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Published in:
International Small Business Journal

Publication date:
2007

Document Version
Peer reviewed version

[Link to publication](#)

Citation for published version (APA):
Holmlund, M., Kock, S., & Vanyushyn, V. (2007). SME's Internationalization and the Influence of Importing on Exporting. *International Small Business Journal*, 25(5), 459-477.

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Holmlund, Maria, Sören Kock and Vladimir Vanyushyn 2007, SMEs' Internationalization and the Influence of Importing on Exporting, *International Small Business Journal*, Vol. 25, No. 5, 459-477. DOI: 10.1177/0266242607080655

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SMALL AND MEDIUM-SIZED ENTERPRISES' INTERNATIONALIZATION AND THE INFLUENCE OF IMPORTING ON EXPORTING

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Financial support from Liikesivistysrahasto, Handlande Gustav Svanljungs minnesfond, and Marcus Wallenbergs fond is gratefully acknowledged.

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Abstract

Relative to the volume of research into internationalization, inward operations have received much less attention than outward operations. This study addresses this imbalance by focusing on the degree to which firms import, how imports started relative to exports, and what import-related factors affect exporting. Findings from a survey of Finnish SMEs suggest that responding firms rate management interest, limited domestic market, and inquiries from buyers as the most significant incentives to start exporting. Import-experienced exporters assign higher ratings on nearly all export incentives, while pure-exporters consider themselves more dependent on governmental support. Importing per se has a comparatively modest, yet statistically significant, influence on exporting.

Key words: internationalization, inward, outward, inward-outward, importing, exporting, importing-exporting, SME, Finland

Introduction

The internationalization of different kinds of firms has been researched extensively since the late 70s. Besides several classical core areas of interest, such as foreign market expansion and foreign entry modes (e.g., Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Cavusgil, 1980), and export performance and success (e.g., Beamish et al, 1993; De Chiara and Minguzzi, 2002; Haahti et al, 2005), more recent topics concern different forms and the impact of co-operative arrangement when doing business in foreign markets (e.g., Coviello and McAuley, 1999; Babakus et al, 2006) and so called born-globals, i.e., firms that from or near their founding operate internationally (e.g., Oviatt and McDougall, 1994; Madsen and Servais, 1997; Knight and Cavusgil, 2004). The result is a vast amount of insights into how firms go about when becoming international and global. These studies have predominantly investigated how firms operate, manufacture, sell, and distribute in foreign markets, meaning that they have dealt with outward operations which explicitly or implicitly have been seen as equivalent to international operations. The opposite side of the coin, inward operations, that refer to the internationalization of purchasing operations, is an area that has received much less attention. These studies have typically dealt with reasons for purchasing abroad (e.g., Cavusgil et al, 1993; Leonidou, 1998) and factors affecting this decision (e.g., Swamidass, 1993; Ghymn et al, 1999).

Many researchers (e.g., Welch and Luostarinen, 1988, 1993; Korhonen et al, 1996; Leonidou, 1998; Lamb and Liesch, 2002) have pointed out this export-dominated interest and subsequent unbalanced understanding of international business. They especially highlight that even less attention has been given to how importing and exporting are interlinked. In addition, while there is a plethora of studies of factors associated with export

performance and success, hardly any of them examined the kind of effect previous importing experience has on how, why, where, and with what success firms export.

That the import-export link has gained negligible attention seems remarkable for many reasons. First, previous studies have shown that, particularly among small and midsize enterprises (SMEs), the most common internationalization operation order seems to be first inward and only after that outward (Welch and Luostarinen, 1988, 1993; Samiee et al, 1993; Korhonen, 1999; Jones, 1999). Second, it has been found that importing acts as a springboard to exporting by, for example, initiating a ‘snowball effect’ where impulses from importing create opportunities for international business (e.g., Welch and Luostarinen, 1993; Korhonen, 1999; Karlsen et al, 2003). Third, there is a considerable stream of internationalization studies with a network perspective that emphasizes the significance of personal contacts and resource mobilization potential of foreign business partners (e.g., Johanson and Vahlne, 1977; Johanson and Mattsson, 1988; Holmlund and Kock, 1998; Forsgren, 2002) where the import-export link as a research topic would seem natural but has not been recognized.

The above consequently indicates a research gap and that more studies are needed on the role of importing and its connection to the exporting side of internationalization. Especially so given the key role importing plays for many firms and since it reportedly accounts for 60 to 80 per cent of the firms’ costs and demands significant skills and resources (Leonidou, 1998).

Purpose and outline of the study

It is against this background that the current study sets out to examine the role of importing in the internationalization process, more specifically whether and how importing

contributes to subsequent exporting in a small and mid-sized firm setting. The fact that SMEs can be international players is particularly evident when examining countries that have fairly limited domestic market size, lengthy international trading history, technologically oriented products, reasonable domestic competition, organized company financial support systems, companies with willingness and ability to expand internationally, and low barriers for transcending country borders. There are several countries of this type, such as Austria, Switzerland, Belgium, Portugal, New Zealand, and all Nordic countries. This study is about one of the Nordic countries, Finland, and the internationalization pattern of SMEs in a particular region which is known for its strong entrepreneurial tradition and a long international trading history. This will most probably show in the findings, as will the region's strong geographical, cultural and historical connection with in particular Sweden but also the other Nordic countries. Issues that are of interest and will be empirically investigated are whether importing preceded exporting, whether there are any differences in how exporters with and without previous importing experience value various exporting motives, and the contribution of the importing experience to the subsequent exporting. More insights are needed on these issues both because of the limited number of previous studies and because such findings will in turn inspire new studies.

The rest of the paper is structured as follows. First, we present previous studies that deal with internationalization and focus on inward operations as well as their connection to outward operations. Then we describe the method and findings from the survey. Finally, conclusions together with implications and further research ideas are discussed.

Inward operations

The globalization of markets, the internal market of the EU, e-commerce, and other institutional changes are examples of factors that have gradually shifted the behavioral pattern of SMEs, causing them to act in a more global manner than before. Although the internationalization process of firms has been extensively studied, the international activities and patterns of SME sector have not been studied as extensively as those of the large firms. Miesenbock (1988), for example, claims that there is a particular lack of empirical studies, and that the available ones tend to suffer from inconsistencies implying that a conclusive framework for understanding small business internationalization is lacking. Jones (1999) further alleges that the prevailing research with its focus on specific modes of entry has resulted in a fragmented literature, and Jones and Coviello (2005, p. 285) conclude that the research on international entrepreneurship ‘may require an element of paradigmatic shift and a fresh lens.’ To address these concerns, this study focuses on an under-researched area within internationalization- how SMEs’ importing is linked to exporting.

One of the traditional ways to describe how firms internationalize is the U-model or the Uppsala internationalization model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). This model is built on different steps that describe the firm’s gradually increasing level of internationalization. In the beginning the firm is seen to have no regular export. Then according to the model the firm typically initiates its internationalization process by direct exporting to a foreign country. After some time the firm starts exporting with the help of independent representatives (agents) abroad, also called indirect exporting. The following stage involves developing sales subsidiaries abroad. In the fourth and last stage the firm establishes a production/manufacturing facility abroad. A basic assumption

of the model is that one cycle of events constitutes the input of the next, meaning that the present state of internationalization is an important factor in explaining the direction of further internationalization. This sequence implies that prerequisites are created in one international activity that are usable and affect subsequent activities. In the Uppsala model the focus is on outward activities and no attention is paid to inward activities. The extent to which the U-model applies to inward operations is, therefore, unknown.

A different and widely used approach, which includes importing and therefore relates more closely to the current study, has been presented by Welch and Luostarinen (1988, p. 36) who define internationalization as "... the process of increasing involvement in international operations...". They consequently imply that inward activities are as important as outward activities, and that both kinds of international activities ought to be included in international operations. Other internationalization researchers have expressed the same opinion (e.g., Liang and Parhke, 1997, Coviello and McAuley, 1999; Fletcher, 2001). While outward operations refer to different activities such as marketing, sales, production and distribution in foreign markets, inward international operations also cover a multiplicity of forms, such as imports of goods and services, finance and technology; through franchising, licensing, direct investments, and alliance agreements patterns. A study by Korhonen (1999), based on a thorough literature review, suggests that an importer first buys standard low uncertainty products with comparatively high level of transaction uncertainty abroad, and gradually shifts from raw materials, spare parts, and machinery to components, equipment, and goods to be resold; the study also suggests the following sequence of inward operations: non-investment buying, direct investment buying, non-investment production, and direct investment production.

More recently, the network approach has been used in order to explain the internationalization process of a firm (e.g., Johanson and Mattsson, 1988; Axelsson and Johanson, 1992; Holmlund and Kock, 1998; Forsgren, 2002). This approach pays attention to the emergence, impact, and management of different types of long-term relationships between firms located in different countries. A major contribution of the network approach to internationalization is the focus on social relationships between individuals that have a substantial impact on the internationalization, since close social relationships influence the interest and possibilities of doing business abroad (e.g. Johannisson, 1988; Björkman and Kock, 1997; Madsen and Servais, 1997; Jones and Coviello, 2005). While mostly vertical relationships are under scrutiny, there are also attempts to include competitors in these studies to get a more holistic picture (Bengtsson and Kock, 1999, 2000). From a network perspective, it is natural to assume that there exists a link between import and export indicating that resources such as knowledge can be transferred from one activity to another. These studies deal with relationships with all kinds of counterparts, without distinguishing between relationships with customers, i.e. outward side, and with suppliers, i.e. inward-side. Thus, the link between inward and outward activities has not been observed.

Import and export as interlinked international activities

A literature database search reveals that there are very few published studies on how inward operations are related to outward operations. The small number of related studies that can be found are conceptual or based on a qualitative case study approach where one single case or some cases are described and analyzed. The seminal researchers, who have authored the great majority of all publications on this topic, are Welch from Australia together with Luostarinen and Korhonen from Finland. They have, for example, conducted

and reported on an extensive survey in Finland among SMEs. While a lengthy list of benefits or obstacles related to how imports are linked to exports is difficult to construct, some findings from previous studies are next presented.

An involvement in international business for many firms means being involved in both exporting and importing activities. This has been verified by many researchers. (e.g., Welch and Luostarinen, 1993; Korhonen et al, 1996; Jones, 1999; Fletcher 2001) Furthermore, there are studies that have found that inward operations often precede outward operations, especially so in the SME setting (Welch and Luostarinen, 1988, 1993; Samiee et al, 1993; Björkman and Kock, 1997; Korhonen, 1999; Jones, 1999).

Korhonen, Luostarinen and Welch (1996) report that links between imports and exports are important even at the earliest stages of international activities, and that these links are broad, go across operation modes, and may develop through a great variety of mechanisms. Jones (1999) in fact found that the common starting point in the internationalization process of the firm is importing and that importing is almost always included in the first event. But she also underlines that ‘import is not, however, a requisite for international expansion, in that firms beginning the process with export links have been found to commence import activities subsequently’ (Jones 1999, p. 30).

Welch and Luostarinen (1993) classify the link between inward and outward operations on a continuum where at one end there is direct relationship, typified by overt dependence and contracts, and the other end is indirect relationship, where there is typically little dependence of one on the other. The latter link is said to develop, for instance, through the widening of international contacts in another country through a foreign supplier. A by-product of this process would be the development of foreign market knowledge and contact network that may lead to exporting. They further emphasize that these processes evolve

over time, and may be difficult to detect with a short-term perspective. They sum up by stating that inward operations may have an important impact on the likelihood, timing, and pattern of the outward process.

Relying on conceptual and empirical work, Korhonen (1999) suggests three types of links between imports and exports: unilateral, bilateral, and multilateral. These links are based on how foreign business partners play a part and tend to relate to different stages of the internationalization process. The first type refers to a direct one-way link between import and export not including a business partner, for example when imports of machinery, know-how and raw material takes place in order to start production and other outward activities. The second type involves using a foreign partner for both importing and exporting activities, as when a foreign supplier provides information for developing exporting and even acts as a distributor. The third type concerns links within a broader set of actors with more complex interdependence including also trade associations and banks. These links have been used and confirmed in other subsequent studies (e.g., Karlsen et al, 2003).

Experience from inward operations may create many benefits, such as: a base for potential outward movement, better knowledge of foreign markets, stronger international outlook, and increased chance of fortuitous foreign contacts leading to orders (Welch and Luostarinen, 1993).

There may exist, however, different factors that hinder these benefits from occurring. Much depends on how the inward operations experiences are perceived, whether the outward implications are drawn, and on how much these implications are linked to other incentives to enter foreign markets. (Welch and Luostarinen, 1993) Korhonen (1999) identifies several obstacles for the inward-outward connection which basically relate to two

sources. One is the increasing distance between and within units because of growing size and operations in different locations, hierarchical organizational structures, and increasing informality of communication between actors. Another is the perceived clerical, low-status nature of the purchasing function; few expect it to suggest new business opportunities. Karlsen, Silseth, Benito and Welch (2003) add a third issue, how to formalize or transfer the knowledge within the firm so that benefits can be obtained, since there are currently no guidelines for how this transfer can be accomplished. Most of the knowledge is tacit, residing in the employees, and its transfer depends on internal interpersonal networks.

The reviewed conceptual and qualitative studies suggest that the experience, knowledge and contacts acquired from importing could be usable in various ways for exporting. Knowledge therefore needs to be developed on how the inward and outward sides are inter-linked, because understanding these links and making use of this knowledge would enable firms to learn from their own and others' experience and to improve their international business operations. The following three core issues fall out of the review and will be examined below:

- What is the order between importing and exporting?
- What are the differences, if any, between importing-experienced firms and pure exporters in how they evaluate the motives for exporting?
- How does importing experience contribute to the subsequent exporting?

Method

Much of the empirical research in the field of international business is built on cross-sectional data and survey methods. Despite certain weaknesses, mail surveys tend to

be the most appropriate when the aims are to study a target population and obtain tentatively generalisable findings. These were the aims of the present study in which a mail questionnaire was sent to SMEs in the Vaasa Province on the west coast of central Finland, a region with a strong entrepreneurial tradition. All firms in the region fell within the limits of small and medium-sized firms based on the European Community standard: a small-sized firm has fewer than 50 employees, less than 7 million euros in revenues, less than 5 million euros in assets, while the upper ceiling for a medium-sized enterprise is 250 employees, 40 million euros in revenues, and 27 million euros in assets. In order to reach the firms we used the local export association's database to which nearly all small- and medium-sized exporting firms in the region belonged, and we received 576 firms' contact information. Thus, our sample virtually corresponds to the total population of target firms in the region.

The respondents were the firms' contact persons with the export association, a CEO or person in charge of internationalization. This person was, as is in many smaller-sized firms, the founder of the firm and either made the decision or had a key role regarding importing and exporting decisions. The questionnaire sought information on several aspects: in what order the firms internationalized (first import and export countries), and what factors, including those related to experience from importing, had influenced exporting. The items in the questionnaire were developed based on literature on the internationalization of SMEs and previous similar studies. Questions were supplemented with the 'others' and 'not relevant for us' categories in case the options did not match the firm's situation. When asked for foreign market presence the respondents were asked to name their five most important markets. The scale used for assessing the factors influencing

export was 0 - 5 where 0 reflected no influence and 5 very strong influence¹. An important methodological caveat is due at this point. While the wording and content of the questions is similar or identical to the ones found in the literature on the internationalization, the interpretation of the answers may be different. Unlike the 6-point Likert scale “strongly disagree - strongly agree”, for example used by Pope (2002), which has a meaningful midpoint, that is, a point below which a respondent disagreed with a statement, the scale used in this study does not provide a meaningful interpretation to a midpoint.

In order to improve and clarify the wording and order of questions a pre-test was conducted. The questionnaires were mailed to a test group of respondents. Prior to the mail out the respondents were informed by telephone about the test and able to accept or decline the task. As a result of the test, the questionnaire was slightly modified and two questions were clarified. After this the final version of the questionnaire was sent out, together with a cover letter and a pre-paid return envelope. To correspond to respondents' language in this bi-lingual region, the questionnaire and the cover letter were in both Finnish and Swedish. One week later a follow-up letter with a second questionnaire and a pre-paid return envelope were sent out to the firms. In total 178 respondents returned correctly and completely filled out questionnaires (out of 576 in total), which corresponds a response rate of 30.9 percent. This figure can be considered acceptable compared to the equivalent studies among smaller-sized firms (cf. 23 per cent in Karagozoglou and Lindell, 1998, 20.5 per cent in Fletcher, 2001, and 24 per cent in Pope, 2002). To assess the potential non-

¹ For several variables, such coding scheme produced a skewed response pattern that only marginally meets the assumption of normality that is required by some of the tests reported later in the paper. These tests have been replicated using non-parametric techniques free of distribution assumptions. The results were identical to those reported in the paper, with significance level of at least 0.1. The results of non-parametric tests are not reported in the interest of brevity.

response bias, we compared the profile of the responding firms with the general profile of SMEs in Finland. The size, industry affiliation, turnover, and age distribution of the responding firms roughly corresponds to the internationalized small and medium sized firm sector in Finland in general (cf. Korhonen's study 1999). We conclude that that the responding firms are representative of the studied population. Some of the returned questionnaires contained non-systematic missing values for some of the attitudinal variables. These questionnaires were used only when relevant, that is, when the analysis did not involve these variables.

Results

Background on the studied SMEs

One hundred fifty-one small-sized firms and twenty-seven mid-sized firms fulfilled the questionnaire. The average turnover in the whole sample was USD 2.9 Millions, showing a substantial difference between the small-sized firms' average of 1.5 Millions and the mid-sized firms' 11.1 Million average. The average number of employees was 23, varying between 1 and 180 persons. Again there was a considerable difference between the small-sized firms' segment with on average 13 people and the mid-sized firms' segment with 85 people. The mid-sized firms had been in business longer than the small-sized firms, for an average of 36 years compared to 26 years. Different lines of business were represented: the largest group (48 firms) consisted of construction firms, but also a fair amount operated in the paper and pulp industry (39 firms) or the metal industry (38 firms). Other represented industries were the chemical industry (10 firms) and the clothing industry (14 firms); while only a handful stated that they were service firms (5 firms). On average the firms exported between half and one third of their turnover; the share was considerably

higher for mid-sized firms 48 per cent as compared to 33.2 per cent for small-sized firms. As for imports in comparison, the small-sized firms estimated that they imported 34 per cent of their purchases, and the equivalent number for the mid-sized firms was 27.3 per cent.

Order between importing and exporting

The mid-sized firms had started earlier than the small-sized firms with importing and exporting, in 1962 and 1979 respectively, as compared to 1979 and 1983. As displayed in Table 1, in the small-sized firm segment, consisting of 151 firms, 35 reported import activities prior to export activities, 96 had started with exports, and 20 firms had got involved in both simultaneously. Of the 27 mid-sized firms, in comparison, nine firms had started with imports, 12 with exports, and six had initiated both at the same. No import activities at all were reported by ten of twelve mid-sized exporting firms and 81 of 96 small-sized exporting firms. For order of internationalization, this implies that the majority of the studied firms had started with exporting without any previous international experience, i.e. 60 per cent, while about 25 per cent had started with importing, and 15 per cent had got involved in both simultaneously. This means that 40 per cent had initiated their international operations with importing. In addition, noteworthy is that around half of the firms were exporting but not importing. Importing hence seemed to divide the firms in roughly two groups: one with importing as a sole or shared initiator of international operations, and one pure-exporting lacking importing experience.

The table also shows another aspect related to the connection between importing and exporting, that is, whether the same country was used for importing and exporting. The result is that 16 of 151 small and 6 of 27 mid-sized firms **started** in overlapping countries.

Noteworthy is that in the cases where importing and exporting had started simultaneously the overlap was slightly clearer.

TABLE 1 ABOUT HERE

The respondents engaged in imports were also asked in a follow-up question what type of products they first imported. By classifying the answers in three product groups commonly used in equivalent studies we found that: 47 firms had started with raw materials, 43 firms began with components, 11 firms started with machinery, with some firms having simultaneously started with several products, e.g. machinery and raw material. Thus, in this study the firms were mainly importing for their own needs and not as intermediaries. In line with previous studies (Liang and Parkhe, 1997; Leonidou, 1998; Korhonen, 1999), the top reason most frequently mentioned as a reason for importing was lack of a domestic supplier, but also price and quality issues were mentioned.

Another follow-up question asked whether the initial foreign suppliers were still used. Not every respondent answered this question, but a tentative result is that for the small-sized firms, the majority (41 firms) are still using their first foreign suppliers as compared to about half the number (25) that have switched, while among the mid-sized firms slightly more (8) firms have switched than retained (6) their first foreign supplier. Estimated average length of supplier relationships was equally long for both firm-size segments, eleven and twelve years for small-sized and mid-sized firms respectively.

For import mode, the results indicated what could be expected in both firm-size segments; importing mostly occurred directly without middlemen (153 of 205), except for some small-sized firms that used agents (34 of 205). The primary export modes were direct

(185 of 458) and agents (183 of 459), with some using trading houses (38 of 459). Reports on subsidiaries were few (13 cases), and had been established merely for export reasons. The results are partly in line with Korhonen (1999:113) and Hallén (1982) who found that SMEs prefer to source directly rather than use middlemen. Because of insufficient resources and high degree of risk involved in international activities SMEs have been found to be reluctant to making heavy financial commitments abroad.

Motives for exporting: a comparison between pure exporters and exporters with importing experience

The motivational factors, both proactive and reactive (Czinkota and Tesar, 1982), were modified and used in the present study. Table 2 reports the findings on how the responding firms rated these factors. The first column shows ratings given by all firms, and the following columns show and analyze differences in rating for firms with and without importing experience.

TABLE 2 ABOUT HERE

The overall analysis of factors influencing export produced results that closely resemble what earlier has been reported in the literature, e.g. Pope (2002) and Karagozoglu and Lindell (1998). The top three most influential influencing factors were: (1) management's interest, (2) limited domestic market, and (3) inquiries from buyers. The top motive can be regarded as pro-active since it stems from the firm's internal situation, while the following two motives are reactions to external aspects. Assuming a theoretical midpoint of 2.5, the majority of the motives obtained fairly low values, and merely seven were in fact considered above this. Together with the first top three, these were both

proactive and reactive motives, with unique products and profitability possibilities being proactive, and idle production capacity and following a buyer being the reactive. Following competitors was also ranked as important, while economies of scale and technical advantages were less so. This is a surprising finding compared with previous comparable studies (for example Pope, 2002) where these two motives obtain the highest values. That merely a limited number of reasons are highly important coincide with the findings of Pope (2002), who found only four of 13 similar reasons to be significant in a similar setting.

The exporting firms were divided into two groups: one with and one without early importing experience. The two groups were not different in number of employees ($t = .3$, $p = .76$), turnover ($t = -.17$, $p = .86$), foundation year ($t = -.6$, $p = .53$), share of export in total sales ($t = -.68$, $p = .49$), and industry affiliation ($\chi^2 = 7.23$, $p = .4$). Analyzing and comparing pure-exporters and importing-experienced exporters suggests a number of noteworthy results (see Table 2). It appears as if firms with importing experience give higher ratings for the overwhelming majority of factors. Exporting firms with previous or concurrent importing experience assign statistically significantly higher scores to proactive factors, such as managerial motivation, unique products, economies of scale, and profit motive. An interesting result is that pure-exporters consider themselves more dependent on governmental and/or association support (question 12).

Contribution of importing experience to exporting

Of particular interest in this study is how import experience could have directly benefited exports. At this stage only firms with importing experience are analyzed. The mean responses to the questions assessing the direct contributions of importing **are** relatively low. Table 3 shows that import-related factors do have an influence on export

decisions, even though significantly lesser than factors such as managerial and profit interest do. Nevertheless, means of the responses to the questions one through seven, reported in the Table 3, are significantly different from 0, a value that indicates no effect.

Finally, a comparison of the factors presented in tables 2 and 3 is of interest (only firms with importing experience are analyzed). Paired-sample t-test suggests that the effect of reducing cultural differences is as important for exporting as having technical advantages ($p = .72$) and pursuing economies of scale ($p = .25$). This is particularly interesting given that Pope (2002) reports technical advantages and economies of scale as most important reasons for exporting. The explicit knowledge effect, third in the Table 3, is as important as cooperating with suppliers ($p = .57$) and competitors ($p = .39$). It is also not surprising that the last three factors have very low mean values. Unlike previous four factors, which deal with systematic knowledge based effect, the last three simply reflect the frequency of lucky occurrence and are not systematic in their effect.

TABLE 3 ABOUT HERE

Discussion and Conclusions

This study examines the role of importing in the internationalization process, its extent and influence on exporting in a small and mid-sized firm setting. **Empirical insights stem from** a survey conducted in a region in Western Finland with a strong entrepreneurial tradition. The results provide several insights into inward operations and the connection of inward operation to outward operations in the SME setting.

On the first core issue of the study the findings show that firms can be divided into two groups with respect to early importing experience. Twenty-nine percent of firms

report that they started international activities with importing, and nineteen per cent started importing and exporting at approximately the same time. Even though the current study does not quite confirm previous studies (e.g., Welch and Luostarinen, 1988, 1993) that found SMEs to start with imports more often than exports, it does support the claim that importing as an early international activity among SMEs is a noteworthy phenomenon. Other findings are also in line with earlier studies: the firms import for their own needs and without middlemen, and started importing because they had been unable to find a domestic supplier. Moreover, there are surprisingly few overlaps of initial importing country with initial exporting country, contrary what was expected based on assumption (e.g., Korhonen, 1999; Karlsen et al, 2003) that learning and network partners from importing promote exporting to the same country and vice versa.

The second and third core issues of the study concern export motives, differences between importing-experienced exporters and influence of importing experience on subsequent exporting, respectively. First of all the study shows that exporting firms rate management interest and limited domestic market as the most significant incentives to start exporting. Other pro-active and firm-external factors, such as inquiries from buyers, idle production capacity, following an important buyer and competitors, and having unique products also have an influence. The incentives and ratings generally correspond to those reported in equivalent studies (Pope, 2002; Karagozoglu and Lindell, 1998), and, in line with these studies, the current study also found only several of total of sixteen motives to be highly influential. The comparison of pure exporters and importing-experienced exporters reveals a significant finding: import-experienced firms assign higher values to nearly all export incentives included in the survey. Statistically significant differences between the two groups are found on the proactive factors

managerial motivation, unique products, economies of scale, and profit motive. An additional interesting result is that pure-exporters consider themselves more dependent on governmental and/or association support. It should also be noted that these kinds of findings have not been reported earlier, may be due to the fact that earlier studies on the import-export connection are few and have been conceptual or employed a qualitative case study approach focusing on individual cases (Karlsen et al, 2003).

The third and last core issue of the study concerns how import experience contributes to subsequent exporting. The results suggest that import-related factors do have an effect, albeit relatively minor, on exporting. The firms report that some benefit for exporting arise from: reduction of cultural barriers, not having to start from scratch because of importing; using knowledge from importing, getting inspiration from importing, and that importing business partners can be used to some extent. It is conspicuously clear that importing does have an influence, but to a lesser extent than what was expected based on earlier studies (Welch and Luostarinen, 1993; Korhonen et al, 1996; Korhonen, 1999; Karlsen et al, 2003). As mentioned before, these studies have been mainly qualitative case studies exploring individual cases in depth to find connections between inward-outward activities. Besides, many of the cases have been selected because of their known intertwined international activities, which can be seen to affect the generalizability of their findings as well as point to the need to conduct also survey-type studies in this area.

Combining the results reported in Tables 2 and 3 points at **an** even more interesting pattern. To remind the reader, the key results are the following:

- (1) Two groups of firms (pure exporters vs. import-experienced exporters) are not different, on average, in size, age, and industry affiliation.

- (2) Firms with early importing experience assign higher scores to proactive motivational factors (management interest, profitability possibilities, unique products, economies of scale – see Table 2)
- (3) By itself, importing has some influence on the decision to begin exporting (reduction of cultural differences, general knowledge – see Table 3)

These results suggest that importing experience has both direct and indirect effect on exporting. The direct effect is evaluated in Table 3, and shows the relative importance of import-related factors to exporting for firms with importing experience. However, when pure exporters enter the picture, the indirect effect emerges: import-experienced firms assign higher values to proactive factors. That is, importing experience allows a manager not only to reduce cultural barriers, but to become more confident and proactive. Of course, the nature of the data does not allow for any steadfast conclusions, especially about causality, but this pattern is present in the data and appears to be logically consistent. A strong argument in support of this perspective is the fact that firms in two groups are identical when it comes to industry, age, turnover, or size – so these cannot explain the observed differences. Thus, if this pattern holds, then the effects of early importing stretch beyond the simple direct effect, which is not all too important. The importing experience affects proactive factors, such as management interest, and these factors have been consistently reported as the most important ones for internationalization and exporting (e.g. Czinkota and Tesar 1982; Pope, 2002).

In sum, our results provide tentative support to the proposition that inward-activities should be recognized as significant for international firms in the SME setting. The low mean values for the direct contribution of import-related factors to exporting suggest that there is a potential in smaller firms for making import-export choices more strategic

and better benefiting from accumulated knowledge. From a managerial perspective, the relevance of purchasing, and foreign sourcing in particular, can be viewed in light of that understanding and improving what often accounts for 60 **to 80 per cent** of the firm's costs. Linking purchasing and marketing functions holds a promising potential for increasing profits, as opposed to two functions operating separately. Finally, explicitly assessing how inward and outward international connections could be improved; encouraging direct social contacts with foreign counterparts, and continuous learning would also be beneficial.

Limitations and future research

Findings and conclusions should, as always, be seen within the context of certain limitations. First, the relatively small and open character of the Finnish economy, in addition to the entrepreneurial-intensive context of the empirical setting, reflects country and region-specific findings. Second, the ad-hoc nature of the survey implies that it represents a snapshot picture of the situation which contains elements that change over time. Third, although efforts have been made to ensure that all of the potentially significant aspects have been included, the exploratory nature of the study does not rule out that some significant aspects have been overlooked. This issue can be particularly important given that the questions reported in Tables two and three were pre-coded. Fourth, even though the respondents typically were key individuals for the whole firm as well as for importing and exporting decisions, in this kind of complex issues other persons' experience and opinion may have been valuable as well.

In contrast to the few studies that can be found on the topic and that are qualitative focusing on often successful single cases, this study wanted to obtain a broader view from different types of companies of whether and how importing influences exporting. It is

apparent that both approaches have considerable limitations when it comes to a complex phenomenon such as the connection between import and export. While the present study establishes and measures a potential link, aims in upcoming studies would focus on understanding this mechanism, in depth and in different circumstances, comparing findings and, thereby, gradually adding to our knowledge. Process-oriented insights could primarily be obtained by combining qualitative and quantitative information. Findings from this study clearly point to the need to understand decision making related to importing, foreign sourcing and the import-export link in SMEs; how and when does importing have an effect on exporting, what factors promote and hinder this effect, and what can be done to manage this. This study was unable to provide insights into these issues, but they need to be investigated in different company and country settings in upcoming studies. Additional research is called for and should involve dual methodologies, qualitative investigation, also using a longitudinal approach, to reveal the mechanisms of import-export links and decision-making. Thus, using and combining several data collection methods are suggested as a way of matching the complexity of topics related to importing and its link to exporting. Furthermore, taking the opposite view and exploring how exporting impacts importing can be suggested as another direction for future studies.

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Table 1. Order between importing and exporting.

	Small-Sized Firms (No of firms)		Mid-Sized Firms (No of firms)	
	Same country	Total	Same country	Total
Importing preceded exporting	7	35	2	9
Importing and exporting started simultaneously	6	20	3	6
Exporting preceded importing	3	15	1	2
Exporting without importing		81		10
Total	16	151	6	27

Table 2. To what extent has the export been affected by these factors? ^a

	All exporting firms	Exporters with previous or concurrent importing experience	Exporters with no previous or concurrent importing experience	Mean difference ^b	t	p
1. The management's interest ^c	3,74	4,00	3,55	0,45 ^c	2,24	0,03
2. Small domestic market	3,56	3,57	3,55	0,02	0,09	0,93
3. Inquiries from buyers	3,02	3,16	2,92	0,24	0,87	0,38
4. Idle production capacity	2,90	3,02	2,81	0,21	0,73	0,47
5. Profitability possibilities ^c	2,78	3,16	2,50	0,66 ^c	2,46	0,02
6. Following an important buyer	2,65	2,55	2,72	-0,18	-0,57	0,57
7. Unique products ^c	2,61	3,02	2,33	0,69 ^c	2,13	0,04
8. Following competitors	2,21	1,96	2,39	-0,43	-1,51	0,13
9. Demands from a partner	1,82	1,70	1,91	-0,21	-0,67	0,50
10. Technical advantages	1,67	1,72	1,64	0,08	0,26	0,79
11. Economies of scale ^c	1,56	1,98	1,25	0,73 ^c	2,44	0,02
12. Support from regional association or equivalent ^d	1,53	1,24	1,74	-0,50 ^d	-1,85	0,07
13. Cooperation with competitors/ business colleagues	1,52	1,46	1,56	-0,10	-0,32	0,75
14. Cooperation with suppliers	1,33	1,43	1,25	0,18	0,63	0,53
15. Closeness to buyers or/and harbors	1,32	1,50	1,18	0,32	1,14	0,26
16. Tax issues	1,03	1,22	,90	0,32	1,25	0,21

^a - Mean responses on six-point scale 0=no effect to 5= very strong effect

^b - Difference between mean responses of exporters with previous importing experience and exporters with no previous exporting experience

^c - Mean difference significant at 0.05

^d - Mean difference significant at 0.1

Table 3. Contribution of Importing to Exporting.

Import-related factor ^a	Mean ^b	t	p
1. Importing has decreased the cultural differences	1,70	7,730	.00
2. No need to start from scratch with exporting because of the importing	1,28	5,039	.00
3. Knowledge from importing could be used	1,24	6,165	.00
4. Importing inspired us to begin exporting	1,12	4,963	.00
5. Earlier business associates from import activities	1,00	5,208	.00
6. Import contacts showed us export contacts	,84	4,571	.00
7. Suppliers from import could be used	,69	4,481	.00

^a - Mean responses on six-point scale 0=no effect to 5= very strong effect

^b - All means are different from 0, $p < .00$