance of other firms. Such information provides firms with the basis for vicarious learning and imitation (Denrell, 2003). Fernhaber and Li (2010) proposed that firms can vicariously acquire internationalization knowledge through observation of other firms in their reference group.

Imitation also can facilitate the diffusion of innovation (Owen-Smith and Powell, 2008; Oehme and Bort, 2015). For firms in the early stage of development or those in developing countries, imitation helps firms to learn the basics, and to absorb the ideas and technologies from more advanced countries (Nguyen and Pham, 2017). Thus, imitation contributes to the development of new products and services or production processes (Nguyen and Pham, 2017). Through international entry, firms are exposed to different sources of innovation, enabling them to observe more opportunities for technological development (Fernhaber and Li, 2010).

### **3.2.6 Outcome of Organizational Learning**

In the late 1990s, research on the outcome of organizational learning significantly increased (Argote, 2013). According to Argote (2013), the outcome of organizational learning is knowledge. It can manifest in changes in cognitions or behaviours. The basic principle underlying the traditional learning curve models implies that production experience creates knowledge that improves productivity (Yli-Renko et al., 2001). Thus, Yli-Renko et al. (2001) explored the outcome of organizational learning based on both tangible (new product development and sales costs) and intangible (technological distinctiveness) outcomes. However, different types of experience (experience acquired directly by organization, and experience acquired indirectly by organization through imitation) may affect the outcome of organizational learning differently (Argote, 2013). It is easier for an organization to learn from their own experience as compared to the experience of others (Argote, 2013) through imitation (Levitt and March, 1988; Huber, 1991). Thus, organizations may not fully exploit opportunities to learn from other organization (Argote, 2013) through imitation (Levitt and March, 1988; Huber, 1991). However, firms with low levels of internal knowledge have been found to benefit more from the exploitation of external knowledge acquired by learning from other organization (Fernhaber et al., 2009). By imitating common practice, firms vicariously exploit knowledge perceived as key to survival and success (Fernhaber and Li, 2010).

#### ***Knowledge exploitation***

Exploitation refers to as firm capability based on routine which allows the refinement, extension, and leverage of existing capabilities or creation of new capabilities by incorporating acquired and transformed knowledge into firm operations (Zahra and George, 2002). Firms are capable of exploiting knowledge without routines; however, routines offer systematic mechanism for sustaining the exploitation of knowledge (Zahra and George, 2002). Exploitation is evident; firms may grasp knowledge from their environment and consequently exploit knowledge to create new competencies (Zahra and George, 2002). Cohen and Levinthal (1990) proposed that exploitation capability signifies the by-products of R&D or a firm's manufacturing operations. Spender (1996) proposed that exploitation capability by firm produce the new goods, systems, processes, knowledge, or organizational forms.

Cognition can only be understood in context. This context is a contingency that affect the processes of organizational learning and moderates the relationship between

experience and the outcomes of organizational learning (Argote and Miron-Spektor, 2011). Context includes the relationship with other organization (Argote and Miron-Spektor, 2011). Cross-border buyer-supplier relationships tend to be contextualized with consistent patterns of communication which make them particularly effective at structuring knowledge transfer (Gunawan and Rose, 2014). Such relationships create a context within which new knowledge can be exploited (Yli-Renko et al., 2001; Argote, 2013).

### ***Buyer's perspective***

Mohanty and Gahan (2012) demonstrated that buying firms may exploit capacity and capability from supplying firm for achieving organizational goals. Wu and Choi (2005) proposed that as buyers heavily exploit knowledge from suppliers, new equipment design and engineering methods can be obtained. On the other hand, Revilla and Villena (2012) proposed that buying firms may exploit knowledge from supplying firms and obtain new solutions for their inter-firm operations that drive better outcomes. They demonstrated that as buyers and suppliers share their knowledge primarily related to existing products and inter-firm processes (for instance development of business demands), the reduction of coordination costs, quality improvements, amelioration of production bottlenecks, and the enhancement of abilities on performing routine tasks can be achieved.

Revilla and Villena (2012) proposed that integrative mechanisms ensure that buying firms are capable of accessing and leveraging knowledge from supplying firms for the exploitation of knowledge. They proposed that joint decision-making and joint sense-making enable buying firms to fully exploit synergies within a relationship. Petersen et al. (2003) also proposed that joint decision-making enables buying firms to fully exploit the knowledge and capabilities of potential suppliers.

### ***Supplier's perspective***

Exploitation of knowledge from cross-border buyer-supplier relationship can be conducted by a supplier by translating such knowledge into new ideas, products, processes, and technologies (Inemek and Matthyssens, 2013). Yli-Renko et al. (2001) demonstrated that greater market and technological knowledge acquired by firm from key foreign buyer enable the exploitation of such knowledge to obtain greater number of new product, greater level of technological distinctiveness, and lower overall sales costs. Horng et al. (2009) proposed that maintaining close relationship with key buyers is regarded as the most essential factor the most essential factor contributing to the benefits of exploitation of

knowledge from key buyers. Many firms in Taiwan have rapidly grown through such exploitation, and some have begun new product development and their own brand management (Horng et al., 2009). New product development includes radically brand-new products as well as incrementally modified new products (Horng et al., 2009), while own brand management denotes a pause from contract manufacturing, and necessitates the focal firm to change focus from efficiency to innovation (Horng and Chen, 2008).

Saenz et al. (2014) proposed that joint decision making about relationship-specific improvements, supply chain strategies, new products developments and the assessment of learning values are parts of exploiting new knowledge by firms. They also suggested that the process of joint decision making can fulfil or surpass buyer requirements by facilitating innovative products to be developed by suppliers.

### **3.3 Research Framework**

Chapter two considered knowledge-related theories associated with internationalization, and the learning process associated with cross-border buyer-supplier relationship. Chapter three deliberated organizational learning to explain the interplay between knowledge, learning, and cross-border buyer-supplier relationship. Therefore, a framework is developed by integrating the literature on knowledge in internationalization and learning in cross-border buyer-supplier relationships, as presented in chapter two with the literature on organizational learning associated with internationalization, as presented in chapter three. These chapters describe that when a firm enters foreign market network and develop cross-border buyer-supplier relationships, they can develop a learning capability (Johanson and Vahlne, 2009). A relationship with foreign buyers may entail learning opportunities for the supplying firm (Inemek and Matthyssens, 2013), and the relationship with foreign suppliers may entail learning opportunities for the buying firm (Hessels & Parker, 2013). This includes learning from direct experience (Johanson and Vahlne, 2009; Fuerst and Zettinig, 2015) in international sourcing and exporting, and the imitation (DiMaggio and Powell, 1983; Fuerst and Zettinig, 2015) of key foreign supplier and key foreign buyer. The acquisition of new knowledge is associated with the exploitation of new knowledge (Yli-Renko et al., 2001) However, prior knowledge may affect the acquisition of new knowledge (Huber, 1991; Zahra and George, 2002). Prior knowledge can be utilized to steer the firm through the internationalization process (Loane et al., 2004). The content of prior and new knowledge including market,

internationalization, and technological knowledge has been recognized in the literature (Eriksson et al., 2000; Autio et al., 2000; Johanson and Vahlne, 2009).

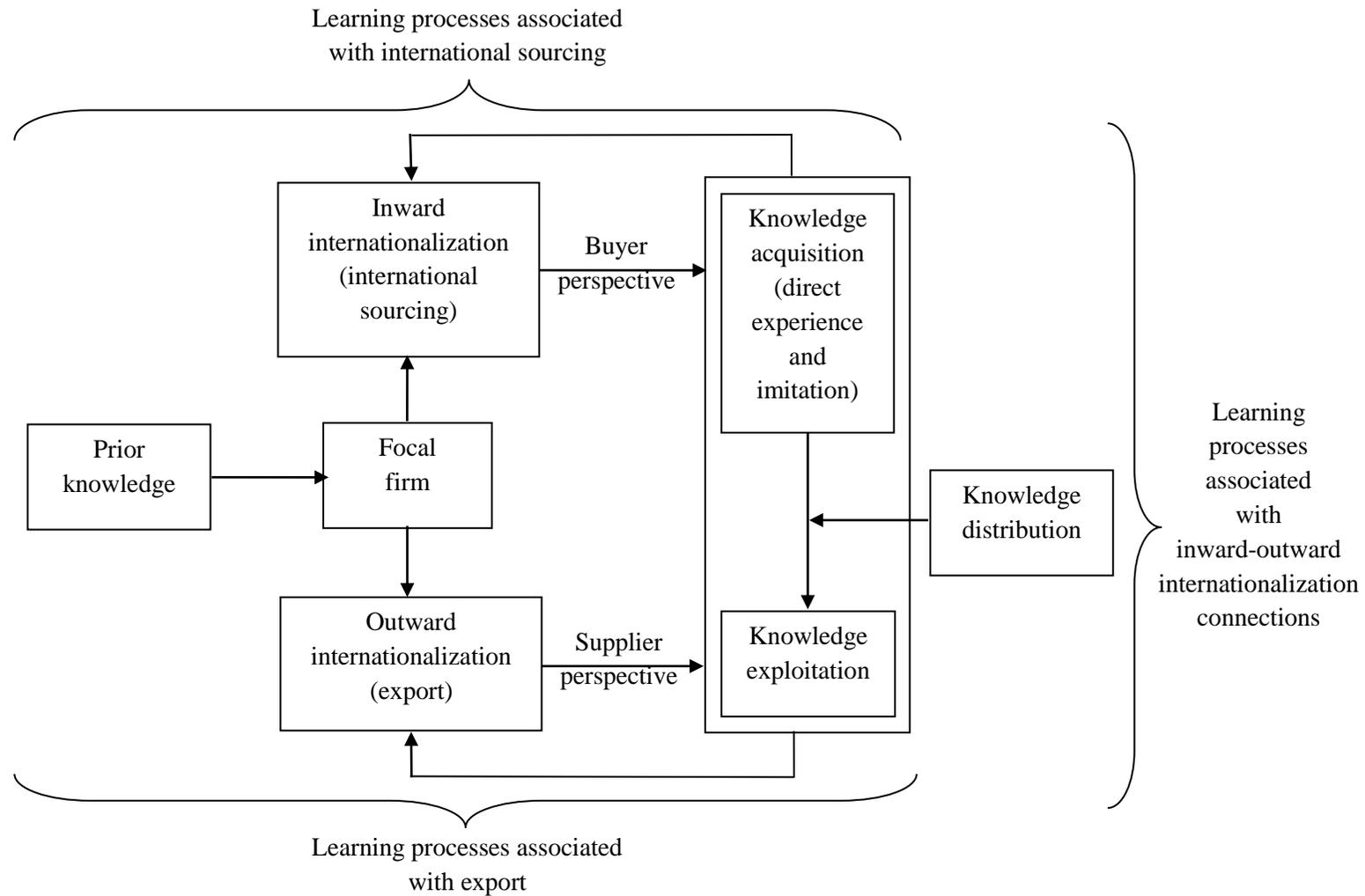
Literature on the role of knowledge in the process of internationalization remains emergent, while the acquisition of new knowledge has received greater attention among researchers (Lane et al., 2006; Park et al., 2015). This may lead to the over-emphasis of the content of new knowledge, and a lack of understanding about how new knowledge is applied (Lane et al., 2006). However, less attention has been given to the sources of new knowledge other than the direct experience in internationalization (Forsgren, 2002) even though the imitation of other firm also contributes to how firms learn about internationalization (Forsgren, 2002; Fernhaber and Li, 2010; Fletcher and Harris, 2012).

Thus, a research framework has been developed based on knowledge processes; knowledge acquisition and knowledge exploitation (Yli-Renko et al., 2001; Zahra and George, 2002). Addressing the need for investigating the role of internal network of firm in enabling the movement of knowledge which emerged from the connections between inward and outward internationalization (Karlsen et al., 2003), knowledge distribution is included in the research framework. Inward internationalization that refers to international sourcing, and outward internationalization that refers to export are also included in the research framework to fill the gap in a comprehensive study on inward and outward internationalization (Laurin and St-Pierre, 2011; Yeoh, 2014). The notion of the cross-border buyer-supplier relationship is incorporated in the research framework by outlining the perspectives of buyer that involved in international sourcing, and the perspective of supplier that involved in export in order to develop learning capability. This addresses the gaps in research on buyer-supplier relationship based on the perspective of suppliers (Stjernström and Bengtsson, 2004). The supplier perspective is equally relevant to the buyer perspective because suppliers are normally involved in multiple supply chain with different buyers and settings (Saenz et al., 2014). Both buyers and suppliers conceivably have their own mechanisms to interact with their suppliers (for buyers) and their buyers (for suppliers) (Azadegan, 2011). In addition, the notion of cross-border relationships may represent the connection between inward and outward internationalization (Welch and Luostarinen, 1993) in which a buying firm can learn and acquire knowledge from the foreign supplier as they internationalize through inward operations, while the supplying firm can learn and acquire knowledge from the foreign buyer as they internationalize through outward operations (Welch and Luostarinen, 1993; Korhonen et al., 1996;

Johanson and Vahlne, 2009) which allow the complementary effects between inward and outward internationalization to be examined.

Therefore, the integration of inward and outward internationalization and the cross-border buyer-supplier relationship with knowledge, learning, and organizational learning reflects the integrated approach of this research. The research framework is developed as shown in Figure 3.3. This allows the examination on how firms that involved in international sourcing and export acquire knowledge from the direct experience in international sourcing and export, as well as the imitation of key foreign supplier and key foreign buyers, and how they exploit the newly acquired knowledge. This also allows the examination of knowledge acquisition and the distribution and exploitation associated with the connections between inward and outward internationalization.

Figure 3.3: Research framework of learning processes associated with international sourcing, export, and connections between inward and outward internationalization



### 3.4 Research Questions and Research Objectives

This research aims to investigate learning processes by internationalizing firms that involve in international sourcing and export. The are number of research questions. Therefore, three specific research questions are established as shown in Figure 3.4.

**Figure 3.4: Research objectives and research questions**

#### **Research questions**

- What prior knowledge is needed to do international sourcing by the SME buyers?
- What new knowledge is acquired from the direct experience in international sourcing by the SME buyers?
- What new knowledge is acquired from the imitation of key foreign supplier by the SME buyers?
- How new knowledge is exploited by the SME buyers?

#### **Research objective 1**

To investigate the development of learning processes through the direct experience in international sourcing, and the imitation of key foreign suppliers.

#### **Research questions**

- What prior knowledge is needed to perform exporting by the SME suppliers?
- What new knowledge is acquired from the direct experience in export by the SME suppliers?
- What new knowledge is acquired from the imitation of key foreign buyers by the SME suppliers?
- How new knowledge is exploited by the SME suppliers?

#### **Research objective 2**

To investigate the development of learning processes through the direct experience in export, and the imitation of key foreign buyers.

#### **Research questions**

- What knowledge from international sourcing is used for exporting?
- What knowledge from export is used for international sourcing?
- How is knowledge from international sourcing distributed to conduct export?
- How is knowledge from export distributed to conduct international sourcing?
- How is knowledge from international sourcing exploited to conduct export?
- How is knowledge from export exploited to conduct international sourcing?

#### **Research objective 3**

To investigate the development of learning processes from the connections between inward and outward internationalization in terms of knowledge acquisition, knowledge distribution, and knowledge exploitation

### 3.5 Conclusion

In conclusion, this chapter highlights the importance of organizational learning for the development of new knowledge, and the learning in cross-border buyer-supplier relationships. Table 3.1 summarizes the theoretical perspectives of knowledge and learning derived from the literature to support the theoretical foundation of this research.

| <b>Table 3.1: Theoretical perspective of knowledge and learning</b>               |   |   |
|---|---|---|
| <b>Theory</b>   | <b>Perspective of knowledge</b>   | <b>Perspective of learning</b>  |
| Organizational learning<br>(Levitt and March, 1988;<br>Huber, 1991; Argote, 2013) | <ul style="list-style-type: none"> <li>• Knowledge creation</li> <li>• Knowledge acquisition</li> <li>• Knowledge distribution</li> <li>• Knowledge exploitation</li> </ul> | <ul style="list-style-type: none"> <li>• Possession of prior knowledge</li> <li>• Learning from direct experience and learning from imitation</li> <li>• Routines and transactive memory system provide means for embedding knowledge</li> <li>• Learning outcomes</li> </ul> |

This chapter also highlights the importance of newly generated knowledge from direct experience in international sourcing and export as well as the imitation of key foreign supplier and key foreign buyer; to be exploited by SMEs. The literature is extensively examined to establish the theoretical foundations and empirical research relating to the notion of internationalization, which include inward and outward internationalization. These relate to the notions of knowledge and learning which include knowledge-related theories, learning-related theories, and organizational learning, as well as relating to both notions. The qualitative case study approach is used to answer the research objectives in conjunction with the research questions. The research methodology and qualitative case study approach adopted by this research are presented in the next chapter

## **Chapter Four**

### **Research Methodology**

#### **4.1 Introduction**

Qualitative research suits to discover organizational processes as well as answer individual and collective organized action (Doz, 2011). However, research in international business relies more on quantitative as compared to qualitative method, thus international business developed with less benefit from qualitative research (Doz, 2011). Nonetheless, qualitative research in international business strongly acknowledges the use of case studies (Welch et al., 2011). Scholars in international business are offered a greater cross-cultural understanding towards the investigated social phenomena by using case studies (Fletcher and Plakoyiannaki, 2011).

#### **4.2 Research Approach**

Research approaches are plans and procedures for research which covers from broad assumptions to detailed methods of data collection, analysis, and interpretation (Creswell, 2014). Qualitative, quantitative, and mixed-method approaches are available for the researchers to select (Creswell, 2014) based on the nature of research problem or the investigated issue, the personal experience of the researcher, and the audience of research (Creswell, 2014). Considering the nature of learning processes associated with international sourcing, export, and connections that emerged between these international operations by the internationalizing Malaysian SMEs to be examined, this research adopts the qualitative approach. Normally, the distinction between qualitative research and quantitative research denotes that qualitative research using words rather than numbers, and quantitative research using close-ended questions rather than open-ended questions (Creswell, 2014). However, the comprehensive way of distinguishing these research approaches entails the basic philosophical assumptions brought by the researcher, the types of research strategies used in the research (e.g. quantitative experiment or qualitative case studies), and the method employed to conduct these strategies (e.g. collecting data quantitatively on instruments versus collecting qualitative data through observation) (Creswell, 2014). Focusing on the qualitative approach adopted by this research, qualitative research is defined as:

“An approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. The process of research involves emerging questions and procedures, data typically collected in the participant’s setting, data analysis inductively building from particulars to general themes, and the researcher making the interpretations of the meaning of the data. The final written report has a flexible structure. Those who engage in this form of inquiry support a way of looking at research that honors an inductive style, a focus on individual meaning, and the importance of rendering the complexity of a situation (Creswell, 2014).

There are two important components that attach to this definition (Creswell, 2014). First, the qualitative approach entails philosophical assumptions. The research philosophy of this research is explained further at 4.3. Second, it entails distinct methods and procedures. The research design of this research is explained further at 4.4.

### **4.3 Research Philosophy**

Research philosophies or paradigms vary on the goals of the research and how it can be achieved (Rubin and Rubin, 2012). The interpretivist paradigm holds that the world is socially constructed (Saunders et al., 2009), and meaning is determined by people (Easterby-Smith et al., 2008). On the other hand, the positivist paradigm holds that the world is external and objective (Carson et al., 2001). It can be described by measurable properties (Myers, 2013) through objective methods rather than through subjective methods such as sensations, reflection or intuition (Easterby-Smith et al., 2008). Instead of attempting to explain causal relationship through objective “facts” and statistical analysis, the interpretivist paradigm uses a more personal process to understand reality (Carson et al., 2001). As interpretivist researchers aim to understand what meanings people give to reality, and not to determine how reality works apart from these interpretations (Schutt, 2011), they assume that social constructions such as language, consciousness, shared meanings, and instruments are the only access (Myers, 2013). However, research based on the interpretivist paradigm receives less attention as compared to research based on the positivist paradigm in business and management (Myers, 2013). Yet, it is progressing over the past 20 years and has been scholarly accepted (Myers, 2013). Some argued that the interpretivist paradigm is highly appropriate for research in business and management especially in organizational behaviour (Saunders et al., 2009). Business situations are a function of a particular set of circumstances and individuals (Saunders et al., 2009). They are perceived as complex and unique (Saunders et al., 2009). That is why this research is based on the interpretivist paradigm.

Following the interpretivist paradigm, it is important for the researcher to explore the subjective meanings which motivate the actions of social actors in order to facilitate the comprehension of these actions (Saunders et al., 2009). Therefore, the researcher is required to adopt an empathic stance (Saunders et al., 2009). They need to enter the social world of research subjects, and build an understanding from their point of view (Saunders et al., 2009). Thus, the researcher is part of what is being researched (Saunders et al., 2009). This is opposed to the positivist paradigm which proposes that the researcher is independent of the data (Saunders et al., 2009). They attempt to explain causal relationships by objective facts (Carson et al., 2001).

Besides that, the positivist paradigm drives deductive approach, and inductive approach owes more to interprets paradigm (Saunders et al., 2009). Through the inductive approach, data would guide the research and theory building (Carson et al., 2001). The inductive approach is based on the reflections of particular past experiences, through the formulation of abstract concepts, theories, and generalizations, that explain the past and predict future experience (Carson et al., 2001). It concerns with the context in which such events take place, but less concerns with the need to generalize (Saunders et al., 2009). In contrast, through a deductive approach, theory is used as a basis and guide of the research (Carson et al., 2001). Deductive approach is used to develop hypothesis which can be quantitatively measured to explain causal relationships between variables (Saunders et al., 2009). It is concerned with the need to generalize by using sufficient sampling size (Saunders et al., 2009).

Hence, this research adopts the interpretivist paradigm with a subjective approach and an inductive approach in order to uncover deep insights of learning processes associated with international sourcing, export, and connections that emerged between international sourcing and export by the internationalizing Malaysian SMEs. However, the interpretivist paradigm raises questions about the generalizability of research (Saunders et al., 2009). Nonetheless, it is argued that the aim of research is to capture the rich complexities of social situations, and the generalizability of research is not of crucial importance (Saunders et al., 2009).

#### **4.4 Research Design**

Research designs are types of inquiry within qualitative, quantitative, or mixed-method approaches (Creswell, 2013). This research adopted qualitative design by case studies. Case studies are discussed further at 4.4.2.

##### **4.4.1 Background – Malaysian SMEs**

Every country has its own definition of SME (Senik et al., 2011; Hashim, 2012; Jabar et al., 2016). In Malaysia, the general definition of SME was first introduced by the National SME Development Council (NSDC) on 9<sup>th</sup> June 2005, and the new definition of SME was endorsed by the NSDC on 11<sup>th</sup> July 2013 during its 14<sup>th</sup> meeting (Development Finance and Enterprise Department, 2013). This was due to the many developments in the Malaysian economy since 2005 such as price inflation, structural changes, and changes in business trends (Development Finance and Enterprise Department, 2013). Therefore, the definition is simplified as follows (Development Finance and Enterprise Department, 2013):

Manufacturing: Sales turnover not exceeding RM50 million OR full-time employees not exceeding 200 workers

Services and other sectors: Sales turnover not exceeding RM20 million OR full time employees exceeding 75 workers

A business will be considered as an SME if either one of the two specified qualifying criteria; 1) sales turnover; or 2) full-time employees, can be met (BNM, 2013). The global economy has approached every part of the world, and not only large corporations can operate in the foreign market but many SMEs are also capable of internationalizing (Zain and Ng, 2006).

The Malaysian government is giving much attention and assistance to the Malaysian SMEs to expand sales to the foreign market (Zain and Ng, 2006; Hashim, 2012). However, even though there are various supports available from the Malaysian government, the Malaysian SMEs are still struggling to operate in the foreign market due to various factors such as lack of technological capabilities (Hashim, 2012). They are struggling with new evolving technologies in information communication and technologies (ICT) and production processes, as well as increasing factor cost which affects the competitiveness of export (Muhammad et al., 2010). They are competing with cheaper and more innovative foreign products or services, as well as firm's capital and resources

(Muhammad et al., 2010). Thus, it was suggested that the Malaysian SMEs should be able to take advantage of low labor cost, flexible logistics, new technologies, cheaper materials, and fewer controlled operating environment in order to provide synergy (Muhammad et al., 2010). Hashim (2012) illustrated that the Malaysian SMEs are expected to gain benefit from international sourcing that may enable collaboration and sharing of resources. Yeoh (2014) added that the Malaysian SMEs are anticipated to gain benefits from international sourcing for process innovation. Inward internationalization may have an impact on firm performance through the learning process (Yeoh, 2014). According to Hashim (2012), through inward and outward internationalization with large firms, and even between SMEs, the foreign market offers SMEs with new opportunities for innovation, and new market opportunities for exporting. The Malaysian SMEs are encouraged to undertake outward investment to obtain access to the export market, thus becoming competitive suppliers in the foreign markets (Hashim, 2012).

However, Zain and Ng (2006) proposed that the Malaysian SMEs often rely on network relationships for the selection of market, the selection of foreign entry mode, the access to additional relationships and established resources, the access to market knowledge, the obtainment of initial credibility, the minimization of cost and risk, and so on. A close relationship with buyers and suppliers can assist the Malaysian SMEs to develop resilience even though they are facing the limitation of firm resources (Chin et al., 2012). According to Zain and Ng (2006), the Malaysian SMEs should be able to identify with whom and how network relationships should be established, and what capabilities and knowledge are required by SMEs over time.

According to Hashim (2012), the escalation of business cost requires the Malaysian SMEs to be capable of utilizing the supports provided by the Malaysian government as well as enhancing management skills, financial capabilities, and learning capacities. However, a study by Yeoh (2014) which focused on the Malaysian SMEs demonstrated that there was no attempt to link foreign entry strategies with non-financial gains such as knowledge and learning capabilities. Besides that, even though there is a large number of studies focusing on SMEs internationalization, there is only a little number of studies that focus on the Malaysian SMEs (Hashim and Hassan, 2008; Chelliah et al., 2010; Abdullah and Zain, 2011; Hashim, 2012). Little is known about the internationalization process of manufacturing SMEs in Malaysia (Senik et al., 2014). Moreover, the internationalization

theories to explain the internationalization of Malaysian SMEs have not been fully studied (Abdullah and Zain, 2011). There is a lack of theory building and empirical evidence on the internationalization of Malaysian SMEs (Senik et al., 2010). Research on the internationalization of Malaysian SMEs is still in infancy, and there are broad opportunities to be explored by the researchers (Senik et al., 2010).

#### **4.4.2 Case Studies**

This research adopts the case study research method to examine the learning processes associated with international sourcing, export, and connections that emerged between international sourcing and export. Thus, this section presents 1) the nature of case studies to explain about the development of case studies, and 2) the selection of case studies to explain about the sampling and number of cases.

##### ***The nature of case studies***

Case study research is defined as the study of a social phenomenon (Yin, 2009; Swanborn, 2010) which involves in-depth and real-life context of investigation particularly when the boundary between phenomenon and context is unclear (Yin, 2009). The purpose of case study research in business and management implies the use of empirical evidence from real individuals in real organizations for the contribution of new knowledge (Myers, 2013). It can be quantitative or qualitative (Ghauri, 2004). It can be inductive to generate theory (Eisenhardt, 1989; Myers, 2013; Welch et al., 2011; Løkke and Sørensen, 2014) or deductive to test theory (Yin, 1989; Welch et al., 2011; Løkke and Sørensen, 2014). It also can be based on one case which is known as a single-case study or several cases recognized as multiple-case studies (Meyer, 2001; Yin, 2003; 2009; Swanborn, 2010). Yin (2003; 2009) proposed that this primary distinction reflects and results in four-case study designs which include 1) single-case (holistic) design; 2) single-case (embedded) design; 3) multiple-case (holistic) design; and 4) multiple-case (embedded) design. Holistic designs examine the case as one unit (Rowley, 2002). Embedded designs identify a number of subunits (such as meetings, roles, or locations) whereby these subunits are explored individually, and the results are drawn together to yield an overall picture (Rowley, 2002). However, Yin (2009) also proposed that research questions contribute to the selection of an appropriate unit of analysis. Hence, this research adopts multiple-case (embedded) design. The use of multiple case studies enables the researcher to find cross-case patterns to capture novel findings that may exist in the data (Miles and Huberman, 1994). This is

aligned with the inductive approach adopted by this research to uncover deep insights of learning processes by the internationalizing firms. The units of analysis are the international sourcing activities and the exporting activities by the firm. It is expected that the analysis of these units will provide the basis and context for analyzing the case studies, and reconstruct the learning processes associated with international sourcing, export, and international sourcing-export connections of the ten case studies (Macome, 2004).

Yin (2009) suggested that case studies can be exploratory, descriptive, and explanatory. This research used all of these approaches. The exploratory approach allows the researcher to discover (Myers, 2013) and answer the "what" questions of the research (Yin, 2009); 1) what prior knowledge is needed to do international sourcing by the SME buyers, 2) what new knowledge is acquired from direct experience in international sourcing by the SME buyers, 3) what new knowledge is acquired from imitation of key foreign supplier by the SME buyers, 4) what prior knowledge is needed to do export by the SME suppliers, 5) what new knowledge is acquired from direct experience in export by the SME suppliers, 6) what new knowledge is acquired from imitation of key foreign buyer by the SME suppliers, 7) what knowledge from international sourcing is used for exporting, and 8) what knowledge from exporting is used for international sourcing. The descriptive approach allows the researcher to illustrate the profile of events and situations (Yin, 2009). Explanatory approach allows the researcher to explain or compare (Myers, 2013) and answer the "how" and "why" questions of the research (Yin, 2009); 1) how new knowledge is exploited by the SME buyer, 2) how new knowledge is exploited by the SME supplier, 3) how knowledge from international sourcing is distributed for exporting, 4) how knowledge from export is distributed for international sourcing, 5) how knowledge from international sourcing is exploited for exporting, and 6) how knowledge from export is exploited for international sourcing.

### ***The selection of case studies***

For the selection of multiple cases, Yin (2009) proposed two strategies to address the issue of the external validity of case inquiry. This includes 1) literal replication and 2) theoretical replication (Yin, 2009). When the study involves more than one case, the strategy for case selection is changing due to the shift of focus from addressing the purpose of case inquiry to the issue of the external validity of research inquiry (Shakir, 2002). External validity has been widely used to establish the quality of empirical social research

(Rowley, 2002). This entails the establishment of the domain to which a study's findings can be generalized, and this generalization is based on replication logic (Rowley, 2002). Case studies rely on analytical rather than statistical generalization (Yin, 2009). Analytical generalization is the generalization of "a particular set of results to some broader theory" (Yin, 2009). Thus, the criteria for selecting multiple cases is based on replication logic, not sampling logic (Yin, 2009; Voss et al., 2002). The researcher can adopt literal replication where the cases are selected to predict similar results or theoretical replication where the cases are selected to predict contrary results for predictable reasons (Yin, 2009). In order to provide literal replication, this research selected SMEs that are already involved in international sourcing and export. This highlights the inappropriateness of random sampling (Eisenhardt, 1989; Perry, 1998), and the need for purposeful sampling (Perry, 1998). Patton (2002) proposed 15 strategies of purposeful sampling which include 1) extreme or deviant case sampling, 2) intensity sampling, 3) maximum variation sampling, 4) homogenous sampling, 5) typical case sampling, 6) stratified purposeful sampling, 7) critical case sampling, 8) snowball or chain sampling, 9) criterion sampling, 10) theory-based or operational constructs sampling, 11) confirming or disconfirming cases, 12) opportunistic sampling, 13) random purposeful sampling, 14) sampling politically important case, and 15) convenience sampling. The underlying principle of these strategies is selecting information-rich cases (Patton, 2002). Thus, criterion sampling was used to select and identify cases that fulfilled predetermined criteria (Eduardsen and Ivang, 2016). First, cases must be classified as SMEs (Eduardsen and Ivang, 2016). Second, cases must involve international operations which include international sourcing and export (Eduardsen and Ivang, 2016). In order to identify eligible cases, the contact with a government agency that coordinates the development of SMEs is crucial. As this research is conducted in Malaysia, SME Corporation Malaysia was contacted for the list of companies (with facts including ownership, turnover, and contact details) that involved in international sourcing and export. However, they had only provided the list of companies (with facts including ownership, turnover, and contact details) that are involved in export. This required the listed companies to be contacted via telephone to identify whether they are also involved in international sourcing. When they validated the firm's involvement in international sourcing, the researcher enquired about the procedures to apply for an authorization to conduct a qualitative research based on semi-structured interviews, and participant observations. This screening procedure generated a smaller number of firms to be selected noting that not all exporting companies purchase from abroad, and some

exporting companies that conduct international sourcing informed that they cannot facilitate the conduct of research due to several reasons (e.g. confidentiality, the limitation of time, the change of top management) during the first telephone conversation. An official letter requesting an authorization to conduct case study research with related documents (the confirmation letter as a doctoral researcher, and the support letter from SME Corporation Malaysia) were sent via e-mail and fax. As a result, 10 companies agreed to participate in this research. However, it was double-checked that the cases fulfilled the predetermined criteria (Eduardsen and Ivang, 2016). When it was confirmed, they were selected as the participants. Therefore, the selection of case studies is based on purposeful sampling, particularly criterion sampling, which involves the use of replication logic, and entails the dependency on the conceptual framework which developed from prior theory (Perry, 1998).

There is no precise guideline on the number of cases to be selected (Romano, 1989; Perry, 1998) but it is the most known and discussed in the relevant literature (Fletcher and Plakoyiannaki, 2011). Voss et al. (2002) argued that the fewer the number of cases, the greater the opportunity for depth of observation. Eisenhardt (1989) proposed that four to ten cases normally work well. It is often difficult to generate theory when fewer than four cases are being studied, and the difficulty to deal with high complexity and massive volume of data can be faced when a study involves more than ten cases (Eisenhardt, 1989). However, Miles and Huberman (1994) proposed that a study with high complexity, and involves more than 15 cases can become unwieldy. The data becomes thinner with too many cases (Miles and Huberman, 1994). Considering the convenience sampling (Patton, 2002) and the number of cases suggested by previous studies (Eisenhardt, 1989), 10 companies were selected as the participants.

### ***The justifications for the adoption of case study research***

The nature of case studies emphasized on the characteristics of case studies, which enforced the direction of this research. Besides that, the selection of case studies emphasized on the issue of external validity and the selection of purposeful sampling, as well as the number of case studies to be selected, which provided the strategies of this research. Therefore, the rationale for adopting case study research is included to justify on why case studies is deemed as the most appropriate method for supporting the direction, and strategies of this research. Thus, it is justified for three specific reasons.

First, the adoption of case study research is due to the research questions for this research which are not limited to “what” questions, but also concern with how social phenomenon works. There are six “how” questions which include: 1) how new knowledge is exploited by the SME buyer, 2) how new knowledge is exploited by the SME supplier, 3) how knowledge from international sourcing is distributed for exporting, 4) how knowledge from export is distributed for international sourcing, 5) how knowledge from international sourcing is exploited for exporting, and 6) how knowledge from export is exploited for international sourcing, which indicated the rationale for adopting case studies research (Rowley, 2002; Yin, 2009).

Second, the adoption of case study research is due to the objectives for this research, which required the researcher to provide a holistic understanding on the learning processes associated with international sourcing, export, and connections between international sourcing and export. This includes the understanding on the development of knowledge and the development of cross-border buyer-supplier relationship during the process of internationalization. Yin (2009) proposed that case study research is appropriate to conduct a holistic and in-depth investigation of social phenomenon. Vissak (2011) argued that case study research is useful to understand a complex social phenomenon, which include the process of internationalization. It empowers the understanding of the dynamics on a single setting (Eisenhardt, 1989).

Third, the selection of case study research is due to the limited research on international sourcing associated with knowledge and learning, as well as inward-outward internationalization connections. Eisenhardt (1989) suggested that case study research is well suited to research areas with gaps in the theory development. Thus, it provided new insights (Eisenhardt, 1989; Yin 2009) on international sourcing as well as inward-outward internationalization connections.

#### **4.4.3 Data Collection**

Data collection involves several ways in which m for specific research were collected and organized (Stokes, 2011). In case studies, data can be collected from interviews, documentation (e.g. personal documents, written reports of events, and administrative documents), archival records (e.g. service records and organizational records), physical artefacts, direct observation, and participant observation (Yin, 2009).

Thus, triangulation can be used to strengthen a study by combining several kinds of methods or data (Patton, 2002). Campbell and Fiske (1959) introduced the concept of triangulation and Webb et al. (1966) helped to develop it. Later, Denzin (1970; 1978) elaborated four types of triangulation which include 1) data triangulation which involves the use of different sources of data; 2) investigator triangulation that involves the use of multiple researchers; 3) theory triangulation that involves the use of multiple theoretical positions; and 4) methodological triangulation that involves the use of multiple research methods. The researchers are able to address criticisms on singular methods, lone analysts, and single-perspective interpretations by triangulating with multiple data sources, methods analysts, and/or theories (Patton, 2002). This research collected data from multiple sources for data triangulation which may address the potential problems of construct validity (Meyer, 2001; Yin, 2009). This entailed comparison and verification of information consistency from semi-structured interviews with participant observations, and documentation (Patton, 2002).

### ***Semi-structured interview***

Qualitative interview is one of the most significant data gathering tools in qualitative research (Myers and Newman, 2007). The major types of qualitative interviews include structured interviews, unstructured or semi-structured interviews, and group interviews (Fontana & Frey, 2000; Myers and Newman, 2007). This research involved semi-structured interviews with the Managing Director of case firms conducted in 2014 and 2015. In a semi-structured interview, the researcher may prepare interview questions beforehand, but there is a requirement for improvisation. (Myers and Newman, 2007). This also requires the flexibility and openness exercised by the researcher (Myers and Newman, 2007). The average duration of each interview was one to two hours. Each interview was recorded and transcribed for data analysis. In 2014, there was one interview which focused on firm's past internationalization experience and process. In 2015, there were four interviews focusing on 1) firm's internationalization experience during the previous year, 2) learning processes associated with the direct experience in international sourcing and the imitation of key foreign supplier, 3) learning process associated with direct experience in export and the imitation of key foreign buyer, and 4) learning processes associated with inward-outward internationalization connection.

There are two strategies to ensure the reliability of case studies which include the creation of case study protocol, and the development of case study database (Yin, 2009). The case study protocol contributes to the reliability of research by standardizing the investigation of each case (Yin, 2009; Baškarada, 2014). In this research, the case study protocol included an overview of the research project; its purposes, objectives, and methods, as well as the interview schedule. The interview schedule included the summary details of firm's background information, the summary details of firm's financial information, and interview questions which were prepared prior to the interview session (this can be viewed at Appendix One). In structuring the interview schedule, a range of different types of questions was used (Cassell, 2015). In this research, open questions were used instead of closed questions. Besides that, opening and closing questions were utilized. In opening questions, general questions were asked. This was done to make the interviewees feel comfortable, and ease them into the interview (Cassell, 2015). In closing questions, they were asked if there is anything else they would like to say, or add to what they have already said. The interviewer also thanked the interviewees for the participation and explained what will happen next in terms of feeding back the findings from the research, as well as the contributions that they have made to the research. This was done to make the interviewee feel comfortable that they have expressed their say, and the interviewer was satisfied that they have covered their research concerns (Cassell, 2015). Figure 4.1 presents an example of the nature of questions for the interviews that focused on the perspective of SME buyer, the perspective of SME supplier, and the connections between inward and outward internationalization.

Multiple case studies involved the collection of large amounts of qualitative data, and they need to be organized and filed in such a way that allows for easy retrieval for later use (McCarthy, and Golicic, 2005). Thus, each case firms had the case records in order to record the data from interview transcripts, field notes, and documentation (this can be viewed at Appendix Two). The case records contained all major information used for analyzing and writing a case study (Patton, 2014). Information was edited, redundancies were sorted out, parts were fitted together, and the case records were organized for a ready access (Patton, 2014). Therefore, each case firm had an electronic database which contained interview transcriptions, and field notes. Documentation which includes the minutes of meetings, and the email correspondences, and the newspaper articles were also maintained.

**Figure 4.1: An extract of interview questions**

**Buyer's perspective on learning**

1. What were the main things (events) associated with international sourcing over the last year?
2. Based on the main things (events) associated with international sourcing over the last year
  - What areas of knowledge, from your past internationalization experience, were needed to deal with the main thing (event)?
  - What areas of new knowledge that you acquire (learn) after dealing with the main thing (event)?
  - What areas of new knowledge that you observe and imitate from key foreign supplier when dealing with the main thing (event)?
  - How has this influenced what the firm is capable of doing now?

**Supplier's perspective on learning**

1. What were the main things (events) associated with export over the last year?
2. Based on the main things (events) associated with export over the last year
  - What areas of knowledge, from your past internationalization experience, were needed to deal with the main thing (event)?
  - What areas of new knowledge that you acquire (learn) after dealing with the main thing (event)?
  - What areas of new knowledge that you observe and imitate from key foreign supplier when dealing with the main thing (event)?
  - How has this influenced what the firm is capable of doing now?

**Inward-outward internationalization connections**

1. Based on the main things (events) associated with international sourcing
  - What areas of knowledge, from export, that were needed to deal with the main thing (event)?
  - Where did you learn (acquire) this knowledge – knowledge from export that relevant for international sourcing?
  - Who in the firm has this knowledge?
  - How did you share this knowledge with those who needed it to conduct international sourcing?
  - How has this influenced what the firm is capable of doing now?
2. Based on the main things (events) associated with export
  - What areas of knowledge, from international sourcing, that were needed to deal with the main thing (event)?
  - Where did you learn (acquire) this knowledge – knowledge from international sourcing that relevant for export?
  - How did you share this knowledge with those who needed it to conduct export?
  - How has this influenced what the firm is capable of doing now?

***The justifications for the adoption of semi-structured interview***

The adoption of semi-structured interviews is justified for two specific reasons. Firstly, it is due to the adoption of interpretivism paradigm for a subjective approach by this research. Semi-structured interview enables the opportunity for probing answers, where the interviewee can explain or develop their responses (Saunders et al, 2009). Consequently, this is significant when the researcher adopts an interpretivism paradigm, and concern with the need to comprehend the meanings that participants ascribe to various

phenomenon (Saunders et al., 2009). The opportunity for probing meanings will augment the significance and depth of collected data; will lead to the discussions that are not considered previously but significant for understanding, as well as addressing and formulating research objectives and questions; and will empower the interviewee to reflect of something that are not thought about previously (Saunders et al., 2009). In this research, semi-structured interview allowed the interpretations of interviewees on the learning processes associated with international sourcing, export, and inward-outward connections to be probed, thus rich and detailed set of data to be collected (Saunders et al., 2009).

Secondly, it is due to the useful balance between formal structured approach, and informal conversational approach, which provided the structure of interview, and allowed for the improvisation of questions (Al-Salti, 2011; Myers, 2013). In basis, the materials of semi-structured interview are systematic and comprehensive (Eriksson and Kovalainen, 2015). Nonetheless, semi-structured interview can varies the wordings and order of questions, even though there are pre-formulated questions (Myers, 2013; Eriksson Kovalainen, 2015). The tone of semi-structured interview can be conversational and informal (Eriksson and Kovalainen, 2015). New questions can emerge during the conversation, and this allows an improvisation of questions (Myers and Newman, 2007; Myers, 2013). Therefore, new insights on the learning processes associated with international sourcing, export, and international sourcing-export connections, were added into this research (Myers, 2013). Besides that, semi-structured interview can be used to examine both “what” and “how” open-ended questions (Eriksson and Kovalainen, 2015). The replies of interviewees tend to be more personal (Easterby-Smith et al., 2012).

### ***Participant observation***

Observation is one of the key tools for data collection in qualitative research (Creswell and Poth, 2017). It involves the process of noting and recording of events, behaviors, and artefacts (objects) in the social setting through field notes (Marshall and Rossman, 2011). It is used to discover complex interactions in the natural social setting (Marshall and Rossman, 2011). It can be classified into 1) participant observation and 2) non-participant observation (Mangal and Mangal, 2013). In participant observation, the researcher is fully involved with the participants and the phenomena that the researcher intended to observe by participating their activities (Girija, 2003; Collis and Hussey, 2013). It has been used in organizational and management research (Easterby-Smith et al.,

2015). This usually implies some kind of close involvement in an organization with the purposes of uncovering insights that cannot be assessed by other methods such as interviews (Easterby-Smith et al., 2015). It describes “what happens, who or what is involved, when and where things happen, how they occur and why things happen” (Jorgensen, 1989; Boeijie, 2009). It is useful to study meanings and interactions from the insider’s perspective (Jorgensen, 1989; Boeijie, 2009). In non-participant observation, the researcher does not involve with the participants by observing them from a distance, thus they may not be aware that they are being observed (Girija 2003; Collis and Hussey, 2013). Thus, participant observation is adopted for this research. The researcher attended two major meetings in each company. In all cases, the Managing Director of case firms introduced the researcher to the employees who attended the meeting. Field notes were written whereby the participants’ conversations were recorded. The data collected from participant observations served as a complementary to the data collected from semi-structured interviews.

Nonetheless, in order to direct the observer to the right aspect of behavior that the observer is supposedly to be looking for; an observation schedule should be considered by the researcher, and be as specific as possible (Bryman and Bell, 2015). An observation schedule is a form, which prepared before the data collection, and outlines the behavior and situational factors to be observed and recorded during an observation (Given, 2008). The categories included on the form are derived from the research questions (Given, 2008). Thus, the researcher sorted out the themes of interest relating to the research questions (Given, 2008). It is recommended for an observation schedule to include as many emerging themes of interest as possible (Given, 2008). Figure 4.2 presents an observation schedule that focused on internationalization (international sourcing and export) in terms of the acquisition and exploitation of new knowledge, as well as inward-outward internationalization connections in terms of cross-border buyer-supplier relationship, management structure, and knowledge distribution. Therefore, the phenomenon of learning processes associated with international sourcing, export, and international sourcing-export connections was observed during the observations.

**Figure 4.2: Observation schedule**

|   |
|---|
| <p><b>1. Internationalization – acquisition of new knowledge</b></p> <ul style="list-style-type: none"><li>• International sourcing<ul style="list-style-type: none"><li>○ What were the main things (events) associated with international sourcing, which discussed during the meeting?</li><li>○ What areas of new knowledge that they acquire (learn) after dealing with the main thing (event)?</li><li>○ What areas of new knowledge that they observe and imitate from key foreign supplier when dealing with the main thing (event)?</li></ul></li><li>• Export<ul style="list-style-type: none"><li>○ What were the main things (events) associated with export, which discussed during the meeting?</li><li>○ What areas of new knowledge that they acquire (learn) after dealing with the main thing (event)?</li><li>○ What areas of new knowledge that they observe and imitate from key foreign buyer when dealing with the main thing (event)?</li></ul></li></ul> |
| <p><b>2. Internationalization – exploitation of new knowledge</b></p> <ul style="list-style-type: none"><li>• International sourcing<ul style="list-style-type: none"><li>○ How they planned to use this knowledge?</li><li>○ Is there any impact on the firm’ capabilities? If yes, how?</li></ul></li><li>• Export<ul style="list-style-type: none"><li>○ How they planned to use this knowledge?</li><li>○ Is there any impact on the firm’s capabilities? If yes, how?</li></ul></li></ul>  |
| <p><b>3. Inward-outward internationalization - cross-border buyer-supplier relationship</b></p> <ul style="list-style-type: none"><li>• International sourcing<ul style="list-style-type: none"><li>○ How they developed and maintained the relationship with key foreign suppliers?</li><li>○ How their key foreign suppliers contribute to the development of existing and future export activities?</li></ul></li><li>• Export<ul style="list-style-type: none"><li>○ How they developed and maintained the relationship with key foreign buyers?</li><li>○ How their key foreign suppliers contribute to the development of existing and future international sourcing activities?</li></ul></li></ul>  |
| <p><b>4. Inward-outward internationalization connections – management structure</b></p> <ul style="list-style-type: none"><li>• Is there any communication between those who conduct international sourcing and those who conduct export? If yes, how?</li><li>• Is there any cooperation between those who conduct international sourcing and those who conduct export? If yes, how?</li></ul>   |
| <p><b>5. Inward-outward internationalization connections – distribution of knowledge</b></p> <ul style="list-style-type: none"><li>• International sourcing<ul style="list-style-type: none"><li>○ Did they share this knowledge with those who needed it to conduct export? If yes, how?</li></ul></li><li>• Export<ul style="list-style-type: none"><li>○ Did they share this knowledge with those who needed it to conduct international sourcing? If yes, how?</li></ul></li></ul>  |

***The justifications for the adoption of participant observation***

The adoption of participant observation is justified for one specific reason. The researcher attempted to observe the internationalization activities to acquire an understanding of the real business (Wei et al., 2015), and to observe the knowledge processes associated with the internationalization activities to acquire an understanding of

the learning processes. The internationalization activities include the conduct of international sourcing or/and the relationship with key foreign supplier, as well as the conduct of exporting or/and the relationship with key foreign buyer. The knowledge processes include knowledge acquisition, knowledge exploitation, and knowledge distribution. These were observed during the meetings that primarily focused on import-export activities. Acknowledging the connections between international sourcing and export (Karlsen et al. 2003), and both international operations were commonly discussed together in a meeting, the researcher observed all learning processes associated with international sourcing, export, and international sourcing-export connections during the meeting, and distinguished these learning processes during the analysis.

### ***Documentation***

Documentation is produced in the course of everyday events or constructed specifically for the research (Marshall and Rossman, 2011). Yin (2009) proposed that documentation which includes 1) personal documents, 2) written report of events, 3) administrative reports, 4) formal studies or evaluations similar to the research, as well as 5) news clippings and other articles appearing in mass media or the community newspaper can be collected by the case study researcher. Marshall and Rossman (2011) demonstrated that documentation such as minutes of meeting, formal policy statements, logs, announcements, and letters are useful to develop an understanding of the phenomenon that is being investigated. The abundance of documentation can be managed by sorting and assigning documentation based on their apparent centrality to the research inquiry (Yin, 2009). Thus, different kinds of documentation were gathered to provide information about how firm learn in a cross-border buyer-supplier relationship, and how firm link between international sourcing and export through knowledge processes. In order to address learning in cross-border buyer-supplier relationships, relevant email correspondence with key foreign suppliers, and key foreign buyers were gathered. In order to address the connections between international sourcing and export, copies of organizational charts, minutes of meetings, relevant email correspondence between the Managing Director, the employees that involved in international sourcing, and the employees that involved in export were gathered. The data collected from documentation served as a supplementary to the data collected from semi-structured interviews (Marshall and Rossman, 2011).

Besides data augmentation, the most significant use of documentation is to corroborate data from semi-structured interviews and participant observations (Yin, 2009). This may provide other specific details for the research (Yin, 2009). However, if documentary evidence is contrary rather than corroboratory, the topic needs to be inquired further (Yin, 2009). Besides that, documentation helps to make inferences for the research (Yin, 2009). However, this should be treated as clues for further investigation rather than as definitive findings (Yin, 2009). Thus, electronic news clippings from mass media (electronic newspaper) about the companies were gathered (Yin, 2009). Financial data from Companies Commission of Malaysia which included annual financial statements were used to confirm financial figures provided by case firms.

### ***The justifications for the adoption of documentation***

The adoption of documentation is justified for two specific reasons. Firstly, documentation was mainly used to verify the factual statements of interviewees which obtained from semi-structured interview, and participant observation (Yin, 2009). This is because what people are saying sometimes does not reflect their real action (Noor, 2008). Secondly, documentation was used to verify the uncertainty of researcher towards the details (e.g. the correct spelling, the exact name, and the exact position) mentioned in an interview or a meeting (Yin, 2009).

### ***The role of researcher***

The role of the researcher is vital in the process of interviews. Reliance on interviews as the primary method of data collection requires the issue of trust building between the researcher and the interviewees to be considered (Meyer, 2001). In addition, the gain of entrance, as well as the development and maintenance of trust with the participants are some of the key issues in a participant observation (Boeijie, 2009). Easterby-Smith et al. (2008) suggested that the issue of trust can be addressed by the effort of the researcher to be well-informed about the company. This can be achieved by viewing the companies' official websites (Easterby-Smith et al., 2008), and by consulting with SME Corporation Malaysia. Meyer (2001) suggested that the issue of trust building can be addressed by establishing a procedure of how to approach the interviewees. In this research, the companies were provided with the support letter from SME Corporation Malaysia to encourage them to participate in this research. In most cases, the governmental agency's support was an important enabler of company's research participation provided

that they benefited from the program by SME Corporation Malaysia. The relationship began when the researcher attempted to negotiate an appointment either directly or through the secretary (Easterby-Smith et al., 2008). The longitudinal nature of research enable trust and relationships with the interviewees to be developed (Fletcher, 2007). Creswell (2015) proposed that the development of detailed protocols by the researcher ensures that proper steps are taken to address trust concerns (Creswell, 2015). The protocol should ensure that the researcher has time to express gratitude, and bid farewell (Creswell, 2015). Even though this is a minute detail, it provides additional opportunities for building trust (Creswell, 2015). The protocol should also take language into consideration, and allow the interviewees to communicate in their first language (Creswell, 2015). In some cases, the interviewees were more comfortable to talk in their native language, Malay.

Yin (2009) proposed that a case study researcher should be capable of asking good questions, being a good listener, being adaptive and flexible, having a clear understanding of the research, as well as avoiding bias. The open-ended questions are useful to avoid bias although it is not always effective, it is preferable to the researcher (Easterby-Smith et al., 2008). Probes are also useful to discover responses to specific alternatives (Easterby-Smith et al., 2008).

### ***Longitudinal studies***

A research can be longitudinal or cross-sectional (Saunders et al., 2009). A longitudinal study is a study of a particular phenomenon over an extended period of time (Saunders et al., 2009). On the other hand, a cross-sectional study is a study of a particular phenomenon at a particular time (Saunders et al., 2009). It often employs the survey strategy (Saunders et al., 2009). This involves selecting different organizations or people in different contexts, and investigating how other factors, which measured at the same time, vary across these units (Easterby-Smith et al., 2012). Nonetheless, it may also employ the qualitative method (Saunders et al., 2009). For instance, many case studies are based on interviews conducted over a short period of time (Saunders et al., 2009). Karlsen et al. (2003) argued that cross-sectional studies may cause the difficulty to analyze and comprehend the complex nature of internationalization, particularly where the timing of events is essential.

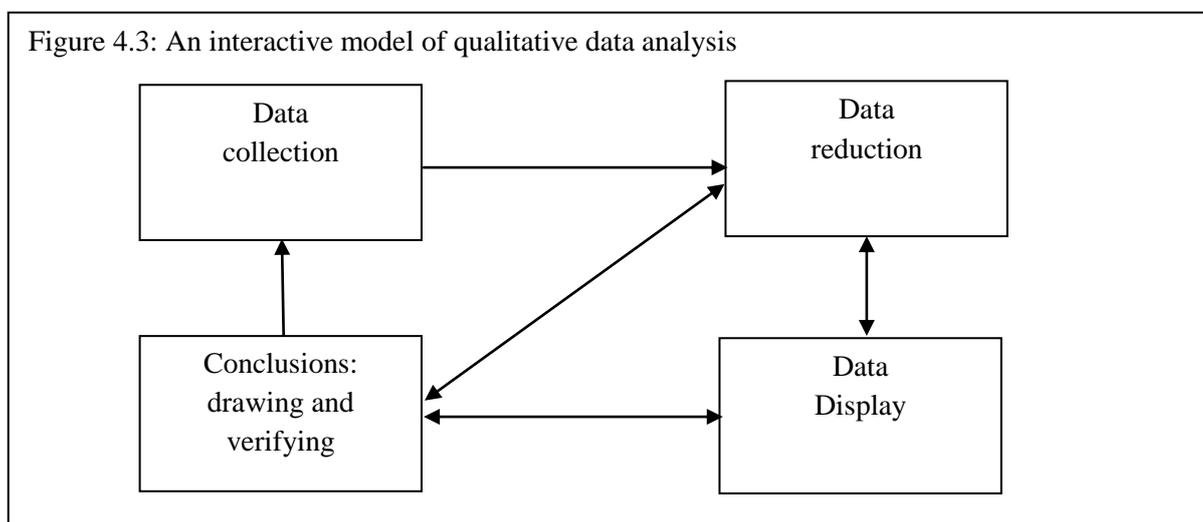
Internationalization is a field of inquiry in which process approach is widely agreed to be required but remains scarce (Welch and Paavilainen-Mäntymäki, 2014). Process approach concerns with “how does the issue emerge, develop, grow or terminate over time?” (Welch and Paavilainen-Mäntymäki, 2014). It relies on methodologies that capture multiple time points; which include longitudinal case studies (Pettigrew, 1990; Welch, and Paavilainen-Mäntymäki, 2014). A longitudinal study is important to understand a firm in order to outline the process through which changes are created (Pettigrew, 1990; Bryman and Bell, 2015). As the process is embedded in context (Pettigrew, 1992), Pettigrew (1992) proposed that the investigation of organizational change requires the study of processes in the outer context (economic, social, political, competitive, and sectoral environments) and the internal context (structural, cultural, and political environments). Pettigrew (1992) also proposed that the study of processes in the past, present, and future and the understanding of sequence and flow of events over time is required by the longitudinal process researcher. Besides that, longitudinal process research plays a role to explain between context and action, to provide holistic rather than linear explanation, and to link between the analysis of processes to the explanation of outcomes (Pettigrew, 1992).

Thus, this research adopts a longitudinal study over a time period of 2014 to 2015. This enables the study of change and development of learning processes related to international sourcing, exporting, and the connection between international sourcing and exporting over time, which is regarded as the main strength of employing longitudinal studies (Saunders et al., 2009). While learning is one of the key concepts in the theories of internationalization, the empirical literature lacks longitudinal studies that consider how learning processes may change as firms increasingly internationalized (Pellegrino, and McNaughton, 2017). Besides that, import-related phenomenon including international sourcing is highly dynamic, and can only be captured with the employment of longitudinal studies (Aykol et al., 2013). This allows an understanding of the potential shifts in inward internationalization particularly international sourcing (Karjalainen and Salmi, 2013). In addition, the employment of longitudinal studies can reveal the mechanisms of inward-outward internationalization connections (Holmund et al., 2007).

#### **4.4.4 Data Analysis**

In this research, within-case and cross-case techniques were used to analyze the data. This followed the guidelines suggested by Miles and Huberman (1994) and Yin

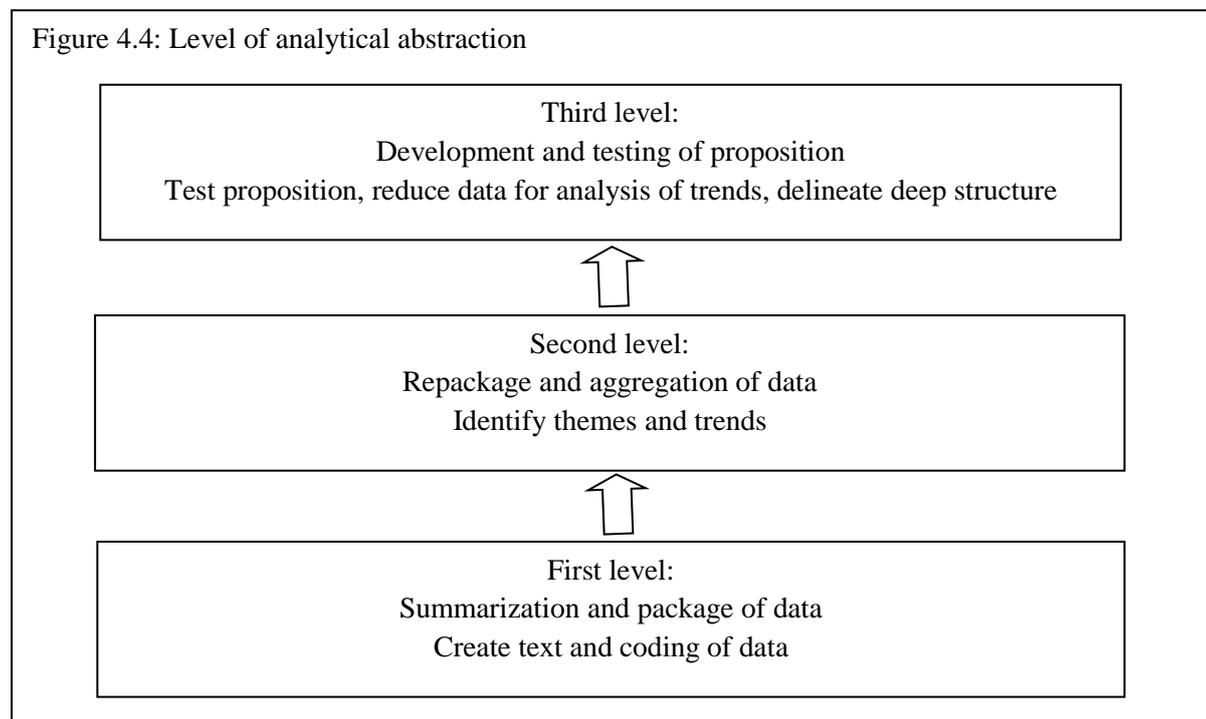
(2009). Miles and Huberman (1994) proposed an interactive model of qualitative data analysis as shown in Figure 4.3. The main components of qualitative data analysis include 1) data reduction, 2) data analysis, and 3) conclusions; drawing and verifying, which form cyclical process (Miles and Huberman, 1994; Miles et al. 2013). Data reduction refers to the process of selecting, focusing, simplifying, abstracting, and transforming the data collected from interview transcriptions and field notes (Miles and Huberman, 1994). The coding of data (data reduction) leads to new ideas on what should go into a matrix (data display) (Miles and Huberman, 1994). The entrance of data requires further data reduction (Miles and Huberman, 1994). As the matrix fills up, preliminary conclusions are drawn, and a column can be added into a matrix to test the conclusions (Miles and Huberman, 1994). Data display allows an organized and compressed assembly of information to be established, thus the conclusions can be drawn (Miles and Huberman, 1994).



Sources: Adapted from Miles and Huberman (1994)

In this research, data analysis involves the production of case records of each firm, within-case analysis, and cross-case analysis. Data from interview transcriptions, field notes, and documentation of each case firm were recorded in particular case records. A within-case analysis was conducted for each case firm (Miles and Huberman, 1994). This entails the levels of analytical abstraction proposed by Miles and Huberman (1994) as shown in Figure 4.4. At the first level, the data is summarized and packaged. This involves the process of creating a text to be analyzed and trying out coding categories to find a set that fits. At the second level, the data is repackaged and aggregated. This involves the process of identifying themes and patterns throughout the data. At the highest level, the explanatory framework is developed by developing and testing propositions. This involves

the process of testing proposition and reducing data for the analysis of trends, as well as delineating the deep structure. Thus, tentative findings are cross-checked, matrix analysis of major themes is conducted, and explanatory framework is developed by integrating the data. In this research, there were four major themes which were identified during the within-case analysis, thus provided the basis for multiple-case analysis. This includes 1. learning in cross-border buyer-supplier relationships, and 2. connections of inward and outward internationalization. A cross-case analysis was conducted across all case firms in order to deepen understanding and explanation (Miles and Huberman, 1994) through cross-case comparisons for similarities and differences (Miles and Huberman, 1994; Yin, 2009). This is because processes and outcomes across many cases can be gained, and qualification by local conditions can be comprehended (Miles and Huberman, 1994). The within-case analysis is coupled with the cross-case analysis to enable cross-case search for patterns (Huberman and Miles, 2002). Miles and Huberman (1994) stressed out that there is no clear boundary between describing and explaining whereby “the researcher typically moves into a series of analysis episodes that condense more and more data into a more and more coherent understanding of what, how, and why”.



**Sources: Adapted from Miles and Huberman (1994)**

There are two basic approaches to analysis which include case-oriented approach and category-oriented approach (Miles and Huberman, 1994; Weitzman and Miles, 1995).

The “building blocks” of category-oriented approach are categories and their interrelationships, rather than case (Miles et al., 2014). In contrast, case-oriented approach considers the case as a whole entity by looking at configurations, associations, causes, and effects within the case, and then turns to the analysis of multiple cases, and look for underlying similarities and constant associations, compare cases with different outcomes, and begin to form more general explanations. (Miles et al., 2014). In this research, the data were classified into categories in order to conduct the analysis (Miles and Huberman, 1994). What has happened in a story of a specific situation or case is delineated to formalize the elements of the story, to locate key categories, and to build a theory or model through the examination of how the categories are connected and influenced each other (Miles and Huberman, 1994). Therefore, this has constructed a deeper story with the category-oriented approach (Miles and Huberman, 1994). Besides that, there are two major display types which include matrices and networks (Miles and Huberman, 1994; Weitzman and Miles, 1995). Matrices involve the crossing of two or more main categories (often with sub-categories) to see how they interact (Weitzman and Miles, 1995). In contrast, networks involve a series of nodes connected by a link (Weitzman and Miles, 1995). It provides the kind of narrative that tends to be confined analytically in matrices (Weitzman and Miles, 1995). In this research, matrices (tables) of content analysis were created in order to present the analysis (Miles and Huberman, 1994). The classification of categories and the analysis using content analysis are explained further in the next two sections.

### ***Classification for categories***

The likelihood of relevant categories being left out is lower for case study method as compared to a statistical method (Bennett and George, 1997). Case study method allows for an inductive identification of categories (Bennett and George, 1997). However, the process of categorizing data and establishing measures was complex and lengthy (Fletcher, 2007). The classification used for knowledge and learning categories is shown in Table 4.1.

| Table 4.1: Classification used for knowledge and learning categories |                                |   |
|--|--------------------------------|---|
| Knowledge and learning processes                                     | Classifications for categories | Definitions of categories   |
| Prior knowledge  | Kind of prior knowledge        | <p>Market knowledge: Specific business and institutional knowledge of a country market</p> <p>Internationalization knowledge: General knowledge that can be transferred from one country to another. This includes foreign market entry and internal management processes</p> <p>Technological knowledge: Specific knowledge to develop or supply products and services. This includes the use of R&amp;D, the use of technology, and the use of foreign supplier</p>         |
| Learning in cross-border buyer-supplier relationships                | Sources of new knowledge       | <p>Learning from key foreign supplier: direct experience in international sourcing and imitation of key foreign supplier</p> <p>Learning from key foreign buyer: direct experience in export, and imitation of key foreign buyer</p>  |
| Knowledge acquisition  | Kind of new knowledge          | <p>Market knowledge: Specific business and institutional knowledge of a country market</p> <p>Internationalization knowledge: General knowledge that can be transferred from one country to another. This includes foreign market entry and internal management processes</p> <p>Technological/product knowledge: Specific knowledge to develop and supply products or services. This includes the use of R&amp;D, the use of technology, and the use of foreign supplier</p> |
| Knowledge distribution   | Sharing process                | Process category: Explains how knowledge from international sourcing is distributed within a firm to conduct export, how knowledge from export is distributed within a firm to conduct international sourcing   |
| Knowledge exploitation   | Exploit process                | Process category: Explains how new knowledge is exploited from the relationship with key foreign supplier, and key foreign buyer  |
| Knowledge exploitation   | Organizational capability      | Outcome category: Describe outcomes   |

|  |  |   |
|--|--|---|
|  |  | of learning process associated with international sourcing, export, and connections between international sourcing and export |
|--|--|---|

The kind of prior knowledge possessed by firms was classified as the market, internationalization, and technological knowledge. The kind of new knowledge acquired by firms was also classified as the market, internationalization, and technological knowledge. Market knowledge refers to specific business and institutional knowledge of a country market. Internationalization refers to general knowledge that can be transferred from one market to another. This includes general knowledge on foreign market entry (how to buy from overseas and how to conduct export), as well as internal management processes. Technological knowledge refers to specific knowledge to develop product or supply services. This includes knowledge on the use of R&D in order to develop product or supply services, knowledge on the use of technology in order to develop product or supply services, and knowledge on the use of foreign supplier in order to develop product or supply services. The in-depth nature of research allows the kind of prior knowledge needed to conduct international sourcing and export, and the kind of new knowledge acquired from the direct experience in international sourcing and export, as well as the imitation of key foreign supplier and key foreign buyer to be distinguished.

In this research, there are three major knowledge processes which include 1) knowledge acquisition, 2) knowledge distribution, and 3) knowledge exploitation and the perspective of learning is concerned with the development of cross-border buyer-supplier relationship through the direct experience in international sourcing and exporting, and the imitation of key foreign supplier, and key foreign buyer. The sources of knowledge were categorized into learning from a key foreign supplier, and learning from a key foreign buyer. Learning from a key foreign supplier can be from the direct experience in international sourcing and the imitation of a key foreign supplier. Learning from a key foreign buyer can be from the direct experience in export and the imitation of a key foreign buyer. Knowledge acquisition was defined by kind of new knowledge acquired from the direct experience in international sourcing and export, as well as the imitation of a key foreign supplier and a key foreign buyer. Knowledge distribution was measured by process category; how knowledge acquired from international sourcing is distributed within a firm to conduct export, how knowledge acquired from export within a firm is distributed within

a firm to conduct international sourcing. Knowledge exploitation was measured by process category and outcome category. The first refers to the exploitation process in a cross-border buyer-supplier relationship, and the latter refers to the organizational capability gained by the case firm.

### ***Content analysis***

Content analysis can be manifest content analysis or latent content analysis (Mayan, 2016). Manifest content analysis entails the researcher into finding specific words used or ideas articulated, and then tallied through numerous software packages, and then used to generate statistics on the content of data (Mayan, 2016). This quantitative content analysis does not take the context of data into consideration (Mayan, 2016). It is a method to summarize rather than report details concerning a message set, and the researcher seeks to answer questions about how many (Bengtsson, 2016). In contrast, latent content analysis entails the researcher to examine the meanings of specific passages or paragraphs within the data and to determine appropriate categories (Mayan, 2016). This qualitative content analysis allows the coding of participant's response within a context (Mayan, 2016). It is a method for the subjective interpretation of the data content through the systematic classification process of coding and identifying themes or patterns (Hsieh, and Shannon, 2005). Codes can be created inductively or deductively (Zhang and Wildemuth, 2009; Bengtsson, 2016) based on the research design (Bengtsson, 2016). If the study has a deductive reasoning design, the researcher has to create a coding list before commencing the analysis process (Bengtsson, 2016). On the other hand, codes generated inductively may change as the study progresses, noting that more data become available (Bengtsson, 2016). Codes enable the identification of concepts around which the data can be assembled into patterns (Bengtsson, 2016). The categories and themes in the coding scheme should be delineated in a way that they are internally as homogeneous as possible, and externally as heterogeneous as possible (Zhang and Wildemut, 2009). Therefore, content analysis functions as an analytical tool for categorization (Zhang and Wildemut, 2009). It is useful for examining themes, trends, and patterns (Stemler, 2001). In this research, the selection of inductive qualitative content analysis was due to the power of making faithful inferences (Zhang and Wildemut, 2009).

### *The use of NVivo*

The use of computer-assisted qualitative data analysis software (CAQDAS) has become increasingly prevalent (Taylor et al., 2015). Creswell (2012) suggested eight ways for computer programs to facilitate the analysis of qualitative data. This includes 1) to store and organize the data, 2) to locate text or image segments associated with a code or theme, 3) to locate common passages or segments that relate to two or more codes, 4) to make comparisons among codes, 5) to help the researcher to conceptualize levels of analytical abstraction, 6) to provide a visual picture of codes and themes, 7) to write memos, and store them as codes, 8) to create a template for coding data (Creswell, 2012). Therefore, NVivo which is produced by QSR International may significantly improve the quality of qualitative research (Welsh, 2002; Hilal and Alabri, 2013). It helps to manage, shape, and analyze qualitative data (Creswell, 2012). It appears to be a very strong software to ease the inductive analysis of qualitative data since the software assisted much in the process of data coding, and the reviewing and revisiting of interview transcriptions, field notes, and documentation for comparing, contrasting, and blending the data (Tran, 2017).

In this research, NVivo 10 was used to facilitate the qualitative content analysis of interview transcripts from the semi-structured interviews, the field notes from the participant observations, and the documentation. However, the researcher's insights and intuition in theorizing and interpreting the data are fundamental (Taylor et al., 2015). NVivo was also used to facilitate the data coding of large and unstructured qualitative data. The electronic process of data coding is quicker than the manual process of data coding (cut and paste pieces of text manually) which allow more codes to be derived (Welsh, 2002; Buchanan, 2010). This is not necessarily contributing to the understanding of data but contributes to the sense of being rigor and transparent by the researcher (Welsh, 2002). Hilal and Alabri (2013) demonstrated that electronic techniques of data coding are gradually employed by the researcher to obtain rigor in dealing with such data. Besides that, CAQDAS is designed to perform the organization of data more efficiently and should be fully exploited on this basis (Welsh, 2002). However, this is related to the knowledge of the analyst (Welsh, 2002). In this research, NVivo 10 was used to create memos which linked different pieces of data during the process of building up themes across the data (Welsh, 2002). NVivo 10 was also used to create memos to track the changes of coding decisions because re-coding and re-labelling are often necessary (Bengtsson, 2016). The

use of memos to log the process of development of node may be important in the emergence of theory (Bazeley and Richards, 2000).

#### 4.5 Profile of Case Companies

This section presents the types of firms that involved in the research. Consequently, the internationalization process, and the sales and growth of these firms were presented.

##### 4.5.1 Types of Firms

The ten case firms were labelled A to J to preserve anonymity. They were from a variety of business contexts as shown in Table 4.2 below. The majority of case firms were involved in the manufacturing sector. Only two case firms involved in the sales and services, and one case firm involved in the technology-based sector. However, one case firm did not only involve in the manufacturing sector but also focused on sales and services in order to expand domestically. They were all independent Malaysian SMEs.

| Firm   | Business type                                 | Business sector                     |
|--------|---|-------------------------------------|
| Firm A | Footwear and leather goods manufacturer       | Manufacturing                       |
| Firm B | Health beverage manufacturer                  | Manufacturing                       |
| Firm C | Sauce manufacturer                            | Manufacturing                       |
| Firm D | Serving dome manufacturer                     | Manufacturing<br>Sales and services |
| Firm E | Subsea raw material trader                    | Sales and services                  |
| Firm F | Rubber ball manufacturer                      | Manufacturing                       |
| Firm G | Marine equipment sales and technical services | Sales and Services                  |
| Firm H | Mayonnaise and sauce manufacturer             | Manufacturing                       |
| Firm I | Alternative energy manufacturer               | Manufacturing                       |
| Firm J | Fabless semiconductor developer               | Technology                          |

##### 4.5.2 Identification of Groups

The ten case firms were involved in international sourcing and export in order to internationalize. They were categorized into two major groups; 1) case companies that started international sourcing before exporting, and 2) case companies that started exporting before international sourcing. Thus, the first group consists of Firm A, Firm C, Firm D, Firm E, Firm G, and Firm H. The second group consists of Firm B, Firm F, Firm G, and Firm J. Based on the literature on inward-outward internationalization connections, the order of inward internationalization (international sourcing), and outward internationalization (export) (whether they started with international sourcing or exporting for internationalization) is associated with the establishment of inward-outward

internationalization connections, and the later development of outward internationalization (Korhonen et al., 1996).

The grouping of case firms was not facilitated by the firm's internationalization history shown in Table 4.3. They were not grouped based on, for example, IP theory, and INV theory as they did not fit the patterns suggested by both theories. Oviatt & McDougall (1997) exemplified that while the selection of any particular period to classify a firm as an international new venture is subjective, the first six years is deemed to be a crucial period. Therefore, five case firms were international new ventures as they internationalized less than six years after an inception, and another five case firms were internationalized incrementally. Oviatt and McDougall (2005) demonstrated that three types of firms (traditional, knowledge-intensive, and knowledge-based) differ in the reliance on knowledge, and the subsequent speed of internationalization. Traditional firms adapt well-understood technologies to new foreign market, and they usually experience the incremental internationalization (Oviatt and McDougall, 2005). Knowledge-intensive firms use complex knowledge for the development of new product, the improvement of production method, and the efficiency of service delivery, and they internationalize faster as they usually have a competitive advantage that can be exploited in multiple countries (Oviatt and McDougall, 2005). Knowledge-based firms are totally dependent on some novel knowledge to exist, and they usually have the most accelerated internationalization as they have a unique sustainable advantage which is internationally demanded (Oviatt and McDougall, 2005). From five case companies that were international new ventures, only one case firm was technology-based or knowledge-intensive firm as suggested by the INV theory

| Firms  | Year of establishment | Year of first exporting | Year of first international sourcing | Pace of internationalization | Knowledge-based/intensity |
|--------|-----------------------|-------------------------|--------------------------------------|------------------------------|---------------------------|
| Firm A | 1968                  | 1980s                   | 1968 (machine)                       | Incremental                  | Traditional               |
| Firm B | 1999                  | 2008                    | 2010 (raw material)                  | Incremental                  | Traditional               |
| Firm C | 1986                  | 2013                    | 2002 (machine)                       | Incremental                  | Traditional               |
| Firm D | 1996                  | 2001                    | 1997 (raw material)                  | INV                          | Traditional               |
| Firm E | 2006                  | 2009                    | 2007 (raw material)                  | INV                          | Traditional               |
| Firm F | 1990                  | 1991                    | 1990 (machine)                       | INV                          | Traditional               |
| Firm G | 2000                  | 2013                    | 2000 (OEM products)                  | Incremental                  | Traditional               |
| Firm H | 1998                  | 2007                    | 1998 (raw material)                  | Incremental                  | Traditional               |
| Firm I | 1994                  | 1996                    | 2000 (raw material)                  | INV                          | Traditional               |
| Firm J | 2000                  | 2001                    | 2000 (equipment and machine)         | INV                          | Knowledge-intensive       |

### 4.5.3 Sales of firms

International performance was variously operationalized as sales intensity (number of percentage of products exported, or number of markets served), foreign sales/total sales ratio, export growth, or export profitability (Manolova and Manev, 2004). International sales as a percentage of total sales can be regarded as the most widely used surrogate measure to capture the effectiveness of international performance (Preece et al.,1999; Yeoh, 2004; Zhou, 2007). Thus, this research used export ratio (international to total sales) in order to measure international performance. Table 4.4 represents the total sales, the international sales, and the international sales ratio, from the year 2014 to 2016.

| Year   | 2013             |                 |     | 2014             |                 |     | 2015             |                 |     | 2016             |                 |     |
|--------|------------------|-----------------|-----|------------------|-----------------|-----|------------------|-----------------|-----|------------------|-----------------|-----|
| Firm   | Total sales (RM) | Int. sales (RM) | IS% | Total sales (RM) | Int. sales (RM) | IS% | Total sales (RM) | Int. sales (RM) | IS% | Total sales (RM) | Int. sales (RM) | IS% |
| Firm A | 32.6             | 8.1             | 25  | 33.8             | 8.5             | 25  | 34.2             | 8.2             | 24  | 34.8             | 9.0             | 26  |
| Firm B | 10.0             | 9.8             | 98  | 12.5             | 12.0            | 96  | 13.4             | 13.3            | 99  | 13.6             | 13.5            | 99  |
| Firm C | 5.3              | 0.5             | 9   | 5.7              | 0.6             | 11  | 5.0              | 0.4             | 8   | 5.5              | 0.2             | 4   |
| Firm D | 5.0              | 1.6             | 32  | 6.5              | 1.45            | 22  | 7.1              | 1.2             | 17  | 6.7              | 1.0             | 15  |
| Firm E | 9.4              | 5.0             | 53  | 14.7             | 8.0             | 54  | 16.2             | 9.0             | 55  | 17.0             | 9.6             | 56  |
| Firm F | 7.7              | 7.3             | 95  | 8.0              | 7.6             | 95  | 6.9              | 6.5             | 94  | 7.2              | 6.9             | 96  |
| Firm G | 3.45             | 0.5             | 14  | 3.9              | 0.4             | 10  | 3.6              | 0.3             | 8   | 4.0              | 0.27            | 7   |
| Firm H | 5.1              | 1.3             | 25  | 5.2              | 1.3             | 25  | 4.7              | 1.37            | 29  | 5.0              | 1.2             | 24  |
| Firm I | 4.7              | 1.0             | 21  | 4.65             | 1.2             | 26  | 4.52             | 0.9             | 20  | 4.6              | 1.2             | 26  |
| Firm J | 29.0             | 23.0            | 79  | 31.0             | 26              | 84  | 32.0             | 27.3            | 85  | 32.2             | 27.8            | 86  |

IS% - Percentage of international to total sales

The international sales of Firm D and Firm G were decreasing as they were focusing on the domestic market. Firm C increased the international sales between 2013 and 2014 but the decline of international sales can be observed afterwards. As they started exporting in 2013, they were struggling to maintain the business relationship with the existing foreign buyer and to find the new business opportunities. In contrast, the international sales of Firm E and Firm J were increasing as they were focusing on the international market. However, Firm B experienced the decrease in international sales in 2014. They maintained the high percentage of international to total sales in 2015 and 2016. Firm A, Firm F, and Firm I experienced the decrease in international sales in 2015. These case firms were capable of increasing the international sales in 2016. Only Firm H experienced the decrease in international sales in 2016. This was due to the end of one international tender.

#### 4.6 Conclusion

This chapter explains the research methodology adopted for this research to examine the learning process of the internationalizing SMEs. The methodological aspects of this research are summarized in Table 4.5 below.

|                    |   |
|--------------------|---|
| Research approach  | Qualitative   |
| Research paradigms | Interpretivist  |
| Research design    | Multiple case studies of the Malaysian SMEs that involved in international sourcing and export  |
| Data collection    | Multiple sources of evidence which provided data triangulation <ul style="list-style-type: none"> <li>• Semi-structured interviews with the Managing Director of case firms</li> <li>• Participant observations by attending meetings</li> <li>• Documentation (minutes of meeting, e-mail correspondence, and newspaper articles)</li> </ul> |
| Data analysis      | Within-case and cross-case analysis<br>Categorization of data<br>Content analysis   |

This research adopted qualitative case study approach to investigate the learning processes associated with the direct experience in international sourcing and export, and the imitation of key foreign supplier and key foreign buyer, as well as the connections between inward and outward internationalization. A subjective approach based on the interpretivist paradigm along with the process of induction were adopted to derive the deep insights into the learning process of the internationalizing SMEs. Multiple case study design was adopted to increase the breadth of research (Vissak, 2010). Ten case firms were selected and agreed to participate in this research. They were the internationalizing Malaysian SMEs involved in international sourcing and export. Data collection involved 1) semi-structured interviews with the Managing Director of case firms, 2) participant observations by attending the meetings, and 3) the gathering of documentation. Multiple sources of data collection were utilized for data triangulation, and to enhance the validity of the research (Meyer, 2001; Yin, 2009). Data analysis involved within-case and cross-case techniques. The categorization of data was aided by qualitative content analysis which was performed to identify themes, trends, and patterns. This chapter concludes with the profile of case companies. The analysis and findings of the research are presented in the next chapter.

## **Chapter Five**

### **Findings – Within-Case Analysis**

#### **5.1 Introduction**

This chapter presents the findings from each case study of ten case firms. They were identified as Firm A, Firm B, Firm C, Firm D, Firm E, Firm F, Firm G, Firm H, Firm I, and Firm J to preserve anonymity. The within-case analysis of each case firm is presented following the two major themes identified in this research; 1) learning in cross-border buyer-supplier relationships, and 2) connections of inward and outward internationalization. This first theme identifies the possession of prior knowledge needed for international sourcing and exporting, the acquisition of new knowledge through direct experience in international sourcing and export. It also identifies the imitation of key foreign suppliers and the exploitation of new knowledge through the relationship with key foreign suppliers and key foreign buyers. The second theme identifies the acquisition of relevant knowledge from firm's inward internationalization (international sourcing) which entailed the distribution and exploitation of such knowledge for developing firm's outward internationalization (exporting), and the acquisition of relevant knowledge from firm's outward internationalization (exporting) which entailed the distribution and exploitation of such knowledge for developing firm's inward internationalization (international sourcing).

#### **5.2 Firm A**

##### **5.2.1 Learning in Cross-Border Buyer-Supplier Relationships**

Table 5.1 represents the possession of prior internationalization knowledge of international sourcing prior technological knowledge of exporting enabled the acquisition and exploitation of new internationalization knowledge, through the relationship with key foreign suppliers. On the other hand, Table 5.2 represents the possession of prior market and internationalization knowledge which enabled the acquisition and exploitation of new market and internationalization knowledge, through the relationship with key foreign buyers.

| <b>Table 5.1: Firm A – Learning in relationships with key foreign suppliers</b>  |   |  |   |  |
|--|---|--|---|--|
| Prior knowledge  | Knowledge acquisition: content of new knowledge   | Knowledge acquisition: sources of new knowledge  | Knowledge exploitation: exploit process   | Knowledge exploitation: new capabilities                           |
| <p>Internationalization knowledge – knowledge of how to buy internationally</p> <ul style="list-style-type: none"> <li>• switch currency of buying when the exchange rate goes haywire</li> <li>• know the international price of raw material when negotiating with foreign suppliers</li> <li>• know the international supply and demand of raw material, and know the international price of oil, processing chemical, and gas when negotiating with foreign suppliers</li> </ul> <p>Technological knowledge – knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>• the use of R&amp;D (components of a military boot) to develop their product</li> </ul> <p>*prior knowledge of exporting</p> | <p>Technological knowledge – knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>• the use of R&amp;D (components of a military boot) to develop their product</li> <li>• the use of technology (robotics) to develop their product</li> </ul> | <p>Direct experience in international sourcing, imitation of key foreign suppliers</p> | <p>Discussion with key foreign suppliers – company’s visit</p> <p>Discussion with the key foreign supplier – foreign supplier’s visit</p> <p>Presentation by the key foreign supplier</p> | <p>Developed new product – new function of military boots (TK)</p> |

TK – Technological knowledge

***Prior knowledge of international sourcing***

Firm A only possessed prior internationalization knowledge of international sourcing. They know the need to switch the currency of buying when the exchange rate is going haywire. They would face a problem if they bought leather from India in US Dollar, and unaware of the exchange rate. This is because they may continue to buy in US Dollar without considering a different currency of buying, thus possibly increasing the cost of international sourcing. They also know the need to be aware of the international price of raw materials when negotiating with a foreign supplier. The firm would buy leather with the price of last month which was higher if they did not know the current international price of leather. Normally, the suppliers will keep increasing the price. Nonetheless, the

prices of commodities can increase but it would eventually decrease. It is essential to keep track of the changes in prices of commodities because the suppliers do not tend to inform the buyer regarding these changes. Besides, they understand the need to be aware of the international supply and demand of raw materials, and the international price of oil (petrol and diesel), processing chemicals, and gases when negotiating with foreign suppliers. Basically, the leather supplier use oil (petrol and diesel), processing chemicals, and gases. The major buyer of leather was China. Thus, they can justify why the price of leather should decrease by proposing that the prices of oil (petrol and diesel), processing chemicals, and gases are decreasing, and the demand from China is decreasing which constitutes 30% to 40% of excess leather because they are the major importer of leather. Nevertheless, prior internationalization knowledge by Firm A was insufficient to acquire new technological knowledge through direct experience in international sourcing and the imitation of key foreign suppliers, which required the support from prior technological knowledge of exporting.

***New knowledge through direct experience in international sourcing, and imitation of key foreign suppliers***

Firm A acquired new technological knowledge from a direct experience in international sourcing. They obtained new information from foreign suppliers by attending the international expo for international sourcing and obtained the latest information of R&D products from foreign suppliers that were prepared for the promotion of their products. Thus, they learned how to develop their product by incorporating this valuable information. These foreign suppliers are not retail suppliers but wholesale suppliers. They supply to manufacturers, and provide relevant information which includes technical information, and how manufacturers can market their products. A foreign supplier who patterned rubber products named Rogers gave enough information to incorporate rubber products into their footwear. They gave the proper placement and the appropriate measurement of that rubber product to be used to develop their footwear.

Firm A also acquired new technological knowledge from the imitation of the key foreign supplier. They learned about the improvement of footwear manufacturing process. They visited key foreign suppliers and observed that they were changing to robotics. Thus, they imitated their key foreign suppliers and starting to install high-tech machineries to produce products at a faster speed, and constant quality output.

### ***Exploitation of new knowledge***

By focusing on acquiring new technological knowledge from both sources of new knowledge, they were capable of developing new military boots to be exported. This involved the discussion with key foreign suppliers when they visited the key foreign suppliers or when key foreign suppliers visited them. They also invited key foreign suppliers to their company to present comprehensively the technical information of machinery that they offered.

**Table 5.2: Firm A – Learning in relationships with key foreign buyers**

| Prior knowledge  | Knowledge acquisition: content of new knowledge   | Knowledge acquisition: sources of new knowledge              | Knowledge exploitation: exploit process  | Knowledge exploitation: new capabilities                                       |
|--|---|--|--|--|
| Internationalization knowledge – knowledge of how to deal with <ul style="list-style-type: none"> <li>price comparison and competitive price development for export</li> </ul>               | Internationalization knowledge – knowledge of internal management process <ul style="list-style-type: none"> <li>management of production volume for export</li> <li>adoption of management information system</li> </ul> | Direct experience in export, imitation of key foreign buyers | Discussion with a foreign buyer – foreign buyer's visit<br><br>Discussion with a foreign buyer – electronic mail | Improved management of export production (IK)                                  |
| Technological knowledge – knowledge of how to develop their product <ul style="list-style-type: none"> <li>the use of technology (leather manufacturing) to develop their product</li> </ul> | Market knowledge – business knowledge in the Middle East <ul style="list-style-type: none"> <li>attitude, and culture of the Arab buyers in the Middle East</li> </ul>  | Direct experience in export                                  | Discussion with a foreign buyer – foreign buyer's visit<br><br>Discussion with a foreign buyer – electronic mail | Established strong relationships with regional agents – customer's demand (MK) |

MK – Market knowledge

IK – Internationalization knowledge

### ***Prior knowledge of exporting***

Firm A stated that their prior internationalization and technological knowledge was essential to enter the foreign market. They were equipped with the knowledge of pricing strategy. This entails the review of the current price of their product in an importing country, the review the of current price of their product by their competitors, and how they can produce their product at the same price, or cheaper with better features. They are also

equipped with the knowledge on leather manufacturing process. The employees with such knowledge were responsible to train other employees. It took two years of training before they were capable of producing leather footwear. The capability to produce leather goods such as leather casing, handle, and wrapping for pewter product led to the first export by Firm A.

### ***New knowledge through direct experience in international sourcing, and imitation of key foreign buyers***

Firm A acquired new market and internationalization knowledge through direct experience in export. As they exported to the Middle Eastern countries, they learn on how to deal with the buyer from Middle East which were different with the buyer from Singapore, Maldives, China, Japan, and India. The buyer from the Middle Eastern countries did not really trust the outsider. They had experienced this issue during the first export to Oman in 1980s. There was no Embassy of Oman in Malaysia at that time. Yet, the documents such as invoice, bill of lading, and shipping document were needed to be certified by an embassy from the Middle East. Therefore, they have to adapt to the Middle Eastern ways of doing international businesses. The locals were appointed as agents. As Firm A exported through an international tender, they learn about the management of export production by assigning an agent to find out the demand of foreign buyers in February, March, and April for the production of military boots in December. This is because the supply period of international tender is normally not more than two months. It is difficult to supply within two months unless they produce, and keep the stock.

Firm A also acquired new internationalization knowledge from the imitation of key foreign buyers. The employees were encouraged to engage with buyers from Japan, India, and Europe by visiting them. They closely observed the management of international businesses by these foreign buyers. Thus, they imitated the use of a management information system to facilitate decision making in international businesses.

### ***Exploitation of new knowledge***

By focusing on acquiring new internationalization knowledge (internal management process) from both sources of new knowledge, they were capable of improving the management of export production. This was significant for the efficient management of international tender that can be hindered by the constraint of time to

produce a high number of military boots whenever they are required at short notice. They were also capable of establishing strong relationships with regional agents. This was due to the acquisition of new market knowledge. It facilitated them to fully understand buyers from the Middle East in terms of their attitude, thus enforcing them to be dependent on the relationship with regional agents to reach buyers from the Middle East. The newly acquired knowledge was exploited through a discussion with key foreign suppliers. They utilized face-to-face interactions as well as communications via electronic means.

### **5.2.2 Connections of Inward and Outward Internationalization**

Table 5.3 shows the connections of inward and outward internationalization in terms of knowledge acquisition, distribution, and exploitation.

| Knowledge acquisition: kinds of new knowledge  | Knowledge acquisition: sources of new knowledge | Knowledge distribution: who acquired and needed knowledge?                         | Knowledge distribution: sharing process   | Knowledge exploitation: new capabilities                      |
|--|---|--|---|---|
| General knowledge on how to export – pricing strategy (IK)                               | Indirect experience: key foreign suppliers      | Acquired: Managing Director, purchasing department<br><br>Needed: sales department | Weekly management meeting<br><br>Discussion via electronic mail   | Empowered export marketing strategy – competitive price (IK)  |
| General knowledge on how to export – marketing strategy (IK)                             | Indirect experience: key foreign suppliers      | Acquired: Managing Director, purchasing department<br><br>Needed: sales department | Weekly management meeting<br><br>Discussion via electronic mail   | Empowered export marketing strategy – product adaptation (IK) |
| Specific knowledge on product development for product manufacturing (TK)                 | Indirect experience: key foreign suppliers      | Acquired: Managing Director, purchasing department<br><br>Needed: sales department | Attendance at the international expo for international sourcing – brought staff from purchasing department and production department, when they came back, discussion was conducted with the R&D department | Developed new product – new function of military boot (TK)    |
| General knowledge on how to buy from overseas – product quality assessment method (IK)   | Direct experience: Managing Director            | Acquired: Managing Director, sales department<br><br>Needed: purchasing department | Weekly management meeting<br><br>Discussion via e-mail  | Conducted various product quality assessment method (IK)      |
| General knowledge on how to buy from overseas – development of terms and conditions (IK) | Direct experience: Managing Director            | Acquired: Managing Director, sales department<br><br>Needed: purchasing department | Weekly management meeting<br><br>Discussion via e-mail  | Better negotiation skill (IK)                                 |

IK – Internationalization knowledge

TK – Technological knowledge

### ***Inward to outward internationalization***

Firm A established strong relationships with key foreign suppliers. They believed that this benefited them in several ways: easier and smoother negotiation process, easier and faster access to business information, and the opportunity to learn from their technological capabilities. They shared knowledge that can facilitate the international and

domestic sales of Firm A, which enabled the acquisition of internationalization knowledge. Key foreign suppliers provided the information on the pricing strategy and the marketing strategy. The information on export-price determination aided the firm to consider cost-based pricing strategies and market-based pricing strategies. The information on product adaptation for different countries (based on foreign supplier's product) can be utilized by the firm to enter the foreign market as they incorporated foreign supplier's product into their footwear. In order to make sure that internationalization knowledge can be exploited for developing outward internationalization, the Managing Director of Firm A and the employees from the purchasing department distributed such knowledge to employees from the sales department through the weekly management meeting and the discussion via email. However, the distribution of internationalization knowledge concerning the marketing strategy – product adaptation also involved the employees from the R&D department. In order to make sure that technological knowledge can be exploited for developing outward internationalization, it was routinized that after the employees from the purchasing department attended the international expo for international sourcing and visited the foreign supplier's firm or factory, a discussion was conducted between the Managing Director and the employees from the purchasing department with the employees from the sales department and the R&D department. As a result, they were capable of empowering their export marketing strategy through pricing strategy and product adaptation strategy.

### ***Outward to inward internationalization***

The Managing Director of firm A was majorly involved in the management of international operations; international sourcing and export. He acquired internationalization knowledge through a direct experience in export. Foreign buyers can be technical and expect high quality of products by using various product quality assessment methods. Besides, payment terms in some countries like China and India can be created to benefit both parties (Firm A and foreign suppliers). Both of these aspects can be used for inward internationalization. Thus, the Managing Director was responsible to distribute this knowledge to those who need it: the employees from the purchasing department. Thus, weekly management meeting and discussion via e-mail were used for this purpose. As a result, the employees in the purchasing department was capable of conducting various product quality assessment methods and were capable of negotiating with foreign suppliers to offer better payment terms.

## 5.3 Firm B

### 5.3.1 Learning in Cross-Border Buyer-Supplier Relationships

Table 5.4 represents the possession of prior internationalization knowledge which enabled the acquisition and exploitation of new internationalization knowledge, through the relationship with key foreign suppliers. On the other hand, Table 5.5 represents the possession of prior market and technological knowledge which enabled the acquisition and exploitation of new internationalization knowledge, through the relationship with key foreign buyers.

| <b>Table 5.4: Firm B – Learning in relationships with key foreign suppliers</b>   |   |  |   |  |
|---|---|--|---|--|
| Prior knowledge   | Knowledge acquisition:<br>content of new knowledge  | Knowledge acquisition:<br>sources of new knowledge | Knowledge exploitation:<br>exploit process              | Knowledge exploitation:<br>new capabilities  |
| Internationalization knowledge – knowledge of how to buy internationally <ul style="list-style-type: none"> <li>conduct foreign suppliers and product quality assessment</li> </ul> | Internationalization knowledge – knowledge of how to buy internationally <ul style="list-style-type: none"> <li>conduct foreign suppliers and product quality assessment</li> <li>qualify Certificate of Origin (COA) from Malaysia, and qualify as a local producer</li> </ul> | Direct experience in international sourcing        | Discussion with key foreign suppliers – company’s visit | Improved supply chain management – cost (IK) |

IK – Internationalization knowledge

#### *Prior knowledge of international sourcing*

Firm B only possessed prior internationalization knowledge of international sourcing. They know how to conduct a foreign supplier’s quality assessment and product quality assessment. ISO 9001:2008 standards were referred to evaluate and assess foreign suppliers. The sample was asked to evaluate product quality by foreign suppliers.

#### *New knowledge through direct experience in international sourcing*

Firm B acquired new internationalization knowledge through direct experience in international sourcing. In order to compete internationally, they learn about the material purchasing performance. This helped them to make a tough choice between the numbers of foreign suppliers that were available. However, the conduct of international sourcing was affected by the falling of the Malaysian currency. The same amount of raw materials

required a higher amount of payment as compared to previous purchases. Thus, they learned to utilize the opportunity to cover the extra cost from international sourcing by qualifying for COA. COA is a document to certify the place of growth, production, or manufacturing of goods. In order to receive incentives from the government, they need to allocate 80% of local purchases to be qualified as a local producer. Hence, they did not buy the organic coffee bean directly from Indonesia to their factory. They sent the organic coffee bean to be processed into the extraction powder form in Johor Bahru, Malaysia. It was a joint venture between a Malaysian company and a Japanese company. However, they did not acquire new knowledge from the imitation of key foreign suppliers.

***Exploitation of new knowledge***

They exploited new internationalization knowledge to improve the management of supply chain by reducing the cost through international sourcing. This was achieved by adjusting the conduct of international sourcing to receive COA and qualifying as a local producer, thus receiving an incentive. They visited the plant of the foreign supplier for quality assessment and took the opportunity to discuss with them.

| <b>Table 5.5: Firm B – Learning in relationships with key foreign buyers</b>  |  |   |   |  |
|---|--|---|---|--|
| Prior knowledge   | Knowledge acquisition: content of new knowledge  | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: exploit process     | Knowledge exploitation: new capabilities |
| Internationalization knowledge – knowledge of how to deal with <ul style="list-style-type: none"> <li>• export marketing strategy (electronic commerce (e-commerce))</li> </ul> | Market knowledge – business knowledge in the USA <ul style="list-style-type: none"> <li>• taste preference of coffee beverages in the USA</li> </ul> | Direct experience in export                     | Discussion with key foreign buyers – e-mail | Expansion in the USA (MK)                |

MK – Market knowledge

***Prior knowledge of exporting***

Firm B only possessed prior internationalization knowledge of exporting. They were familiar with the adoption of e-commerce since late 1990s.

***New knowledge through direct experience in export***

Firm B acquired new market knowledge from a direct experience in export. Initially, they were registered with Alibaba.com in 2008 and consequently received an

enquiry from the USA for “Gano-coffee”, which is black coffee with added Ganoderma herb without sugar and creamer. However, they needed to obtain few certifications to receive an approval from The United States Food and Drug Administration (FDA). The first shipment was two years later after they have completed the Good Manufacturing Practice (GMP), Hazard Analysis and Critical Control Points (HACCP), and ISO 9001:2008. Thus, they learned that the USA market is focused on health and nutrition which explains the demand for organic coffee beans. However, they did not acquire new knowledge from the imitation of key foreign suppliers.

***Exploitation of new knowledge***

They exploited new market knowledge through direct experience in export to expand their market in the USA. They discussed thoroughly with key foreign buyers to ensure that the new market knowledge can be exploited.

**5.3.2 Connection of Inward and Outward Internationalization**

Table 5.6 presents the connection of outward and inward internationalization in terms of knowledge acquisition, distribution, and exploitation.

| <b>Table 5.6: Firm B – Connections of inward and outward internationalization</b> |   |  |  |   |
|---|---|--|--|---|
| Knowledge acquisition: kinds of new knowledge                                     | Knowledge acquisition: sources of new knowledge | Knowledge distribution: who acquired and needed the knowledge?                   | Knowledge distribution: sharing process  | Knowledge exploitation: new capabilities                        |
| Specific knowledge on product development for product manufacturing (TK)          | Direct experience: Managing Director            | Acquired: Managing Director<br><br>Needed: purchasing department, R&D department | Monthly meeting<br><br>Formal discussion | Developed new product – new formulation of health beverage (TK) |

TK – Technological knowledge

***Outward to inward internationalization***

The Managing Director of Firm B was majorly involved in the sales and marketing department. Through direct experience in export, the Managing Director acquired technological knowledge. This refers to the input (raw materials) that were essential to manufacture coffee beverages. They suggested few trusted foreign suppliers for organic coffee beans. She was focused on any information that can contribute to the new

formulation of coffee beverages. Thus, technological knowledge acquired by the Managing Director was discussed with the employees from the purchasing department as well as the R&D department. This knowledge was also distributed to these employees during the monthly meeting. This allowed the employees from the purchasing department and the employees from the R&D department to discuss further on purchasing raw materials from overseas and the development of a new formulation of coffee beverages.

## 5.4 Firm C

### 5.4.1 Learning in Cross-Border Buyer-Supplier Relationships

Table 5.7 represents the possession of prior internationalization knowledge which provided a basis for the acquisition and exploitation of new internationalization knowledge, through the relationship with key foreign suppliers. On the other hand, Table 5.8 represents the possession of prior internationalization knowledge which provided a basis for the acquisition and exploitation of new market and internationalization knowledge, through the relationship with key foreign buyers.

| <b>Table 5.7: Firm C – Learning in relationships with key foreign suppliers</b>  |   |  |   |  |
|--|---|--|---|--|
| Prior knowledge  | Knowledge acquisition:<br>content of new knowledge  | Knowledge acquisition:<br>sources of new knowledge | Knowledge exploitation:<br>exploit process                        | Knowledge exploitation:<br>new capabilities    |
| Internationalization knowledge – knowledge of how to buy internationally <ul style="list-style-type: none"> <li>know market segmentation and taste preference</li> </ul> | Internationalization knowledge – knowledge of how to buy internationally <ul style="list-style-type: none"> <li>conduct direct purchases from foreign suppliers</li> <li>develop terms and conditions for international sourcing</li> </ul> | Direct experience in international sourcing        | Discussion with key foreign suppliers – electronic email (e-mail) | Minimized cost for international sourcing (IK) |

IK – Internationalization knowledge

#### ***Prior knowledge of international sourcing***

Firm C only possessed prior internationalization knowledge of international sourcing. They already know the market segment in exporting countries and their taste preferences for chilli sauce. Based on this knowledge, they purchased the raw materials needed from overseas.

### ***New knowledge through direct experience in international sourcing***

Firm C acquired new internationalization knowledge through direct experience in international sourcing. They learn to conduct direct purchases from overseas in order to save the cost of raw materials. Agents marked up the price of raw materials roughly about 30%. However, the falling of Malaysian currency has affected the conduct of international sourcing. They need to pay more for the same amount of raw materials before. Thus, they learn on the development of terms and condition for international sourcing. They discussed with key foreign suppliers and addressed the recent introduction of Good and Services Tax (GST) charged on the importation of goods and services into Malaysia as well as the prices of raw materials which are currently very high.

### ***Exploitation of new knowledge***

As they acquired and exploited new internationalization knowledge, they were capable of minimizing the cost of international sourcing of raw materials which include sodium benzoyl, onion flake, dried chilli, and tomato paste. This was due to the capability to conduct direct international sourcing without the use of intermediary, and to develop terms and conditions that provide flexibility of payment terms from key foreign suppliers. Due to the distance with key foreign suppliers and the cost of meeting face-to-face, they frequently discussed via e-mail.

| <b>Table 5.8: Firm C – Learning in relationships with key foreign buyers</b>  |   |   |   |  |
|---|---|---|---|--|
| Prior knowledge   | Knowledge acquisition: content of new knowledge   | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: exploit process                 | Knowledge exploitation: new capabilities   |
| Internationalization knowledge – knowledge of how to deal with <ul style="list-style-type: none"> <li>rules and regulations of the local country (Malaysia) and importing country (customs operations and food safety inspections)</li> <li>price comparison and competitive price development</li> </ul> | Market knowledge – institutional knowledge in Vietnam <ul style="list-style-type: none"> <li>legal system in Vietnam</li> </ul>   | Direct experience in export                     | Discussion with key foreign suppliers – electronic mail | Expansion in Vietnam (MK)  |
| Internationalization knowledge – knowledge of how to deal with <ul style="list-style-type: none"> <li>rules and regulations of the local country (Malaysia) and importing country (customs operations and food safety inspections)</li> <li>price comparison and competitive price development</li> </ul> | Internationalization knowledge – knowledge of how to deal with <ul style="list-style-type: none"> <li>rules and regulations of the local country (Malaysia) and importing country (customs operations)</li> </ul> | Direct experience in export                     | Discussion with key foreign suppliers – electronic mail | Improved management of export activities – export procedures and documentations (IK) |

M– Market knowledge

IK – Internationalization knowledge

### ***Prior knowledge of exporting***

Firm C only possessed prior internationalization knowledge of exporting. They already understood the export rules and regulations of the local country (Malaysia) and the importing country. This includes the customs operations in the local country (Malaysia) and the importing country. It was essential to be familiar with the procedures to be taken and the documentation required by the customs and the Ministry of Health before they can export. Besides, they already know the pricing strategy for the export market. The current price of the product in importing country should be identified and analyzed, whether it is too high or too low as compared to the price of product that they offered. The comparison of the product by other competitors should also be identified and analyzed.

### *New knowledge through direct experience in export*

Firm C acquired new market and internationalization knowledge through direct experience in export. Recently, they were able to enter the Vietnam market. They learn that the export of plant and plant products requires Phytosanitary certificates. However, different countries have different parameters to meet Phytosanitary requirements. As they handled their own international logistics, they learned the export procedures and documentations. Since Malaysia and Vietnam are part of The ASEAN Free Trade Area (AFTA), they have to fill forms for tax exemption to be received by the Vietnam buyers. They have to prepare documentation for customs and shipping. However, they did not acquire new knowledge from the imitation of key foreign buyers.

### *Exploitation of new knowledge*

As they acquired and exploited new market and internationalization knowledge, they were capable of expanding their sales to Vietnam and improving the management of export activities in terms of procedures and documentation. Due to the distance with key foreign buyers and the cost of meeting face-to-face, they frequently discussed via e-mail.

## **5.5 Firm D**

### **5.5.1 Learning in Cross-Border Buyer-Supplier Relationships**

Table 5.9 represents the possession of prior market knowledge which enabled the acquisition and exploitation of new market and internationalization knowledge, through the relationship with key foreign suppliers. Table 5.10 also represents the acquisition and exploitation of new technological knowledge, through the relationship with key foreign suppliers. In contrast, Table 5.9 represents the possession of prior knowledge which enabled the acquisition of new knowledge, as well as the exploitation.

| <b>Table 5.9: Firm C – Learning in relationships with key foreign suppliers</b>  |  |   |   |   |
|--|--|---|---|---|
| Prior knowledge  | Knowledge acquisition: content of new knowledge  | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: exploit process                 | Knowledge exploitation: new capabilities                          |
| Market knowledge – business knowledge in China <ul style="list-style-type: none"> <li>• purchasing market in China – where and how to purchase at a reasonable price and good quality</li> </ul> | Market knowledge – business knowledge in China <ul style="list-style-type: none"> <li>• purchasing market in China – where and how to purchase at a reasonable price and good quality</li> </ul>   | Direct experience in international sourcing     | Discussion with key foreign suppliers – company’s visit | Established strong relationships with key suppliers in China (MK) |
| Market knowledge – business knowledge in China <ul style="list-style-type: none"> <li>• purchasing market in China – where and how to purchase at a reasonable price and good quality</li> </ul> | Internationalization knowledge – knowledge of how to buy internationally <ul style="list-style-type: none"> <li>• work out import customs code for imported products</li> <li>• appoint money exchanger for paying suppliers in China</li> <li>• appoint forwarder for receiving and managing imported products</li> </ul> | Direct experience in international sourcing     | Discussion with key foreign suppliers – company’s visit | Focused on new business direction – trading business (IK)         |
|  | Technological knowledge – knowledge of how to develop their product <ul style="list-style-type: none"> <li>• the use of foreign suppliers to develop their product</li> </ul>  | Imitation of key foreign suppliers              | Discussion with key foreign suppliers – company’s visit | Offered new services for domestic market (TK)                     |

MK – Market knowledge  
IK – Internationalization knowledge  
TK – Technological knowledge

***Prior knowledge of international sourcing***

Firm D only possessed prior market knowledge of international sourcing. They indicated that each country has different ways of buying their product, especially in China. They already know what they need to be prepared with – the volume of purchase and where they can purchase the product at the most competitive price and quality – CANTON Fair. The possession of prior market knowledge of international sourcing in China provided the basis for the acquisition of new market and internationalization knowledge of international sourcing in China. However, the acquisition of new technological knowledge was not supported by the possession of any prior knowledge

***New knowledge through direct experience in international sourcing and imitation of key foreign suppliers***

Firm D acquired new market and internationalization knowledge through direct experience in international sourcing. Noting that China is a huge purchasing market, they learn to penetrate the purchasing market in China at a reasonable price and good quality. They found that Guangzhou can offer the price and quality of the product which can provide the competitive advantage to Firm D over other companies in Malaysia, but there was a need to appoint somebody that they know in China to assist the purchasing process. Firm D has to deal with the import customs code as charges were made based on the declaration which they attempted to minimize. They also have to deal with the rigid requirement by Central Bank of Malaysia and Bank of China as much documentation were needed which caused long delays. Since it was under their responsibility once the imported products have reached the port, they also have to deal with the problems associated with the customs when they received the imported products at the port. Thus, they learned to work out the import customs code for the imported products. Particular codes for customs were used to avoid any problem. They also learn to appoint a money exchanger for paying the Chinese supplier. This entailed a treat between Firm D, the money exchanger, and the Chinese supplier. They also learn to appoint the forwarder for receiving and managing the imported products. The best option was the forwarder with a connection with the customs.

Firm D also acquired new technological knowledge from the imitation of key foreign supplier. As they were offering the same products with the China suppliers, they

observed and imitated the layout of showrooms. This was essential for the services that they offered for event management in Malaysia. They also observed the latest product development by their key foreign supplier, thus purchasing the product to be supplied to their buyers.

***Exploitation of new knowledge***

They exploited new market and internationalization knowledge through direct experience in international sourcing to establish a strong relationship with their key foreign supplier in China and to focus on the trading business which they were not capable of doing before. They were confident that they have appointed a trusted and price-competitive supplier in China. They exploited new technologies from the imitation of the key foreign supplier to offer new rental services to the domestic market. They visited the key foreign supplier’s firm and factories which allowed Firm D to closely observe their operation, and discussed the business opportunities and problems that can be achieved and solved together.

**Table 5.10: Firm D – Learning in relationships with key foreign buyers**

| Prior knowledge  | Knowledge acquisition: content of new knowledge  | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: exploit process                   | Knowledge exploitation: new capabilities     |
|--|--|---|---|--|
| Internationalization knowledge – knowledge of how to deal with – <ul style="list-style-type: none"> <li>• export marketing (broadcast marketing and international trade show marketing)</li> <li>• development of terms and conditions for export</li> </ul> | Internationalization knowledge – knowledge of how to deal with <ul style="list-style-type: none"> <li>• focus of international trade show marketing</li> </ul> | Direct experience in export                     | Discussion with the foreign buyer – foreign buyer's visit | Empowered strategy for export marketing (IK) |

IK – Internationalization knowledge

***Prior knowledge of exporting***

Firm D only possessed prior internationalization knowledge of exporting. They used the broadcast marketing which included radio commercials and attended the international exhibition to reach foreign buyers. Besides, they had known the development of terms and conditions for export. The payment terms, the freight on board (FOB), the responsibility of certain tax, the responsibility for clearance, and the warranty of product should be clear to both parties.

***New knowledge through direct experience in export***

Firm D acquired new internationalization knowledge through direct experience in export. They learned the focus of international trade show marketing for export. They attended an international trade show in Dubai but failed because their product was unsuitable for Arab food serving. Therefore, they focused back on international trade show which can reach the niche market of Malay’s serving domes; the Singaporean buyer, the Indonesian buyer, and the Bruneian buyer. They also attended an international trade show in Singapore instead of Indonesia and Brunei due to practicality. It was conducted once a year, and the Indonesian buyer and the Bruneian buyer normally come to international trade shows in Singapore. However, they did not acquire new knowledge from the imitation of key foreign buyers.

***Exploitation of new knowledge***

They exploited new internationalization knowledge to empower the strategy for export marketing through international trade shows. This was validated from the discussion with key foreign suppliers during their visit.

**6.5.2 Connections of Inward and Outward Internationalization**

Table 5.11 presents the connections of inward and outward internationalization in terms of knowledge acquisition, distribution, and exploitation.

| <b>Table 5.11: Firm D – Connections of inward and outward internationalization</b>                    |   |   |   |   |
|---|---|---|---|---|
| Knowledge acquisition: kinds of new knowledge   | Knowledge acquisition: sources of new knowledge | Knowledge distribution: who acquired and needed knowledge?  | Knowledge distribution: sharing process   | Knowledge exploitation: new capabilities                        |
| General knowledge on how to export – export marketing strategy (the use of targeted distributor) (IK) | Indirect experience: Key foreign suppliers      | Acquired: Managing Director, procurement department<br><br>Needed: sales and marketing department | Monthly meeting<br><br>Attendance at the international expo for international sourcing, on-site visits – when Managing Director came back, a discussion was conducted | Empowered export marketing strategy – distribution channel (IK) |

IK – Internationalization knowledge

### ***Inward to outward internationalization***

Firm D established a close relationship with key foreign suppliers to support their new business direction; business trading of cutlery and glassware, and rental services for catering and banquet equipment. They were engaged in knowledge sharing with key foreign suppliers to discuss new products for business trading and new ideas for rental services. This provided Firm D with the opportunity to acquire internationalization knowledge from key foreign suppliers. They learned the marketing strategy adopted by key foreign suppliers, the use of distributors. It was a practice by Firm D to conduct a discussion after the Managing Director and/or the employees from the procurement department attended the international expo for international sourcing and visited the foreign supplier's firm or factory with the employees from the sales and marketing department. If they were unable to conduct a discussion due to time constraint, a monthly meeting is held to discuss the learning outcome from attending international expos and visiting the key foreign supplier's firm and/or factory. Hence, Firm D was capable of empowering the export marketing strategy through the assignment of a targeted distributor. The idea that was generated from the key foreign supplier during inward internationalization which was shared and exploited for developing outward internationalization.

## **5.6 Firm E**

### **5.6.1 Learning in Cross-Border Buyer-Supplier Relationships**

Table 5.12 represents the possession of prior internationalization and technological knowledge which enabled the acquisition and exploitation of new internationalization and technological knowledge, through the relationship with the key foreign supplier. On the other hand, Table 5.13 represents the possession of prior internationalization knowledge which enabled the acquisition and exploitation of new technological knowledge, through the relationship with the key foreign buyer.

| <b>Table 5.12: Firm E – Learning in relationships with key foreign suppliers</b>  |  |  |   |   |
|---|--|--|---|---|
| Prior knowledge   | Knowledge acquisition:<br>content of new<br>knowledge  | Knowledge<br>acquisition:<br>sources of new<br>knowledge | Knowledge<br>exploitation:<br>exploit<br>process  | Knowledge<br>exploitation:<br>new<br>capabilities |
| <p>Internationalization knowledge – knowledge of how to buy internationally</p> <ul style="list-style-type: none"> <li>• know international logistic for importing</li> <li>• consider product inspection for imported product</li> </ul> | <p>Internationalization knowledge – knowledge of how to buy internationally</p> <ul style="list-style-type: none"> <li>• consider international logistic requirements and international logistic situations</li> <li>• some imported products from different exporting countries are interchangeable</li> <li>• avoid panic buying when there is a sudden rise of imported material by currency fluctuation</li> <li>• quote customer in foreign currency of exporting country instead of Malaysian currency</li> </ul> <p>Internationalization knowledge of how to deal with</p> <ul style="list-style-type: none"> <li>• export marketing strategy (technical</li> </ul> | <p>Direct experience in international sourcing</p>       | <p>Discussion with key foreign supplier – project based discussion</p> <p>Joint decision making – project based decision making</p> | <p>Conducted triangular trade (IK)</p>            |

|  |  |                                   |  |  |
|--|--|-----------------------------------|--|--|
|  | catalogue)   |                                   |  |  |
| Technological knowledge – knowledge of how to develop their product <ul style="list-style-type: none"> <li>the use of foreign supplier to develop their product</li> </ul> | Technological knowledge – knowledge of how to develop their product <ul style="list-style-type: none"> <li>the use of foreign supplier to develop their product</li> </ul> | Imitation of key foreign supplier | Discussion with key foreign supplier – project based discussion<br><br>Joint decision making – project based decision making | Provided technical solution to customer (TK) |

IK – Internationalization knowledge

TK – Technological knowledge

***Prior knowledge of international sourcing***

Firm E possessed prior internationalization and technological knowledge of international sourcing. They were equipped with the knowledge of international logistics for importing. There was a need to know about the shipment of air freight and sea freight, and the packaging of imported products. They were also equipped with the knowledge on product inspection. Imported products must be in accordance to the requirement of the buyers. Before they purchase from a foreign supplier, they can conduct a self-inspection or a third-party inspection on their behalf. They can also bring the buyer to see the products, and ask the supplier for product inspection. Material Test Certificate is obtained to confirm that the product meets their requirement. In addition to that, they were equipped with the knowledge on subsea product manufacturing, thus they focused on the supply of subsea raw materials. It was essential to deal with the sales of technical products to buyers who produce their own proprietary products. Prior internationalization knowledge provided the foundation for acquiring new internationalization knowledge, and prior technological knowledge provided the foundation for acquiring new technological knowledge.

***New knowledge through direct experience in international sourcing and imitation of key foreign suppliers***

Firm E acquired new internationalization knowledge through direct experience in international sourcing. They learn to consider international logistic requirements such as Value Added Tax (VAT) in Europe and international logistic situations from various part of the world such as Korea, Japan, USA, and Europe countries. They comprehended the

reasons behind higher costs of shipment of air freight from Korea and Japan to Malaysia as compared to Europe and the USA to Malaysia, even though Korea and Japan are nearer to Malaysia. The shipment of sea freight from Korea and Japan to Malaysia takes about seven days, and the shipment of air freight takes about one day or less. People prefer the shipment of sea freight as the difference in the waiting period is only one week, and the difference in cost is very high. People need to pay more as there is less demand for the shipment of air freight. Whereas the shipment of sea freight from the USA, and Europe to Malaysia takes about six to eight weeks. Hence, people prefer the shipment of air freight. Since there is a higher demand, people are able to pay less. Besides, Firm A has many kinds of product, and each product has different grades, and each grade is established in certain countries. Through international sourcing, they learned that some imported products from different exporting countries were interchangeable. They also learned to avoid panic buying, and to wait for a few weeks before they purchase this product from overseas. The price of raw materials usually increases, stabilizes, and decreases when there is sudden rise in currency fluctuation. They also learn to quote customer in foreign currency of exporting countries instead of in the Malaysian currency.

Firm E also acquired new internationalization knowledge from the imitation of key foreign suppliers. They visited the key foreign supplier, and observed the effectiveness of technical catalogue as a marketing tool for the foreign market. Thus, the establishment of technical catalogue was imitated to enhance their export marketing strategy.

### ***Exploitation of new knowledge***

Through the direct experience in international sourcing, they were capable of conducting triangular trades which they were not able to do before. Through the imitation of key foreign suppliers, they were capable of providing appropriate technical solution along with the sales of subsea raw materials. This involved the discussion with the key foreign supplier when they were required to work together on a project. A joint decision-making was also utilized whenever expertise from both parties (Firm E and the key foreign supplier) are required.

| <b>Table 5.13: Firm E – Learning in relationships with key foreign buyers</b>  |  |   |  |  |
|--|--|---|--|--|
| Prior knowledge  | Knowledge acquisition:<br>content of new knowledge   | Knowledge acquisition:<br>sources of new knowledge                                    | Knowledge exploitation:<br>Exploit process                 | Knowledge exploitation:<br>New capabilities                |
| <p>Firm E</p> <p>Internationalization knowledge – knowledge of how to deal with</p> <ul style="list-style-type: none"> <li>international logistics for export</li> </ul> | <p>Internationalization knowledge – knowledge of how to buy internationally</p> <ul style="list-style-type: none"> <li>recognition of a reputable international supplier</li> <li>export packing</li> </ul> <p>Internationalization knowledge – knowledge of internal management processes</p> <ul style="list-style-type: none"> <li>more authority to sales and procurement department</li> <li>adopt management information system</li> </ul> | <p>Direct experience in international sourcing, imitation of key foreign supplier</p> | <p>Discussion with the foreign buyer – company’s visit</p> | <p>Improved management of international logistics (IK)</p> |

IK – Internationalization knowledge

***Prior knowledge of exporting***

Firm E only possessed prior internationalization knowledge of exporting. They were equipped with the knowledge of international logistics for export. There was a need to know about the shipment of air freight and sea freight, the packing of exported products, and the International Commercial Terms (Incoterm rules). Prior internationalization knowledge provided the foundation for acquiring new technological knowledge.

### ***New internationalization knowledge through direct experience in export and imitation of key foreign buyers***

Firm E acquired new internationalization knowledge through direct experience in export. From product quality issue created by the foreign supplier, that caused a problem with major foreign buyers, they learned not to rely on the Chinese supplier for the oil and gas market unless they are from a reputable mill. Based on their experience, the reputable mill is approved by the multinational companies like Shell or PETRONAS. However, it is subjective when it comes to assessing the capability of the foreign supplier even though a third-party inspector is assigned. Nonetheless, inspection by the third party must be conducted as extensive as possible for the first time. From logistic issues of the exported products, they learned to do their own packing for the products they bought in Malaysia, and products that they bought from overseas were managed by the forwarder to be exported. Only a foreign supplier that was best at packing can handle this process.

Firm E also acquired new internationalization knowledge from the imitation of key foreign buyers. They imitated the authoritativeness for decision making in international businesses exercised by the key foreign buyer. Thus, they gave more authority to the purchasing personnel. Once they received orders from the buyer, the sales personnel prepared the estimation of product cost. First approval by the Managing Director indicated the approval for procurement, operation, and logistics. The purchasing personnel can issue the purchase order without his authority. They also imitated the use of management information system for strategic decision making in international businesses exercised by the key foreign buyer. Schmidt + Clemens and Taylor Wharton have an advanced management information system. On the other hand, they used an affordable management information system (Structured Query Language (SQL)) which suits the size of their business operation.

### ***Exploitation of new knowledge***

By focusing on acquiring internationalization knowledge from both sources, they were capable of improving the management of international logistics which was at the core activity of this trading firm. They discussed with the key foreign buyer during their visit.

### 5.6.2 Connections of Inward and Outward Internationalization

Table 5.14 presents the connections of inward and outward internationalization in terms of knowledge acquisition, distribution, and exploitation.

| Knowledge acquisition: kinds of new knowledge                               | Knowledge acquisition: sources of new knowledge                                 | Knowledge distribution: who acquired and needed knowledge?                                | Knowledge distribution: sharing process   | Knowledge exploitation: new capabilities        |
|---|---|---|---|---|
| General knowledge on internal management processes – consignment stock (IK) | Direct experience: key foreign supplier<br>Direct experience: Managing Director | Acquired: Managing Director, purchasing personnel<br>Needed: sales and logistic personnel | Weekly Project Meeting<br>Attendance at an international expo for international sourcing, on-site visits – when Managing Director came back, briefing was conducted | Improved international logistic management (IK) |

IK - Internationalization knowledge

#### *Inward to outward internationalization*

Firm E emphasized that it was not easy to enter the network of suppliers for subsea industry. They established a strong relationship with key foreign suppliers to ensure that they were able to secure the supply of specific materials. They were also involved in a collaborative project to bid for a tender. Hence, they were involved in knowledge sharing which enabled the acquisition of internationalization knowledge relating to international logistics from the key foreign supplier. Besides, the Managing Director of Firm E acquired internationalization knowledge relating to international logistics through direct experience in export. This knowledge is concerned with the international logistics for the export market – offering consignment stock for foreign buyers. It was risky but it could enhance

the export competitiveness. For the purpose of distributing this knowledge for assisting outward internationalization, the Managing Director and the purchasing personnel were needed to conduct a job-related briefing to the sales personnel and logistic personnel after they attended the international expo for international sourcing and the on-site visits to the key foreign supplier's firm or factory. They also shared such knowledge through a weekly management meeting to discuss the project they work on. This has improved the management of international logistics for the export market.

## 5.7 Firm F

### 5.7.1 Learning in Cross-Border Buyer-Supplier Relationships

Table 5.15 represents the possession of prior market and internationalization knowledge which provided a basis for the acquisition and exploitation of new market, internationalization, and technological knowledge, through the relationship with key foreign suppliers. On the other hand, Table 5.16 represents the possession of prior market knowledge which provided a basis for the acquisition of new market knowledge, through the relationship with key foreign buyers.

| Prior knowledge   | Knowledge acquisition: content of new knowledge   | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: exploit process   | Knowledge exploitation: new capabilities           |
|---|---|---|---|--|
| Market knowledge – business knowledge in China <ul style="list-style-type: none"> <li>• purchasing market in China</li> </ul> | Market knowledge – business knowledge in China <ul style="list-style-type: none"> <li>• purchasing and exporting market in China</li> </ul> | Direct experience in international sourcing     | Discussion with key foreign suppliers – foreign supplier's visit<br><br>Discussion with key foreign suppliers – company's visit | Utilized buyer-supplier relationship in China (MK) |
| Market  | Technological knowledge –   | Direct  | Discussion  | Developed new                                      |

|  |   |   |  |  |
|--|---|---|--|--|
| knowledge – business knowledge in China <ul style="list-style-type: none"> <li>• purchasing market in China</li> </ul> | knowledge on how to develop their product <ul style="list-style-type: none"> <li>• the use of technology (rubber ball manufacturing) to develop their product</li> <li>• the use of technology (glow-in-the-dark) to develop their product</li> </ul> | experience in international sourcing, imitation of key foreign supplier | with key foreign suppliers – foreign supplier’s visit<br><br>Discussion with key foreign suppliers – company’s visit | product – new feature of rubber ball (glow-in-the-dark) (TK) |
|--|---|---|--|--|

MK – Market knowledge

IK – Internationalization knowledge

TK – Technological knowledge

***Prior knowledge of international sourcing***

Firm F only possessed prior market and internationalization knowledge of international sourcing. They already know the requirement of the purchasing market in China. China requires the Minimum Quantity Order (MQO) for the purchase of their product. It was difficult to negotiate on the product price when they were unable to meet this requirement. This enabled the acquisition of new market knowledge in China.

***New knowledge through direct experience in international sourcing, and imitation of key foreign supplier***

Firm F acquired new market, internationalization, and technological knowledge through direct experience in international sourcing. They majorly purchased the raw materials, the spare parts, and the mould from China. Through the business relationship with the Chinese supplier, Firm F asked about the opportunity to sell their products to them and they agreed. Based on this situation where their foreign supplier was also their foreign buyer, they learn about the purchasing and exporting market in China. By developing a business relationship with a foreign supplier in the emerging market particularly in China, the firm learned the adjustment needed to sell the firm’s product on that market (Najafi, 2013) besides the adjustment which was needed to purchase at the most competitive price on that market; negotiation process which established upon “guanxi” relationship between Firm F and the Chinese supplier. From the latest purchase of machinery from the Chinese supplier, they learned about the product manufacturing. The Chinese supplier came to the firm’s factory to set up a machine, thus proposing the latest technology that can be

installed. For instance, steam versus heat technology for rubber ball manufacturing. Hence, they were able to assess the potential benefit of installing new technology for product manufacturing as well as the financial support. However, they did not acquire new knowledge from the imitation of key foreign suppliers.

Firm F also acquired new internationalization knowledge from the imitation of key foreign suppliers. They visited the key foreign supplier and observed their latest product development. As they believed that they were capable of developing the same product, they imitated the technology to produce it. However, they conducted some technical processes to ensure that the quality of the rubber ball can be maintained.

### ***Exploitation of new knowledge***

Both Firm F and the key foreign supplier made an effort to visit each other and discussed relevant matters. This allowed Firm F to exploit new market knowledge through direct experience in international sourcing; by utilizing the relationship with the key foreign supplier from China – the foreign supplier became a foreign buyer. This also allowed Firm F to exploit new technological knowledge through direct experience in international sourcing and the imitation of key foreign suppliers; by developing new product – a rubber ball with glow-in-the-dark feature. The discussions informed Firm F on the aspects that should and can be exploited further.

| Prior knowledge   | Knowledge acquisition: content of new knowledge  | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: exploit process   | Knowledge exploitation: new capabilities          |
|---|--|---|---|---|
| Market knowledge – institutional knowledge of different countries <ul style="list-style-type: none"> <li>different ethical standards and national concern in different countries</li> </ul> | Market knowledge – business knowledge in China <ul style="list-style-type: none"> <li>the culture of the Chinese buyer and the Chinese competitor</li> </ul> | Direct experience in export                     | Discussion with a foreign buyer – company’s invitation<br><br>Discussion with a foreign buyer – foreign buyer’s visit | Conducted a new strategy – customer’s demand (IK) |

MK – Market knowledge

### ***Prior knowledge of exporting***

Firm F only possessed prior market knowledge of exporting. They know the ethical standards and the national concerns in different countries; Malaysia and the USA. Firm F was aware that they cannot hire underage employees, they cannot allow overtime more than 72 hours a month, they cannot hire pregnant women, women cannot work at night, and there is a specific distance between a female hostel and a male hostel. These need to be fulfilled by Firm F before they can supply to the USA. The USA market concerns itself with the issue of human rights as compared to the Malaysian market. In order to compete with the Chinese supplier, prior market knowledge enabled the acquisition of new market knowledge.

### ***New knowledge through direct experience in export***

Firm F acquired new market knowledge through direct experience in export. As they were exporting to China, and competing with Chinese suppliers for export sales, they learned about the culture of their foreign buyers and their foreign competitors in China. The Chinese suppliers normally close their operation for Chinese New Year celebrations for three months. They only entertain the Minimum Quantity Order (MQO) and above. These were advantages for Firm F to produce their products during Chinese New Year celebrations, and consider the MQO for their international buyers.

### ***Exploitation of new knowledge***

Both Firm F and their key foreign buyer also made an effort to visit each other and discussed relevant matters. The key foreign buyer visited their factory, while they invited the key foreign buyer to a specific location which was near to the location of the international expo they attended, and the location of the key foreign buyer. This allowed Firm F to exploit new market knowledge to develop a new international strategy; focusing on production when the Chinese competitors were unable to supply, and reconsider the Minimum Quantity Order (MQO) by the foreign buyer.

## **5.7.2 Connections of Inward and Outward Internationalization**

Table 5.17 presents the connections of inward and outward internationalization in terms of knowledge acquisition, distribution, and exploitation.

| Knowledge acquisition: kinds of new knowledge                                    | Knowledge acquisition: sources of new knowledge | Knowledge distribution: who acquired and needed knowledge?                                   | Knowledge distribution: sharing process   | Knowledge exploitation: new capabilities                |
|--|---|--|---|---|
| Specific knowledge on new product development for new product manufacturing (TK) | Indirect experience: key foreign supplier       | Acquired: Managing Director, purchasing personnel<br><br>Needed: production team, sales team | Attendance at the international expo for international sourcing – when Managing Director came back, paperwork was submitted for a meeting, and result was conveyed to employees | Developed new product – new feature of rubber ball (TK) |

TK – Technological knowledge

### ***Inward to outward internationalization***

Firm F established strong relationships with key foreign suppliers in China to create “guanxi” relationship. Through such relationships, they have the opportunity to export as the relationship with key foreign suppliers in China turned into the relationship with key foreign buyers. This provided a bridge to knowledge sharing between Firm F and key foreign suppliers in China. Thus, they acquired technological knowledge from them. It was routinized that after the attendance at the international expo for international sourcing, and the on-site visit to the key foreign supplier’s firm or factory, those who attended the international expo and visited the key foreign supplier’s firm and factory were required to prepare a paperwork which was then submitted for a meeting (Managing Director or purchasing personnel). The result of the paperwork was distributed to the employees including the production team and the sales team. This enabled the exploitation of technological knowledge by the production team for the development of new products.

## **5.8 Firm G**

### **5.8.1 Learning in Cross-Border Buyer-Supplier Relationships**

Table 5.18 represents the possession of prior internationalization knowledge which provided a basis for the acquisition and exploitation of internationalization and technological knowledge, through the relationship with key foreign suppliers. On the other hand, Table 5.19 represents the possession of prior internationalization knowledge which

provided a basis for the acquisition and exploitation of new market and internationalization knowledge, through the relationship with key foreign buyers.

| <b>Table 5.18: Firm G – Learning in relationships with key foreign suppliers</b>  |  |   |   |  |
|---|--|---|---|--|
| Prior knowledge   | Knowledge acquisition: content of new knowledge  | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: Exploit process   | Knowledge exploitation: New capabilities                       |
| Internationalization knowledge – knowledge of how to buy internationally <ul style="list-style-type: none"> <li>• know import rules and regulations (customs operations)</li> </ul> | Internationalization knowledge – knowledge of internal management processes <ul style="list-style-type: none"> <li>• management of purchase schedule</li> </ul>                | Direct experience in international sourcing     | Discussion with key foreign suppliers – company’s visit<br><br>Discussion with key foreign supplier – foreign supplier’s visit  | Better decision making – international sourcing decisions (IK) |
| Internationalization knowledge – knowledge of how to buy internationally <ul style="list-style-type: none"> <li>• know import rules and regulations (customs operations)</li> </ul> | Technological knowledge – knowledge of how to develop their product <ul style="list-style-type: none"> <li>• the use of a foreign supplier to develop their product</li> </ul> | Direct experience in international sourcing     | Discussion with key foreign suppliers – company’s visit<br><br>Discussion with key foreign suppliers – foreign supplier’s visit | Offered new services for domestic market (TK)                  |

IK – Internationalization knowledge

TK – Technological knowledge

***Prior knowledge of international sourcing***

Firm G only possessed prior internationalization knowledge to conduct international sourcing. They already know the rules and regulations for imported products.

They were aware of the documents that need to be filled for the import declaration thus engaging with an agent to assist. Prior internationalization knowledge enabled the acquisition of new internationalization and technological knowledge.

### ***New knowledge through direct experience in international sourcing***

Firm G acquired new internationalization and technological knowledge through direct experience in international sourcing. They learned to study the market demand for boat engines, and to predict the lifespan of boat engines. It can take three to six months to deliver from overseas. Some products cannot be shipped by air. Some factories take two to three months to produce their products, and the buying firm needs to wait for their turn to purchase. Nevertheless, they need to make sure that the boat engine is available before the estimated time. In addition to that, they learn to develop their product through the latest product development from key foreign suppliers. They only purchased the suitable range of diesel engine for the domestic market. The diesel engine is the new type of product which is environmentally friendly, and they have successfully supplied more than 20 units. However, they did not acquire new knowledge from the imitation of key foreign suppliers.

### ***Exploitation of new knowledge***

Based on the acquisition and exploitation of new internationalization knowledge through direct experience in international sourcing, Firm G was capable of making better decisions relating to international sourcing – when to purchase, how much to purchase, and where to purchase. Based on the acquisition and exploitation of new technological knowledge through direct experience in international sourcing, Firm G was also capable of offering new services to the domestic market. This entailed the discussions with key foreign suppliers when they visited the key foreign supplier, and when the key foreign supplier visited them, which enabled them to assess their international purchase schedule and to review the latest product development by the key foreign supplier which suits the domestic market.

| <b>Table 5.19: Firm G – Learning in relationships with key foreign buyers</b>  |  |  |   |   |
|--|--|--|---|---|
| Prior knowledge  | Knowledge acquisition:<br>content of new knowledge   | Knowledge acquisition:<br>sources of new knowledge | Knowledge exploitation:<br>Exploit process        | Knowledge exploitation:<br>New capabilities   |
| Internationalization knowledge – knowledge of how to deal with <ul style="list-style-type: none"> <li>• export rules and regulations of the local country (Malaysia) and the importing country (customs operations)</li> <li>• terms and conditions for exporting</li> </ul> | Market knowledge – institutional knowledge in Indonesia and Thailand <ul style="list-style-type: none"> <li>• legal system in Indonesia and Thailand</li> </ul>  | Direct experience in export                        | Meeting with key foreign buyers – company's visit | Expansion in Indonesia (MK)   |
| Internationalization knowledge – knowledge of how to deal with <ul style="list-style-type: none"> <li>• export rules and regulations of the local country (Malaysia) and the importing country (customs operations)</li> <li>• terms and conditions for exporting</li> </ul> | Internationalization knowledge – knowledge of how to deal with <ul style="list-style-type: none"> <li>• export rules and regulations of local country (Malaysia) and importing country (customs operations)</li> </ul> | Direct experience in export                        | Meeting with key foreign buyers – company's visit | Improved management of export activities – export procedures and documentation (IK) |

IK – Internationalization knowledge

TK – Technological knowledge

### ***Prior knowledge of exporting***

Firm G only possessed prior internationalization knowledge of exporting. They already know the export rules and regulations of the local country (Malaysia) and the exporting country. This includes the customs operations of the local country (Malaysia) and the importing country. In addition, they already know the development of terms and conditions for export. The payment terms and the time of delivery should be clear to both parties.

### ***New knowledge through direct experience in export***

Firm G acquired new market and internationalization knowledge through direct experience in export. As they were trying to increase the volume of export to Indonesia and Thailand, they learned about the legal systems in the two countries. There were some aspects which change from time to time. For example, policies and taxes. As they assigned an agent to handle their international logistics, they learned about the export procedures and documentation. This includes how they should declare the products, the forms they need to fill, and which authority they need to deal before they can export. Previously, they did not have knowledge of certain rules and regulations by local customs for exporting. They explained to the agent on what they need to export, and the agent provided them with related rules and regulations to be considered and fulfilled. However, they did not acquire new knowledge from the imitation of key foreign buyers.

### ***Exploitation of new knowledge***

Through the formal meeting with the key foreign buyer, Firm G exploited new market knowledge through direct experience in export for the expansion in Indonesia. It helped them to figure out the legal issues which may affect their business transactions, and the ways to overcome those issues. By using the same mean, they exploited new internationalization knowledge for the improvement in export management particularly export procedures and documentation. It helped them to identify the loophole in customs operations, thus improved it.

## **5.9 Firm H**

### **5.9.1 Learning in Cross-Border Buyer-Supplier Relationships**

Table 5.20 represents the possession of prior technological knowledge which provided a basis for the acquisition and exploitation of new technological knowledge, through the relationship with key foreign suppliers. On the other hand, Table 5.21 represents the possession of prior internationalization knowledge which provided a basis for the acquisition and exploitation of new market knowledge, through the relationship with key foreign buyers.

| <b>Table 5.20: Firm H – Learning in relationships with key foreign suppliers</b>   |  |  |  |   |
|--|--|--|--|---|
| Prior knowledge  | Knowledge acquisition:<br>content of new knowledge   | Knowledge acquisition:<br>sources of new knowledge                             | Knowledge exploitation:<br>Exploit process             | Knowledge exploitation:<br>New capabilities |
| Technological knowledge – knowledge of how to develop their product <ul style="list-style-type: none"> <li>the use of R&amp;D (mayonnaise ingredients and raw materials) to develop their product</li> </ul> | Technological knowledge – knowledge of how to develop their product <ul style="list-style-type: none"> <li>the use of R&amp;D (mayonnaise ingredients and raw materials) to develop their product</li> <li>the use of technology (improvised mayonnaise manufacturing) to develop their product</li> </ul> | Direct experience in international sourcing, imitation of key foreign supplier | Discussion with key foreign supplier – company’s visit | Developed new product – mayonnaise (TK)     |

TK – Technological knowledge

***Prior knowledge of international sourcing***

Firm H only possessed prior technological knowledge of international sourcing. They first established a unit of product R&D to ensure that once the supplier cannot supply or discontinue the specific ingredients and the raw materials, they have an alternative to replace the specific ingredients and the raw materials as soon as possible. This prepared the focus of international sourcing; what to be purchased from overseas, and where they can purchase the specific ingredients and the raw materials at the most competitive price offered by the foreign supplier. Prior technological knowledge enabled the acquisition of

new technological knowledge from both sources of knowledge; direct experience in international sourcing, and the imitation of key foreign suppliers.

### ***New knowledge through direct experience in international sourcing, and imitation of key foreign suppliers***

Firm H changed to the new type of ingredients; starch for few times. This required the assignment of new suppliers for imported raw materials. Initially, they did not have much choice of starch suppliers. Based on the product R&D, they were now using pasteurized eggs instead of powdered eggs, and managed to assign two suppliers for imported raw materials. Firm H stated that “we cannot depend too much on one supplier for one ingredient so at least you need to have two”. Thus, they acquired new technological knowledge through direct experience in international sourcing. However, Firm H also imitated new technological knowledge from key foreign suppliers. They observed and imitated the technology used for manufacturing mayonnaise product which was adopted by them. However, this technology was advanced and costly. They made some modification to the manufacturing process through conventional techniques to cut the manufacturing cost which suits their small business operation. They had purchased a machine called homogenizer from German but faced a tough time to get the manpower to handle this high-tech machine and get the right product to be used with it. Now, they are able to handle the machine.

### ***Exploitation of new knowledge***

By exploiting new technological knowledge from both sources of new knowledge (direct experience in international sourcing, and imitation of key foreign suppliers), Firm H was capable of introducing a new product; mayonnaise with spicy taste. However, this entailed the discussion with the key foreign supplier when they visited them. The key machine supplier was willing to share technical information relating to mayonnaise manufacturing, and the key raw material supplier was willing to propose alternative ingredients and raw materials which were then used by Firm H for the development of their new product.

| <b>Table 5.21: Firm H – Learning in relationships with key foreign buyers</b>  |   |   |  |  |
|--|---|---|--|--|
| Prior knowledge  | Knowledge acquisition: content of new knowledge   | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: Exploit process  | Knowledge exploitation: New capabilities |
| Internationalization knowledge – knowledge of how to deal with <ul style="list-style-type: none"> <li>• export rules and regulations of the local country (Malaysia) and the importing country (customs operations, as well as requirements, standards, and parameters by the Ministry of Health)</li> </ul> | Market knowledge – business knowledge in Brunei and Indonesia <ul style="list-style-type: none"> <li>• taste preference of mayonnaise in Brunei, Singapore, and Indonesia</li> </ul> Market knowledge – institutional knowledge in Singapore and Indonesia <ul style="list-style-type: none"> <li>• parameter of food chemical in Singapore</li> <li>• legal system in Indonesia</li> </ul> | Direct experience in export                     | Discussion with key foreign buyers – foreign buyer's visit<br><br>Discussion with key foreign buyers – electronic mail | Expansion in Singapore (MK)              |

MK – Market knowledge

***Prior knowledge of exporting***

Firm H only possessed prior internationalization knowledge of exporting. They already know the export rules and regulations of the local country (Malaysia) and the importing country. This includes the customs operations of the local country (Malaysia) and the importing country, as well as the requirements, standards, and parameters set by

the Ministry of Health in local country (Malaysia) and importing country associated with export mayonnaise product. This prior internationalization knowledge assisted Firm H to be prepared for exporting, and acquired new market and internationalization knowledge through exporting.

***New knowledge through direct experience in exporting***

Firm H acquired new market knowledge through direct experience in export. Recently, they were able to enter the Bruneian market. From time to time, they conducted a study on the market price and demand for mayonnaise product. They acquired the sample of mayonnaise product from Brunei, Singapore, and Indonesia. The fastest way to acquire this kind of information was through the liaison with Malaysia External Trade Development Corporation (MATRADE), the national trade promotion agency of Malaysia, which has the representatives in these countries. Thus, they learned that the taste preferences of mayonnaise in Malaysia, Indonesia, Singapore, and Brunei were different. As they need to meet specific standards by the Singaporean local authority, and the Indonesian local authority, they learned that some of the parameters of food chemicals were critical in Singapore but not in Malaysia. They also learned that in order to successfully penetrate the Indonesian market, they need to have a partnership with the local people. However, Firm H did not acquire new knowledge from the imitation of key foreign buyers.

***Exploitation of new knowledge***

Firm H utilized face-to-face and electronic communication to discuss with the key foreign buyer in order to comprehend and exploit new market knowledge that they acquired through direct experience in export. They were directed to focus on aspects that they can achieve further; taste preference of mayonnaise and parameters of food chemicals in Singapore. This enabled them to expand their sales in Singapore.

**5.7.2 Connections of Inward and Outward Internationalization**

Table 5.22 presents the connections of inward and outward internationalization in terms of knowledge acquisition, distribution, and exploitation.

| Table 5.22: Firm H – Connections of inward and outward internationalization |                        |                             |  |                         |
|---|------------------------|-----------------------------|--|-------------------------|
| Knowledge acquisition:  | Knowledge acquisition: | Knowledge distribution: who | Knowledge distribution sharing process | Knowledge exploitation: |

| kinds of new knowledge   | sources of new knowledge                 | acquired and needed knowledge?  |  | new capability   |
|--|--|---|--|--|
| Specific knowledge on product development for product manufacturing (TK) | Direct experience: key foreign suppliers | Acquired: Managing Director, purchasing personnel<br><br>Needed: R&D team, sales team | Attendance in international expo for international sourcing, on-site visits – when Managing Director came back, a discussion was conducted | Developed new product – new flavour of mayonnaise (TK) |

TK – Technological knowledge

### ***Inward to outward internationalization***

Firm H established close relationships with key foreign suppliers that were able to provide excellent after-sales services; provide technical information (the optimal use of a machine), and/or offer reliable solutions (the alternative of specific ingredient and raw materials). They were involved in the process of knowledge sharing which showed the commitment from the key foreign suppliers, and the commitment from Firm H to acquire relevant knowledge. Thus, they acquired new technological knowledge from the key foreign suppliers. This refers to input (raw materials) which were essential for the manufacturing of mayonnaise products. The Managing Director of Firm H was majorly involved in the conduct of international sourcing. It was routinized that after the participation in an international expo for international sourcing as well as the on-site visits to the foreign supplier's firm or factory, a discussion was conducted between those who participated the international expo and visited the foreign supplier's firm or factory (the Managing Director or purchasing personnel) with the product R&D team and the sales team. This allowed the product R&D team to exploit technological knowledge which acquired from the key foreign supplier, to be used for the new product development for the export market. The sales team also used technological knowledge which they acquired from the key foreign supplier, to convince potential and existing foreign buyers.

## **5.10 Firm I**

### **5.10.1 Learning in Cross-Border Buyer-Supplier Relationships**

Table 5.23 represents the possession of prior internationalization knowledge which provided a basis for the acquisition and exploitation of new market and internationalization knowledge, through the relationship with key foreign suppliers. On the other hand, Table

5.24 represents the possession of prior technological knowledge which provided a basis for the acquisition and exploitation of new market and technological knowledge, through the relationship with key foreign buyers.

| <b>Table 5.23: Firm I – Learning in relationships with key foreign suppliers</b>  |  |   |   |   |
|---|--|---|---|---|
| Prior knowledge   | Knowledge acquisition: content of new knowledge  | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: Exploit process   | Knowledge exploitation: New capabilities              |
| Internationalization knowledge – knowledge of how to buy internationally <ul style="list-style-type: none"> <li>know import rules and regulations of the local country (Malaysia) and the exporting country (customs operations)</li> </ul> | Market knowledge – knowledge business knowledge in Thailand, Indonesia, Philippine, the USA, and Singapore <ul style="list-style-type: none"> <li>culture of the Singapore, Thailand, Indonesia, Philippine, and the USA buyers</li> </ul> | Direct experience in international sourcing     | Discussion with international supplier – company’s visit<br><br>Joint decision making with key foreign supplier | Greater knowledge of international supply market (IK) |
| Internationalization knowledge – knowledge of how to buy internationally <ul style="list-style-type: none"> <li>know import rules and regulations of the local country (Malaysia) and the exporting country (customs operations)</li> </ul> | Internationalization knowledge – knowledge of how to buy internationally <ul style="list-style-type: none"> <li>understand market issues which affect international sourcing</li> </ul>  | Direct experience in international sourcing     | Discussion with international supplier – company’s visit<br><br>Joint decision making with key foreign supplier | Greater knowledge of international supply market (IK) |

MK – Market knowledge

IK – Internationalization knowledge

### ***Prior knowledge of international sourcing***

Firm I only possessed prior internationalization knowledge of international sourcing. They already know the import rules and regulations of the local country (Malaysia) and the exporting country. This includes the customs operations of the local country (Malaysia), and the exporting country; the requirements that they need to fulfil, the license that they need to apply, and the customs categories that they need to work out. A problem occurred when they declared the imported product under the custom category of palm oil metal ester. It was recommended to categorize their product as a metal ester. Prior internationalization knowledge supported the conduct of international sourcing by Firm I, in which enabled the acquisition of market and internationalization knowledge.

### ***New knowledge through direct experience in international sourcing***

Firm I acquired new market and internationalization knowledge through direct experience in international sourcing. Key foreign suppliers were contacted directly because the products are technical in nature, and they have to get clear information. As they directly contacted the buyers from Singapore, Thailand, Indonesia, Philippine, and the USA, they acquired business knowledge in Singapore, Thailand, Indonesia, Philippine, and the USA, particularly their cultures. Misunderstanding the culture of a foreign supplier may ruin a business relationship (Hinkelman, 2007). Firm I also faced the palm oil bashing which affects the international sourcing of palm oil resources for the production of biodiesel. The palm oil producer needs to provide the Roundtable on Sustainable Palm Oil (RSPO) certification. Thus, they learn to understand market issues which affect international sourcing. They have to purchase raw materials from certified palm oil plantations. However, they did not acquire new knowledge from the imitation of key foreign suppliers.

### ***Exploitation of new knowledge***

Firm I exploited new market and internationalization knowledge through direct experience in international sourcing for greater knowledge of international supply market. This avoided the situation in which a firm is too dependent on their key foreign suppliers (Michel et al., 2002). They increased internationalization knowledge by utilizing the

discussions with key foreign suppliers during the company's visit, and the joint decision making relating to the manufacturing activities.

| <b>Table 5.24: Firm I – Learning in relationships with key foreign buyers</b>  |   |   |   |  |
|--|---|---|---|--|
| Prior knowledge  | Knowledge acquisition: content of new knowledge   | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: Exploit process                       | Knowledge exploitation: New capabilities     |
| <p>Technological knowledge – knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>the use of product R&amp;D (collaboration with local university, and product R&amp;D groups) to develop their product</li> </ul> | <p>Market knowledge – business knowledge in Japan</p> <ul style="list-style-type: none"> <li>colour preference of biodiesel of the Japanese buyer</li> </ul> <p>Market knowledge – institutional knowledge in Japan</p> <ul style="list-style-type: none"> <li>legal system in Japan</li> </ul> | Direct experience in export                     | Discussion with key foreign buyer – key foreign buyer's visit | Established a partnership with importer (MK) |
| <p>Technological knowledge – knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>the use of product R&amp;D (collaboration with local university, and product R&amp;D groups) to develop their product</li> </ul> | <p>Technological knowledge – knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>the use of technology (biomass manufacturing) to develop their product</li> </ul>   | Imitation of key foreign buyer                  | Discussion with key foreign buyer – key foreign buyer's visit | Focused on new product (TK)                  |

MK – Market knowledge

TK – Technological knowledge

### ***Prior Knowledge of Exporting***

Firm I only possessed prior technological knowledge of exporting. They collaborated with the local universities in Malaysia and the product R&D groups to develop a new product; in alternative energy. However, they focused on the supply of wood pallets, and timber products before shifted to alternative energy in 2000. The possession of prior technological knowledge enabled the acquisition of new technological and market knowledge.

### ***New knowledge through direct experience in export and imitation of key foreign buyers***

Through collaborative projects with the Japanese buyer, Firm I acquired business knowledge in Japan. The Japanese market preferred a lighter coloured biodiesel. Nonetheless, this was not an important issue to be addressed and fulfilled in the Malaysian market as well as the European market. They also acquired institutional knowledge in Japan. This refers to the legal system in Japan associated with exporting including taxes. On the other hand, new technological knowledge was acquired from the imitation of key foreign buyers. They learn to manufacture biodiesel from the Japanese buyer.

### ***Exploitation of new knowledge***

Firm I exploited new market knowledge through direct experience in export, and new technological knowledge from the imitation of key foreign suppliers to establish a partnership with the Indonesian importer, and penetrate the Japanese market for biomass. The discussion with the key foreign buyer (the Japanese buyer) during their visit were fully utilized to inquire on how they can improve their product and the potential of future businesses. Thus, they were now focusing in the production of biomass, and turning to supply from wood pallet to husk rice pallet.

## **5.11 Firm J**

### **5.11.1 Learning in Cross-Border Buyer-Supplier Relationships**

Table 5.25 represents the possession of prior internationalization and technological knowledge which provided a basis for the acquisition and exploitation of new technological knowledge, through the relationship with key foreign suppliers. In contrast, Table 5.26 represents the possession of prior internationalization and technological

knowledge which provided a basis for the acquisition and exploitation of new internationalization and market knowledge, through the relationship with key foreign buyers.

| <b>Table 5.25: Firm J – Learning in relationships with key foreign suppliers</b>   |  |  |  |   |
|--|--|--|--|---|
| Prior knowledge  | Knowledge acquisition: content of new knowledge  | Knowledge acquisition: sources of new knowledge    | Knowledge exploitation: Exploit process                                    | Knowledge exploitation: New capabilities                                  |
| <p>Internationalization knowledge – knowledge of how to buy internationally</p> <ul style="list-style-type: none"> <li>work out import customs code for imported products</li> </ul> <p>Technological knowledge – knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>the use of R&amp;D (semiconductor product) to develop their product</li> </ul> <p>*prior knowledge of exporting</p> | <p>Technological knowledge – knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>the use of R&amp;D (semiconductor product) to develop their product</li> </ul> | <p>Direct experience in international sourcing</p> | <p>Discussion with key foreign supplier – key foreign supplier’s visit</p> | <p>Developed new product – new function of semiconductor product (TK)</p> |

TK – Technological knowledge

***Prior knowledge of international sourcing***

Firm J only possessed prior internationalization knowledge of international sourcing. They were able to work out the import customs code for certain imported products. Particular codes for import customs were used to avoid problems. However, in

order to acquire new technological knowledge through direct experience in international sourcing, prior internationalization knowledge of international sourcing was insufficient. Thus, prior technological knowledge of exporting was utilized. They have the engineers with different backgrounds of education such as Electrical Engineering, Electronic Engineering, as well as Information and Communication Technology (ICT) Engineering which were involved in the semiconductor product R&D development before. The engineers were involved directly in the process of selecting a foreign supplier.

### ***New knowledge through direct experience in international sourcing***

Firm J purchased product samples for product testing by the engineers before they purchase in a large volume. Either they enquired the foreign supplier or the foreign supplier directly proposed their latest product R&D, the technical knowledge of product was received by the firm. The foreign suppliers were eager to share their latest product R&D for promotion and sales. Firm J was recommended to use a certain process to test the new product development. The engineers analyzed and compared between the existing product by the firm, and the new product by key foreign supplier. The new product by the key foreign supplier was used and incorporated into firm's new product development when it was proven better in terms of functionality and competitiveness. Thus, they acquired new technological knowledge through direct experience in international sourcing. However, they did not acquire new technological knowledge from the imitation of key foreign suppliers.

### ***Exploitation of new knowledge***

The engineers exploited new technological knowledge through direct experience in international sourcing (the international purchase of sample product) to develop the new function of semiconductor products. However, the top management majorly involved in the discussion with key foreign supplier during business visit. Hence, any latest or relevant information from key foreign supplier was acquired by the top management. This required effective communication between the top management and the engineers who were involved in the development of the new product.

| Prior knowledge  | Knowledge acquisition: content of new knowledge  | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: Exploit process                       | Knowledge exploitation: New capabilities  |
|--|--|---|---|---|
| Internationalization knowledge – knowledge of how to deal with export <ul style="list-style-type: none"> <li>know export rules and regulations of the local country (Malaysia) and the importing country – (customs operations)</li> </ul> | Internationalization knowledge – knowledge of how to deal with <ul style="list-style-type: none"> <li>know export rules and regulations of the local country (Malaysia), and the importing country (customs operations)</li> </ul> | Direct experience in export                     | Discussion with key foreign buyer – e-mail                    | Improved import-export management processes - procedures and documentation (IK) |
| Technological knowledge – knowledge of how to develop their product <ul style="list-style-type: none"> <li>the use of R&amp;D (semiconductor product) to develop their product</li> </ul>  | Market knowledge – institutional knowledge in Iran <ul style="list-style-type: none"> <li>rules and regulations in Iran</li> </ul>   | Direct experience in export                     | Discussion with key foreign buyer – key foreign buyer's visit | Conducted a new strategy – customer's situation (MK)                            |

IK – Internationalization knowledge

TK – technological knowledge

### ***Prior knowledge of exporting***

Firm J possessed prior internationalization and technological knowledge in order to conduct export. They were able to deal with the export rules and regulations of the local country (Malaysia) and the importing country. This includes the customs operations of the local country (Malaysia) and the importing country. Harmonized System Code (HS Code) was used for trades between Malaysia and non-ASEAN countries. ASEAN Harmonized Tariff Nomenclature (AHTN) was used for trades between Malaysian and other ASEAN countries. They were equipped with highly experienced engineers who were involved in the semiconductor product R&D development before.

### ***New knowledge through direct experience in exporting***

Firm J exported to Iran for almost a year. They ceased the export because Iran is an embargoed country, and they did not want to take the risk. The exported product cannot be sent directly to Iran, and only reached the airport. The Iran buyer remitted the payment to Korea, and then Thailand, and finally Malaysia. Nevertheless, they acquired business knowledge in Iran particularly their market condition. As they exported highly-sensitive

semiconductor products, they also acquired general knowledge on how to deal with the export rules and regulations of the local country (Malaysia) and the importing country. Particular codes for export customs were used to avoid problems. However, they did not acquire new knowledge from the imitation of key foreign buyers.

### ***Exploitation of new knowledge***

Through the direct experience in export to Iran, they exploited new market knowledge which enabled them to conduct export based on the situation in Iran which is an embargoed country. Through the direct experience in export of a highly sensitive semiconductor product, they exploited new internationalization knowledge which enabled them to improve their import-export management processes in terms of procedures and documentation. Both of the process of exploiting new market and internationalization knowledge was empowered by the discussion with key foreign suppliers via e-mail and face-to face interactions.

## **5.12 Conclusion**

This chapter presents the analysis and descriptions of each of the ten case firms involved in international sourcing and export. The within-case analysis was used to investigate each case firm independently. Initially, each of the ten case firms possessed prior knowledge which empowered the acquisition of new knowledge from 1. direct experience in international sourcing, 2. direct experience in export, 3. imitation of key foreign suppliers, or/and 4. imitation of key foreign buyers. They also exploited the relationships with key foreign suppliers and key foreign buyers for the development of new capabilities. However, it was found that only some case firms were capable of connecting their inward and outward internationalization due to their capabilities of acquiring, distributing, and exploiting relevant knowledge. Accordingly, based on the within-case analysis in this chapter, the next chapter presents the cross-case analysis of each group (1. case firms started with international sourcing before exporting, and 2. case firms started with export before international sourcing), and across groups to identify cross-case patterns which explain the relationships between 1. prior knowledge and new knowledge, 2. network embeddedness and imitative behaviour, and 3. cross-border buyer-supplier relationship and inward-outward internationalization connections.

## Chapter Six

### Findings – Cross-Case Analysis

#### 6.1 Introduction

There were two groups of case firms which were identified in this research: 1) case firms started with international sourcing before export, and 2) case firms started with export before international sourcing. The first group consists of Firm A, Firm C, Firm D, Firm E, Firm G, and Firm H. The second group consists of Firm B, Firm F, Firm I, and Firm J. The cross-case analysis of each group, and across groups was conducted using the cross-case methods. It is built on the within-case analysis which provides the findings of each case firm. There were two major themes which were identified in this research, and provided the basis to represent the findings of each case firm and each group. This includes 1) learning in a cross-border buyer-supplier relationship, and 2) connections of inward and outward internationalization

This chapter contains the cross-case analysis of groups, and across groups. The cross-case analysis by groups is presented as follows;

1. Learning in cross-border buyer-supplier relationships

*Relationship with key foreign suppliers – possession of prior knowledge and acquisition of new knowledge*

*Relationship with key foreign suppliers – exploitation of new knowledge*

*Relationship with key foreign buyers – possession of prior knowledge and acquisition of new knowledge*

*Relationship with key foreign buyers – exploitation of new knowledge*

2. Connections of inward and outward internationalization

Learning in cross-border buyer-supplier relationships is presented to outline the possession of prior knowledge, the acquisition of new knowledge through the direct experience in international sourcing and export, and the imitation of key foreign suppliers and key foreign buyers, as well as the exploitation of new knowledge through the relationship with key foreign suppliers and key foreign buyers. Further analysis shows the connection of inward-outward internationalization which emerged through knowledge acquisition, distribution, and exploitation. Finally, this chapter presents the cross-case

patterns of learning processes associated with international sourcing and export and connections between these international operations. This explains the interplay between the possession of prior knowledge, and the acquisition of new knowledge, the sources of new knowledge and the new product development, the embeddedness of network and the inter-organizational imitation, as well as the development of buyer-supplier relationships, and the connection of inward-outward internationalization.

## **6.2 Case Firms Started with International Sourcing before Exporting**

The starting phase of internationalization may involve the sourcing of physical products from the foreign markets. This includes the sourcing of machinery, spare parts, raw materials, components, and products to be resold (Korhonen et al., 1996). The starting phase of internationalization might impact in various ways of later development (Welch and Luostarinen, 1993; Korhonen et al., 1996). Firms that started international sourcing before export could find that their inward internationalization supports the development of their outward internationalization (Meyer and Gelbuda, 2006). Based on the findings, such case firms were more likely to be capable of exploiting knowledge through inward internationalization to be used for conducting outward internationalization. However, this was an exception to Firm C and Firm G due to the development of cross-border buyer-supplier relationships (this will be discussed further in 6.3.3).

### **6.2.1 Learning in Cross-Border Buyer-Supplier Relationships**

The relationship with key foreign suppliers provides the foundation for acquiring new knowledge through the direct experience in international sourcing, and the imitation of key foreign suppliers and the relationship with key foreign buyers provides the foundation for acquiring new knowledge through the direct experience in export, and the imitation of key foreign buyers (Bruneel et al., 2010; Fuerst and Zettinig, 2016). Based on the literature, knowledge of market, internationalization, and technologies can be acquired through the direct experience in international sourcing (Naldi and Zahra, 2007; Rexha and Miyamoto, 2000; Meyer and Gelbuda, 2006; Jaklič et al., 2012), and the direct experience in export (Yeoh, 2004; Hilmersson, 2012; Salomon and Saver, 2005; Salomon and Jinn 2010; Burpitt and Rondinelli, 1998; Zahra et al. 2000). Based on the findings, case firms acquired market, internationalization, and technological knowledge through the direct experience in international sourcing, but only acquired market and internationalization knowledge through the direct experience in export. Besides that, buyers can learn from

their suppliers by observing their activities (Azadegan, 2011) and imitating their actions (DiMaggio and Powell, 1983; Johnsen, and Ford, 2006), but the content of new knowledge acquired through the imitation of key foreign suppliers is missing. Based on the findings, new internationalization and technological knowledge were acquired through the imitation of foreign suppliers. Suppliers can also learn from their buyers by observing their business operations (Schmitz and Knorringa, 2000) and imitating their organizational behaviours (Johnsen and Ford, 2006). Based on the findings, internationalization knowledge can be acquired through the imitation of foreign buyers (Johnsen and Ford, 2000). It was found that case firms that started international sourcing before export tended to acquire technological knowledge through the direct experience in international sourcing and/or the imitation of key foreign suppliers as compared from the direct experience in export and/or the imitation of key foreign buyers, in order to develop technological capabilities. However, the acquisition of new knowledge was influenced by the possession of prior knowledge (Huber, 1991; Zahra and George, 2002).

***Relationship with key foreign suppliers – possession of prior knowledge and acquisition of new knowledge***

Table 6.1 represents how firms acquired new knowledge with the support from prior knowledge possessed by them.

**Table 6.1: Possession of prior knowledge of international sourcing and acquisition of new knowledge**

| Firm   | Prior knowledge   | Knowledge acquisition: content of new knowledge  | Knowledge acquisition: sources of new knowledge                                 |
|--------|---|--|---|
| Firm A | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>• switch currency of buying when the exchange rate goes haywire</li> <li>• know the international price of raw materials when negotiating with foreign suppliers</li> <li>• know the international supply and demand of raw materials, and know the international price of oil, processing chemicals, and gases when negotiating with foreign suppliers</li> </ul> <p>TK – specific knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>• the use of R&amp;D (leather manufacturing) to develop their product</li> </ul> <p>*prior knowledge of exporting</p> | <p>TK – specific knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>• the use of R&amp;D (components of military boots) to develop their product</li> <li>• the use of technology (robotics) to develop their product</li> </ul> | Direct experience in international sourcing, imitation of key foreign suppliers |
| Firm C | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>• know market segmentation and taste preferences</li> </ul>  | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>• conduct direct purchases from foreign suppliers</li> <li>• develop terms and conditions for international sourcing</li> </ul>                                     | Direct experience in international sourcing                                     |
| Firm D | <p>MK – business knowledge in China</p> <ul style="list-style-type: none"> <li>• purchasing market in China – where and how to purchase at a reasonable price and good quality</li> </ul>   | <p>MK – business knowledge in China</p> <ul style="list-style-type: none"> <li>• purchasing market in China – where and how to purchase at a reasonable price and good quality</li> </ul>  | Direct experience in international sourcing                                     |
|        | <p>MK – business knowledge in China</p> <ul style="list-style-type: none"> <li>• purchasing market in China – where and how to purchase at a reasonable price and good quality</li> </ul>   | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>• know import rules and regulations (customs operations)</li> <li>• appoint a money exchanger for paying suppliers in</li> </ul>                                    | Direct experience in international sourcing                                     |

|        |   |   |   |
|--------|---|---|---|
|        |   | <p>China</p> <ul style="list-style-type: none"> <li>• appoint a forwarder for receiving and managing imported products</li> </ul>   |   |
|        |   | <p>TK – specific knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>• the use of technology (technical catalogue) to supply their product</li> </ul>  | Imitation of key foreign suppliers  |
| Firm E | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>• know international logistics for importing</li> <li>• consider product inspection for imported products</li> </ul>   | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>• consider the international logistic requirements and international logistic situations</li> <li>• consider that some imported products from different exporting countries are interchangeable</li> <li>• avoid panic buying when there is a sudden rise of imported materials by currency fluctuation</li> <li>• quote customer in foreign currency of exporting country instead of in Malaysian currency</li> </ul> <p>IK – general knowledge of how to deal with</p> <ul style="list-style-type: none"> <li>• export marketing strategy (technical catalogue)</li> </ul> | Direct experience in international sourcing, imitation of key foreign suppliers |
| Firm G | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>• know import rules and regulations (customs operations)</li> </ul>  | <p>IK – general knowledge of internal management processes</p> <ul style="list-style-type: none"> <li>• management of purchase schedule</li> </ul>  | Direct experience in international sourcing                                     |
|        | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>• know import rules and regulations (customs operations)</li> </ul>  | <p>TK – specific knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>• the use of foreign suppliers (new product development) to supply their product</li> </ul>   | Direct experience in international sourcing                                     |
| Firm H | <p>TK – specific knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>• the use of R&amp;D (specific ingredients and raw materials of mayonnaise) to develop their product</li> </ul> | <p>TK – specific knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>• the use of R&amp;D (specific ingredients and raw materials of mayonnaise) to develop their product</li> <li>• the use of technology (mayonnaise product manufacturing) to develop their product</li> </ul>  | Direct experience in international sourcing, imitation of key foreign suppliers |

MK – Market knowledge

IK – Internationalization knowledge

TK – Technological knowledge

***The possession of prior market knowledge***

Only Firm D possessed prior market knowledge in order to conduct international sourcing. Before the purchase of price-competitive products from China, there was a need to know the requirement of the Chinese supplier, and the appropriate action to be taken based on the purchasing market in China. China has ample manpower and raw materials but they need the volume of purchase from buyer. Thus, they followed their Minimum Quantity Order (MQO). They also attended the international expo for international sourcing in China which is known as CANTON Fair.

***The possession of prior internationalization knowledge***

Most case firms which include Firm A, Firm C, Firm E, and Firm G needed prior internationalization knowledge in order to conduct international sourcing. This supports the importance of international supply market knowledge of the depth of international sourcing that has been acknowledged by the literature (Rexha and Miyamoto, 2000) but rather limited. Firm D and Firm H did not possess prior internationalization knowledge of international sourcing. Firm D was dependent on prior market knowledge to enter a specific purchasing market particularly China. On the other hand, Firm H was dependent on prior technological knowledge to purchase specific ingredients and raw materials of mayonnaise.

Senft (2013) proposed that deeper knowledge of buyers on the market demand, prices, and profits may result in a more distinctive bargaining power for international sourcing. Thus, Firm A emphasized the need for prior internationalization knowledge of the international price of raw materials, the international price of oil and its effects to other prices, as well as the international demand and supply of raw materials during the negotiation process with the foreign supplier. Hence, they were able to attend the international expo for international sourcing and directly negotiate with the foreign supplier. Due to having access to worldwide suppliers, cost factors in international sourcing are often surpassed by a better negotiation position, as well as a benefit from currency differences (Senft, 2013). Thus, Firm A also emphasized the need for prior internationalization knowledge of the currency of buying when the exchange rate is haywire. Instead of buying in US Dollar, they buy in other appropriate currencies. They

were very concerned with the exchange rate when buying internationally by monitoring the movement of the exchange rate. This is because they largely import raw materials, especially leather. Even though the price of leather increased, the selling price of the final product cannot be increased due to their contract with buyers. On the other hand, Firm C stressed the need for prior internationalization knowledge of the market segment and the taste preferences in importing countries. Hence, they were able to buy the raw materials from foreign countries to produce products which suit the demand of buyers. Firm E stressed the need for prior internationalization knowledge of the assessment of foreign suppliers and product quality for the transformation of new procurement management. They shifted from the purchase of new products from local to foreign suppliers. The founder is acquainted with the product quality inspector since he was a procurement manager in three multinational companies which include Aker Solution which is a Malaysian based company, Cameron which is a USA based company, and KNM Steel which is a Norwegian based company. This includes self-inspection, third-party inspection, as well as supplier-inspection, and bringing the customers to see the products. Material Test Certificate is obtained after the inspection. Firm G stressed the need for prior internationalization knowledge of the import rules and regulations particularly the customs operations. They assigned an agent to deal with this. Hence, they were able to buy the latest technology for products in the marine industry to be supplied to their buyers.

While all case firms addressed the importance of prior general knowledge of buying internationally, Firm E also addressed the importance of prior general knowledge of the internal management process particularly international logistic. This includes the shipment by sea and air to Malaysia or importing countries as well as the packaging of imported products by supplier and forwarder, which need to be considered. The founder has ten years' experience in the management of international logistic for importing

### ***The possession of prior technological knowledge***

Only Firm H possessed prior technological knowledge of international sourcing. They were equipped with the knowledge of mayonnaise product manufacturing, thus they focused on the purchase of mayonnaise's specific ingredients and raw materials. The CEO with a Diploma and a Bachelor of Agriculture (Food Technology) as well as ten years' experience as a food technologist at several food manufacturing companies concentrated on the product R&D for almost a year.

### ***The acquisition of new market knowledge***

Market knowledge was acquired solely through the direct experience in international sourcing (Naldi and Zahra, 2007), and this occurred in Firm D. As they bought the price-competitive product from China to compete domestically and internationally, they learned how to penetrate the purchasing market in China. It was essential to find somebody that they know in China in order to establish a network of suppliers. They personally met a Chinese resident who formerly studied in Malaysia, and assigned him as their representative in China. Only then they were able to buy their products at a reasonable price and with good quality.

### ***The acquisition of new internationalization knowledge***

Through the relationship with a key foreign supplier, the most frequent content of new knowledge acquired by case firms that started international sourcing before exporting was internationalization knowledge. It was acquired from the direct experience in international sourcing (Meyer and Gelbuda, 2006) by Firm C, Firm D, Firm E, Firm G, and Firm H, and the imitation of a key foreign supplier by Firm E.

Firm C, Firm D, Firm E, Firm H acquired general knowledge of buying internationally. Both Firm C and Firm E bought internationally during the falling of Malaysian currency. Thus, Firm B acquired internationalization knowledge of the development of terms and conditions. They learned how to manage around currency fluctuation by addressing the recent charge of Goods and Services Taxes (GST) on the importation of goods and services into Malaysia, and the price of raw materials which can be considered too high during the discussion about payment with the foreign supplier. In contrast, Firm E acquired internationalization knowledge of the currency of selling and the avoidance of panic buying. They learned to manage around currency fluctuation by quoting the price of the product in the currency from where they buy as well as avoiding panic buying by waiting for a few weeks. They pointed out that the price of raw materials will increase, stabilize, and then decrease when is a sudden rise in the currency value. In addition, as Firm C bought the raw materials from France, India, and China through the intermediaries, they acquired internationalization knowledge of the direct purchase from the foreign suppliers. This can save the cost of purchasing raw materials from overseas. The price of raw materials was marked up by the agents approximately about 30%.

As Firm D managed the import customs procedure, they acquired internationalization knowledge of the import rules and regulations particularly the customs operations. They learned to work out the import custom codes. They constantly applied certain codes in the import customs declaration to avoid any problem with customs. As they also managed the import payment procedures, they acquired internationalization knowledge of the method of import payment. They learned to appoint a money exchanger for paying their suppliers in China. The use of Bank of China involved multiple requirements and documentation which caused long delays. Central Bank of Malaysia also involved a lot of requirements and documentation as they transferred money from Malaysia. They pointed out that this method of import payment can also be applied for country like India. Besides that, as Firm E transformed the procurement management of the company that they took over, they acquired internationalization knowledge of the sourcing of imported products. They learned to consider that some imported products from different exporting countries are interchangeable for purchasing and sales.

On the other hand, Firm D, Firm E, and Firm G acquired general knowledge of the internal management processes. Both Firm D and Firm E acquired internationalization knowledge of the international logistics. Once the imported product reached the port, it was under their responsibility. However, Firm D was unable to bring out the imported products to their factory because of customs. Thus, they learned to recognize and assign the forwarder that has a good connection with the customs. Meanwhile, Firm E learned to consider the logistic requirements such as taxes which they need to pay including Value Added Taxes (VAT) in European countries. They also learned to consider the logistic situations from various countries. Hence, they adjusted their operations of international logistics by considering these logistic requirements and logistic situations. On the other hand, as Firm G properly managed the stock to be purchased, they acquired internationalization knowledge of the management of purchase schedule. They learned the appropriate time to purchase based on the product delivery. There was a need to make an order in advanced. This is because some products cannot be shipped by air and some factories take two to three months to produce their products hence they need to wait for an appropriate time to make an order. Thus, it can take three to six months for the imported products to be delivered. They also learned about the appropriate volume to purchase. There was a need to study the number of user boats which used the specific engine, and

predict their life span. This provided the plan of stock to be purchased before the buyer comes to change their boat engine.

Through the imitation of a key foreign supplier, Firm E also acquired general knowledge of how to conduct export. They observed and imitated the development of a technical catalogue of available materials for export marketing strategy. Buyers can refer to the constructed tables with the information on weight, height, calculation, and other technical information.

### ***The acquisition of new technological knowledge***

Technological knowledge was acquired internally through the direct experience in international sourcing (Meyer and Gelbuda, 2006; Jaklič et al., 2012) and externally through the imitation of a key foreign supplier. Firm G acquired new technological knowledge solely through the direct experience in international sourcing. They learned to purchase the appropriate engines from their key foreign supplier which suit the domestic market. They were focusing on diesel engines, and have successfully supplied more than 20 units. It was a new type of an environmentally friendly engine. In contrast, Firm D acquired new technological knowledge solely through the imitation of a foreign supplier. They observed and imitated the layout of showroom, and the development of the latest product to offer equipment rental services, and event management services for the domestic market.

On the other hand, Firm A and Firm H acquired new technological knowledge from both sources of knowledge. As Firm A attended the international expo for international sourcing and obtained new information on product R&D as well as assigned the foreign suppliers and obtained the latest information of product R&D for product promotion, they acquired new technological knowledge. Their foreign suppliers are wholesale suppliers. They provided the technical information, the after-sales service, and the information on how the manufacturer should market their product. They provided enough technical information for footwear R&D hence footwear manufacturing from their pattern of rubber products. This included the proper placement and the appropriate measurement of their rubber products. Additionally, Firm A observed and imitated the technology of shoe manufacturing used by their foreign suppliers by visiting their factories. As their foreign suppliers were changing into using robotics, they started to follow the use of high

technology machinery. It is higher than what they used before to produce the products at faster speed, and constant quality output. On the other hand, as Firm H changed to a new type of ingredient (starch) which required the assignment of a new foreign supplier, they also acquired new technological knowledge. The supplier of raw materials proposed the specification of an alternative ingredient and firm' product R&D was conducted when the ingredient was not available. It was essential to acquire the right ingredients from the supplier of raw materials. In addition, Firm H observed and imitated the technology of mayonnaise manufacturing used by their foreign suppliers. They followed and adopted the technology for their new product development. However, they did some modification in the process of mayonnaise manufacturing to cut down the cost of its production. It was due to the technology used by their foreign supplier which was too advanced.

***Relationship with key foreign supplier – exploitation of new knowledge***

Table 6.2 represents how firms exploited new knowledge through the relationship with a key foreign supplier.

| <b>Table 6.2: The exploitation of new knowledge</b> |   |  |   |   |
|---|---|--|---|---|
| Firm  | Knowledge acquisition: content of new knowledge                                       | Knowledge acquisition: sources of new knowledge                                | Knowledge exploitation: exploit process   | Knowledge exploitation: new capabilities                          |
| Firm A  | TK – the use of R&D (components for military boots), the use of technology (robotics) | Direct experience in international sourcing, imitation of key foreign supplier | Discussion with key foreign supplier – company’s visit<br><br>Discussion with key foreign supplier – foreign supplier’s visit<br><br>Presentation by key foreign supplier | Developed new product – military boot (TK)                        |
| Firm C  | IK – foreign entry mode   | Direct experience in international sourcing                                    | Discussion with key foreign supplier – e-mail   | Minimized cost for international sourcing (IK)                    |
| Firm D  | MK – business knowledge   | Direct experience in international sourcing                                    | Discussion with key foreign supplier – company’s visit  | Established strong relationships with key suppliers in China (MK) |
|   | IK – foreign entry mode   | Direct experience in international sourcing                                    | Discussion with key foreign supplier – company’s visit  | Focused on new business direction – trading business (IK)         |
|   | TK – the use of foreign supplier  | Imitation of key foreign supplier  | Discussion with key foreign supplier – company’s visit  | Offered new services for domestic market (TK)                     |
| Firm E  | IK – foreign entry mode   | Direct experience in international sourcing                                    | Discussion with key foreign supplier – project-based discussion<br><br>Joint decision making – project-based decision making  | Conducted triangular trade (IK)                                   |
| Firm G  | IK – foreign entry mode   | Direct experience in international sourcing                                    | Discussion with key foreign supplier – company’s visit<br><br>Discussion with key foreign supplier – foreign supplier’s visit   | Better decision making – international sourcing decisions (IK)    |
|   | TK – the use of foreign supplier  | Imitation of key foreign supplier  | Discussion with key foreign supplier – company’s visit<br><br>Discussion with   | Offered new services for domestic market (TK)                     |

|        |   |  |  |   |
|--------|---|--|--|---|
|        |   |  | key foreign supplier – foreign supplier’s visit        |   |
| Firm H | TK – the use of R&D (mayonnaise ingredients and raw materials), the use of technology (improvised mayonnaise manufacturing) | Direct experience in international sourcing, imitation of key foreign supplier | Discussion with key foreign supplier – company’s visit | Developed new product – mayonnaise (TK) |

MK – Market knowledge

IK – Internationalization knowledge

TK – Technological knowledge

All case firms exploited new knowledge by learning from the relationship with a key foreign supplier through the discussion with the key foreign supplier. Firm A and Firm G discussed with key foreign suppliers during the foreign suppliers’ visit to their company. Besides that, Firm A, Firm D, Firm G, and Firm H discussed with key foreign suppliers during the company’s visit to their foreign suppliers’ companies. Firm E discussed with their key foreign supplier based on the project basis. Depending on electronic communication instead of face-to-face interactions, Firm C discussed with their key foreign supplier through e-mail. However, some case firms exploited new knowledge through the joint decision making with key foreign suppliers, and the presentation by key foreign suppliers. As Firm E collaborated with a key foreign supplier to complete a project for production and sales, there was a need for a joint decision making. As Firm A invested a high amount of purchase of machinery from overseas, they invited the foreign supplier to conduct a detailed presentation to their company.

These routines allowed these case firms to leverage the existing capability and to create a new capability (Zahra and George, 2002). Firm D acquired and exploited new market knowledge in order to establish strong relationships with key suppliers in China. They also acquired and exploited new internationalization knowledge that supported the acquisition and exploitation of new technological knowledge. This has been supported by Firm G. Initially, Firm D was capable of focusing on a new business direction (trading business), and Firm H was capable of enhancing their decision making in international sourcing (where and when to purchase from overseas). This facilitated them to identify the opportunity to increase technical capabilities. Therefore, Firm D and Firm G were capable of offering new services to the domestic market. On the other hand, Firm A and Firm J

solely acquired new technological knowledge to be exploited for new product development, and Firm C and Firm E solely acquired new internationalization knowledge to be exploited for international sourcing strategy. Firm C was capable of reducing the cost of international sourcing, and Firm E was capable of conducting the triangular trade, in which both of these capabilities reduced the supply chain costs.

***Relationship with key foreign buyer – possession of prior knowledge and acquisition of new knowledge***

Table 6.3 represents how firms acquired new knowledge with the support from prior knowledge possessed by them.

| Firm   | Prior knowledge   | Knowledge acquisition: content of new knowledge   | Knowledge acquisition: sources of new knowledge             |
|--------|---|---|---|
| Firm A | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>price comparison and competitive price development for export</li> </ul>  | IK – general knowledge of internal management process <ul style="list-style-type: none"> <li>management of production volume for export</li> <li>management of international business – management information system</li> </ul>  | Direct experience in export, imitation of key foreign buyer |
|        | TK – specific knowledge of how to develop their product <ul style="list-style-type: none"> <li>the use of technology (leather manufacturing) to develop their product</li> </ul>  | MK – business knowledge in the Middle East <ul style="list-style-type: none"> <li>attitude of the Arab buyers in the Middle East</li> </ul>   | Direct experience in export                                 |
| Firm C | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>rules and regulations of the local country (Malaysia) and the importing country (customs operations, as well as food safety inspections)</li> <li>price comparison and competitive price development</li> </ul> | MK – institutional knowledge in Vietnam <ul style="list-style-type: none"> <li>legal system in Vietnam</li> </ul>   | Direct experience in export                                 |
|        | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>rules and regulations of the local country (Malaysia) and the importing country (customs operations and food safety inspections)</li> <li>price comparison and competitive price development</li> </ul>         | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>rules and regulations of the local country (Malaysia) and the importing country (customs operations)</li> </ul>   | Direct experience in export                                 |
| Firm D | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>export marketing (broadcast marketing and international trade show marketing)</li> <li>development of terms and conditions for export</li> </ul>  | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>focus of international trade show marketing</li> </ul>  | Direct experience in export                                 |
| Firm E | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>international logistic for exporting</li> </ul>   | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>recognition of reputable foreign supplier</li> <li>exported product packaging</li> </ul><br>IK – general knowledge of internal management processes <ul style="list-style-type: none"> <li>authoritativeness to purchasing</li> </ul> | Direct experience in export, imitation of key foreign buyer |

|        |  |   |                             |
|--------|--|---|-----------------------------|
|        |  | personnel <ul style="list-style-type: none"> <li>• adoption of management information system</li> </ul>   |                             |
| Firm G | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>• export rules and regulations of the local country (Malaysia) and the importing country (customs operations)</li> <li>• terms and conditions for exporting</li> </ul>                             | MK – institutional knowledge in Indonesia, and Thailand <ul style="list-style-type: none"> <li>• legal system in Indonesia and Thailand</li> </ul>  | Direct experience in export |
|        | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>• export rules and regulations of the local country (Malaysia) and the importing country (customs operations)</li> <li>• terms and conditions for exporting</li> </ul>                             | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>• export rules and regulations of the local country (Malaysia) and the importing country (customs operations)</li> </ul>  | Direct experience in export |
| Firm H | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>• export rules and regulations of the local country (Malaysia) and the importing country (customs operations, as well as requirements, standards, and parameters by Ministry of Health)</li> </ul> | MK – business knowledge in Brunei, and Indonesia <ul style="list-style-type: none"> <li>• taste preferences of mayonnaise in Brunei, Singapore, and Indonesia</li> </ul> MK – institutional knowledge in Singapore and Indonesia <ul style="list-style-type: none"> <li>• parameters of food chemicals in Singapore</li> <li>legal system in Indonesia</li> </ul> | Direct experience in export |

MK – Market knowledge

IK – Internationalization knowledge

TK – Technological knowledge

### ***The possession of prior internationalization knowledge***

All case firms needed prior internationalization knowledge in order to conduct export. However, most case firms which include Firm A, Firm C, Firm D, Firm G, Firm H focused on general knowledge of how to conduct export. Both Firm A and Firm C indicated the need for prior internationalization knowledge of the price comparison and the competitive price development. Before Firm A exported to Kuwait, there was a need to know the current price of their product in Kuwait, and the current price of their product by their competitors, as well as how their product can be produced at the same price or cheaper with better features. Before Firm C exported to Vietnam, there was a need to know the current price of their product in Vietnam, the current price of their product by their competitors, as well as to assess whether it is too high or low. They must be capable of setting a reasonable product price.

Firm C, Firm G, and Firm H indicated the need for prior internationalization knowledge of the export rules and regulation. This refers to the customs operations needed by Firm C, Firm G and Firm H, and requirements of related local authorities needed by Firm C and Firm H. There was a need to know and fulfil the customs operations in Malaysia as well as importing countries. Firm G assigned an agent to deal with the customs operations. This was conducted directly by Firm H. As Firm C and Firm H were involved in food manufacturing, there was a need to know and fulfil the requirements from the Ministry of Health in Malaysia and all importing countries where the product was intended to be exported. Firm H pointed out that the local authority of importing country has their own requirements, standards, and parameters which need to be identified and fulfilled.

Both Firm D and Firm G indicated the need for prior internationalization knowledge of the development of terms and conditions. According to Firm D, the payment terms, the freight on board (FOB), the responsibility of certain taxes, the responsibility for clearance, and the warranty of product must be cleared before the products are exported to Singapore, Indonesia, and Brunei. According to Firm G, the payment terms of international trade, and the delivery time to international buyers must be cleared before they are exported to Indonesia and Thailand. This avoided problems from occurring between both parties; buyer and supplier.

Firm D also indicated the need for prior internationalization knowledge of the export marketing. As they are producing the Malay serving domes which can be considered a niche product, and normally targeted for the markets in Malaysia, Singapore, Indonesia, and Brunei, they need to know how to market their product to the foreign buyers particularly from Singapore, Indonesia, and Brunei. They have used broadcast marketing including radio commercials and international trade show marketing by attending the international exhibition.

Only Firm E focused on general knowledge of internal management processes. They indicated the need for prior internationalization knowledge of the international logistic. This refers to the shipment by sea and air, the packaging of exported products, and Incoterm rules. This enabled them to manage the logistic issues when they exported the raw materials from their suppliers to their major international buyers. The founder has ten years of experience in the management of international logistics for export.

### ***The possession of prior technological knowledge***

Only Firm A possessed prior technological knowledge in order to conduct export. Some of the key employees at the early establishment of the firm already have the knowledge of leather manufacturing through conventional processes. This includes the knowledge of how hides were manufactured and tanned.

### ***The acquisition of new market knowledge***

Market knowledge was acquired solely through the direct experience in exporting (Burpitt and Rondinelli, 1998; Zahra et al. 2000; Yeoh, 2004; Salomon and Saver; 2005; Salomon and Jin, 2010) by Firm A, Firm C, Firm G, and Firm H.

However, most case firms which include Firm C, Firm G, and Firm H acquired specific institutional knowledge of the foreign countries. As Firm C exported to Vietnam, they learned that Vietnam has different parameters which were critical for the Phytosanitary certificates from the other countries, and how to fulfil these parameters. As Firm G exported to Indonesia and Thailand, they learned that some rules and regulations are different before, during, and after export. As Firm H met specific standards by the local authority of its importing country, they learned that Singapore has different parameters of food chemicals which are critical to being fulfilled, and how to fulfil these parameters. Besides that, they learn about the need for applying a registration number from their foreign exporter, and the need for a business partnership with the local people to enter the Indonesian market.

Firm A and Firm H acquired specific business knowledge about their foreign buyers. Firm A exported to the Middle Eastern countries. Hence, they learned about the buyers from the Middle Eastern countries particularly regarding their buying behaviour. They have trust issues with foreign businesses. Thus, the locals were assigned as agents. Firm H exported to Brunei. Hence, they learned about the Bruneian buyers particularly their taste preferences of mayonnaise. They have different taste preferences of mayonnaise as compared to the Malaysian buyers and the Indonesia buyers. The easiest and fastest way to get a sample of mayonnaise was by liaising with MATRADE's representative in Brunei.

### *The acquisition of new internationalization knowledge*

Through the relationship with key foreign buyers, the most frequent content of new knowledge acquired by case firms that started international sourcing before exporting was internationalization knowledge. It was acquired internally through the direct experience in export (Eriksson et al. 1997; Hilmersson, 2012) and externally through the imitation (Forsgren, 2002; Fernhaber and Li, 2010) of key foreign buyers. Only Firm H did not acquire internationalization knowledge as they focused on the acquisition of market knowledge in China.

Most case firms which include Firm C, Firm D, and Firm G acquired new internationalization knowledge solely through the direct experience in export. As Firm C managed their own export documentation and procedures, and Firm G assigned an agent to manage their export documentation and procedures, they acquired internationalization knowledge of the export rules and regulations particularly the customs operations. They learned to prepare the documentation for shipping and customs. They also learned to work out the export customs codes. As Firm D exported the Malay serving domes which can be considered a niche product, thus handling the marketing for the foreign market, they acquired internationalization knowledge of the international trade show marketing. They learned to emphasize on the international trade show marketing instead of direct selling. They also learned to participate the international expo in Singapore instead of the international expos in Brunei and Indonesia. They indicated that it is impractical, and entails excess of financial resources. It is because they were able to cover targeted foreign buyers during the international expo in Singapore.

Only Firm A and Firm E acquired new internationalization knowledge from both sources of new knowledge. As Firm A exports through the international tender, thus handling a late and large order from the international buyer, they acquired internationalization knowledge of the management of export production. The supply period of the international tender was normally not more than two months. As the order from the foreign buyer was not continuous (for example, the order from the Oman buyer was depending on the demand of military, and the budget from its government), it was difficult to meet the two months' delivery target. They learned to plan the export production by establishing a relationship with the international buyer by assigning an agent. The agent was tasked to find out the need for the international buyer in February, March, and April to

produce their product in December. In order to strengthen the internal management processes associated with international business, Firm A exposed their employees to the management of international business by the Japanese buyer, the Indian buyer, and the European buyer. They imitated the management of international business by these foreign buyers; proper management information system.

On the other hand, Firm E acquired internationalization knowledge through the recognition of a reputable supplier after they faced and managed product quality issues by the foreign supplier for a major foreign buyer. They learned to engage the third-party inspection whenever they buy for the first time from the mills in China as well as India for direct export to the major international buyers. The recognition of a reputable supplier is directed from the approval from Malaysia's national petroleum corporation. In addition to that, they acquired internationalization knowledge of the international logistics particularly the packaging of the exported product after they faced and managed logistic issues of the exported product. They learned to conduct the packaging of the exported products that they buy locally and to assign a forwarder to conduct the packaging of exported products that they buy internationally. Nonetheless, there were some suppliers that are competent with the packaging of exported products so they allowed them to do the packaging. In order to strengthen the internal management processes associated with international business, Firm E observed and imitated the authoritativeness and the management information system for the management of international businesses exercised by their key foreign buyers. They observed and imitated those aspects that suit their size and operation. They learned to eliminate the multiple layer of top management of approval for the international purchase and sales. They also learned to adopt the management information system (Structured Query Language (SQL) system) for international purchases and sales. These enabled enhanced decisions making in international businesses.

***Relationship with key foreign buyer – exploitation of new knowledge***

Table 6.4 represents how firms exploited new knowledge through the relationship with a key foreign buyer.

| Firm   | Knowledge acquisition: content of new knowledge        | Knowledge acquisition: sources of new knowledge             | Knowledge exploitation: exploit process  | Knowledge exploitation: new capabilities                                       |
|--------|--|---|--|--|
| Firm A | MK – business knowledge                                | Direct experience in export                                 | Discussion with foreign buyer – foreign buyer's visit<br><br>Discussion with foreign buyer – electronic mail | Established strong relationships with regional agents – customer's demand (MK) |
|        | IK – internal management processes                     | Direct experience in export, imitation of key foreign buyer | Discussion with foreign buyer – foreign buyer's visit<br><br>Discussion with foreign buyer – electronic mail | Improved management of export production (IK)                                  |
| Firm C | MK – institutional knowledge                           | Direct experience in export                                 | Discussion with foreign buyer – electronic mail  | Expansion in Vietnam (MK)  |
|        | IK – foreign entry mode                                | Direct experience in export                                 | Discussion with foreign buyer – electronic mail  | Improved management of export activities (IK)                                  |
| Firm D | IK – foreign entry mode                                | Direct experience in export                                 | Discussion with foreign buyer – foreign buyer's visit  | Empowered strategy for export marketing (IK)                                   |
| Firm E | IK – foreign entry mode, internal management processes | Direct experience in export, imitation of key foreign buyer | Discussion with foreign buyer – company's visit  | Improved management of international logistic (IK)                             |
| Firm G | MK – institutional knowledge                           | Direct experience in export                                 | Meeting with foreign buyer – company's visit   | Expansion in Indonesia (MK)  |
|        | IK – foreign entry mode                                | Direct experience in export                                 | Meeting with foreign buyer – company's visit   | Improved management of export activities (IK)                                  |
| Firm H | MK – business knowledge, institutional knowledge       | Direct experience in export                                 | Discussion with foreign buyer – foreign buyer's visit  | Expansion in Singapore (MK)  |

MK – Market knowledge

IK – Internationalization knowledge

TK – Technological knowledge

Most case firms exploited new knowledge by learning from the relationship with key foreign buyers through the discussion with those key foreign buyers. Only Firm G conducted the meeting with a key foreign buyer during the company's visit to their foreign buyer's company. In contrast, Firm A, Firm D, and Firm H conducted discussions with key

foreign buyers during the foreign buyers' visit to their company. Firm E conducted a discussion with a key foreign buyer during the company's visit to the foreign buyer's company. Besides of face-to-face discussion, Firm A and Firm H conducted discussions with key foreign buyers through e-mail. This enriched the interactions in cross-border buyer-supplier relationships of both firms. However, Firm C conducted discussions with a key foreign buyer solely through e-mail. This was due to the cost of meeting key foreign suppliers.

New market knowledge was used by Firm A to meet the demand of foreign buyers. As a result, they established strong relationships with regional agents. On the other hand, new market knowledge was used by Firm C, Firm G, and Firm H to enter and expand in specific foreign markets. Besides that, the acquisition of new internationalization knowledge was associated with the firms' capabilities to strategize and manage export operations. Firm D exploited new internationalization knowledge thus empowered the export marketing strategy. Firm A, Firm C, Firm E, and Firm G exploited new internationalization knowledge, thus improving the export operation management.

### **6.2.2 Connections of Inward and Outward Internationalization**

Table 6.5 shows how firms acquired, distributed, and exploited knowledge in order to connect between inward and outward internationalization.

**Table 6.5: Connections of inward and outward internationalization**

| Firm   | Knowledge acquisition: kind of new knowledge   | Knowledge acquisition: sources of new knowledge | Knowledge distribution: who acquired and needed knowledge?                       | Knowledge distribution: sharing process   | Knowledge exploitation: new capabilities                      |
|--------|--|---|--|---|---|
| Firm A | General knowledge of how to export – pricing strategy (IK)                           | Indirect experience – key foreign suppliers     | Acquired: Managing Director, purchasing personnel<br><br>Needed: sales personnel | Weekly management meeting<br><br>Discussion via electronic mail   | Empowered export marketing strategy – competitive price (IK)  |
|        | General knowledge of how to export – marketing strategy (MK)                         | Indirect experience – key foreign suppliers     | Acquired: Managing Director, purchasing personnel<br><br>Needed: sales personnel | Weekly management meeting<br><br>Discussion via e-mail  | Empowered export marketing strategy – product adaptation (IK) |
|        | Specific knowledge of product development for product manufacturing (TK)             | Indirect experience – key foreign suppliers     | Acquired: Managing Director, purchasing personnel<br><br>Needed: sales personnel | Attendance in international expo for international sourcing – brought staff from purchasing department and production department, when they came back, discussion was conducted with R&D department | Developed new product – new function of military boot (TK)    |
|        | General knowledge of buying from overseas – product quality assessment method (IK)   | Direct experience – Managing Director           | Acquired: Managing Director<br><br>Needed: purchasing personnel                  | Weekly management meeting<br><br>Discussion via electronic mail   | Conducted various product quality assessment method (IK)      |
|        | General knowledge of buying from overseas – development of terms and conditions (IK) | Direct experience – Managing Director           | Acquired: Managing Director, sales personnel<br><br>Needed: purchasing personnel | Weekly management meeting<br><br>Discussion via electronic mail   | Better negotiation skill (IK)                                 |
|        | Firm D   | General   | Indirect   | Acquired:   | Monthly   |

|        |   |  |   |  |   |
|--------|---|--|---|--|---|
|        | knowledge of how to export – marketing strategy (IK)                        | experience – key foreign suppliers   | Managing Director, procurement personnel<br><br>Needed: sales and marketing personnel           | meeting<br><br>Attendance in international expo for international sourcing, on-site visits – when Managing Director came back, discussion was conducted              | export marketing strategy (IK)                            |
| Firm E | General knowledge of internal management processes – consignment stock (IK) | Indirect experience – key foreign suppliers<br><br>Direct experience – Managing Director | Acquired: Managing Director, purchasing personnel<br><br>Needed: sales and logistic personnel   | Weekly Project Meeting<br><br>Attendance in international expo for international sourcing, on-site visits – when Managing Director came back, briefing was conducted | Improved international logistic management (IK)           |
| Firm H | Specific knowledge of product development for product manufacturing (TK)    | Indirect experience – key foreign suppliers  | Acquired: Managing Director, purchasing personnel<br><br>Needed: R&D personnel, sales personnel | Attendance at the international expo for international sourcing, on-site visits – when Managing Director came back, discussion was conducted                         | Improve existing product – new flavour of mayonnaise (TK) |

IK – Internationalization knowledge

TK – Technological knowledge

### ***Inward to outward internationalization***

Internationalization and technological knowledge were acquired from inward internationalization, and appropriately used for conducting outward internationalization by Firm A, Firm D, Firm E, and Firm H. This was enabled by close relationships with key foreign suppliers which empowered inter-firm knowledge sharing between the focal firm and key foreign suppliers. Based on regular and close contact with key foreign supplier, Firm A, Firm D, and Firm H shared knowledge with key foreign suppliers through formal

discussions, and Firm E shared knowledge with their key foreign supplier through a joint project. While the rest of case firms were solely reliant on their relationships with key foreign suppliers, Firm E also acquired internationalization knowledge through the direct experience in international sourcing and realized that it was relevant for conducting outward internationalization. However, intra-firm knowledge sharing between those who possessed knowledge from inward internationalization, and those who needed this knowledge to conduct outward internationalization (Huber, 1991) also enabled the connection of inward-outward internationalization to be established. Case firms established the mechanisms for knowledge sharing between the employees that were involved in international purchasing (purchasing personnel and procurement personnel, and the employees that were involved in international sales and product R&D development (sales personnel, sales and marketing personnel, sales and logistics personnel, and R&D personnel). The conduct of meeting was frequently utilized to share internationalization knowledge between these units. Firm A also used the discussion through e-mail between purchasing personnel and sales personnel. It was monitored by the Managing Director for a productive discussion. On the other hand, the discussion after attending the international expo for international sourcing and visiting the firms and/or factories of foreign suppliers was frequently utilized to share technological knowledge between these units. However, the knowledge acquirer was not confined to the purchasing personnel, the Managing Directors of case firms were involved directly in the conduct of international sourcing, and the acquisition of relevant knowledge. Hence, they were engaged directly in the sharing of knowledge to other employees that needed such knowledge. As a result, Firm A and Firm D used the internationalization knowledge to improve the marketing strategy for exporting. Firm E used the internationalization knowledge to improve the internal management processes of exporting. On the other hand, Firm A and Firm H used the technological knowledge to develop the new product to be exported.

### ***Outward to inward internationalization***

Internationalization knowledge was acquired from outward internationalization and appropriately used for conducting inward internationalization by Firm A. The conduct of meeting was established to share internationalization knowledge between the Managing Director and the employees that were involved in inward internationalization. The Managing Director also discussed with purchasing personnel through e-mail conversations

which enabled internationalization knowledge to be shared internally. As a result, Firm A was capable of conducting various product quality assessment.

### **6.3 Case Firms Started with Export before International Sourcing**

International sourcing is not a prerequisite for internationalization (Jones, 1999). Nonetheless, Jones (1999) found that firms that started exporting commenced international sourcing subsequently.

#### **6.3.1 Learning in Cross-Border Buyer-Supplier Relationship**

Based on the findings, market and internationalization knowledge was solely acquired through the direct experience in international sourcing and exporting. Through international sourcing, technological knowledge was acquired from both sources of new knowledge; direct experience in international sourcing, and imitation of key foreign suppliers. Through exporting, technological knowledge was solely acquired from the direct experience in export. However, case firms started with export before international sourcing were less likely to rely on the imitation of key foreign suppliers and key foreign buyers.

#### ***Relationship with key foreign suppliers – possession of prior knowledge and acquisition of new knowledge***

Table 6.6 represents how firms acquired new knowledge with the support from prior knowledge possessed by them.

**Table 6.6: Possession of prior knowledge of international sourcing and acquisition of new knowledge**

| Firm   | Prior knowledge  | Knowledge acquisition: content of new knowledge   | Knowledge acquisition: sources of new knowledge                                |
|--------|--|---|--|
| Firm B | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>conduct foreign supplier’s product quality assessment</li> </ul>  | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>conduct foreign supplier’s product quality assessment</li> <li>qualify Certificate of Origin (COA) from Malaysia, and qualify as a local producer</li> </ul> | Direct experience in international sourcing                                    |
| Firm F | <p>MK – business knowledge in China</p> <ul style="list-style-type: none"> <li>purchasing market in China</li> </ul>   | <p>MK – business knowledge in China</p> <ul style="list-style-type: none"> <li>purchasing and exporting market in China</li> </ul>  | Direct experience in international sourcing                                    |
|        | <p>MK – business knowledge in China</p> <ul style="list-style-type: none"> <li>purchasing market in China</li> </ul>   | <p>TK – general knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>the use of technology (rubber ball manufacturing) to develop their product</li> <li>the use of technology to develop their product</li> </ul>          | Direct experience in international sourcing, imitation of key foreign supplier |
| Firm I | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>know import rules and regulations of the local country (Malaysia) and exporting country (customs operations)</li> </ul>   | <p>MK – specific business knowledge in Thailand, Indonesia, Philippine, the USA, and Singapore</p> <ul style="list-style-type: none"> <li>culture of the Singapore, Thailand, Indonesia, Philippine, and the USA buyers</li> </ul>                          | Direct experience in international sourcing                                    |
|        | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>know import rules and regulations of the local country (Malaysia) and the exporting country (customs operations)</li> </ul>   | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>understand market issue which affect international sourcing</li> </ul>   | Direct experience in international sourcing                                    |
| Firm J | <p>IK – general knowledge of buying internationally</p> <ul style="list-style-type: none"> <li>know import rules and regulations of local country (Malaysia) and exporting country (customs operations)</li> </ul> <p>TK – specific knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>the use of R&amp;D (semiconductor product) to develop their product</li> </ul> <p>*prior knowledge of exporting</p> | <p>TK – specific knowledge of how to develop their product</p> <ul style="list-style-type: none"> <li>the use of R&amp;D (semiconductor product) to develop their product</li> </ul>  | Direct experience in international sourcing                                    |

MK – Market knowledge  
IK – Internationalization knowledge  
TK – Technological knowledge

### ***The possession of prior market knowledge***

Only Firm F possessed prior market knowledge of international sourcing. Before the purchase of physical products from this country, there was a need to know the requirement of the Chinese supplier which include the Minimum Quantity Order (MQO) or unless it is difficult to negotiate on the price. Firm F belonged to the Taiwanese before the Malaysian took over in 2007. The Taiwanese installed the technology from Taiwan for mould and machine. Later, Malaysian resumed the activities. Thus, they bought the spare parts and the raw materials mainly from Taiwan and China. It was costly to completely change the technology, and they already understood the foreign suppliers from and the purchasing markets of Taiwan and China.

### ***The possession of prior internationalization knowledge***

Most case firms which include Firm B, Firm I, and Firm J possessed prior internationalization knowledge in order to conduct international sourcing. They focused on general knowledge of buying internationally. Firm B stressed the need for prior internationalization knowledge of the assessment of foreign suppliers and product quality. The Managing Director of Firm B has previously worked with the Japanese multinational company under the International Procurement Office (IPO). She was accountable for managing the product quality inspection before she decided to establish her own company. On the other hand, Firm I and Firm J stressed the need for prior internationalization knowledge of the import rules and regulations particularly the customs operations.

### ***The acquisition of new market knowledge***

Firm F and Firm I acquired new market knowledge through the direct experience in international sourcing. As Firm F bought the products from China, they acquired specific business knowledge about the purchasing market as well as the export market in China. This is because they were not solely buying from the Chinese suppliers; the Chinese suppliers were also buying from them. They asked for the business opportunity to supply their product each and every time they bought from them. They had the advantage as the majority of their suppliers in China had contra business demand. For instance, Firm F required certain raw materials, and their suppliers needed the natural rubber. After

negotiations and agreement, they bought the raw materials from their supplier and exported the natural rubber to their supplier. Thus, they learned about the adjustments which were needed to buy from the Chinese supplier, and at the same time to sell to the Chinese supplier; negotiation process based on “guanxi” relationship. As Firm I directly met different foreign suppliers from different countries including Indonesia, Singapore, Thailand, Philippine, and the USA, they learned about the cultures of these foreign suppliers which could enhance cooperative behaviours between the firms and their suppliers due to a cultural understanding.

### ***The acquisition of new internationalization knowledge***

Firm B and Firm I acquired new internationalization knowledge through the direct experience in international sourcing. As Firm B bought the high-quality product for their major foreign buyer, they acquired internationalization knowledge. They learned about the international standard certifications including the material purchasing performance to be fulfilled successfully. In addition, as Firm B bought internationally during the falling of Ringgit Malaysia, they acquired internationalization knowledge of the qualification of COA from Malaysia, and the qualification as a local producer in Malaysia. Initially, the falling of the Malaysian currency affects the international sourcing of raw materials since they need to pay more for the same volume as compared to before. Thus, they bought the organic coffee beans from Indonesia but they were not sent directly to their factory. It was sent to a Malaysian company with the Japanese technology in Johor Bahru to be processed into the extraction powder form. They achieved 80% local purchase and qualified as a local producer in Malaysia, thus allowing them to receive the government incentive. Besides that, as Firm I was facing a palm oil bashing, they acquired internationalization knowledge of the effects of market issue. The market issue of palm oil bashing generated by the European Commission affects the international sourcing of palm oil resources. They learn on how to deal with the effects of the market issue by complying with the Roundtable on Sustainable Palm Oil (RSPO) rules and regulations.

### ***The acquisition of new technological knowledge***

New technological knowledge was acquired through the direct experience in international sourcing by Firm F and Firm J, and the imitation of key foreign suppliers by Firm F. Firm F bought machinery from China. The machine supplier was responsible for the installation and maintenance of the machinery which required them to come to the

factory. During the visits, they advised about the new technology to improve the manufacturing of rubber balls. Firm F installed the new technology based on recommendations, and learned about the improvement that they can make from that. They also learned about the new technology to develop the rubber balls through the imitation of key foreign suppliers.

Firm J purchased product samples for a product testing by its engineers. Prior to the purchase of the product samples, Firm J constantly enquired the foreign suppliers about their new products, and/or the foreign suppliers normally informed them about their new product. They discussed the new features which can be developed by Firm J. The engineers tested the functionality of the product, and the final product was manufactured by the external manufacturer.

***Relationship with key foreign supplier – exploitation of new knowledge***

Table 6.7 represents how firms exploited new knowledge through the relationship with key foreign suppliers.

| Firm   | Knowledge acquisition: content of new knowledge                  | Knowledge acquisition: sources of new knowledge                                | Knowledge exploitation: exploit process   | Knowledge exploitation: new capabilities                                     |
|--------|--|--|---|--|
| Firm B | IK – foreign entry mode  | Direct experience in international sourcing                                    | Discussion with foreign supplier – company’s visit  | Improved supply chain management – cost (IK)                                 |
| Firm F | MK – business knowledge  | Direct experience in international sourcing                                    | Discussion with foreign supplier – foreign supplier’s visit<br><br>Discussion with foreign supplier – company’s visit | Utilized buyer-supplier relationship – suppliers in China became buyers (MK) |
|        | TK – the use of technology (rubber ball manufacturing)           | Direct experience in international sourcing, imitation of key foreign supplier | Discussion with foreign supplier – foreign supplier’s visit<br><br>Discussion with foreign supplier – company’s visit | Improved existing product – new exterior design of basketball (TK)           |
| Firm I | MK – business knowledge  | Direct experience in international sourcing                                    | Discussion with foreign supplier – company’s visit<br><br>Joint decision making with foreign supplier                 | Greater knowledge of international supply market (IK)                        |
|        | IK – foreign entry mode  | Direct experience in international sourcing                                    | Discussion with foreign supplier – company’s visit<br><br>Joint decision making with foreign supplier                 | Greater knowledge of international supply market (IK)                        |
| Firm J | TK – the use of technology (semiconductor product manufacturing) | Direct experience in international sourcing                                    | Discussion with foreign supplier – foreign supplier’s visit   | Improved existing product – new function of semiconductor product (TK)       |

MK – Market knowledge

IK – Internationalization knowledge

TK – Technological knowledge

All case firms exploited new knowledge by learning from the key foreign buyers through discussions with key foreign suppliers. Firm F and Firm J conducted discussions during their foreign suppliers’ visits to their firms. On the other hand, Firm B, Firm F, and Firm I had discussions with their foreign suppliers during the firms’ visits to their foreign suppliers’ companies. However, Firm I also exploited new knowledge through a joint

decision making with their key foreign supplier. As Firm I collaborated with their foreign supplier to complete a project for production and sales, there was a need for a joint decision making between them.

Firm F acquired new market knowledge to develop a close cross-border buyer-supplier relationship, and to benefit from such development. Hence, they successfully expanded their sales in China. Firm I acquired new market and internationalization knowledge to develop greater knowledge of international supply market. In contrast, new internationalization knowledge was used to improve the management of supply chain through cost reduction by Firm B. International sourcing was viewed as a mean to access cost that contributes to firm's competitive advantage (Mentzer, 2001). Firm J was solely dependent on the acquisition of new technological knowledge to improve their existing product.

***Relationship with key foreign buyer – possession of prior knowledge and acquisition of new knowledge***

Table 6.8 represents how firms acquired new knowledge with the support from prior knowledge possessed by them.

| Firm   | Prior knowledge   | Knowledge acquisition: content of new knowledge  | Knowledge acquisition: sources of new knowledge |
|--------|---|--|---|
| Firm B | IK – general knowledge of how to deal with <ul style="list-style-type: none"> <li>• export marketing strategy (electronic commerce (e-commerce))</li> </ul>   | MK – business knowledge in the USA <ul style="list-style-type: none"> <li>• taste preference of coffee beverages in the USA</li> </ul>   | Direct experience in export                     |
| Firm F | MK – institutional knowledge of different countries <ul style="list-style-type: none"> <li>• different ethical standards, and national concern in different countries</li> </ul>  | MK – business knowledge in China <ul style="list-style-type: none"> <li>• culture of the China buyer, and the China competitor</li> </ul>  | Direct experience in export                     |
| Firm I | TK – specific knowledge of how to develop their product <ul style="list-style-type: none"> <li>• the use of product R&amp;D (collaboration with local university, and product R&amp;D groups) to develop their product</li> </ul> | MK – business knowledge in Japan <ul style="list-style-type: none"> <li>• colour preference of biodiesel of the Japan buyer</li> </ul> MK – institutional knowledge in Japan <ul style="list-style-type: none"> <li>• legal system in Japan</li> </ul> | Direct experience in export                     |
|        | TK – specific knowledge of how to develop their product <ul style="list-style-type: none"> <li>• the use of product R&amp;D (collaboration with local university, and product R&amp;D groups) to develop their product</li> </ul> | TK – specific knowledge of how to develop their product <ul style="list-style-type: none"> <li>• the use of technology (biomass manufacturing) to develop their product</li> </ul>   | Imitation of key foreign buyer                  |
| Firm J | IK – general knowledge of how to deal <ul style="list-style-type: none"> <li>• export rules and regulations of the local country (Malaysia) and the importing country (customs procedures)</li> </ul>                             | IK – general knowledge of how to deal <ul style="list-style-type: none"> <li>• export rules and regulations of the local country (Malaysia) and the importing country (customs procedures)</li> </ul>  | Direct experience in export                     |
|        | TK – specific knowledge of how to develop their product <ul style="list-style-type: none"> <li>• the use of R&amp;D (semiconductor product) to develop their product</li> </ul>   | MK – institutional knowledge in Iran <ul style="list-style-type: none"> <li>• rules and regulations in Iran</li> </ul>   | Direct experience in export                     |

MK – Market knowledge

IK – Internationalization knowledge

TK – Technological knowledge

### ***The possession of prior market knowledge***

Only Firm F possessed prior market knowledge in order to conduct export. They emphasized the need to know the ethical standards and the exercise of human rights which

were quite different to Malaysia. This was needed to compete with the Chinese suppliers as they were able to deliver a wide variety of products at lower price.

### ***The possession of prior internationalization knowledge***

Firm B and Firm J possessed prior internationalization knowledge in order to conduct export. Firm B emphasized the need to adopt e-commerce to reach the potential foreign buyer. On the other hand, Firm J emphasized the need to be familiar with export rules and regulations particularly customs operations.

### ***The possession of prior technological knowledge***

Firm I and Firm J possessed prior technological knowledge in order to conduct export. Firm I was equipped with the engineers that involved in the semiconductor product R&D development before. On the other hand, Firm I collaborated with local universities and R&D groups for developing a new product in alternative energy. They hired external expertise to do product testing. This is because they did not have laboratory for the product R&D, and only a small scale and simple testing area was available. It was very costly to buy the laboratory equipment and to hire the internal chemist.

### ***The acquisition of new market knowledge***

Through the relationship with key foreign buyer, market knowledge was the most frequent content of new knowledge acquired by case firms that started exporting before international sourcing. All case firms acquired new market knowledge through the direct experience in export. However, Firm B, Firm F, and Firm I acquired specific business knowledge about the foreign buyer. Firm B exported to the USA. Hence, they learn that the USA buyers were concerned with health, and some of them preferred organic products. This created the demand for organic coffee beans. Firm F did not only export to China; they also competed with the Chinese suppliers. Hence, they learn about the business operation which was influenced by the festive season celebrated by the Chinese buyers and Chinese competitors. They pointed out that it turned into an advantage when the Chinese competitors do not entertain small quantity orders, and most of them celebrate Chinese New Year for almost three months. Thus, they were tolerant of the Minimum Quantity Order (MQO) set for the foreign buyers and focused on the production of their products during the “absence” of the Chinese competitors. Firm I conducted the collaborative projects with the foreign buyers which involve follow-up (enquiry on product

improvement and proposal of product alternatives). Hence, they learned that the Japanese buyers prefer a lighter colour of biodiesel as compared to the Malaysian buyers who did not bother with the colour of biodiesel.

On the other hand, Firm I and J acquired specific institutional knowledge in the foreign country. As Firm I exported to Japan, they learned about the legal system in Japan. They have to change from the export of bioethanol to biodiesel since the Japanese government imposed a tax on bioethanol. The tax was charged from the early sales of bioethanol even though there was no tax imposed during that time. As Firm J exported to Iran, they learned about the rules and regulations in Iran. They were unable to export directly to Iran, and the exported products only reached the airport. The payment was made from Korea to Thailand, and from Thailand to Malaysia. Export to Iran was ceased after a year because Iran is an embargoed country.

#### ***The acquisition of new internationalization knowledge***

Only Firm J acquired internationalization knowledge from the direct experience in exporting. As Firm J exported highly-sensitive semiconductor products, they acquired internationalization knowledge of the export rules and regulations particularly customs operations. They learned to work out the export customs codes. They also learned to prepare the documentation for shipping and customs.

#### ***The acquisition of new technological knowledge***

Only Firm I acquired new technological knowledge from the imitation of a key foreign buyer. This was due to the learning effort by the Managing Director to learn about alternative energy. Through the collaboration in a project, they observed and imitated the technology for developing biomass

#### ***Relationship with key foreign buyer – exploitation of new knowledge***

Table 6.9 represents how firms exploited new knowledge through the relationship with key foreign buyer.

| Firm   | Knowledge acquisition: content of new knowledge    | Knowledge acquisition: sources of new knowledge | Knowledge exploitation: exploit process   | Knowledge exploitation: new capabilities  |
|--------|--|---|---|---|
| Firm B | MK – business knowledge                            | Direct experience in export                     | Discussion with foreign buyer – electronic mail   | Expansion in the USA (MK)   |
| Firm F | MK – business knowledge                            | Direct experience in export                     | Discussion with foreign buyer – company’s invitation<br><br>Discussion with foreign buyer – foreign buyer’s visit | Conducted a new strategy – customer’s demand (MK)                               |
| Firm I | MK – business knowledge, institutional knowledge   | Direct experience in export                     | Discussion with foreign buyer – foreign buyer’s visit   | Established a partnership with importer (MK)                                    |
|        | TK – the use of technology (biomass manufacturing) | Imitation of key foreign buyer                  | Discussion with foreign buyer – foreign buyer’s visit   | Directed focused to new product (TK)  |
| Firm J | MK – institutional knowledge                       | Direct experience in export                     | Discussion with foreign buyer – foreign buyer’s visit   | Conducted a new strategy – customer’s situation (MK)                            |
|        | IK – foreign entry mode                            | Direct experience in export                     | Discussion with foreign buyer – foreign buyer’s visit   | Improved import-export management processes – procedures and documentation (IK) |

MK – Market knowledge

IK – Internationalization knowledge

TK – Technological knowledge

All case firms exploited new knowledge by learning from their key foreign buyers through discussions with those key foreign buyers. Firm F, Firm I, and Firm J discussed during the foreign buyers’ visits to their firms. Instead of having face-to-face discussions, Firm B discussed with their key foreign buyer through e-mail. This was due to the distance between these companies’ locations. On the other hand, when Firm F were planning to participate the international expo or attend the on-site visits, they invited their key foreign buyer which was nearby the location of the international expo or on-site visits for a discussion at a specific location.

Firm B used new market knowledge to develop the capability to expand in the USA. Thus, they developed and exported customer-focused products. On the other hand, Firm F and Firm J used new market knowledge to develop a new strategy for exporting. This was based on customers' demands and situations. For instance, Firm F focused on the production of rubber balls when its Chinese competitors stopped their production due to a celebration. As there were many restrictions for export to Iran, Firm J was able to adjust the situation of its customers through a different conduct of export. On the other hand, Firm I used a new market knowledge to develop the relationship with its foreign buyer. As a result, they were capable of establishing a partnership with them. The acquisition of new market knowledge was supported by the acquisition of technological knowledge by Firm I, and internationalization knowledge by Firm J. As a result, Firm I shifted to alternative energy with first export to Japan. Previously, they focused on the supply of wood pallets, and timber products to the overseas market. Firm J were capable of dealing personally with export rules and regulations associated with highly-sensitive semiconductor products.

### **6.3.2 Connections of Inward and Outward Internationalization**

Table 6.10 shows how firms acquired, distributed, and exploited knowledge in order to connect between inward and outward internationalization.

| Firm   | Knowledge acquisition” kind of new knowledge                                | Knowledge acquisition: sources of new knowledge | Knowledge distribution: who acquired and needed knowledge?   | Knowledge distribution: sharing process  | Knowledge exploitation: new capability                     |
|--------|---|---|--|--|--|
| Firm B | Specific knowledge of product development for product manufacturing         | Direct experience – Managing Director           | Acquired: Managing Director<br><br>Needed: purchasing personnel, R&D personnel                         | Discussion chaired by Managing Director  | Developed new product – new formulation of health beverage |
| Firm F | Specific knowledge of new product development for new product manufacturing | Indirect experience – key foreign suppliers     | Acquired: Managing Director, purchasing personnel<br><br>Needed: production personnel, sales personnel | Attendance in international expo and on-site visits for international sourcing – when Managing Director came back, paperwork was submitted for a meeting, and result was conveyed to employees | Developed new product – new exterior design of rubber ball |

### ***Inward to outward internationalization***

Only Firm F was capable of connecting inward to outward internationalization through the knowledge process; knowledge acquisition, distribution, and exploitation. Its relationship with the key foreign supplier was essential for the firm to acquire technological knowledge relevant for outward internationalization through inter-firm knowledge sharing. The Managing Director and purchasing personnel who participated the international expo for international sourcing, and conducted the on-site visits, were responsible to prepare a paperwork and to submit it to the committee, and the results were conveyed to the employees who needed that information (production personnel and sales personnel). As a result, they were able to develop a new exterior design of rubber ball.

### ***Outward to inward internationalization***

Only Firm B was capable of connecting outward to inward internationalization through the knowledge process; knowledge acquisition, distribution, and exploitation. The medium of knowledge sharing between the Managing Director, the R&D personnel, and the purchasing personnel was a discussion chaired by the Managing Director. This enabled technological knowledge to be shared internally and exploited for the new formulation of health beverages.

## **6.4 Cross-Case Patterns**

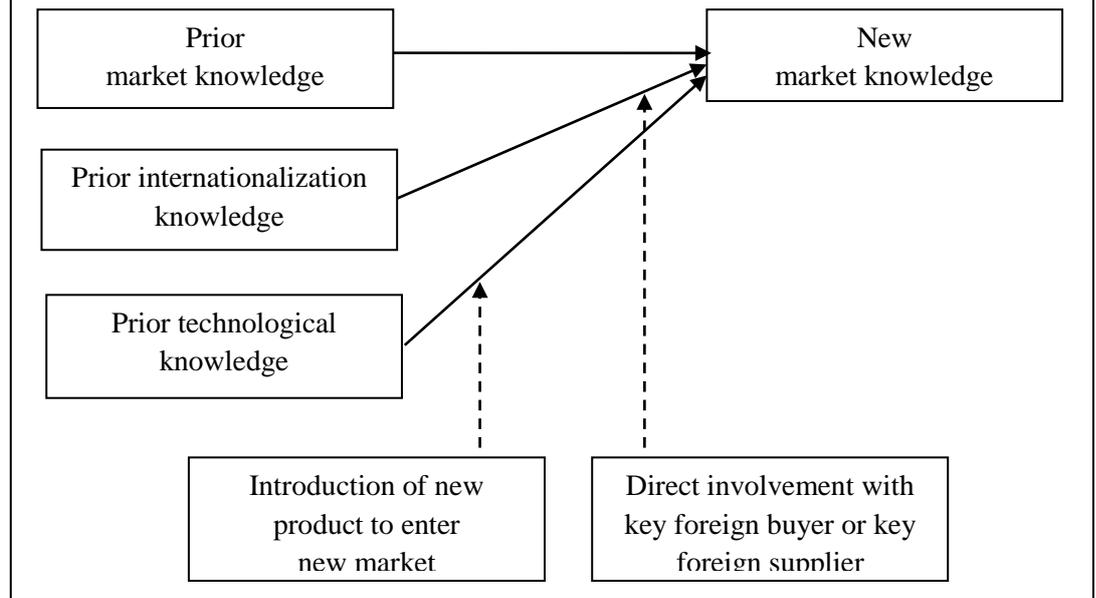
This section presents cross-case patterns which explain the relationships between 1) prior knowledge and new knowledge, 2) network embeddedness and imitative behaviour, and 3) cross-border buyer-supplier relationship and inward-outward internationalization connection.

### **6.4.1 Prior Knowledge, Learning through Direct Experience, and Learning from Imitation**

#### ***Relevant prior knowledge, learning through direct experience in international sourcing and export, and acquisition of new internal knowledge***

Relevant prior knowledge entails the awareness of knowledge possessed by the organization, as well as where and how it is used (Lane et al., 2006). The possession of prior knowledge influences firm's learning through the direct experience in international sourcing (Naldi and Zahra, 2007) and export. In other words, it facilitates the acquisition of new knowledge through the direct experience in international sourcing and export. This research supported the importance of relevant prior knowledge for the acquisition of new internal knowledge. However, it can be affected by several factors.

Figure 6.1: Relevant prior knowledge, and new market knowledge through direct experience in international sourcing and exporting



Firm D and Firm F possessed prior market knowledge of Chinese suppliers and the purchasing market in China, and consequently acquired new market knowledge of the purchasing market of price-competitive products in China. Firm F even had the opportunities to acquire new market knowledge of the export market in China as some of its foreign suppliers also became its foreign buyers. This is consistent with Naldi and Zahra (2007) who proposed that international sourcing offers firms with the opportunities to broaden their market knowledge only when they possess prior knowledge resources which include prior market knowledge. However, this research found that the need for prior market knowledge to conduct international sourcing to acquire new market knowledge of international sourcing was evident in the situation where case firms had high intensity of international sourcing in China instead of other countries. Based on the findings, other case firms were not concerned with the need for prior market knowledge to conduct international sourcing to acquire new market knowledge of international sourcing because they were not buying from China or were depending on other countries for international sourcing. Considering that Firm D and Firm F largely purchased physical products from China, prior market knowledge was useful for penetrating and exploiting the purchasing market in China (Nassimbeni and Sartor, 2007). Adequate market knowledge, and insertion into the local relational system in China are fundamental. This helps firms to manage the Chinese culture, and the relational networks (“guanxi”) (Nassimbeni and Sartor, 2007) as they deal with the Chinese supplier. “Guanxi” refers to a type of

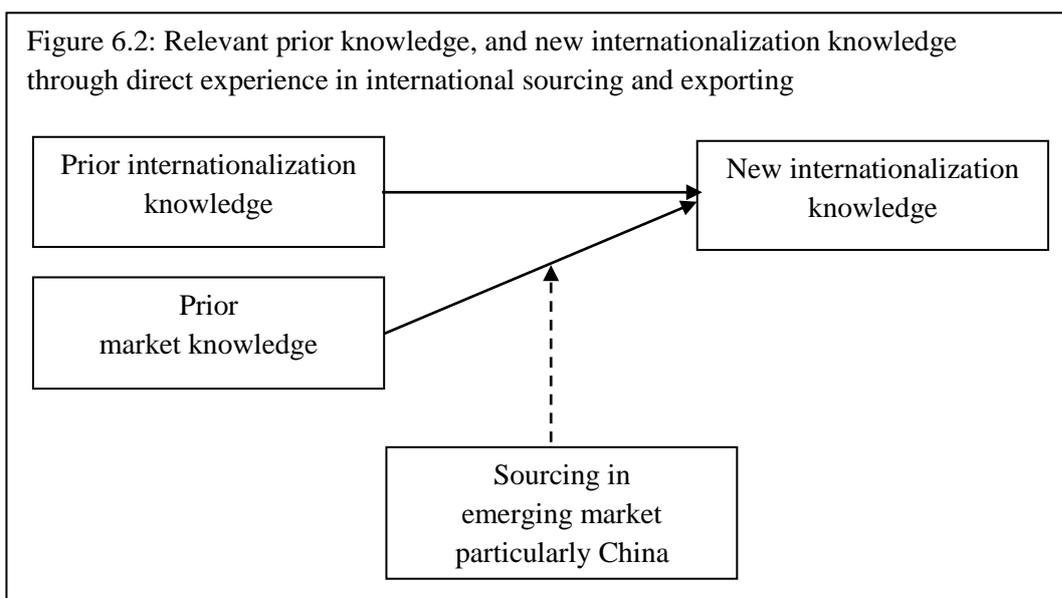
interpersonal relationship in the Chinese society which characterized by reciprocal help, and exchange of favours (Nassimbeni and Sartor, 2007).

However, most case firms which include Firm A, Firm B, Firm C, Firm G, Firm H, Firm I, and Firm J. acquired new market knowledge from conducting export but did not possess prior market knowledge of exporting. This is consistent with Naldi and Zahra (2007) who proposed that prior knowledge resources which include prior market knowledge did not moderate the relationship between export and the acquisition of new market knowledge. Nevertheless, Firm F was against this proposition. Before Firm F successfully exported to China, they were exposed to this market.

Hence, Figure 6.1 shows that the acquisition of new market knowledge does not only depends on the possession of prior market knowledge, it can be generated from the possession of prior internationalization or technological knowledge. Though Naldi and Zahra (2007) associated the possession of prior market knowledge with the acquisition of new market knowledge of international sourcing, it was found that Firm I acquired new market knowledge of the foreign suppliers in Indonesia, Singapore, Thailand, Philippine, and the USA, even though prior market knowledge of international sourcing was not possessed. This can be explained by direct involvement of case firms with key foreign suppliers which promoted the acquisition of new market knowledge with the absence of prior market knowledge (Naldi and Zahra, 2007). This was confirmed by Firm I which commented that “We usually do direct contacts with foreign suppliers because some of the products are very technical so we have to get a clear explanation from the producers... By meeting them directly and discussing further on important matters, we have learned about the behaviours of these suppliers and how they make deals with international buyers. This helps in future business transactions.” Similarly, even though prior market knowledge of exporting was not possessed, Firm C and Firm G acquired specific business knowledge about their foreign buyers, and Firm H acquired specific institutional knowledge about the foreign country. This can be explained by the direct involvement of case firms with key foreign buyers (Naldi and Zahra, 2007). They directly contacted the key foreign buyers without the use of intermediaries. Therefore, this research found that without prior market knowledge, prior internationalization knowledge supports the acquisition of new market knowledge by case firms. The possession of prior internationalization knowledge generates

the confidence to conduct international sourcing and export (Rexha and Miyamoto, 2000; Jones and Casulli, 2013), thus offering the potential of acquiring new market knowledge.

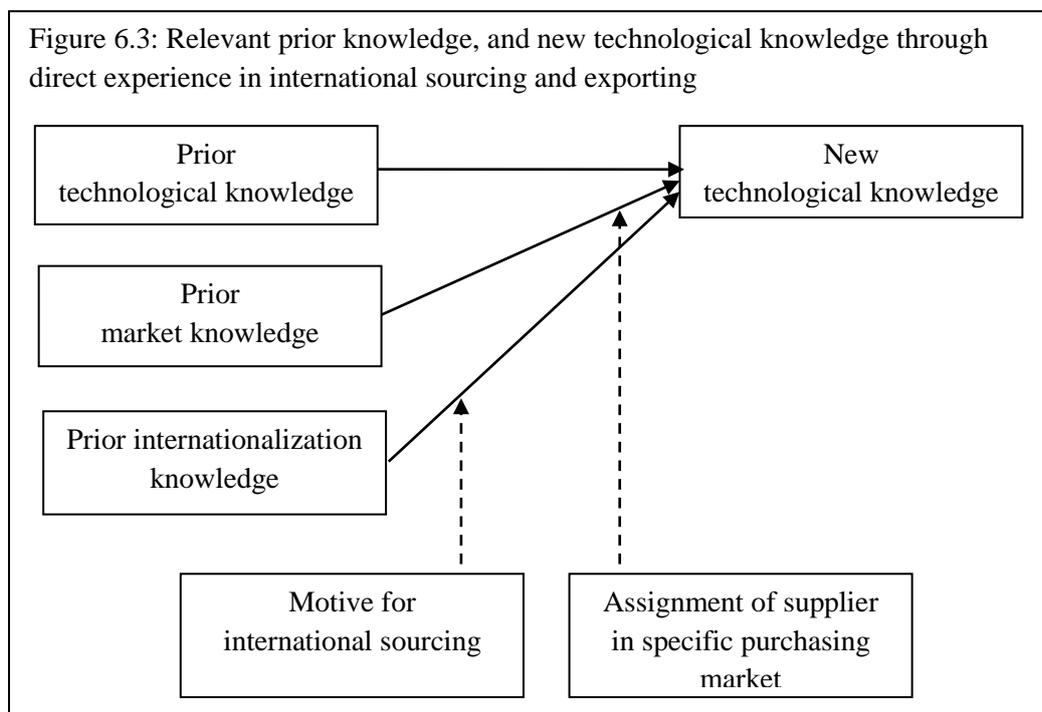
Additionally, this research found that new market knowledge can be derived from prior technological knowledge. This was exemplified by Firm A, Firm I, and Firm J that utilized prior technological knowledge to introduce new products in new foreign markets. As a result, they acquired new market knowledge. According to Firm A, “We have the experts in leather manufacturing. We were trying to expand our business, they were responsible to train other employees... To enter the Middle Eastern countries, we have to introduce a new product that would suit their requirements. Leather, components, everything is essential.”. According to Firm I “I make an effort to collaborate with the universities, the R&D groups on alternative energy when I came back from Japan... There were so many crises that we have to face, and I was forced to be adaptive. The latest, based on our expertise, I focused on biomass to enter the new market.”. According to Firm J, “We are a group of Malaysian engineers with extensive experience in developing semiconductor chips... We got an opportunity to enter the Iranian market, we designed customized smart card chips for certain requirements through innovative technologies. As we exported to Iran, the situation was totally different. We have to adjust our export. For example, how we delivered our products and how we received payment. This is because Iran is an embargoed country.”



Prior internationalization knowledge is not prepared for new internationalization challenges (Fletcher et al., 2013). The acquisition of new internationalization knowledge transformed the focus of international sourcing from a reactive to a proactive nature in order to achieve a competitive advantage (Monczka and Trent, 1991; Rexha and Miyamoto, 2000). Thus, Firm B, Firm C, Firm E, Firm G, and Firm I possessed prior internationalization knowledge of international sourcing, thus acquiring new internationalization knowledge of international sourcing to intensify the strategies for international sourcing (Wach, 2014). Case firms strengthened their relationships with key foreign suppliers, and increased the exploitation of purchasing market in terms of cost, quality, and the satisfaction of customer requirement (Monczka and Trent, 1991). Similarly, Firm A, Firm C, Firm D, Firm G, and Firm J possessed prior internationalization knowledge of exporting, thus acquiring new internationalization knowledge of exporting to intensify the strategies for export (Wach, 2014). Case firms expanded the international sales in existing and new foreign markets.

Figure 6.2 shows that instead of prior internationalization knowledge, prior market knowledge can lead to the acquisition of new internationalization knowledge when entering an emerging market particularly in China. It was found that Firm D and Firm F were only dependent on prior market knowledge of international sourcing to acquire new market knowledge of international sourcing. Noting that China is an emerging market, prior internationalization knowledge was less useful (Meyer and Gelbuda, 2006; Sandberg, 2013), and prior market knowledge was necessary to enter the Chinese market (Sandberg, 2013). Internationalization knowledge was accumulated from scratch at the early entrance (Meyer and Gelbuda, 2006; Sandberg, 2013). Previous studies acknowledged the importance of prior market knowledge, and the accumulation of new internationalization knowledge when entering emerging markets based on the setting of outward internationalization. This research extends that the relationship between prior market knowledge and new internationalization knowledge when entering the emerging markets was also applicable in the context of international sourcing. According to Firm D, “We knew where we can find the best supplier in China, we attended CANTON Fair... Over time, sourcing in China depicts our learning curve. For the first time, we used Bank of China, Then, we learned about the use of a money exchanger”. According to Firm F, “They only entertained large amount of orders. We must note that. But we already established connections with some suppliers there... During Chinese New Year, they will

stop for three months. From that, we will struggle. When we struggle, we learn to plan within three, six months.”. They were needed to adapt to a local context, and to develop new ways of doing international businesses (Meyer and Gelbuda, 2006).



Firm H initiated the product R&D for appropriate specific ingredients and raw materials of mayonnaise to be purchased competitively. As they possessed the knowledge of technological development in the associated field, this enabled the recognition of new technological knowledge (Cohen and Levinthal, 1990). This has been supported by Naldi and Zahra (2007) who proposed that prior knowledge resources which include prior technological knowledge to moderate the relationship between international sourcing, and the acquisition of new technological knowledge. Besides that, even though Firm A and Firm J did not possess prior technological knowledge of international sourcing, they alternatively possessed prior technological knowledge of exporting. This provides the basis for Firm A to learn about the development of military and safety shoes, and for Firm J to outsource the development of new semiconductor products to the foreign manufacturers, through the direct experience in international sourcing.

Figure 6.3 shows that the acquisition of new technological knowledge did not only depend on the possession of prior technological knowledge, it can be generated from the possession of prior market and internationalization knowledge. Firm F and Firm G did not

possess prior technological knowledge of both international sourcing and export. Yet Firm F learned to develop their rubber ball product, and Firm G relied on the foreign manufacturer for the latest development of boat engine. Initially, Firm F was dependent on the possession of prior market knowledge. They indicated that, “We are familiar with Taiwanese and Chinese markets... We are looking for suppliers that can supply the machine, the technology for us to develop the surface of our rubber ball.”. Initially, Firm G was dependent on the possession of prior internationalization knowledge. They indicated that they “...are required to know, to follow the latest trend in the market. For example, the latest product and the latest technology in the marine industry. This year, we need certain models of engine, new technology, from direct injection to electronic injection, from mechanical to computerized system. Our new engine is completely electronic which you cannot access to rectify the job without having some diagnosis and software. We can get this from our principal (supplier)”. Both case firms demonstrated that the decision for international sourcing was driven by the need for firm’s technology advancement (Dantas et. al., 2012). Most studies acknowledged that the motivations and advantages of international sourcing includes the access to worldwide technologies (Nassimbeni, 2006). Firm F added that “They come to our place to set up everything. They mentioned “previously, this company used this technology.” They advised us which one is better. So, from that, we can learn on the improvement, the benefits from the installation, from the technology on the product development. So, from that, we can grow together with them.”. This exemplifies that they were exposed to technological learning as they established a business relationship with their foreign suppliers in order to acquire new technology. Thus, with international sourcing used as innovation and learning-based strategy (Jaklič et. al., 2012), it enabled the recognition of new technological knowledge (Cohen and Levinthal, 1990; Jaklič et. al., 2012).

### ***Relevant prior knowledge, learning from imitation, and acquisition of external knowledge***

The learning literature including the absorptive capacity of firms demonstrates that prior knowledge influences the assessment of firms on the value of external knowledge (Cohen and Levinthal, 1990; Lane et. al., 2006). Prior knowledge enables firms to engage in learning by imitating key foreign suppliers and key foreign buyers (Cohen and Levinthal, 1990; Naldi and Zahra, 2007). As mentioned earlier, even though Firm A did not possess prior technological knowledge of international sourcing, they alternatively

possessed prior technological knowledge of export. This prior technological knowledge enabled the firm to imitate its key foreign supplier on the technology to manufacture military boots. In the context of international sourcing, Firm H developed its own product R&D activities to find the specific ingredients and raw materials of mayonnaise. This prior technological knowledge enabled the firm to imitate its key foreign supplier on the technology to manufacture mayonnaise product. Besides that, Firm E had experience in the foreign supplier's evaluation, which enabled the firm to critically observe its key foreign supplier, and selectively imitate the export marketing strategy through the development of technical catalogue. In the context of export, Firm I collaborated with local universities and R&D groups on alternative energy. This prior technological knowledge allowed them to collaborate with its key foreign buyer, and enabled them to imitate the foreign buyer on the technology to manufacture biomass. Besides that, Firm A had experience in comparing and developing a competitive price for exporting, and Firm E had experience in the international logistics for exporting; which enabled them to imitate the internal management processes of key foreign buyers.

***Learning through imitation as substitute for prior knowledge, and learning through direct experience***

Fernhaber et al. (2009) argued that contrary to the arguments of absorptive capacity, the external sources of internationalization knowledge (alliance partners, venture capital firms, and proximal firms) compensated for the lower level of internal sources of internationalization knowledge (prior international experience of firm's top management team). Schwen and Kabst (2009) also argued that the imitation of best practices as substitutes for the lack of experience by the firms. As the low level of internal knowledge were found to benefit from external knowledge (Fernhaber et. al., 2009; Schwen and Kabst, 2009), and technological knowledge can be spilled over (Audretsch and Feldman, 1996; Feinberg and Gupta, 2004; Fernhaber et. al., 2009), this research extends that the external source of technological knowledge (the imitation of key foreign suppliers) also compensated for the low level of internal source of technological knowledge (prior technological knowledge of international sourcing, and new technological knowledge through direct experience in international sourcing). Firms typically lack sufficient internal R&D to acquire new technological knowledge, and this requires them to rely on the network partners (Jean et al., 2017). Thus, imitation provides a mean to overcome the constraint of resources (Schwen and Kabst, 2009). Based on the findings, prior

technological knowledge was not possessed internally, and new technological knowledge was not acquired directly by Firm D. This was compensated by Firm D through imitating the latest product development of key foreign supplier. It was observed that they were determined to explore the opportunities of acquiring new technological knowledge through the cross-border buyer-supplier relationship (Fernhaber et al., 2009) through imitation (Bruneel et al., 2006; 2010). According to Firm D., “We rely on the suppliers in China to get new products. We take charge, we go there, we observe. We imitate their ideas and products to offer rental services to local customers”.

Referring to this and earlier section, it can be concluded that there are two conditions which allow firms to acquire external knowledge by imitating their key foreign suppliers and/or key foreign buyers. This includes the possession of relevant prior knowledge by the firms which enable external knowledge to be identified and acquired (Lane et al., 2006), and the lack of internal knowledge (prior knowledge, and new knowledge from the direct experience in international sourcing) by firm which motivated on the use of external network for strategic direction (Fernhaber et al., 2009).

#### **6.4.2 The Embeddedness of Network and Interorganizational Imitation**

There is rich evidence that the embeddedness of network affects the behaviours of firms (Forsgren, 2016). As network ties are conduits of information transmission, they provide firms with trusted information that can affect the organizational behaviours (Kenis and Oerlemans, 2008), and such information leads to the imitation of practices (Henisz & Delios, 2001). However, the IP theory did not explain how firms learned through the imitation of network partners in the networked environments (Forsgren, 2002).

A common distinction of network embeddedness is often between structural and relational embeddedness (Dacin et al., 1999; Forsgren, 2016). Structural embeddedness highlights the advantages which can be derived by firms from their position in a business network (Forsgren, 2016). Drawing insights from the neo-institutional theory, Fernhaber and Li (2010) investigated the inter-organizational imitation of firm associated with the inter-nationalization process of firm. The neoinstitutional theory emphasizes the embeddedness of organizational fields, and the centralization of external resources (DiMaggio and Powell, 1983). Thus, firms tend to model themselves after similar firms such as competitors in their field that are perceived to be more legitimate or successful

(DiMaggio and Powell, 1983; Fernhaber and Li, 2010). Recent studies by Oehme and Bort (2015) proposed that network embeddedness and network position are not only related to the availability of knowledge and resources as suggested by the RBV of firms, but also to the discretion of firms' imitative behaviours. However, central network positions that are associated with enhanced legitimacy, and superior information access may promote deviating behaviour of imitation (Oehme and Bort, 2015). On the other hand, relational embeddedness deals with the exchange of information in dyadic and close relationship (Gulati, 1998; Forsgren, 2016). It can generate unique information on the capabilities, and reliability of other actors in the network (Kenis and Oerlemans, 2008). Thus, this research found that close relationships with key foreign suppliers enabled case firms to closely imitate their key foreign suppliers (Gulati, 1998).

While the imitation of key foreign buyers was based on the tendency of case firms to imitate firms with best practices, the imitation of key foreign suppliers was derived from the development of close relationships with key foreign suppliers. The earlier circumstance was supported by Firm A, and Firm E, case firms that were able to imitate their key foreign buyers, and acquired internationalization knowledge, as well as Firm I, case firms that were able to imitate their key foreign buyers, and acquired technological knowledge. According to Firm A, "I like the Japanese. There were many things we can learn from them. We expose our staff as much as possible to their system and procedures. We copy some of their system and procedures that best suit our operation. Their decision making is fast. They have their own information system. We copy that". Firm I also exported to Japan, and benefited from the Japanese buyers. They demonstrated that "I learn about the technology to manufacture bioethanol from the Japanese for the first time. We learn through discussions and observations. We imitated and improvised the technology". Gunawan and Rose (2014) proposed that the Japanese buyer emphasizes smooth linkages between buyers and suppliers that may help to facilitate learning. On the other hand, Firm E benefited from its key foreign buyers from several countries. They demonstrated that "We have three major international customers; Taylor Walton, Schmidt + Clemens, and Upeka. They are big companies with excellent performance in international businesses. For me, by working personally with these international customers, one of the things that I am trying to imitate is the authoritativeness of sales and purchasing operations... We follow the best practices from the best companies. Maybe we can be the best as well."

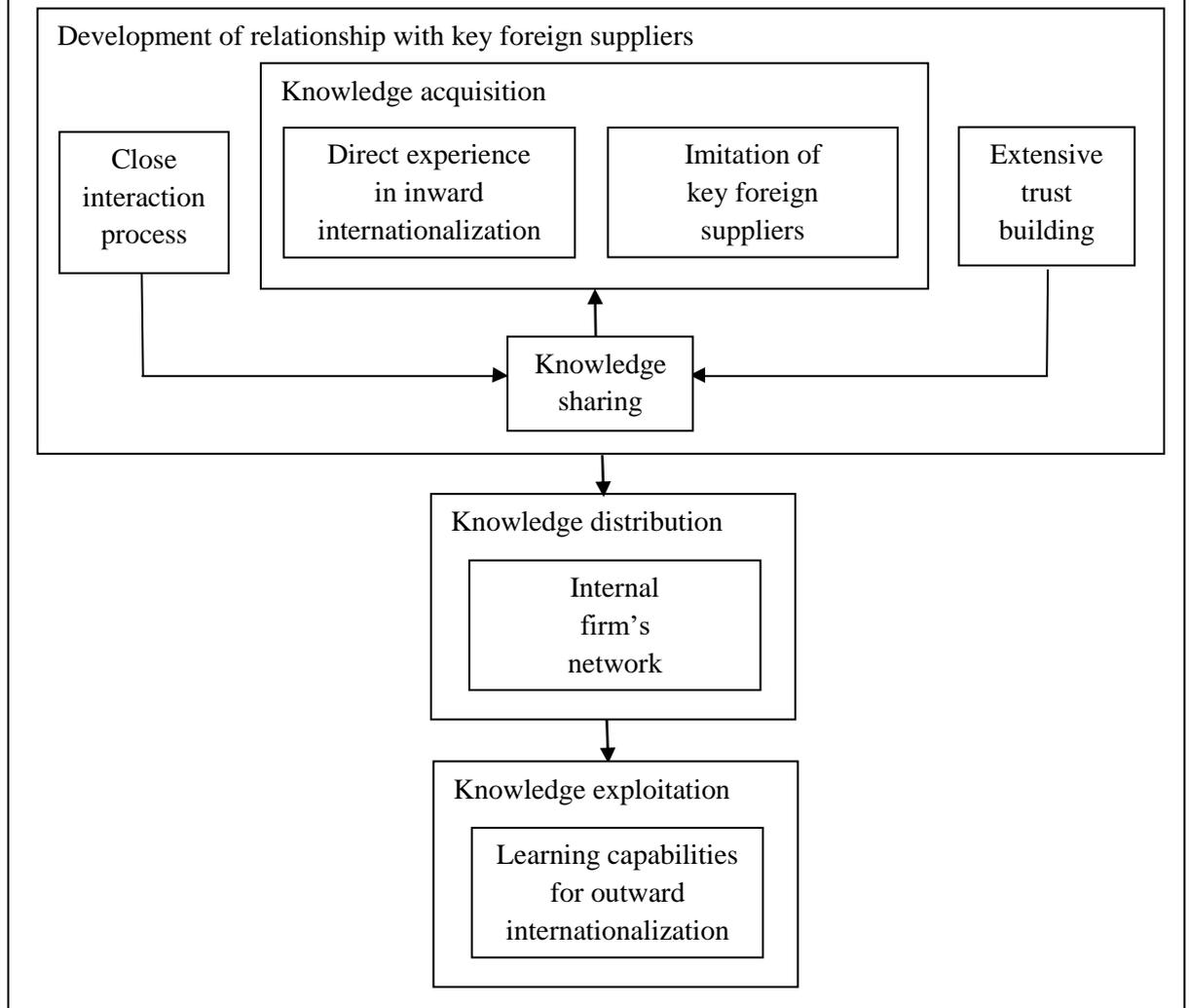
In contrast, the latter circumstance was supported by Firm E, case firm that was capable to imitate its key foreign supplier, and acquired internationalization knowledge, as well as Firm A, Firm D, Firm F, and Firm H, case firms that were able to imitate their key foreign suppliers, and acquired technological knowledge. Firm E engaged in close relationship with its key foreign supplier, thus imitating the adoption of export marketing strategy of the key foreign supplier. According to Firm E, “we visited them or I would say we have to develop a strong relationship with the foreign supplier. First, to receive financial supports such as back-to-back payment or a transferrable letter of credit. Second, to learn from them. We imitated the technical catalogue that they have established. It becomes part of our marketing strategy for overseas market”. On the other hand, Firm A, Firm F, and Firm H engaged in close relationships with their key foreign suppliers, thus imitating the technology of the key foreign suppliers. According to Firm A “We have a very good term with our key suppliers. They either visit us, or we visit them for discussion. They are not our competitors, we are able to visit their factories. We can visit the suppliers, we can visit the factories, we can see how they operate, and follow their technology,” According to Firm F, “we have been together for many years. I frequently travel to China for business trips. At the same time, my travels have given me the opportunity to see their new idea, technology. I do not like the word; imitate. We actually follow their idea, technology to use glow-in-the-dark for our rubber ball products”. According to Firm H “They invited us for a plant visit, and I realized it is important to get to know your suppliers well. Many things can be shared. I can observe the technology they use for manufacturing. I did mention earlier that their technology is advanced so we need to be more creative to do a bit of modification. We don’t copy everything. We make an observation which can reduce our cost”. On the other hand, Firm D engaged in a close relationship with its key foreign supplier, thus imitating the new product development by key foreign supplier. According to Firm D, “First, we need to create a relationship. Not with the representative but with the owner of the factory. When we create a relationship, we make an effort to visit them, they make an effort for us. Treat us for lunch, treat us for dinner, right? So, the creation of our relationship means the creation of a good relationship. So, we can imitate their showroom. We are doing the same products. They have factories, every factory has a showroom, they have many products. Talking about showrooms, we copy their layouts, we copy their products. We took pictures, and they were totally fine with that”. Therefore, even though Firm A, Firm D, Firm E, Firm F, and Firm H differed in the specific contexts of knowledge that they were able to imitate, it can be concluded

that close relationships with key foreign suppliers are significant to enable the imitation of key foreign suppliers. Actors that share direct connections are likely to possess comparable information and knowledge, which can lead to a shared understanding, which would consequently lead to an imitative behaviour (Kenis and Oerlemans, 2008). Distant observations of the behaviours of others can establish weak causal inferences for effective actions (Kim and Miner, 2007; Bingham and Davis, 2012), and resulting in incomplete and even inaccurate understandings (Bingham and Davis, 2012). Close interactions help to reduce ambiguities by providing a framework to interpret relevant information from imitations (Staber, 2010).

#### **6.4.3 The Development of Cross-Border Buyer-Supplier Relationship and the Connections of Inward-Outward Internationalization**

Previous studies acknowledged the development of internal firm's network for knowledge transfer between inward and outward internationalization to occur within the organization (Karlsen et al., 2003) thus enable knowledge exploitation as knowledge from inward internationalization can be used for outward internationalization, and knowledge from outward internationalization can be used for inward internationalization (Hernández and Nieto, 2016). However, it was found that the development of cross-border buyer-supplier relationships through the interaction process, and the trust building between buyer and supplier (Johanson and Vahlne, 2006; 2009) also affect the connection of inward-outward internationalization by firms. The literature acknowledged the importance of cross-border buyer-supplier relationship on the connection of inward-outward internationalization (Welch and Luostarinen, 1993) but does not address how to develop cross-border buyer-supplier relationships in order to link between inward and outward internationalization (cf. Hernández and Nieto, 2016). According to Nonaka and Toyama (2002), the creation of knowledge within a context and a collection of routines facilitate the creation of additional knowledge. Buyer-supplier relationships tend to be contextualized and contain consistent patterns of communication which make them effective at structuring knowledge transfer (Gunawan and Rose, 2014).

Figure 6.4: Integrated approach of learning processes associated with inward to outward internationalization connections



It was found that case firms that were capable of connecting inward to outward internationalization employed the integrated approach of learning process as shown in Figure 6.4. They were involved in a close interaction process, and extensive trust building for the development of relationship with key foreign supplier which enabled knowledge sharing. This also enabled relevant knowledge from inward internationalization to be distributed and exploited for conducting outward internationalization.

Table 6.11: Interaction process, trust building, knowledge sharing, and knowledge acquisition from key foreign suppliers

| Firm   | Interaction process  | Trust building  | Knowledge sharing   |
|--------|--|---|---|
| Firm A | <p>“They have scheduled visits. When they come here, R&amp;D team, production team, and purchasing team will join together, we will <b>discuss</b> as a group. We also make our own initiative. For instance, when we are planning to expanding into a new line of product, we need to buy a machine. It is a big machine, it cost about one million Ringgit. So, we invite them to our company for a presentation, a <b>discussion</b>. R&amp;D team, production team, and purchasing team will need to attend... We are buying from China. When we come to China, we visit their factories.”</p> | <p>“We constantly work like a partnership. You are a supplier, we appoint you as a supplier, you become a partner to us. Some of our suppliers have been with us for 20, 30 years. In fact, 40 years also exist. For instance, when we buy a particular machine, it will last about 20 years. If they give good after-sales services, the machine is doing a good manufacturing job, and nobody can compete, we continue with them. This is because that is the best. We want spare parts, they give spare parts. They send the technicians to help us with the machine. We <b>trust</b> them, we continue with them.</p> | <p>“The foreign suppliers provided us information on pricing strategy. This was used by our sales team to set pricing strategy to enter overseas market and to bid international tender. By having a close rapport with the foreign supplier, we also gained knowledge of a marketing strategy that we copied for our export.”</p> <p>“They gave us all the technical information because we are their customer. So, we took advantage of it including the technical report. It was incorporated into our footwear to be exported.”</p> |
| Firm D | <p>“Although we have representatives in China, once in three or four months, we go there. We meet the representatives, the suppliers, and <b>discuss</b> the quality improvement. We meet them formally by visiting their showroom and factory. We also meet them informally by going out together for lunch or dinner. Many things related to personal and business can be <b>discussed</b>.”</p>   | <p>“We will not gain the <b>trust</b> if we do not create a good relationship.”</p>   | <p>“The supplier shared with us how we can market this serving dome to the USA. We needed to cater to their requirements. This is a niche product. We normally export to Singapore, Brunei, and Indonesia. But luckily this time, it works.”</p>  |
| Firm E | <p>“There were many times, we need to work exclusively with suppliers for a particular project. <b>Discussions</b> were conducted to make sure the customer’s requirements can be achieved. So, we are using, utilizing supplier’s products,</p>   | <p>“We want to establish a relationship with Valbruna so we buy from them even though their price is 30% higher. Besides that, why we only buy stainless steel plates from Acerinox? One thing, it is not easy to penetrate into the supplier network. It is not like you</p>   | <p>“We are expert in logistic. But we are open to advise from supplier regarding logistic. Our international purchasing activities are very much related to international logistics. From this knowledge, we are able to export.”</p>   |

|        |   |   |  |
|--------|---|---|--|
|        | knowledge to bid a project.”  | have money, you can buy, they will sell. They want to see who you are, whether you can handle this business. We need to get their <b>trust</b> .”                             |  |
| Firm F | “When we meet them, we <b>discuss</b> questions like “why do not we do like this in business?”. We <b>talk</b> about our family, future businesses. This is because everybody becomes old. So, what can we do for our son, in terms of business? We can <b>interact</b> like this because we are close as a family. So, it is easy for us to <b>communicate</b> with them when we are facing urgent problems or anything that needs their assistance.”  | “We treat our supplier as our friend sometimes as a family. This is one of our ways to gain their <b>trust</b> . That is why some of our suppliers become our customers.”     | “They discuss with us the latest product technology. For example, glow in the dark. We used this kind of surface to compete in the international market”   |
| Firm H | “We normally <b>discuss</b> with suppliers. We frequently <b>discuss</b> the new product development. I told them I want to introduce a new product, they proposed certain ingredients. We work on finding the right ingredients together. This is about the raw materials suppliers. If you are talking about the machine supplier, it is the same thing. We <b>discuss</b> the use of machines, and the enhancement of system especially when we encounter the problem with product quality.” | “We have been with them for several years. We <b>believe</b> that they can provide sufficient information for our product R&D, and supply the raw materials with no problem.” | “They shared about the inputs that can support our product development. As I mentioned earlier, some ingredients are not available for certain flavours. We are working hard to fulfil the export demand.” |

The interaction process with specific counterparts in ongoing business activities in the foreign market allows problems to be managed, new ideas to be created, and new knowledge to be gained (Johanson and Vahlne, 1990; Holm et al., 1996; Eriksson et al., 2000). Strong ties indicate a tight interaction between firms and it is costly to be maintained (Sharma and Blomstermo, 2003). A context for interaction is provided by structures, systems, and procedures (Crossan et al., 1999). The more repeatedly such context is communicated (for instance, in meetings or other interactions), the greater understanding can be obtained about each other’s resources (Gunawan and Rose, 2014).

Referring to Table 6.11, Firm F relied on informal interactions through informal meetings. However, the interactions were not confined to the personal matters, the business opportunities were also discussed further. On the other hand, Firm E and Firm H relied on formal interactions. It was established on the basis of developing new products by Firm A and Firm H, and conducting new projects by Firm E. A teamwork with foreign suppliers was required because of the complexity of technology (Shao and Darkow, 2007). In contrast, Firm D integrated formal and informal interactions. After formal on-site visits to showrooms and factories, an informal meeting was arranged. On the other hand, firms trust each other as they commit further in the cross-border buyer-supplier relationships (Johanson and Vahlne, 2009). Trust persuades firms to share information and promotes the building of joint expectations (Madhok, 1995; Johanson and Vahlne, 2009). Referring to Table 6.13, Firm D and Firm E that were involved in trading were keen to create trust with key foreign suppliers. On the other hand, Firm A, Firm F, and Firm H were open to the process of trust building initiated by their key foreign suppliers because it benefited them as buyers.

As firms realized the value of cross-border buyer-supplier relationships to acquire new knowledge, and identify new opportunities, they prefer not to be isolated from such relationships (Agndal, and Chetty, 2007), thus developing the relationships with key foreign suppliers which enable the development of new knowledge (Johansson and Vahlne, 2009). Interaction plays a role in the creation of new knowledge (Johanson and Vahlne, 2006), and "...develops an increasing knowledge of the possibilities for action and the ways in which action can be taken..." (Penrose 1959). Trust is an important element for successful learning, and the development of new knowledge (Johanson and Vahlne, 2009). The interaction process provides better access to and the understanding of key foreign suppliers' operations, and more effective means of communication with key foreign suppliers (Yli-Renko et al., 2001). A close interaction process between buyer and supplier enhances trust through mutual awareness (Gulati, 1995). Trust-building is important for the elimination of unnecessary self-guarding mechanisms by firm to facilitate relationship learning (Liu, 2012). Thus, it was found that case firms that were not capable of connecting inward to outward internationalization did not incorporate a large effort for the development of relationship with key foreign suppliers. Table 6.12 shows the development of relationship with key foreign suppliers through the interaction process.

| Table 6.12: Interaction process, and knowledge acquisition from key foreign suppliers |  |
|---|--|
| Firm  | Interaction Process  |
| Firm B  | “For purchasing, I prefer not to spend money to see them. They come here to see us for business opportunities. We normally <b>communicate</b> through e-mails.”  |
| Firm C  | “We prefer direct contact but we only able to use a agent. But they are helpful. We always <b>discuss</b> with them. For example, we want to export, they help us in terms of raw materials. However, we just <b>communicate</b> through emails. “   |
| Firm G  | “The principal only comes to our premise to evaluate our performance. It is quite difficult to get direct access unless you are buying in large quantities. So normally, they are all done through agents in Singapore. They come here to visit us, and we also go there to visit them. We <b>exchange information</b> through <b>discussions</b> . However, it is not often.”   |
| Firm I  | “We visit the factories of suppliers. We can clearly see how the product is being produced. So, we <b>discuss</b> the manufacturing process. We advise on the process that can be skipped, cost reduction. We <b>interact</b> with them to make sure they follow the instructions.”  |
| Firm J  | “10 years back, we had to spend on visits. But now it is changing, everything is on the internet. The engineers are responsible to select our supplier because they are knowledgeable in technology. Then, we <b>communicate</b> with them. We visit them to make sure their existence and capability. But usually, our supplier will come to see us, and <b>discuss</b> the new product that can be incorporated to our product.” |

Close cross-border buyer-supplier relationships are not necessary for all business relationships between focal firms and key foreign suppliers (Hakansson, 1982). However, this research found that without close relationship with key foreign suppliers, it restricts case firms from connecting inward to outward internationalization.

## 6.5 Conclusion

This chapter presents the findings of the cross-case analysis. It represents the learning processes involved in international sourcing and exporting by case firms. This was explained by the acquisition and exploitation of new knowledge from direct experience in international sourcing and export as well as imitation of key foreign suppliers and key foreign buyers, by the focal firms. This chapter also represents the learning processes involved in connecting international sourcing and exporting by case firms. This was explained by the acquisition, distribution, and exploitation of relevant knowledge, by the focal firms. Case firms that started international sourcing before exporting tend to rely on the imitation of key foreign suppliers to develop technological capabilities. The findings elicit that close relationship with key foreign suppliers influenced the imitation of key foreign suppliers, and the connections of inward to outward internationalization to be established. Collaborative knowledge sharing with key foreign suppliers offered relevant knowledge to be acquired by case firms. However, knowledge distribution through tacit-

tacit and tacit-explicit knowledge sharing underpinned by formal planning was also essential for the connections of inward and outward internationalization to be developed.

## Chapter Seven

### Conclusions

#### 7.1 Introduction

This research aims to investigate the learning processes associated with international sourcing and exporting, and the connection between these international operations which are developed by the internationalizing SMEs through the cross-border buyer-supplier relationships. Hence, a research framework was developed by combining the theories of international businesses and organizational learning associated with cross-border buyer-supplier relationships. By investigating the relationship between cross-border buyer-supplier relationships, internationalization, and organizational learning, this chapter intends to extend the existing literature which allows deep insights to be uncovered. This chapter also addresses three specific research objectives;

- To investigate the development of learning processes through direct experience in international sourcing and the imitation of key foreign suppliers
- To investigate the development of learning processes through direct experience in export, and the imitation of key foreign buyers
- To investigate the development of learning processes from the connections between inward and outward internationalization in terms of knowledge acquisition, knowledge distribution, and knowledge exploitation

The research implications on the literature, management, and public policy, the research contributions, as well as the research limitations were presented. This was followed by the recommendations for future research.

#### 7.2 The Development of Learning Processes Associated with International Sourcing and Exporting

This research has examined the learning processes associated with international sourcing and exporting by the internationalizing firms in the context of prior knowledge and new knowledge. Based on the international business literature, market and internationalization knowledge have been acknowledged by the IP theory (Johanson and Vahlne, 1977; 1990; 2009). On the other hand, technological knowledge has been addressed by the INVs theory (Zahra et al., 2000). These international business theories were only concerned with the study of prior knowledge and new

knowledge associated with outward internationalization (Johanson and Vahlne, 1977; 1990; 2009; Zahra et al., 2000). Thus, this research contributes to the international business literature by examining prior knowledge and new knowledge associated with outward internationalization as well as inward internationalization. Considering both international operations: international sourcing and export as firms may internationalize via inward and outward operations (Hernández and Nieto; 2016), this research proposes that market knowledge comprises of 1) specific business knowledge of foreign suppliers, foreign buyers, foreign competitors, the purchasing market, or the export market as well as 2) specific institutional knowledge of exporting countries or importing countries (Eriksson et al., 2000). In contrast, internationalization knowledge comprises of 1) general knowledge of how to conduct international sourcing or export as well as 2) general knowledge of internal management processes (Eriksson et al., 2000). On the other hand, technological knowledge refers to specific knowledge of how to develop products through the development of R&D, the use of technology, or the use of foreign suppliers.

### **7.2.1 Prior Knowledge of International Sourcing and Exporting**

This research acknowledges the importance of prior knowledge to conduct international sourcing and export (Oviatt and McDougall, 1994; McDougall et al, 1994) for the acquisition of new knowledge (Cohen and Levinthal, 1990; Autio et al., 2000; Zahra and George, 2002), but most importantly it extends that the unavailability of specific prior knowledge can be supported by the availability of other prior knowledge due to several conditions, in order to acquire specific new knowledge. Previous studies have disregarded the importance of SMEs' prior knowledge in the acquisition of new knowledge from the foreign markets (Naldi and Zahra, 2007), but this research promotes that the SMEs should be able to assess and utilize their prior knowledge for learning through direct experience in international sourcing and export, as well as learning through imitation of key foreign supplier and key foreign buyer. In basis, the fundamental argument of IP theory refers to the new flows of knowledge that are related to the existing stock of knowledge through firm's current strategies (Madhok 1977; Johanson and Vahlne, 1977; 1990; Eriksson et al., 2000). The existing stock of knowledge and the operating environment of firm limits and directs firm's evolution (Eriksson et al., 2000). Thus, Sapienza et al. (2006) argued that the history of firms' business actions surpasses the relevance of individual's prior knowledge. On the other

hand, the INVs theory establishes that INVs are formed by entrepreneurs with the experience in international market, and the possession of prior knowledge (Oviatt and McDougall, 1994; McDougall et al, 1994) which alert the founders to the international opportunities and new knowledge being easier to be noticed as they are in control (McDougall et. al., 1994; Zahra, 2005). The possession of prior knowledge is described as critical for a decision to internationalize (McDougall et al, 1994; Sapienza et al., 2006). This research found that at least prior internationalization knowledge (foreign entry mode; international sourcing) was possessed by most case firms to conduct international sourcing. This research also found that at least prior internationalization knowledge (foreign entry mode; export) was possessed by most case firms to conduct export. Some case firms did not possess prior internationalization knowledge of international sourcing but they either possessed prior market knowledge or prior technological knowledge. Similarly, some case firms did not possess prior internationalization knowledge of exporting but they either possessed prior market knowledge or prior technological knowledge. This shows the importance of prior knowledge to conduct international sourcing and export. It provides the foundation for acquiring new knowledge (Cohen and Levinthal, 1990; Autio et al., 2000; Zahra and George, 2002). The compatibility between prior knowledge and new knowledge may influence the kind of new knowledge acquired by firms (Casillas et al., 2009). This compatibility depends on the degree to which new knowledge 1) confirms the initial expectations relating to the opportunities of international expansion, 2) adds uncontradictory information to prior knowledge, and 3) identifies the nature of information – the properties, the quantity, quality, and reliability, as well as the gap of information (Casillas et al., 2009). Therefore, it can be observed that prior market knowledge of international sourcing enabled the acquisition of new market knowledge, and prior internationalization knowledge of international sourcing enabled the acquisition of new internationalization knowledge (Casillas et al., 2009). However, this research proposes that the acquisition of new market knowledge can be supported by prior internationalization knowledge of international sourcing. This was due to the direct involvement with key foreign supplier without the use of intermediaries. This research also proposes that the acquisition of internationalization knowledge can be supported by prior market knowledge of international sourcing. This is because the sourcing in emerging market particularly China was concerned with the possession of prior market knowledge, and the accumulation of internationalization knowledge over

time. While the previous literature found this occurrence (the exploitation of prior market knowledge, and the gathering of new internationalization knowledge) in the context of exporting in China (Meyer and Gelbuda, 2006; Sandberg, 2013), this research found this condition in the context of international sourcing in China. Acknowledging the connection between international sourcing and export, Firm A and Firm H possessed prior technological knowledge of exporting, thus acquiring new technological knowledge through the direct experience in international sourcing. However, this research proposes that the acquisition of new technological knowledge can be supported by prior internationalization knowledge of international sourcing. This was due to the motive of international sourcing by a firm; technology advancement. In the context of exporting, it can be observed that prior market knowledge of exporting also enabled the acquisition of new market knowledge, and prior internationalization knowledge of exporting enabled the acquisition of new internationalization knowledge (Casillas et al., 2009). However, this research proposes that the acquisition of new market knowledge can be supported by prior internationalization and technological knowledge of exporting. The dependency on prior internationalization knowledge of exporting was due to the direct involvement with key foreign buyers without the use of intermediaries. The dependency on prior technological knowledge of exporting was due to the introduction of a new product in a new market.

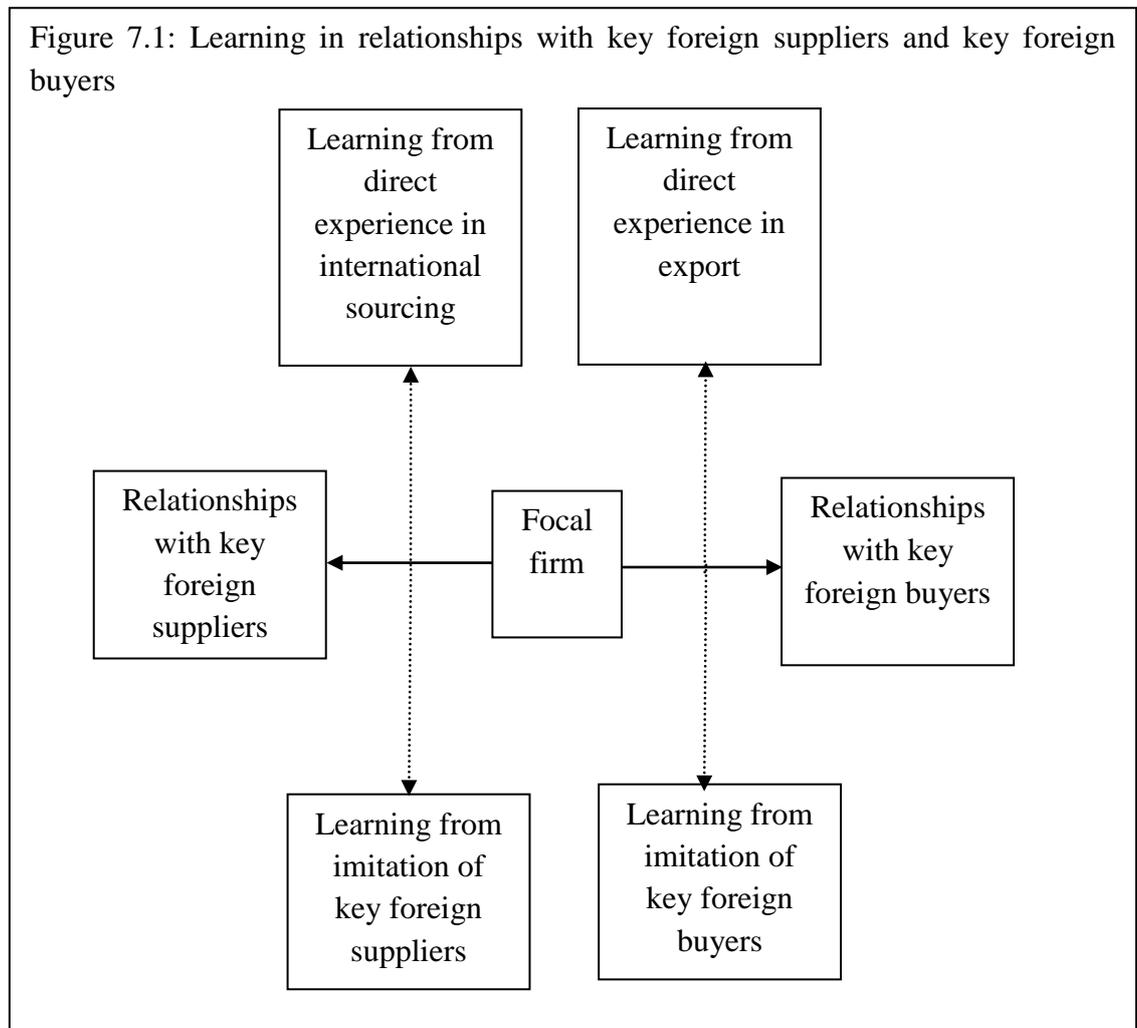
### **7.2.2 Learning in Relationships with Key Foreign Suppliers and Key Foreign Buyers**

As the IP theory concerns with the development of cross-border buyer-supplier relationship but focuses on the development of experiential learning (Johanson and Vahlne, 2009), this research contributes to the IP theory by acknowledging both sources of learning; learning through direct experience as well as learning through imitation, when case firms engaged in cross-border buyer-supplier relationship as they involved in international sourcing and export. In basis, organizational learning theory argues that firms can learn from their own experience, as well as the experience of others through imitation (Levitt and March, 1988; Huber 1991). However, the IP theory was criticized for dealing exclusively with learning through direct experience and neglecting to learn from imitation (Forsgren, 2002). Recently, the IP theory recognized the potential of learning generated from the cross-border buyer-supplier relationships

(Johanson and Vahlne, 2009). However, learning through direct experience has been maintained as a basic mechanism to explain the learning process associated with the development of cross-border buyer-supplier relationships (Johanson and Vahlne, 2009). The relationships with key foreign suppliers and key foreign buyers trigger joint activities and allow interactions which contributed to the acquisition of new experiential knowledge by focal firms (Johanson and Vahlne, 2009; Fuerst and Zettinig, 2015). The IP theory also recognized that learning through direct experience can be complemented with other ways of knowledge development (Johanson and Vahlne, 2009), without reference to specific learning. Therefore, this research extends that learning through direct experience can be accompanied by learning from imitation. The combination of learning through the direct experience in international sourcing, and learning from the imitation of key foreign suppliers to acquire new technological knowledge resulted in a new product development. Alternatively, the combination of learning through the direct experience in export, and learning from the imitation of key foreign buyers to acquire new internationalization knowledge resulted in the improvement of internal management processes – export production. Learning from the imitation of key foreign suppliers and key foreign buyers entailed the interactions between the focal firms and key foreign suppliers, as well as the focal firms and key foreign buyers. This is opposed to Staber (2010) who proclaimed that imitation can occur without interaction between the imitator and the target firm for imitation. Besides that, the imitation of key foreign supplier was driven by firm's close relationship with key foreign supplier. The imitation of key foreign buyer was not driven by firm's close relationship with key foreign buyer but firm's high tendency to imitate key foreign buyer with best practices.

Considering the potential of learning through direct experience, and learning from imitation by interacting with key foreign suppliers and key foreign buyers, Figure 7.1 shows the leaning processes associated with the relationship with key foreign suppliers and key foreign buyers. This research proposes that as firms interact with key foreign suppliers during international sourcing, and interacts with key foreign buyers during exporting, cross-border buyer-supplier relationships provide the foundation for learning through the direct experience in international sourcing and export, as well as learning from the imitation of key foreign suppliers and key foreign buyers.

Figure 7.1: Learning in relationships with key foreign suppliers and key foreign buyers



The acquisition of new market, internationalization, and technological knowledge through the direct experience in international sourcing and exporting as well as the imitation of key foreign suppliers and key foreign buyers is discussed further in the following sections.

***Direct experience in international sourcing and export, imitation of key foreign supplier and key foreign buyer, and acquisition of new market knowledge***

Johanson and Vahlne (1977; 1990) proposed that a firm can reduce its perceived uncertainty about the foreign market by acquiring market knowledge through the direct experience with internationalization. In contrast, Forsgren (2002) proposed that a firm can reduce its perceived uncertainty about the foreign market by imitating other firms without the need to wait its own market knowledge has achieved the required level. This research supports the stand of IP theory on the importance of learning through direct experience to acquire market knowledge. It was found that none

of the case firms acquired market knowledge through the imitation of key foreign suppliers or key foreign buyers. They were dependent on the direct experience with international sourcing and export to acquire market knowledge. The process of observing and imitating key foreign suppliers and key foreign buyers was not conducive to the acquisition of market knowledge (Naldi and Zahra, 2007).

The IP theory confirms that the involvement in export enables the acquisition of market knowledge (Johanson and Vahlne, 1977; 1990). The involvement in international sourcing which involves smaller investments and fewer risks also offers an alternative for acquiring market knowledge (Karlsen et. al., 2003). This explains the geographic expansion of a specific purchasing market. Beforehand, there is no framework available to explain how and why firms select the purchasing market over time (Agndal, 2006), and this research contributes to the literature on international sourcing from the perspectives of knowledge and learning by proposing a research framework that enlighten the development of international sourcing in terms of knowledge acquisition and knowledge exploitation by case firms. The acquisition of market knowledge made firms more confident to conduct international sourcing in a specific purchasing market (Quintens et al., 2005) particularly China as they were capable of establishing strong beneficial relationship with key foreign supplier thus increased the volume of international sourcing for the cost advantage.

***Direct experience in international sourcing and export, imitation of key foreign supplier and key foreign buyer, and acquisition of new internationalization knowledge***

Eriksson et. al. (1977) proposed that internationalization knowledge constitutes firm's particular way of going international. Several studies exemplified the importance of the different aspect of internationalization knowledge which encompasses several kinds of experience including foreign market entry (Sapienza et. al., 2006; Johanson and Vahlne, 2009). Firms learn on their own way to achieve foreign market entry when enter similar territories and internationalization knowledge relating to foreign market entry is needed when they enter a new country or use an alternative foreign market entry (Fletcher et. al., 2013). On the other hand, internal management processes enable the top managers to control, manage, and steer firm's international operations. This research extends the idea of Eriksson et. al. (1997) and adapts the idea of Fletcher et. al.

(2013), thus proposing that internationalization knowledge can be specific to internationalization process, and it is transferrable in the purchasing market as well as the export market of different countries. This refers to the internationalization specific knowledge (foreign market entry) (Fletcher et. al., 2013) through international purchase and sales operations. Internationalization knowledge also can be general to internationalization process, and applicable to the domestic market as well as the overseas market. This refers to internationalization general knowledge (internal management structure) (Fletcher et. al., 2013) for international purchase and sales operations.

The IP theory was criticized for neglecting the importance of accumulating internationalization knowledge (Johanson and Vahlne, 2009; Forsgren, 2002). This was revisited by Johanson and Vahlne (2009), and they supported that internationalization knowledge is more important than what they assumed back in 1977. It is suggested that internationalization knowledge can function as a driving force to take actions which are new to firms (Forsgren, 2002). This requires double-loop learning (Argyris and Schon, 1978; March, 1991; Fletcher, 2009). In support of revised IP theory, this research proposes that case firms were concerned with acquiring new internationalization specific knowledge (foreign entry mode) through the direct experience in international sourcing and export in order to pursue firms' current international operations (Fletcher et. al., 2013); international sourcing and export.

New internationalization knowledge was also acquired from the imitation of key foreign suppliers and key foreign buyers. It is not easy to imitate internationalization knowledge embedded in organizational routines, practices, and cultures (Camisón and Villar-López, 2010), but this research found that it can be achieved through the interactions between the focal firms and key foreign suppliers and key foreign buyers. This research contributes to the literature on internationalization associated with network embeddedness and imitative learning by proposing that closer relationships with key foreign suppliers enhanced the opportunity for focal firms to imitate key foreign suppliers, in order to reduce the negative effects of dependency on key foreign supplier. Alternatively, as firms attempted to learn the behaviour of key foreign buyers to secure their business relationships, they imitated the key foreign

suppliers with best practices. This is because firms have a natural tendency to imitate those who are successful in the foreign market (Gajda, 2015).

***Direct experience in international sourcing and export, imitation of key foreign supplier and key foreign buyer, and acquisition of new technological knowledge***

The IP theory also neglects the importance of acquiring technological knowledge by firms (Johanson and Vahlne, 1977; 1990). This has been covered empirically by the INVs theory which suggests that as firms expand to the foreign market, they acquire new technological knowledge (Zahra et. al., 2000). It is commonly acquired through the direct experience in internationalization (Buckley, 1997; Naldi, 2007) but this research proposes that this was more likely to occur in the setting of international sourcing. Most case firms which include Firm A, Firm F, Firm G, Firm H, and Firm J acquired new technological knowledge through the direct experience in international sourcing.

New technological knowledge was also acquired from the imitation of key foreign suppliers and key foreign buyers. This research supports the view of absorptive capacity and organizational learning that new technological knowledge can be acquired from external sources (Cohen and Levinthal, 1990; Huber 1991) which include key foreign suppliers and key foreign buyers (Johanson and Vahlne, 2009; Fletcher and Harris, 2012) through an imitation (Forsgren, 2002). Firms are exposed to different sources of innovation which empower them to observe more opportunities for technological development through international entry (Fernhaber and Li, 2010). As firms prefer to conduct business with network partners with technology that is understandable or learnable (Autio et. al., 2000), this research contributes to the literature on internationalization associated with network embeddedness and imitative learning by proposing that closer relationships with key foreign suppliers empowered the firms to acquire new technological knowledge through the imitation of key foreign suppliers, for reducing the negative effects of dependency on key foreign supplier. On the other hand, there is a high tendency of case firms to imitate key foreign buyers with best practices, thus enabling the acquisition of new technological knowledge through the imitation of key foreign buyers.

### ***Exploitation of new knowledge***

The outcomes of exploitation include new goods, systems, processes, knowledge, or organizational forms (Spender, 1996). However, firms are not able to exploit new knowledge without acquiring it at the beginning (Zahra and George, 2002). Through export, the acquisition of new market knowledge was associated with the expansion of the export market, the development of a new strategy based on the demand of foreign buyers, and the development of relationships with key foreign buyers. Through international sourcing, the acquisition of new market knowledge was associated with the development of relationships with key foreign suppliers. On the other hand, the exploitation of internationalization specific knowledge (foreign market entry) resulted in the improved strategy of import-export activities and the exploitation of internationalization general knowledge (internal management process) resulted in the improved management of import-export activities. By focusing on acquiring new technological knowledge through the direct experience with international sourcing, Firm F developed a new exterior design for its rubber ball products, Firm G offered new services in the domestic market, and Firm J developed a new function of semiconductor products. By focusing on acquiring new technological knowledge through the imitation of key foreign buyers, Firm I shifted from the manufacturing of bioethanol to biodiesel for the export market. Currently, they are focusing on the manufacturing of biomass. Nonetheless, the acquisition of new technological knowledge through both sources of new knowledge (direct experience in international sourcing and imitation of key foreign suppliers) allowed Firm A, Firm F, and Firm H to imitate some aspects of technological knowledge which cannot be acquired through the direct experience of international sourcing for a new product development.

### **7.3 The Development of Learning Processes Associated with Inward-Outward Internationalization Connections**

This research has examined the learning processes associated with the connections of international sourcing and exporting by the internationalizing firms in the context of knowledge processes including knowledge acquisition, distribution, and exploitation. The IP theory treats internationalization either from the perspective of outward internationalization or the perspective of inward internationalization alone (cf. Johanson and Vahlne, 2009). This ignores the holistic approach to internationalization process (Fletcher, 2001), and this research contributes to the IP theory by examining

both inward and outward internationalization, and proposing that cross-border buyer-supplier relationship that is crucial for learning capabilities, commitment building, and internationalization process (Johanson and Vahlne 2009), can be utilized for the establishment of inward-outward internationalization connections by a firm through collaborative knowledge sharing. Inward and outward internationalisation is expected to be connected in various ways (Agndal, 2006) which include the access of relevant knowledge through inward to outward internationalization, and from outward to inward internationalization (Jones, 1999; Karlsen et. al., 2003; Hernández and Nieto 2016). However, the limited literature on inward-outward internationalization connections was only concerned with the study of knowledge acquisition and knowledge exploitation (Karlsen et al., 2003), but neglecting the study of knowledge distribution especially the mechanism of this process, which has been uncovered by this research

### **7.3.1 Knowledge Acquisition**

Previous studies highlight the acquisition of market knowledge through the connection of inward and outward internationalization (Welch and Luostarinen, 1993; Karlsen et. al., 2003; Grosse and Fonseca, 2012; Hessels, and Parker, 2013; Hernández and Nieto, 2016). Contrasting to previous studies, none of the case firms acquired market knowledge through inward internationalization to support the development of outward internationalization, as well as from outward internationalization to support the development of inward internationalization. This can be explained by the acquisition of new market knowledge from international sourcing that was treated exclusively for international sourcing by the employees who are involved in international sourcing, and the acquisition of new market knowledge from export that was treated exclusively for exporting by the employees who are involved in export. Besides that, there is a limited evidence on the acquisition of internationalization knowledge through inward internationalization which can be integrated into outward internationalization (Welch and Luostarinen, 1993; Karlsen et al., 2003). This refers to the techniques of foreign trading, the characteristics of foreign operations, and the ways of using different operation modes; which assist firms to be in a better position to conduct outward internationalization (Welch and Luostarinen, 1993; Karlsen et. al., 2003; Schaumburg-Müller and Chuong, 2010). Thus, this research proposes that internationalization specific knowledge (foreign market entry) which includes pricing and marketing strategies, and internationalization general knowledge (internal management process)

which includes international logistics; were acquired by conducting international sourcing, and were found useful to conduct export. Besides that, internationalization specific knowledge (foreign market entry) which includes methods of product quality assessment, and methods of negotiation; were acquired by conducting export, and were found useful to conduct international sourcing. Besides that, inward internationalization provides access to technological knowledge (Naldi and Zahra, 2007) which is useful to perform export (Meyer and Gelbuda, 2006; Hernández and Nieto, 2016). This was supported by Firm A and Firm H that acquired technological knowledge through international sourcing, and it was used to develop new products for the export market. Only recently, it is projected that outward internationalization provides access to technological knowledge which is useful to perform international sourcing (Hernández and Nieto, 2016). This includes the information on the technological capabilities of other firms, the technical solutions to customers' needs and problems, and the inputs which are not available locally (Hernández and Nieto, 2016). However, this research only supports the latter kind of knowledge acquired from outward internationalization, but useful for inward internationalization. For instance, Firm B learned about how to manufacture new products from export; which required the inputs that were not available locally (Hernández and Nieto, 2016). This supported Firm B in the selection of raw materials from overseas which adjusted to fulfil the requirement of a new product development for the export market.

Previous studies recognized the acquisition of knowledge emerging from the connection of inward and outward internationalization (Karlsen et al., 2003; Hernández and Nieto, 2016) but the enabler of this process is absent. Therefore, this research contributes to the limited literature of inward-outward internationalization connections by proposing that close relationships with key foreign suppliers enabled collaborative knowledge sharing to be established by case firms, thus enabled the acquisition of internationalization and technological knowledge through inward internationalization to be integrated into outward internationalization. Not all kind of knowledge share the same potential to generate a competitive advantage (Hernández and Nieto, 2016), hence key foreign supplier provided internationalization and technological knowledge through joint project, formal discussion, and formal meeting, in order to ensure that relevant knowledge can be acquired by the employees who are involved in international sourcing, which can be distributed to the employees who are involved in export.

### **7.3.2 Knowledge Distribution**

From the perspective of business network, it is natural to assume that there is a connection between international sourcing and exporting indicating that knowledge can be transferred from one activity to another (Holmund et. al., 2007). International sourcing activities such as the participation in an international expo, the assessment of alternative suppliers and prices, the negotiation with foreign suppliers, the negotiation on foreign operation modes, and the learning on foreign trade techniques can often be readily improvised to a similar demand by exporting (Korhonen, 1996). Nevertheless, this research recognized the importance of knowledge distribution to ensure those who are involved in inward internationalization but acquired relevant knowledge for developing outward internationalization, and those who are involved in outward internationalization but acquired relevant knowledge for developing inward internationalization can reach those who need the knowledge they just acquired. Recent studies addressed the need for fine-grained analysis of mechanisms used for sharing knowledge within the firm (Hernández and Nieto, 2016). Therefore, this research contributes to the limited literature of inward-outward internationalization connections by proposing that the conversions of tacit to tacit knowledge, and tacit to explicit knowledge through formal planning for knowledge sharing are fundamental for the establishment of inward-outward internationalization connections.

### **7.3.3 Knowledge Exploitation**

By connecting inward to outward internationalization through the acquisition of relevant knowledge through inward internationalization, and the distribution of needed knowledge for outward internationalization, the empowerment of marketing strategy by Firm A and Firm D, and the empowerment of pricing strategy by Firm A were reflected in new export operation. By connecting outward to inward internationalization through the acquisition of relevant knowledge through outward internationalization, and the distribution of needed knowledge for inward internationalization, Firm A was able to conduct various methods of product quality assessment which they were not familiar before, and Firm E was able to manage international logistics of imported products in more intricate situations. This is consistent with Karlsen et. al. (2003) who proposed that the benefits from the connections between inward and outward internationalization to create organizational knowledge; also include the improved quality (performance) in new operation. Besides that, the acquisition of technological knowledge through

international sourcing was exploited by Firm A and Firm H to develop new products to be exported. This is consistent with Meyer and Gelbuda (2006) who proposed that with imported components and machinery, and knowledge transfer; the manufacturing of new products for the export market can be achieved. In addition to that, the acquisition of technological knowledge through export was used to conduct international sourcing (Hernández and Nieto, 2016), and exploited further for developing a new product by Firm B.

#### **7.3.4 Organizational Learning**

The perceptions of organizational learning referring to learning to increase awareness of potential alternatives, and learning to increase effectiveness (Huber, 1991) are different in the context of organizational behaviour (Forsgren, 2002). The searching approach expands the possible alternatives through information acquisition and processing and detects useful and new alternatives; and the other approach explores the existing alternatives (Forsgren, 2015). The IP theory neglects the first approach (Johanson and Vahlne, 1977; 1990), and concerns with acquiring market knowledge which requires single-loop learning, and drives exploitative behaviour (Argyris and Schon, 1978; March, 1991). Internationalization knowledge tends to increase new alternatives, in contrast to market knowledge (Forsgren, 2002). This requires double-loop learning, and drives explorative behaviour to take actions that are new to firms (Argyris and Schon, 1978; March, 1991; Forsgren, 2002).

International sourcing is part of searching by firm for low-cost inputs, for products or technology that are not available locally, or to serve others' needs relating to the supply chain management processes (Groose and Fonseca, 2012). Consequently, when firms learn from international sourcing, this leads to further operation of export, based on knowledge gained from international sourcing (Grosse and Fonseca, 2012). Recent research by Grosse and Fonseca (2012) suggested that learning through international sourcing which extends or precedes with learning through exporting provides an evidence of double-loop learning but it is rather inconclusive (Groose and Fonseca, 2012). This research upholds this idea (Grosse and Fonseca, 2012), and proposes that the acquisition of internationalization specific knowledge (foreign entry mode; export) from international sourcing was essential to enter new export market, and the acquisition of technological knowledge through international sourcing was

essential to enter existing or new export market with new product, which cannot be explained clearly by Grosse and Fonseca (2012). For instance, Firm A strategically used internationalization knowledge associated with pricing and marketing strategies acquired from international sourcing in order to enter Maldives. Firm D also strategically used internationalization knowledge associated with marketing strategy acquired from international sourcing in order to enter the USA. In order to enter an existing or new export market with a new product, Firm A used technological knowledge acquired from international sourcing to expand in existing export market (Middle Eastern countries) by introducing military boots with new functions. Similarly, Firm H used technological knowledge acquired from international sourcing to expand in a new market (Brunei) by introducing mayonnaise products with new flavours.

#### **7.4 Implications of the Research**

This section presents the implications of research for the literature, the management, as well as the public policy.

##### **7.4.1 Implications for the Literature**

The main findings were synthesized and discussed based on the research framework as shown in Figure 7.2 to highlight the implications for the literature.

##### ***Inward internationalization by focal firm – prior knowledge of international sourcing, acquisition and exploitation of new knowledge through direct experience in international sourcing and imitation of key foreign suppliers***

- Case firms that started international sourcing before exporting were more likely to rely on the direct experience in international sourcing, and the imitation of key foreign suppliers to develop technological capabilities (for instance, new product development) as compared to the direct experience in export, and the imitation of key foreign buyers.
- Without prior market knowledge, the acquisition of new market knowledge through the direct experience in international sourcing can be supported by prior internationalization knowledge (foreign entry mode; international sourcing). This was driven by firm's direct involvement with key foreign supplier; without the use of intermediaries.

- The sourcing in the emerging market particularly China posed the need for prior market knowledge as compared to prior internationalization knowledge. Prior market knowledge facilitated the establishment and development of relationships with suppliers in China which enabled the acquisition of internationalization knowledge through the direct experience in international sourcing.
- Without prior technological knowledge, the acquisition of new technological knowledge through the direct experience in international sourcing can be supported by prior market knowledge. Prior market knowledge facilitated the search and assignment of foreign suppliers from specific purchasing market with the technological capabilities that was understandable and learnable.
- Without prior technological knowledge, the acquisition of new technological knowledge through the direct experience in international sourcing can be supported by prior internationalization knowledge (foreign entry mode; international sourcing). This was driven by firm's motive for conducting international sourcing; to obtain technology advancement.
- The unavailability of prior technological knowledge or the incapability to acquire new technological knowledge through the direct experience in international sourcing can be substituted with the imitation of key foreign suppliers. However, it is subjected to firms' motivation and opportunity to imitate key foreign suppliers.
- Close relationships with key foreign suppliers facilitated the acquisition of new internationalization and technological knowledge through the imitation of key foreign suppliers. Firms engaged in close interaction processes, and extensive trust building with key foreign suppliers, which enhanced the opportunity for the focal firms to imitate key foreign suppliers when they visited key foreign suppliers' firms and factories,

The international business literature advocates that firms' prior knowledge includes market, internationalization, and technological knowledge which may influence firms' internationalization behaviour (Eriksson et. al., 2000; Autio et. al., 2000). Nevertheless, the international sourcing literature unclearly addressed the kind of prior knowledge needed for the acquisition of new knowledge (Rexha and Miyamoto, 2000). This research has distinguished the kind of prior knowledge needed for international

sourcing in terms of three knowledge mentioned earlier. The IP theory focuses on experiential knowledge acquired by firms through their ongoing operations in the international market, and neglects on experiential knowledge possessed by others that can be acquired by firms through an imitation (Johanson and Vahlne, 1977; 1990; Forsgren, 2002). This research has addressed both sources of experiential knowledge, and demonstrated the importance of imitating key foreign suppliers to acquire new technological knowledge. However, previous studies found that the extent to which firms observe and imitate each other was greatly influenced by the similarities between them (DiMaggio and Powell, 1983; Argote, 2013). This research found that close relationships with key foreign suppliers greatly influenced case firms to imitate key foreign suppliers. This is because the focal firms were able to closely observe and imitate their international operations by visiting their firms and factories of their foreign suppliers. Previous studies acknowledged the importance of knowledge acquisition from key foreign buyers towards a new product development (Yli-Renko et al., 2001). On the other hand, this research proposes the importance of relationships with key foreign suppliers to acquire new technological knowledge through the direct experience in international sourcing, as well as the imitation of key foreign suppliers for new product development.

***Outward internationalization by focal firm – prior knowledge of exporting, acquisition and exploitation of new knowledge through direct experience in export and imitation of key foreign buyers***

- Case firms that started export before international sourcing were less likely to acquire new technological knowledge through the imitation of key foreign suppliers or key foreign buyers.
- Without prior market knowledge, the acquisition of new market knowledge through the direct experience in export was supported by prior technological knowledge. This was driven by firms' effort to introduce new products in new markets.
- Without prior market knowledge, the acquisition of new market knowledge through the direct experience in export was supported by prior internationalization knowledge (foreign entry mode; export). This was driven by firms' direct involvement with key foreign buyers; without the use of intermediaries.

- Close relationships with key foreign buyers were not a prerequisite for firms to imitate key foreign buyers. The imitation of key foreign buyers was driven by a high tendency of case firms to imitate key foreign buyers with best practices.

This research has also distinguished the kind of prior knowledge needed for exporting in terms of three knowledge mentioned earlier. Previous studies acknowledged the importance of exporting for technological learning (cf. Zahra et al. 2000; Salomon and Shaver, 2005; Salomon and Jin, 2010; Love and Ganotakis, 2013; Filipecu et al., 2013). Nevertheless, this research found that case firms acquired technological knowledge through the direct experience in international sourcing instead of exporting. The weak association between the direct experience in export and the acquisition of technological knowledge may be influenced by the dependency of case firms towards international sourcing for developing new product or offering new service. The innovativeness of supplier enhances the dependency of foreign buyers (Jean et al., 2017).

***Connecting between inward and outward internationalization by focal firm***

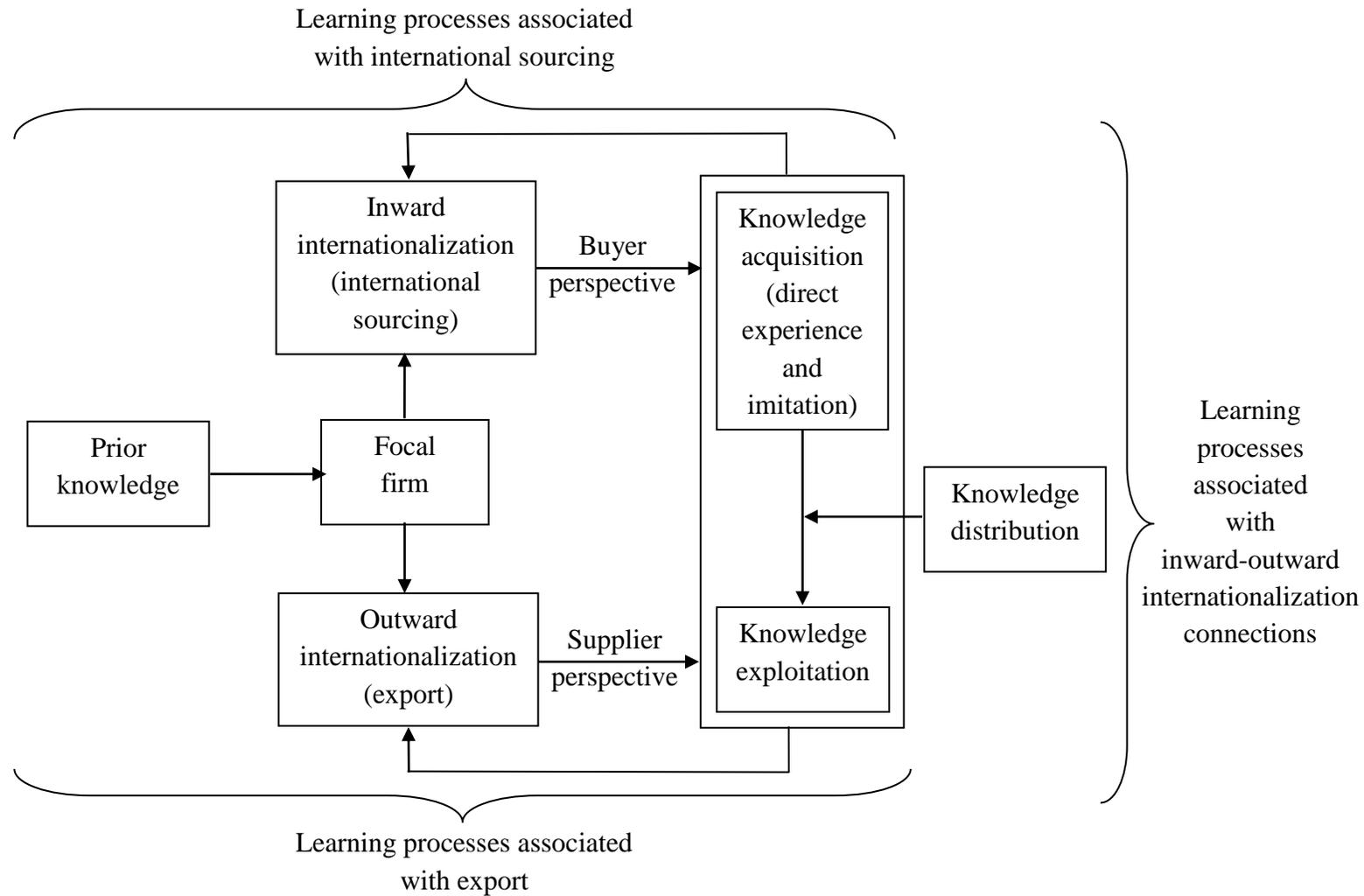
- Case firms that started international sourcing before exporting were more likely to connect inward to outward internationalization; by acquiring and exploiting internationalization and technological knowledge through key foreign suppliers through knowledge sharing, for developing outward internationalization.
- To establish the connection from inward to outward internationalization, the role of key foreign suppliers as the knowledge provider was prevalent, and formal planning of knowledge distribution within a firm was crucial. Close relationships with key foreign suppliers enabled the sharing of knowledge between the focal firms with the key foreign suppliers. Formal planning of knowledge distribution internally enabled the sharing of knowledge through key foreign suppliers; between those who possessed the knowledge (the Managing Director, and the employees who are involved in international purchasing) and those who needed the knowledge (the employees who are involved in international sales, and product R&D).
- To establish the connection from outward to inward internationalization, the role of Managing Director or/and the employees who are involved in international sales as the knowledge acquirer was prevalent, and formal planning of knowledge distribution within a firm was crucial. The Managing

Director or/and the employees who are involved in international sales were needed to be capable of acquiring relevant internationalization knowledge (foreign entry mode; international sourcing) to strategize their international sourcing through product quality assessment and effective negotiation method, and relevant technological knowledge to facilitate the sourcing of imported raw materials that are essential for the development of new products. Formal planning of knowledge distribution internally enabled the sharing of knowledge between those who possessed the knowledge (the Managing Director or/and the employees who are involved in international sales), and those who needed the knowledge (the employees who are involved in international purchasing).

Research on the inward-outward internationalization connections demonstrates the importance of inward internationalization to supports the development of outward internationalization (Karlsen et. al., 2003), and left the question on how firm's outward internationalization supports firm's inward internationalization unanswered (Korhonen, 1996; Karlsen et. al. 2003; Agndal; 2006; Hernández and Nieto, 2016). This research addressed both ways of connection (inward to outward internationalization, and outward to inward internationalization) in terms of knowledge acquisition, distribution, and exploitation. Previous research was concerned with firm's interpersonal network to acquire knowledge through inward internationalization that can be used for advanced commitment in outward internationalization (Welch et al., 2002; Karlsen et al., 2003). However, this research found that close relationships with key foreign suppliers were useful to acquire internationalization knowledge that can be used for advanced conduct of outward internationalization, and technological knowledge that can be used for the manufacturing of exportable product, through collaborative knowledge sharing such as joint project, formal discussion, and formal meeting. Previous research was also concerned with firms' internal network to transfer knowledge developed through inward internationalization which relevant for outward internationalization (Karlsen et al., 2003). This involves the sharing of knowledge between the employees who are involved in inward internationalization, and the employees who are involved in outward internationalization but the explanation on mechanisms involved was rather limited (Karlsen et al., 2003; Hernández and Nieto, 2016). This research elucidates the engagement of Managing Director, international purchasing personnel, international sales personnel, and R&D personnel in the distribution of knowledge. Routines were

created to allow the sharing of knowledge among them. Thus, events such as meeting, briefing, and discussions associated with import-export activities were planned. As tacit knowledge is difficult to formalize, and often bound by time and space (Nonaka and Toyama, 2004), case firms developed tacit to tacit knowledge sharing through job-related briefings, and formal face-to-face discussions. They shared internationalization and technological knowledge by empathizing through shared experiences (Nonaka and Toyama, 2003). Case firms also developed tacit to explicit knowledge sharing through management proposals, minutes of meeting, reports of market visits, and formal discussions via e-mail. This promotes the sharing of internationalization knowledge.

Figure 7.2: Research framework of learning processes associated with international sourcing, export, and connections between inward and outward internationalization



#### **7.4.2 Implications for the Management**

Firms are required to be equipped with prior knowledge as the foundation for acquiring relevant new knowledge, thus developing organizational learning. The kind of prior knowledge possessed by firms influences the kind of new knowledge acquired by firms, and how it is acquired. As the internationalizing SMEs may not have relevant prior knowledge (Fletcher and Harris, 2012), this suggested the need to hire personnel with relevant experience. This allows the internationalizing SMEs to acquire rapidly critical experiential knowledge (Fletcher and Harris, 2012). Although this kind of experience may not be available or exists at the time of entry (Johanson and Vahlne, 1977), the recruitment of personnel with relevant experience enhances the effects of active learning attempts through searching and vicarious learning (Casillas et al., 2015).

Firms can utilize their cross-border buyer-supplier relationships by imitating key foreign suppliers to acquire new technological knowledge, as well as by imitating key foreign buyers to acquire new internationalization knowledge (internal management processes), and new technological knowledge. However, close cross-border buyer-supplier relationships are needed to be developed to generate opportunities for firms to closely observe and imitate key foreign suppliers. The imitation of key foreign buyers can be triggered by the tendency of firms to imitate foreign buyers with best practices. This proposed the need for firms to be aware of the capabilities of key foreign buyers.

The development of close cross-border buyer-relationships also generate the opportunity for firms to share and acquire knowledge from key foreign suppliers which are relevant for outward internationalization. On the other hand, the direct experience in export provides the basis for acquiring knowledge through outward internationalization which is relevant for inward internationalization. However, it is essential for firms that undertake both inward and outward internationalization (international sourcing and exporting) to integrate both operations in terms of employee's job responsibilities and internal cooperation. SMEs with inward and outward internationalization handled by the same team may have the advantage of connecting both operations. SMEs with inward and outward internationalization handled in different departments should increase the cooperation between those units to ensure the connection between both operations can be recognized. The employees who are involved in inward internationalization, and the employees who are involved in outward internationalization, and the Managing Director involved in

inward and/or outward internationalization are those who possessed knowledge relevant for connecting inward and outward internationalization. Thus, formal mechanisms such as scheduled meetings, and formal discussions should be established to ensure tacit knowledge resides on individuals is realized, and shared internally with those who needed such knowledge. Therefore, knowledge distribution within a firm is established. This allows firms to develop generative learning whereby the exploitation of knowledge through inward internationalization allows firms to improve their outward internationalization, and the exploitation of knowledge through outward internationalization allow firms to improve their inward internationalization. Firms can use internationalization knowledge (foreign entry mode) to advance the strategy for conducting international sourcing and export, and internationalization knowledge (internal management process) to augment the management of export. Firms also can use technological knowledge to develop exportable products. Hence, it is vital for firms that internationalize through international sourcing and exporting to connect both operations by developing firms' knowledge processes such as knowledge acquisition and distribution to increase firms' generative learning. This can be assisted by the public policy that concerns with the development of inward and outward internationalization by SMEs, and this suggests the role of governmental agencies below.

#### **7.4.3 Implications for the Public Policy**

The governmental agencies such as Ministry of International Trade and Industry, Malaysia External Trade Development Corporation, and SME Corporation Malaysia provide numerous support for SMEs to enter the international market. Inevitably, the focus of these governmental agencies is outward internationalization rather than inward internationalization by firms. Noting that firms can acquire new knowledge through the direct experience in inward internationalization, and the imitation of key foreign suppliers, these governmental agencies should prepare SMEs to be knowledgeable about how to conduct businesses with foreign suppliers. This is because prior internationalization knowledge is essential for conducting international sourcing and exporting, thus acquiring new internationalization knowledge. Firms without relevant experience find it difficult to absorb internationalization knowledge (Cohen & Levinthal, 1990; Zahra & George, 2002; Fletcher and Harris, 2012). This suggested the need to engage with specialist consultants associated with government programmes who possess relevant internationalization knowledge, and ready to allocate sufficient time with firms to assist them in the acquisition

of new knowledge (Fletcher and Harris, 2012). Besides that, these governmental agencies should support SMEs to find competent suppliers from overseas. Firms tend to rely on their key foreign suppliers for technological knowledge, and expertise. Close cross-border buyer-supplier relationships provides a mean to imitate technological knowledge possessed by key foreign supplier, and increase the technological capabilities by firms.

The discouragement on inward internationalization particularly international sourcing by the governmental agencies can hinder the connection between international sourcing and export through knowledge development. SMEs can tap into knowledge and expertise of key foreign suppliers which include internationalization and technological knowledge. This can prepare them with knowledge and experience from conducting international sourcing as well as engaging with key foreign suppliers, which can reduce the market uncertainty to conduct export as well as enable the new product development for the export market.

## **7.5 Contributions of the Research**

There are three major contributions of this research as shown in Table 7.1. Each of these contributions addressed the elements that constitute the research framework as shown in Figure 7.2 which include learning processes associated with international sourcing, and learning processes associated with inward-outward internationalization connections. Thus, this research contributes to the literature on international sourcing, cross-border buyer-supplier relationship, and inward-outward internationalization connections whereby the gaps in these literature associated with the international business theories (the IP theory and the INV theory) were addressed and uncovered.

**Table 7.1: Contributions of the research**

| Key literature                                  | Key authors –<br>organizational<br>literature/theories  | Key authors –<br>internationalization<br>literature/theories   | Gaps in the internationalization literature/theories   | Key contributions of the research  |
|---|---|--|--|--|
| International sourcing                          |   | Agndal (2006); Pagano (2009); Johanson and Vahlne (2009); Jonsson and Tolstoy (2013)   | <ul style="list-style-type: none"> <li>• Prior knowledge needed for international sourcing</li> <li>• Knowledge processes (knowledge acquisition and knowledge exploitation) for developing firm' capabilities through international sourcing</li> </ul> | This research contributes to the development of international business theories (the IP theory and the INV theory) by addressing learning processes associated with international sourcing in terms of the possession of prior knowledge, and the acquisition and exploitation of new knowledge.   |
| Cross-border buyer-supplier relationship        | Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Owen-Smith and Powell, 2008; Kenis and Orlemans, 2008 | Bruneel et al., 2010; Oehme and Bort, 2015; Ratajczak-Mrozek, 2017   | <ul style="list-style-type: none"> <li>• Network embeddedness associated with firm's imitative behaviour during internationalization</li> </ul>  | This research contributes to the development of knowledge-based theory of internationalization (the IP theory) by addressing the development of closer cross-border buyer-supplier relationship associated with imitative learning.  |
| Inward-outward internationalization connections |   | Welch and Luostarinen, 1993; Korhonen et al., 1996; Welch et al., 2002; Karlsen et al., 2003; Hernández and Nieto; 2016; Li et al., 2017 | <ul style="list-style-type: none"> <li>• Inward-outward internationalization connections in terms of the development of cross-border buyer-supplier relationship, and the mechanisms for knowledge distribution</li> </ul>                               | <ul style="list-style-type: none"> <li>• This research contributes to the development of knowledge-based theory of internationalization (the IP theory) by addressing the development of close cross-border relationship associated with the connections of inward-outward internationalization.</li> <li>• This research contributes to the development of knowledge-based theory of internationalization (the IP theory) by addressing the development of internal network and the mechanisms for knowledge distribution associated with the connections of inward-outward internationalization</li> </ul> |

Strategies based on knowledge and networks which addressed by the IP theory are commonly viewed as crucial for outward internationalization (Jonsson and Tolstoy, 2013). However, Johanson and Vahlne (2009) proposed that the IP theory can be used to analyze international sourcing as their proposed business network model is symmetrical in terms of suppliers and buyers. International sourcing can be viewed as an emerging strategy which need to be constantly re-defined as firms accumulate experience in specific foreign markets (Jonsson and Tolstoy, 2013). Furthermore, Oviatt and McDougall (1997) proposed that accelerated internationalization may occur along multiple dimensions which include inward internationalization (international sourcing). However, international sourcing has received limited attention in the development of theories in internationalization (Welch, 2015). Therefore, this research contributes to the development of IP theory and INV theory by examining international sourcing in the context of prior knowledge, new knowledge, and knowledge processes. The IP theory and the INV theory differed in their stances on the importance of prior knowledge to the process of internationalization (Johanson and Vahlne 1977; 1990; Oviatt and McDougall, 1994; Casillas et al, 2015) in which the later proposed that prior knowledge is essential for the rapid growth of international new ventures (Oviatt and McDougall, 1994). The importance of international sourcing is recognized by the IP theory and the INV theory (Johanson and Vahlne, 2009; Oviatt and McDougall, 1997) but prior knowledge needed for international sourcing is somehow blurred. Thus, this research contributes to the international business theories by proposing the kind of prior knowledge needed for international sourcing. However, the IP theory and the INV theory also shared emphasizes on the centrality of knowledge and the path dependencies of process (Johanson and Vahlne 1977; 1990; Oviatt and McDougall, 1994; Casillas et al, 2015). However, there is a limited literature on international sourcing which explain on how and why SMEs select specific purchasing market over time (Quintens et al., 2005; Agndal, 2006) even though many scholars proposed that it can be enlightened by knowledge-based theory of internationalization (Meyer and Gelbuda, 2006; Jonsson and Tolstoy, 2013). Similarly, there is a limited literature on international sourcing on the development of knowledge which is central to the IP theory and the INV theory (few exceptions to Trent & Monczka, 2003). Thus, this research contributes to the international business theories by proposing the kind of new knowledge generated from international sourcing, and this involved two knowledge processes (knowledge acquisition and knowledge exploitation), where the later has not yet been investigated in the literature.

Throughout the development of knowledge-based theory of internationalization (Johanson and Vahlne, 1977; 1990; 2003; 2006; 2009), it becomes evident that network enables knowledge about the foreign market to be acquired, which may assist foreign market entry (Welch, 2015; Johanson and Vahlne, 2009). This requires the development of business relationship for accessing relevant knowledge, and exploiting business opportunities (Welch, 2015; Johanson and Vahlne, 2009). Nonetheless, the development of business relationship is typically time consuming which explain the gradual development of international operations (Welch, 2015). Johanson and Vahlne (2009) contemplated that the focal firm establishes cross-border buyer-supplier relationships, and involves in an exchange that create experience, which can be performed quicker today. Johanson and Vahlne (2009) also contemplated that this experiential learning can be complemented with other learning mechanism. However, this was not discussed further by the IP theory (Johanson and Vahlne, 2009). Although Bruneel et al. (2010) examined imitation from cross-border buyer-supplier relationships, the imitation behaviour was treated and analyzed as part of interorganizational learning, in which the real potential of imitations cannot be explored. In addition, although the institutional theory acknowledges that buyers and suppliers constitute the network component and the organizational field which may fuel mimetic isomorphism (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Owen-Smith and Powell, 2008) but there is no clear explanation on how cross-border buyer-supplier relationships are used to imitate key foreign suppliers and key foreign buyers (cf. Bruneel et al., 2010). Noting that the IP theory recognizes the significance of business relationship on the potential for experiential learning and commitment building in internationalization, but neglects the potential of other learning mechanism associated with cross-border buyer-supplier relationships, this research contributes to the development of knowledge-based theory of internationalization by addressing the development of cross-border buyer-supplier relationships associated with imitative learning. This research found that the imitation of key foreign suppliers through cross-border buyer-supplier relationships can be explained by the concept of relational embeddedness. Initially, it was suggested that network embeddedness influences firm's imitative behaviour (Oehme and Bort, 2015). However, Ratajczak-Mrozek (2017) exemplified that network embeddedness is less developed by the international business theory. Recently, Forsgren (2016) proposed that both open network (structural embeddedness) and closed network (relational embeddedness) might affect firm's internationalization behaviour. Structural embeddedness affects firm's imitative behaviour, and relational embeddedness influences

the learning process of absorption (Hagedoorn, 2006). Oehme and Bort (2015) found that firm's imitative behaviour is lessened by the central position occupied by a firm. In contrast, this research found that closer relationship with key foreign suppliers enhanced the imitative behaviour of firms. Although the literature on network has long acknowledged that relational embeddedness may exhibit the imitative behaviour (Kenis and Orlemans, 2008), it was argued that stronger ties can create over embeddedness by firms, and they may be too dependent on foreign suppliers (Hussain and Janlind, 2013). Nonetheless, this research proposed that stronger ties with key foreign suppliers has driven the buying firms to utilize other learning mechanism in order to reduce the negative effects of dependency, through the imitation of internationalization and technological knowledge from key foreign suppliers. Strong commitment to develop close relationships with key foreign suppliers through frequent on-site visits, provided the buying firms with the golden opportunities to imitate them. As this required a high investment by the buying firm, they were not reluctant to imitate when they had the opportunity and capability for imitation. On the other hand, this research found that the imitation of key foreign buyers to acquire internationalization and technological knowledge was not dependent on the development of close relationships with key foreign buyers. The imitative behaviour was driven by the tendency to imitate foreign buyers with best practices. Thus, this research supports the importance of weak ties in internationalization, particularly in terms of knowledge acquisition (Blomstermo et al., 2004; Loane and Bell, 2006), through the imitation of key foreign buyers. Overall, this research proposed on how cross-border buyer-supplier relationships can be utilized for the imitation of key foreign suppliers and key foreign buyers; closer relationship with key foreign supplier, and the recognition of key foreign buyer with best practices. However, the context faced by the emerging market SMEs when they internationalized was different from the context faced by the developed market firms when they operated internationally due to the nature of emerging market, and their firms (Banerjee, 2015). Besides of market-seeking motivations (which also possessed by the developed market SMEs), the emerging market SMEs have asset-seeking motivations and may internationalize to source new knowledge that is unavailable locally (Zhang et al., 2014). With a specific reference to the Malaysia SMEs, the emerging market SMEs preferred to build technological capabilities, through the direct experience in international sourcing as compared to the direct experience in export. Thus, they are also keener to leverage close relationship with key foreign supplier which enabled the imitation of internationalization and technological knowledge.

Knowledge-based theory of internationalization solely focused on the development of knowledge associated with outward internationalization or inward internationalization alone (Johanson and Vahlne, 1977; 1990; 2003; 2006; 2009). Nevertheless, the conduct of inward internationalization by a firm can generate relevant knowledge about foreign market that can be readily used for future outward operation (Welch, 2015). Thus, the connections of inward-outward internationalization disclose the extent of knowledge development in internationalization by firms (Welch, 2015). However, the aspects of knowledge have not been fully recovered in the conceptualization of inward-outward internationalization connections (Welch et al., 2002; Karlsen et al., 2003). The limited literature on inward-outward internationalization connections acknowledged the role of network (Welch and Luostarinen, 1993; Korhonen et al., 1996; Welch et al., 2002; Liesch et al., 2002; Karlsen et al., 2003). The personal network emerged from inward internationalization is useful for the development of outward internationalization (Welch, 2002; Karlsen et al., 2003; Johanson and Vahlne, 1990). However, the development of knowledge within a network for the connections of inward and outward to be established is limited to knowledge creation, transfer, and utilization (Karlsen et al., 2003). In addition, the development of selected relationships with foreign suppliers that have the capacity to provide a platform for developing outward internationalization has remained silent (Liesch et al., 2002; Karlsen et al., 2003; Johanson and Vahlne, 2009). As the developments of cross-border buyer-supplier relationships and the development of knowledge are the central of IP theory but these developments were not linked to the inward-outward internationalization connections by this theory (Johanson and Vahlne, 2009), this research contributes to the IP theory by proposing that the development of close relationships with key foreign suppliers through interactions, and the trust building facilitated the knowledge sharing between case firms and key foreign suppliers; this allowed case firms to acquire relevant knowledge from key foreign suppliers for conducting export. The IP theory acknowledged that trust between partners persuades them to share relevant knowledge but the tools for this knowledge sharing is missing (Johanson and Vahlne, 2009). Thus, this research proposed that collaborative knowledge sharing tools such as joint projects, as well as formal meetings and discussions to share strategies and ideas are essential. However, it was found that the development of close cross-border buyer-supplier relationships was only fundamental to connect firms' inward to outward internationalization (firm's international sourcing to export). In order to connect firms' outward to inward internationalization (firm's export to international sourcing), the ability to access relevant

knowledge was dependent on the exploitative learning of the employees who are involved in outward internationalization.

On the other hand, internal network is essential to facilitate the transfer of knowledge within a firm within which the connections of inward-outward internationalization may develop (Karlsen et al., 2003). However, the IP theory concerns with external network for acquiring external resources, where internal network of a firm to fully explain the connections of inward-outward internationalization is omitted (Johanson and Vahlne, 2009). In addition, the limited literature on inward-outward internationalization connections acknowledged that the mechanisms to share knowledge with the potential of connecting inward and outward internationalization, between those who possess it, and those who need it, is absent (Karlsen et al., 2003; Hernández and Nieto, 2016). Hence, this research contributes to the IP theory and the literature on inward-outward internationalization connections by addressing the development of internal network and the mechanisms for knowledge distribution, for connecting inward and outward internationalization. Initially, this research proposed that the distribution of knowledge between employees who are involved in inward and outward internationalization, by developing tacit to explicit knowledge sharing, was vital for the connections of inward and outward internationalization to be established. This included management proposals, minutes of meetings, reports of market visits, and formal discussions via e-mail. The development of tacit to tacit knowledge sharing was also vital for the connections of inward and outward internationalization to be established. This included job-related briefings, and formal face-to-face discussions. However, the limited literature on inward-outward internationalization connections advocated that the increasing formality of communication between employees who are involved in inward and outward internationalization constrained knowledge transfer through internal network within which the connections of inward and outward internationalization may occur (Korhonen, 1999; Karlsen et al., 2003). There was no guideline to formalize knowledge sharing for the benefits from inward internationalization connections can be obtained (Karlsen et al., 2003). In contrast, this research found that both tacit-explicit and tacit-tacit knowledge sharing were underpinned by the formality in terms of planning in order to share knowledge for the occurrence of inward-outward internationalization connections. The formality promotes the preparedness of employees who are involved in inward and

outward internationalization to cooperate in import-export related tasks and share knowledge that relevant to each other. Recent studies by Li et al. (2017) proposed that knowledge gained from firm's inward internationalization can facilitate firm's outward internationalization only when the improvement of resource fungibility is undertaken. As resource fungibility allows the sharing of resources across multiple organizational functions, it provides the flexibility to create new capabilities with existing resources (Sapienza et al., 2006). By taking the mechanisms of knowledge distribution, and the formality exercised by internal network into considerations, this research expanded that internationalization and technological knowledge gained from firm's inward internationalization can facilitate firm's outward internationalization, and internationalization and technological knowledge gained from firm's outward internationalization can facilitate firm's inward internationalization, only when internal knowledge distribution through formal planning was properly established. Planned events such as meetings, briefings, and discussions were established to ensure that the distribution of relevant knowledge between those who possess the knowledge, and those who need it can be achieved through tacit-tacit and tacit-explicit knowledge sharing.

## **7.6 Limitations of the Research**

Although the research has reached its aims, it is subject to multiple limitations. An important advantage of using multiple informants refers to the validity of information provided by an informant can be clarified with the information provided by a different informant (Glick, 1990). However, there was only one informant per case firm. This was due to the limitations of access provided by case firms to conduct interviews with multiple informants. Considering this issue, this research targeted the Managing Director of case firms which were deemed to understand the whole process of international sourcing and exporting from the early establishment of case firms. They were committed to develop and strategize the internationalization of firms. Nonetheless, documentation such as financial reports, and minutes of meetings were accessed and assessed to validate the data from interviews.

Due to the limitation of time, a pilot study was not conducted prior to data collection. Extended time is required to collect appropriate data from pilot interviews in order to provide preliminary insights into the learning processes associated with international sourcing, exporting, and international sourcing-exporting connections, as well

as to test the potential interview questions. Initially, a pilot study assists to refine the conceptual framework of the final study (Yin, 2011). However, it was acknowledged that the case studies researcher may have different views on the role of a pilot study in the preparation of a research conduct (Lee and Saunders, 2017). Lee and Saunders (2017) argued that the case studies researcher should be more circumspect when it comes to conducting a pilot testing on data collection procedures, particularly when the tool for data collection is other than questionnaires. This is because every case is different, thus when the sources of data are not available in one case, or the procedures of data collection are not working well as expected, they may be available or work well in other cases (Lee and Saunders, 2017). As opposed to Yin (2009) who highlighted the importance of a pilot study “to refine your data collection plans with respect to both the content of the data and the procedures to be followed”, Stake (1995) and Merriam (1998) did not underline the crucially important function of it (Yazan, 2015). However, it is believed that the employment of a pilot study may increase the validity of this research.

The interviewees were given an option to converse in the Malay language, or the English language, the language(s) they feel comfortable using during the semi-structured interviews. The use of the Malay language required the translation from Malay into English for the interview transcription. Hence, the translated interview transcription is subjected to the possibility of not being able to use the exact wording of the original statement. Besides that, the findings should be carefully interpreted as the sample of research is restricted to one country which is Malaysia. It is believed that the findings are relevant to other emerging market countries.

## **7.7 Recommendations for the Future Research**

This study offers several areas for future research. This research primarily focuses on international sourcing for firms’ inward internationalization and export for firms’ outward internationalization. Fewer association can be observed between the direct experience in export and the imitation of key foreign buyers with the development of technological capabilities by firms as compared to the direct experience in international sourcing and the imitation of key foreign suppliers. As Zahra et. al. (2000) proposed that high-control entry modes increase technological learning by firms, it is interesting to use higher-control foreign entry modes such as start-ups, and acquisitions for studying outward internationalization. This may provide different results for the role of outward

internationalization in the acquisition of technological knowledge through the direct experience in outward internationalization, and the imitation of key foreign buyers.

This research has addressed knowledge acquisition and knowledge exploitation through cross-border buyer-supplier relationships by leveraging the direct experience in international sourcing and exporting, as well as the imitation of key foreign suppliers and key foreign buyers. It is recommended that the study on firms' absorptive capacity can investigate further on how the newly acquired knowledge through the direct experience in internationalization, and the imitation of network partners, is assimilated and transformed by firms, to be exploited for firms' competitive advantages. Furthermore, the study on firms' absorptive capacity can investigate further on how inward and outward internationalization is connected through knowledge acquisition, knowledge assimilation, knowledge transformation, and knowledge exploitation. Both inward and outward internationalization can play a role in acquiring and transferring knowledge and developing absorptive capacity (Hernández and Nieto, 2016). There is a need to discover more deeply the within-firm processes which facilitate the absorptive capacity generated by the emergence of inward-outward connection in internationalization (Karlsen et al., 2003).

This research has also addressed knowledge acquisition and knowledge distribution within which the connections of inward-outward internationalization is developed. It is recommended that another two constructs of organizational learning by Huber (1991) which include knowledge interpretation and organizational memory to be examined in future research to provide the comprehensive view of learning processes involved in the connections of inward-outward internationalization. Besides that, this research has addressed the exploitation of relevant knowledge generated from the connections of inward-outward internationalization. Instead of studying the effects of connecting inward and outward internationalization with the learning capabilities, future research can be conducted on the effects of connecting inward and outward internationalization with the organizational performance.

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## Appendix One (a) – Interview Schedule

### Managing Director Interview Questionnaire – 2014

#### Research Objective

- To investigate the development of learning process from the direct experience in international sourcing and the imitation of key foreign supplier
- To investigate the development of learning processes from the direct experience in export, and the imitation of key foreign buyer
- To investigate the development of learning processes from the connections between inward and outward internationalization in terms of knowledge acquisition, knowledge distribution, and knowledge exploitation

*Interview record (to be completed in advance and checked):*

|                          |  |
|--------------------------|--|
| Company:                 |  |
| Address:                 |  |
| Contact details:         |  |
| Year of foundation:      |  |
| Interviewee:             |  |
| Position of interviewee: |  |
| Business founder(s):     |  |
| Year of foundation:      |  |
| Interviewer:             |  |
| Date of interview:       |  |

## Managing Director Interview Questionnaire – 2014

| <b>1. Background details</b>   |   |
|--|---|
| 1.1 Background and current role of Managing Director and business founder(s). Have there been any changes? Reason for changes.                     |   |
| 1.2 Background and current role of other key managers (e.g. senior directors, senior executives). Have there been any changes? Reason for changes. |   |
| 1.3 How many employees do you have now as compared to the early establishment of your company?   |   |
| 1.4 Sales<br>Are they increasing/decreasing/constant in the last three years?  | Total    Domestic    International<br>RM<br>% |
| 1.4 Profits<br>Are they increasing/decreasing/constant in the last three years?  | Total    Domestic    International<br>RM<br>% |
| <b>2. Prior knowledge</b>  |   |
| <b>2.1 International sourcing</b>  |   |
| 2.1.2 Can you explain about your past experience associated with international sourcing?   |   |
| <b>2.2 Export</b>  |   |
| 2.2.1 Can you explain about your past experience associated with export?   |   |
| <b>3. Internationalization experience</b>  |   |
| <b>3.1 International sourcing</b>  |   |
| 3.1.1 When and what did you first purchase internationally? (e.g. machinery, spare parts, raw materials, components, and products to be resold)    |   |
| 3.1.2 What do you purchase internationally? (e.g. machinery, spare parts, raw materials, components, and products to be resold) Why?               |   |

|  |  |
|--|--|
| 3.1.3 From which countries do you purchase internationally? Why?   |  |
| 3.1.4 Who are your key foreign suppliers? How do you contact them? (e.g. direct contact, regional or global intermediary)  |  |
| <b>3.2 Export</b>  |  |
| 3.2.1 When and what did you first export?  |  |
| 3.2.2 What do you export? Why?   |  |
| 3.2.3 To which countries do you export? Why?   |  |
| 3.2.4 Who are your key international buyers? How do you contact them? (e.g. direct contact, regional or global intermediary)   |  |
| 3.2.5 Who are your main competitors (domestic and international)? Where are they located?  |  |
| <b>4. Internationalization process</b>   |  |
| <b>4.1 International sourcing</b>  |  |
| 4.1.1 Do you have specific department or team for international sourcing? Can you explain about the roles of the employees that involved in the international sourcing of your company?  |  |
| 4.1.2 How would you describe the roles of the management of the company in relation to international sourcing? (e.g. who has key responsibilities for international sourcing, who is involved in decision making for international sourcing) |  |
| 4.1.3 How do you make decision in relation to the international sourcing of your company? (e.g. formality, consultation)   |  |
| 4.1.4 What is the basis of how you purchase internationally? (e.g. cost, quality, networking, knowledge) Why?  |  |
| 4.1.5 Does the relationship with key foreign   |  |

|   |  |
|---|--|
| suppliers influence the international sourcing of your company? If yes, how? If not, why?   |  |
| 4.1.6 Have there been any critical thing (event) affecting the international sourcing of your company? How?   |  |
| <b>4.2 Export</b>   |  |
| 4.2.1 Do you have specific department or team for exporting? Can you explain about the roles of the employees involved in the export of your company?   |  |
| 4.2.2 How would you describe the roles of the management of the company in relation to export? (e.g. who has key responsibilities for exporting, who is involved in decision making for exporting)  |  |
| 4.2.3 How do you make decision in relation to the international sourcing of your company? (e.g. formality, consultation)  |  |
| 4.2.4 What is the basis of how you compete internationally? (e.g. price, quality, foreign networking, new products) Why?  |  |
| 4.2.5 Does the relationship with key foreign buyers influence the export of your firm? If yes, how? If not, why?  |  |
| 4.2.6 Have there been any critical thing (event) affecting the export of your company? How?   |  |
| <b>Interview Closing</b> <ul style="list-style-type: none"> <li>• Ask the interviewee if there is anything else he/she would like to say, or add to what he/she has already said.</li> <li>• Thank the interviewee for his/her participation in this research.</li> </ul> |  |

## Appendix One (b) – Interview Schedule

### Managing Director Interview Questionnaire – 2015

#### Research Objective

- To investigate the development of learning processes through the direct experience in international sourcing, and the imitation of key foreign suppliers.

*Interview record (to be completed in advance and checked):*

|                          |  |
|--------------------------|--|
| Company:                 |  |
| Address:                 |  |
| Contact details:         |  |
| Name of interviewee:     |  |
| Position of interviewee: |  |
| Business founder(s):     |  |
| Name of interviewer:     |  |
| Date of interview:       |  |

## Managing Director Interview Questionnaire – 2015

| 1. International sourcing – learning process  |  |  |  |  |
|---|--|--|--|--|
| <b>Introduction:</b> I would like to focus on the main issues associated with your export over the last year, and I would like to focus on one or two that are the most important to you. |  |  |  |  |
| 1.1 From our talk last year it looks like these issues are:   |  | A.   |  | B.   |
| Were these the main ones or have other things (events) happened in the last year?   |  |  |  |  |
| 1.2 Based on A,   |  |  |  |  |
| How has your past internationalization experience associated with international sourcing helped you to deal with this issue?  | What areas of new knowledge have you acquired (learned)? | What areas of new knowledge have you observed and imitated from key foreign suppliers? | How did you exploit knowledge from key foreign suppliers? (e.g. joint decision making) | How has this influenced what the firm is capable of doing now/how has this changed from what was before? |
| a.  |  |  |  |  |
| b.  |  |  |  |  |
| c.  |  |  |  |  |
| 1.3.2 Based on B,   |  |  |  |  |
| How has your past internationalization experience associated with international sourcing helped you to deal with this issue?  | What areas of new knowledge have you acquired (learned)? | What areas of new knowledge have you observed and imitated from key foreign suppliers? | How did you exploit knowledge from key foreign suppliers? (e.g. joint decision making) | How has this influenced what the firm is capable of doing now/how has this changed from what was before? |

|  |  |  |  |
|--|--|--|--|
| a.   |  |  |  |
| b.   |  |  |  |
| c.   |  |  |  |
| <b>2. Internationalization experience over the past year</b>   |  |  |  |
| 2.1 Have there been any changes in what you purchase internationally? Why?   |  |  |  |
| 2.2 Have there been any changes in countries from where you purchase internationally? Why?   |  |  |  |
| 2.3 Have there been any changes in your foreign suppliers? (e.g. withdrawal of existing foreign supplier or assignment of new foreign suppliers) Why?  |  |  |  |
| <b>3. Internationalization process over the past year</b>  |  |  |  |
| 2.1 Have there been any changes in the structure of department or team for international sourcing? Have there been any changes in the roles of the employees that involved in the international sourcing of your company?  |  |  |  |
| 2.2 Have there been any changes in the roles of the management of the company in relation to international sourcing? (e.g. change in who has key responsibilities for international sourcing, change in who is involved in decision making for international sourcing) |  |  |  |
| 2.3 Have there been any changes in how you make decision in relation to the international sourcing of your company? (formality, consultation)  |  |  |  |
| 2.4 Have there been any changes in the basis of how you purchase internationally? (e.g.  |  |  |  |

|  |  |
|--|--|
| cost, quality, networking, knowledge)  |  |
| 2.5 Does the relationship with key foreign supplier influence the international sourcing of your company over the last year? If yes, how? If not, why?   |  |
| <p><b>Interview Closing</b></p> <ul style="list-style-type: none"> <li>• Ask the interviewee if there is anything else he/she would like to say, or add to what he/she has already said.</li> <li>• Thank the interviewee for his/her participation in this research.</li> </ul> |  |

## Appendix One (c) – Interview Schedule

### Managing Director Interview Questionnaire – 2015

#### Research Objective

- To investigate the development of learning processes through the direct experience in export, and the imitation of key foreign buyers.

*Interview record (to be completed in advance and checked):*

|                          |  |
|--------------------------|--|
| Company:                 |  |
| Address:                 |  |
| Contact details:         |  |
| Name of interviewee:     |  |
| Position of interviewee: |  |
| Business founder(s):     |  |
| Name of interviewer:     |  |
| Date of interview:       |  |

## Managing Director Interview Questionnaire – 2015

|   |  |   |   |  |
|---|--|---|---|--|
| <b>1. Export – learning process</b>   |  |   |   |  |
| <b>Introduction:</b> I would like to focus on the main issues associated with your export over the last year, and I would like to focus on one or two that are the most important to you. |  |   |   |  |
| 1.1 From our talk last year it looks like these issues are:   |  | A.  | B.  |  |
| Were these the main ones or have other things (events) happened in the last year?   |  |   |   |  |
| 1.2 Based on A,   |  |   |   |  |
| How has your past internationalization experience associated with export help you to deal with this issue?  | What areas of new knowledge have you acquired (learned)? | What areas of new knowledge have you observed and imitated from key foreign buyers? | How did you exploit knowledge from key foreign buyers? (e.g. joint decision making) | How has this influenced what the firm is capable of doing now/how has this changed from what was before? |
| a.  |  |   |   |  |
| b.  |  |   |   |  |
| c.  |  |   |   |  |
| 1.3.2 Based on B,   |  |   |   |  |
| How has your past internationalization experience associated with export help you to deal with this issue?  | What areas of new knowledge have you acquired (learned)? | What areas of new knowledge have you observed and imitated from key foreign buyers? | How did you exploit knowledge from key foreign buyers? (e.g. joint decision making) | How has this influenced what the firm is capable of doing now/how has this changed from what was before? |

|  |  |  |  |  |
|--|--|--|--|--|
| a.   |  |  |  |  |
| b.   |  |  |  |  |
| c.   |  |  |  |  |
| <b>2. Internationalization experience over the past year</b>   |  |  |  |  |
| 2.1 Have there been any changes in what you export overseas? Why?  |  |  |  |  |
| 2.2 Have you introduced any new product or services to your export markets? Why?   |  |  |  |  |
| 2.3 Have there been any changes in your export markets? (e.g. withdrawal of existing export market, entrance to new export market). Why?   |  |  |  |  |
| 2.4 Have there been any changes in competition, domestic and international?  |  |  |  |  |
| <b>3. Internationalization process over the past year</b>  |  |  |  |  |
| 3.1 Have there been any changes in the structure of department or team for exporting? Have there been any changes in the roles of the employees involved in the export of your company?                                  |  |  |  |  |
| 3.2 Have there been any changes in the roles of management of the company in relation to export? (e.g. change in who has key responsibilities for exporting, change in who is involved in decision making for exporting) |  |  |  |  |
| 3.3 Have there been any changes in how you make decision in relation to the export of your firm? (e.g. formality, consultation)  |  |  |  |  |
| 3.4 Have there been any changes in the basis of how you compete internationally? (e.g. price, quality, foreign networking, new products). Why?   |  |  |  |  |

|  |  |
|--|--|
| 3.5 Does the relationship with key foreign buyer influence the export of your firm over the last year? If yes, how? If not, why?   |  |
| <b>Interview Closing</b> <ul style="list-style-type: none"><li>• Ask the interviewee if there is anything else he/she would like to say, or add to what he/she has already said.</li><li>• Thank the interview for his/her participation in this research.</li></ul> |  |

## Appendix One (d) – Interview Schedule

### Managing Director Interview Questionnaire – 2015

#### Research Objective

- To investigate the development of learning processes from the connections between inward and outward internationalization in terms of knowledge acquisition, knowledge distribution, and knowledge exploitation

*Interview record (to be completed in advance and checked):*

|                                  |  |
|----------------------------------|--|
| Company                          |  |
| Address                          |  |
| Contact details                  |  |
| Name of interviewee and position |  |
| Business founder (s)             |  |
| Name of interviewer              |  |
| Date of interview                |  |

## Managing Director Interview Questionnaire – 2015

| <b>1. Inward-outward internationalization connections – learning process</b>   |                                     |  |   |
|--|-------------------------------------|--|---|
| There were several main issues associated with your exporting over the last year, based on these issues                            |                                     |  |   |
| What areas of knowledge from international sourcing were relevant to handle issue?   | Where did you learn (acquire) this? | How did you share this knowledge with those who needed it? | How has this changed what the firm is capable of doing now in relation to export?                 |
| a.   |                                     |  |   |
| b.   |                                     |  |   |
| There were several main issues associated with your international sourcing, over the last year, based on these issues              |                                     |  |   |
| What areas of knowledge from export were relevant to handle this issue?  | Where did you learn (acquire) this? | How did you share this knowledge with those who needed it? | How has this changed what the firm is capable of doing now in relation to international sourcing? |
| a.   |                                     |  |   |
| b.   |                                     |  |   |
| <b>2. Background details update</b>  |                                     |  |   |
| 2.1 Have there been any changes in the roles of Managing Director and business founder(s)? Reason for changes.                     |                                     |  |   |
| 2.2 Have there been any changes in the roles of other key managers? (e.g. senior directors, senior executives) Reason for changes. |                                     |  |   |
| 2.3 How many employees do you have now?  |                                     |  |   |
| 2.4 Sales  |                                     | Total  | Domestic International  |

|   |   |
|---|---|
| Are they increasing/decreasing/constant in the last three years?  | RM<br>%                                 |
| 1.4 Profits<br>Are they increasing/decreasing/constant in the last three years?   | Total Domestic International<br>RM<br>% |
| <b>3. Internationalization process</b>  |   |
| <b>3.1 International sourcing</b>   |   |
| 3.1.1 How do you perceive the importance of the purchasing function of your company?  |   |
| 3.1.2 Does the purchasing function of your company is handled by those with experience in international sourcing? Why?  |   |
| 3.1.3 Do you provide training to the purchasing personnel? Why?   |   |
| <b>3.2 Export</b>   |   |
| 3.2.1 How do you perceive the importance of the international marketing function of your company?   |   |
| 3.2.2 Does the international marketing function of your company is handled by those with experience in export?  |   |
| 3.2.3 Do you provide training to the sales and marketing personnel? Why?  |   |
| <b>3.3 Inward-outward internationalization connections</b>  |   |
| 3.3.1 How does the employees involved in international sourcing communicate with the employees involved in export in relation to import-export activities? (e.g. meeting, formal discussion, informal discussion) |   |
| 3.3.2 Have the employees involved in  |   |

|   |  |
|---|--|
| international sourcing and the employees involved in export collaborate in a project? If yes, how? If not, why?   |  |
| 3.3.3 Does the relationship with key foreign suppliers influence the export of your company? If yes, how? If not, why?  |  |
| 3.3.4 Does the relationship with key foreign buyers influence the international sourcing of your company? If yes, how? If not, why?   |  |
| <p><b>Interview Closing</b></p> <ul style="list-style-type: none"> <li>• Ask the interviewee if there is anything else he/she would like to say, or add to what he/she has already said.</li> <li>• Thank the interviewee for his/her participation in this research, and explain what will happen next in terms of feeding back the findings from the research, as well as the contributions that they have made to the research.</li> </ul> |  |

## Appendix Two – Case Record

### Research Objective

- To investigate the development of learning process from the direct experience in international sourcing and the imitation of key foreign supplier
- To investigate the development of learning processes from the direct experience in export, and the imitation of key foreign buyer
- To investigate the development of learning processes from the connections between inward and outward internationalization in terms of knowledge acquisition, knowledge distribution, and knowledge exploitation

Case record: *Source (e.g. interviews, field notes, documents)*

|                          |  |
|--------------------------|--|
| Company:                 |  |
| Address:                 |  |
| Contact details:         |  |
| Name of interviewee:     |  |
| Position of interviewee: |  |
| Business founder(s):     |  |
| Year of foundation:      |  |