

# Connecting Inward and Outward Internationalisation of Malaysian SMEs: A Learning Approach

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## Abstract

When SMEs are part of global value chain, the flows of information in cross-border buyer-supplier relationships which emerge from inward-outward internationalisation connections should be addressed. This study therefore investigates the learning processes of internationalising small and medium enterprises that engage in inward and outward internationalisation. Hence, this study adopts a qualitative case study approach based on ten cases of the internationalising SMEs in Malaysia. Semi-structured interviews with the Managing Directors of the selected SMEs 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. Findings of this study highlights that the relationship with key foreign suppliers empowered case firms to connect inward to outward internationalisation 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 internationalisation connections to be established.

**Keywords:** Knowledge acquisition; Knowledge distribution; Knowledge exploitation; Organisational learning; Inward internationalisation; International sourcing; Outward internationalisation; Export; SME.



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## 1. Introduction

A growing number of Small and Medium Enterprises (SMEs) in Malaysia are moving towards the global market and pursuing the opportunity to operate internationally (Chelliah and Lee, 2016). They contribute significantly to the Malaysian economy and intensify their roles towards the international trade (Senik *et al.*, 2014). The importance of SMEs has been remarkable with the development of Global Value Chain (GVC) whereby they are capable of creating value in international operations as well as securing market position (Marinova *et al.*, 2017). Nevertheless, the literature on SMEs internationalisation often disregards that the internationalisation process involves the inclusive activities of GVC (Eriksson T. *et al.*, 2017). Upstream and downstream activities of GVC may result in the connections between inward and outward internationalisation (Hernández and Nieto, 2016; Hernández and Pedersen, 2017). However, unparallel view on the sourcing side of GVC can be observed (Gereffi and Lee, 2012). The participation in GVC through international sourcing enables the SMEs to create value thus optimising scarce resources as well as achieving greater focus on core activities and processes (Marinova *et al.*, 2017). 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). According to Hashim F. (2012), through outward as well as inward internationalisation with large firms, and even between SMEs, the foreign market offers the Malaysian SMEs with new growth opportunities for innovation, and new market opportunities for exporting. Thus, the global market does not only epitomise greater room for selling opportunities, but also extends to sourcing opportunities (Servais *et al.*, 2007). This has posed

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challenges for mainstream literature (Servais *et al.*, 2007), which focuses exclusively on outward internationalisation (Hernández and Nieto, 2016; Holmlund *et al.*, 2007; Karlsen *et al.*, 2003).

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). It is a mean for learning about the international market, and the supply environment, an opportunity for exploiting knowledge created elsewhere and adapting to firm's 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). Even though knowledge has been recognized as a critical component of international sourcing, there is a lack of literature on the development of organisational routines and knowledge processes associated with international sourcing (Pagano, 2009). There is a need to explore the process of organisational learning that occurs between partners in the process of international sourcing (Aykol *et al.*, 2013). This study therefore attempts to fill these gaps by investigating the learning processes associated with international sourcing and relationship with key foreign supplier in terms of knowledge acquisition, and exploitation, apart from export and relationship with key foreign buyers.

From a network perspective, it is normal to assume that there are connections between inward and outward internationalisation as knowledge can be transferred from one activity to another (Behyan *et al.*, 2015; Holm *et al.*, 1996). Nevertheless, previous studies on the connections between inward and outward internationalisation dealt with all kinds of counterparts, without distinguishing the relationship with suppliers during inward internationalisation, and the relationship with buyers during outward internationalisation (Holmlund *et al.*, 2007). Therefore, the connections between inward and outward internationalisation has not been fully observed (Holmlund *et al.*, 2007). In addition, the behaviour of actors that involve in GVC which entails different governance mode has not been fully developed (Saliola and Zanfei, 2009). This study therefore attempts to fill these gaps by associating inward-outward internationalisation connections, and cross-border buyer-supplier relationships (cf. Welch and Luostarinen (1993). Besides that, knowledge processes and learning outcome from the connections between inward and outward internationalisation are needed to be explored (Karlsen *et al.*, 2003). Internal mechanisms and processes for sharing external knowledge generated from inward internationalisation to fulfil the demand of outward internationalisation, and from outward internationalisation to fulfil the demand of inward internationalisation remain unclear (Hernández and Nieto, 2016; Karlsen *et al.*, 2003). This study thus seeks to fill this gap by examining the learning processes associated with inward-outward internationalisation connections in terms of knowledge acquisition, knowledge distribution, and knowledge exploitation cf. (Hernández and Nieto, 2016; Huber, 1991; Karlsen *et al.*, 2003). Considering the gaps to be uncovered, the main objective of the research was to investigate: the development of learning processes from the connections between inward and outward internationalisation in terms of knowledge acquisition, knowledge distribution, and knowledge exploitation.

## 2. Literature Review

### 2.1. The Connections of Inward-Outward Internationalisation

Most previous studies consider outward internationalisation in terms of exporting by a firm cf. (Karlsen *et al.*, 2003; Korhonen *et al.*, 1996). On the other hand, scholars implicitly associated inward internationalisation to the conduct of international sourcing by firm (Rasmussen *et al.*, 2012; Servais and Jensen, 2001). Little empirical work has been conducted on the connection between inward and outward internationalisation (Li *et al.*, 2017; Oviatt and McDougall, 1997). 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 internationalisation. Many firms began their international activities on inward internationalisation. This may lead to outward internationalisation as they gain knowledge and experience from inward internationalisation (Korhonen *et al.*, 1996; Rodriguez, 2007). However, previous studies concentrated on how inward internationalization may facilitate the development of internationalization by firm (Halilem *et al.*, 2014; Karlsen *et al.*, 2003; Korhonen *et al.*, 1996; Laurin and St-Pierre, 2011; Li *et al.*, 2017; Welch and Luostarinen, 1993). 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).

### 2.2. Knowledge-Based View (KBV) and Internationalisation

Both the perspectives of (Johanson and Vahlne (1977); Johanson and Vahlne, 1990), and Oviatt and McDougall (1994) recognize knowledge as the essential resource in the process of internationalisation (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 (Prashantham, 2005; Yli-Renko *et al.*, 2002), while neglecting the importance of internationalisation knowledge (Forsgren, 2002) which has been highlighted by the recent research (Fletcher *et al.*, 2013; Johanson and Vahlne, 2009). 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 (Wiklund and Shepherd, 2003; Yli-Renko *et al.*, 2001; Zahra and George, 2002) as an enabling resource instead of resource regulator which lead to a firm's globally mobile offerings in the marketplace (Prashantham, 2005; Yli-Renko *et al.*, 2002). Vital sources of firm's knowledge resources include the entrepreneurs, from their professional experience (McDougall *et al.*, 1994; Oviatt and McDougall, 1994; Prashantham, 2005), and the key management team, from their internationalisation 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); Johanson and Vahlne, 1990) do not regards 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 internationalisation decisions by considering their background in terms of experience, knowledge, skills, education, and value system (Welch, 2015; Wiedersheim-Paul *et al.*, 1978). 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).

### 2.3. Organisational Learning

This section presents the 1) organisational learning sources; 2) organisational learning processes; and 3) organisational learning outcomes.

#### 2.3.1. Sources of Organisational Learning

(Levitt and March, 1988) discussed four sources of organisational learning: 1) learning from direct experience; 2) interpretations of history; 3) retrieval of knowledge from organisational memory; and 4) learning from the experience of other, all of which depend critically on communication (West and Meyer, 1997). Firms learn by processing their experience, but the ability to process organisational 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 organisational unit or indirectly from others. This has been supported by significant number of studies which recognised that firms may learn from their own experience or learn from experience of others (Bruneel *et al.*, 2006; Bruneel *et al.*, 2010; Fletcher and Harris, 2012; Huber, 1991; Levitt and March, 1988).

#### 2.3.2. Organisational Learning Processes

Huber (1991) proposed four processes of organisational learning: 1) knowledge acquisition; 2) information distribution; 3) information interpretation; and 4) organisational memory. On the other hand, Argote (2013) proposed three processes of organisational 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). Acknowledging the role of knowledge distribution in inward-outward internationalisation connections, this organisational learning process proposed by Huber (1991), and Argote (2013) is aligned and presented in this section.

##### 2.3.2.1. Knowledge Distribution

According to Huber (1991), the continuous effectiveness of organisational memory is affected by 1) membership attrition; 2) information distribution and organisational 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 organisational 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 owns by organisational unit, and the necessary amount of unlearning. Besides that, the less uniformity of information framing when distributed to different organisational unit, the less richness of communication media when distributed to receiver, and the larger amount of information to be interpreted than organisation'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 organisation's routines and soft information can be embedded in individual members. He also proposed that computer-based organisational memory can be considered for the storage and retrieval of organisational 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; organisation's technology including layout, hardware, and software; organisation's structures, routines, and coordination methods; as well as organisation's culture, can all be considered as mediums for the retention of organisational knowledge. Argote (2013) also argued that the persistence and transfer of organisational knowledge in the organisation are affected by where organisational knowledge is embedded including transactive memory system, routines, and tools.

### 2.3.3. Outcome of Organisational Learning

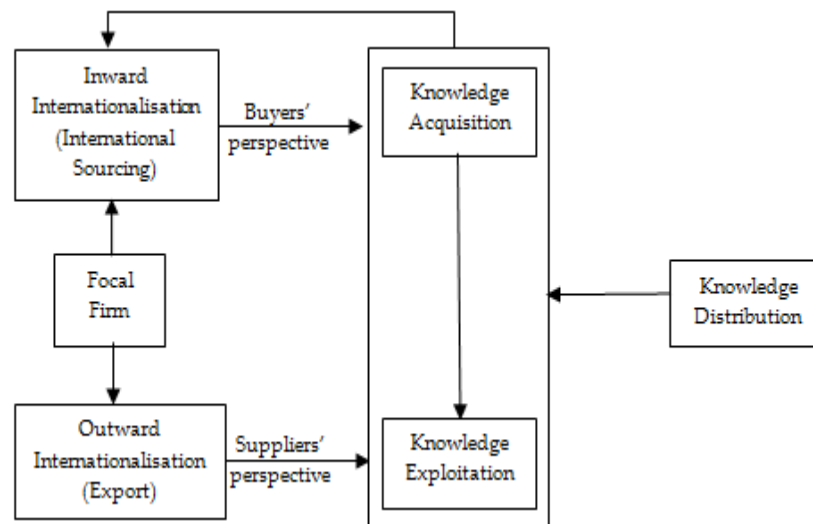
In the late 1990s, research on the outcome of organisational learning significantly increased (Argote, 2013). According to Argote (2013), the outcome of organisational learning is knowledge. It can manifest in changes in cognitions or behaviours. The basic principle underlying the traditional learning 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 organisational 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 organisation, and experience acquired indirectly by organisation) may affect the outcome of organisational learning differently (Argote, 2013). It is easier for an organisation to learn from their own experience as compared to the experience of others (Argote, 2013). Nevertheless, firms with low levels of internal knowledge have been found to benefit more from the exploitation of external knowledge acquired by learning from other organisation (Fernhaber *et al.*, 2009).

#### 2.3.3.1. 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 organisational forms. Cognition can only be understood in context. This context is a contingency that affect the processes of organisational learning and moderates the relationship between experience and the outcomes of organisational learning (Argote and Miron-Spektor, 2011). Context includes the relationship with other organisation (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 (Argote, 2013; Yli-Renko *et al.*, 2001).

## 3. Research Framework

The main objective of the research was to investigate: the development of learning processes from the connections between inward and outward internationalisation in terms of knowledge acquisition, knowledge distribution, and knowledge exploitation. Hence, a research framework is developed by integrating the literature on internationalisation with the literature on knowledge and organisational learning. Inward internationalisation that refers to international sourcing, and outward internationalisation that refers to export are included in the research framework to fill the gap in a comprehensive study on inward and outward internationalisation (Laurin and St-Pierre, 2011; Yeoh, 2014). The notion of cross-border buyer-supplier relationship is incorporated in the research framework by outlining the perspective of buyer that involved in international sourcing, and the perspective of supplier that involved in export in order to develop learning capability. It can represent the connection between inward and outward internationalisation (Welch and Luostarinen, 1993) in which a buying firm can learn and acquire knowledge from the foreign supplier as they internationalise through inward operations, while the supplying firm can learn and acquire knowledge from the foreign buyer as they internationalise through outward operations (Johanson and Vahlne, 2009; Korhonen *et al.*, 1996; Welch and Luostarinen, 1993) which allow the complementary effects between inward and outward internationalisation to be examined. Empirically, the acquisition of new knowledge is associated with the exploitation of new knowledge (Yli-Renko *et al.*, 2001). Nevertheless, 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). Thus, a research framework is developed based on three knowledge processes: knowledge acquisition, knowledge distribution, and knowledge exploitation (Huber, 1991; 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 internationalisation (Karlsen *et al.*, 2003), knowledge distribution is included. Therefore, the integration of inward and outward internationalisation and cross-border buyer-supplier relationship with knowledge and organisational learning reflects the integrated approach of this study. This allows the examination of knowledge acquisition, distribution, and exploitation associated with the connections between inward and outward internationalisation, which was the main objective of the research.

**Figure-1.1.** Research Framework of Learning Processes Associated with Connections between Inward and Outward Internationalisation

According to Hashim F. (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 capacities. Besides that, even though there is a large number of studies focusing on SMEs internationalisation, there is only a little number of studies that focus on the Malaysian SMEs (Abdullah and Zain, 2011; Hashim M. K. and Hassan, 2008; Hashim F., 2012). Little is known about the internationalisation process of manufacturing SMEs in Malaysia (Senik *et al.*, 2014). Moreover, the internationalisation theories to explain the internationalisation of Malaysian SMEs have not been fully studied (Abdullah and Zain, 2011). There is a lack of theory building and empirical evidence on the internationalisation of Malaysian SMEs (Senik *et al.*, 2011). Research on the internationalisation of Malaysian SMEs is still in infancy, and there are broad opportunities to be explored by the researchers (Senik *et al.*, 2011).

## 4. Case Studies

The adoption of case study research is due to the main objective of the research, which required the researcher to provide a holistic understanding on the learning processes associated with the connections between international sourcing and export. This includes the understanding on the development of knowledge and learning and the development of cross-border buyer-supplier relationship during the process of internationalisation. Yin (2009) proposed that case study research is appropriate to conduct a holistic and in-depth investigation of social phenomenon. 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). 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) which the researcher can adopt literal replication where the cases are selected to predict similar results (Yin, 2009). In order to provide literal replication, this study selected Malaysian SMEs that are already involved in international sourcing and export. This highlights the need for purposeful sampling (Perry, 1998). Thus, criterion sampling was used to select and identify cases that fulfilled predetermined criteria (Eduardsen and Ivang, 2016). First, cases must be classified as Malaysian SMEs (Eduardsen and Ivang, 2016). Second, cases must involve international operations which include international sourcing and export (Eduardsen and Ivang, 2016). All in all, 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). The 10 case firms who agreed to participate in this study were labelled A to J to preserve anonymity.

## 5. Findings

### 5.1. The Connections of Inward-Outward Internationalisations

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 was found that only certain case firms were capable of associating the connections of inward and outward internationalisation from the perspectives of knowledge and learning. Firm C, Firm G, Firm I, and Firm J were not capable of connecting outward to inward internationalisation, as well as inward to internationalisation and this will be explained further in section 5.2.

### **5.1.1. Case Firms Started With International Sourcing Before Export – Inward to Outward Internationalisation**

Internationalisation and technological knowledge were acquired from inward internationalisation, and appropriately used for conducting outward internationalisation 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 internationalisation knowledge through the direct experience in international sourcing and realized that it was relevant for conducting outward internationalisation. However, intra-firm knowledge sharing between those who possessed knowledge from inward internationalisation, and those who needed this knowledge to conduct outward internationalisation (Huber, 1991) also enabled the connection of inward-outward internationalisation 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 utilised to share internationalisation 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 utilised 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 internationalisation knowledge to improve the marketing strategy for exporting. Firm E used the internationalisation 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.

### **5.1.2. Case Firms Started with International Sourcing Before Export – Outward to Inward Internationalisation**

Internationalisation knowledge was acquired from outward internationalisation and appropriately used for conducting inward internationalisation by Firm A. The conduct of meeting was established to share internationalisation knowledge between the Managing Director and the employees that were involved in inward internationalisation. The Managing Director also discussed with purchasing personnel through e-mail conversations which enabled internationalisation knowledge to be shared internally. As a result, Firm A was capable of conducting various product quality assessment.

### **5.1.3. Case Firms Started With Export Before International Sourcing – Inward to Outward Internationalisation**

Only Firm F was capable of connecting inward to outward internationalisation 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 internationalisation 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.

### **5.1.4. Case Firms Started With Export Before International Sourcing – Outward to Inward Internationalisation**

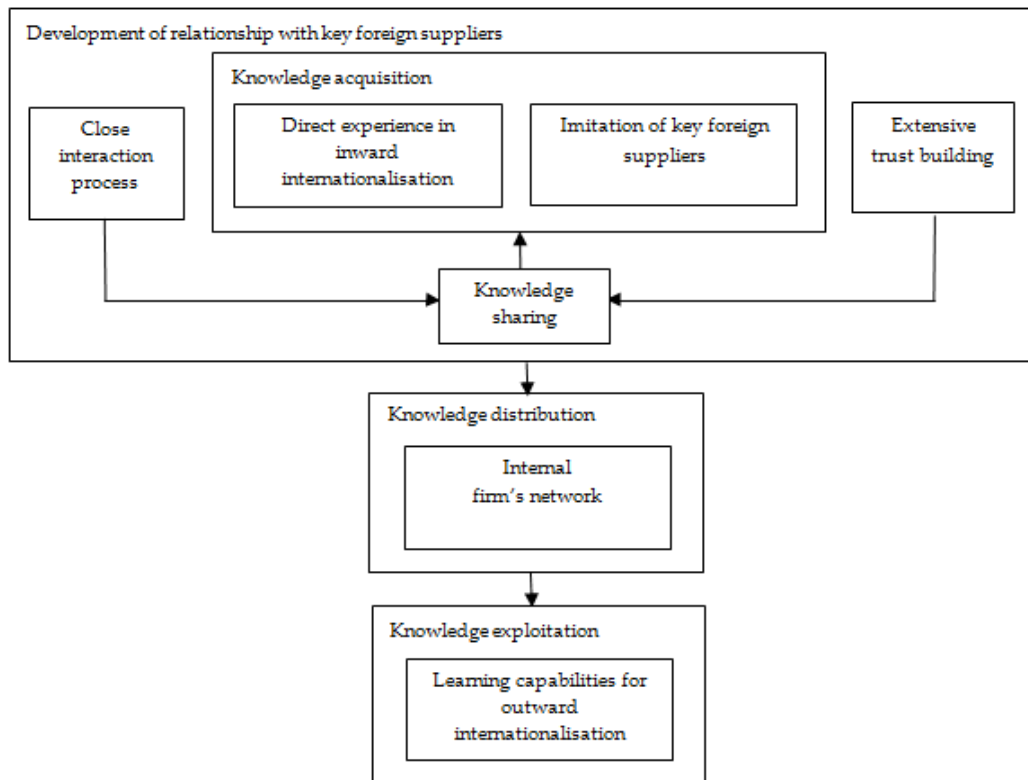
Only Firm B was capable of connecting outward to inward internationalisation through the knowledge process; knowledge acquisition, distribution, and exploitation. The medium of knowledge sharing between the Managing Director, the R&D personnel, and the purchasing personnel was a discussion chaired by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

## **5.2. The Development of Cross-Border Buyer-Supplier Relationship and the Connections of Inward-Outward Internationalisation**

Previous studies acknowledged the development of internal firm's network for knowledge transfer between inward and outward internationalisation to occur within the organisation (Karlsen *et al.*, 2003) thus enable knowledge exploitation as knowledge from inward internationalisation can be used for outward internationalisation, and knowledge from outward internationalisation can be used for inward internationalisation (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 internationalisation by firms. The literature acknowledged the importance of

cross-border buyer-supplier relationship on the connection of inward-outward internationalisation (Welch and Luostarinen, 1993) but does not address how to develop cross-border buyer-supplier relationships in order to link between inward and outward internationalisation (cf. (Hernández and Nieto, 2016). According to (Nonaka and Toyama, 2003) 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). All in all, it was found that case firms that were capable of connecting inward to outward internationalisation employed the integrated approach of learning process as shown in Figure 2.0. 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 internationalisation to be distributed and exploited for conducting outward internationalisation.

Figure-2. Integrated approach of learning processes associated with inward to outward internationalisation connections



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 (Eriksson K. *et al.*, 2000; Holm *et al.*, 1996; Johanson and Vahlne, 1990). 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). 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. 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). Firm D integrated formal and informal interactions. After formal on-site visits to showrooms and factories, an informal meeting was arranged. Besides that, 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 (Johanson and Vahlne, 2009; Madhok, 1995). Firm D and Firm E that were involved in trading were keen to create trust with key foreign suppliers. 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 (Johanson 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 internationalisation did not incorporate a large effort for the development of relationship with key foreign suppliers. The development of relationship with key foreign suppliers only through the interaction process, as compared to the development of relationship with key foreign suppliers through the interaction process, trust building, and knowledge sharing; in which enable the connection of inward to outward internationalisation by Firm A, Firm D, Firm E, and Firm H. Close cross-border buyer-supplier relationships are not necessary for all business relationships between focal firms and key foreign suppliers (Håkansson, 1982). However, this research found that without close relationship with key foreign suppliers, it restricts case firms from connecting inward to outward internationalisation.

## 6. Discussions

### 6.1. Knowledge Acquisition

Previous studies recognized the acquisition of knowledge emerging from the connection of inward and outward internationalisation (Hernández and Nieto, 2016; Karlsen *et al.*, 2003) but the enabler of this process is absent. Therefore, this study contributes to the limited literature of inward-outward internationalisation 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 internationalisation and technological knowledge through inward internationalisation to be integrated into outward internationalisation. Not all kind of knowledge share the same potential to generate a competitive advantage (Hernández and Nieto, 2016), hence key foreign supplier provided internationalisation 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. This leads to the first proposition:

**Proposition 1:** Collaborative knowledge sharing conducted by a focal firm and their key foreign supplier enables the acquisition of internationalisation and technological knowledge to be distributed internally for assisting export operations.

### 6.2. 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 (Holmlund *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 *et al.*, 1996). Nevertheless, this study recognized the importance of knowledge distribution to ensure those who are involved in inward internationalisation but acquired relevant knowledge for developing outward internationalisation, and those who are involved in outward internationalisation but acquired relevant knowledge for developing inward internationalisation 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 study contributes to the limited literature of inward-outward internationalisation 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 internationalisation connections. This leads to the second proposition:

**Proposition 2:** Formal planning of tacit to tacit as well as tacit to explicit knowledge sharing enables relevant knowledge which acquired by conducting export to be prepared for assisting international sourcing operations and relevant knowledge which acquired by international sourcing to be prepared for assisting export operations.

### 6.3. Knowledge Exploitation

By connecting inward to outward internationalisation through the acquisition of relevant knowledge through inward internationalisation, and the distribution of needed knowledge for outward internationalisation, 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 internationalisation through the acquisition of relevant knowledge through outward internationalisation, and the distribution of needed knowledge for inward internationalisation, 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 internationalisation to create organisational 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. 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. This leads to the third proposition:

**Proposition 3:** New product development by a firm can be assisted by connecting inward to outward internationalisation, but also outward to inward internationalisation through the acquisition and distribution of relevant technological knowledge.



## 7. Conclusions

Research on the inward-outward internationalisation connections demonstrates the importance of inward internationalisation to supports the development of outward internationalisation (Karlsen *et al.*, 2003), and left the question on how firm's outward internationalisation supports firm's inward internationalisation unanswered (Agndal, 2006; Hernández and Nieto, 2016; Karlsen *et al.*, 2003; Korhonen *et al.*, 1996) in GCV. This study addressed both ways of connection in internationalisation (inward to outward internationalisation, and outward to inward internationalisation) in terms of knowledge acquisition, distribution, and exploitation. Previous research was concerned with firm's interpersonal network to acquire knowledge through inward internationalisation that can be used for advanced commitment in outward internationalisation (Karlsen *et al.*, 2003; Welch *et al.*, 2002). However, this study found that close relationships with key foreign suppliers were useful to acquire internationalisation knowledge that can be used for advanced conduct of outward internationalisation, 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. Hence, detailed relational value chains can be observed from ten cases of the internationalising SMEs in Malaysia (cf. (Gereffi and Lee, 2012)). Previous research was also concerned with firms' internal network to transfer knowledge developed through inward internationalisation which relevant for outward internationalisation (Karlsen *et al.*, 2003). This involves the sharing of knowledge between the employees who are involved in inward internationalisation, and the employees who are involved in outward internationalisation but the explanation on mechanisms involved was rather limited (Hernández and Nieto, 2016; Karlsen *et al.*, 2003). This study 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, 2003), case firms developed tacit to tacit knowledge sharing through job-related briefings, and formal face-to-face discussions. They shared internationalisation 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 internationalisation knowledge.

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