

# Network Perspective In The Internationalization Of Indonesian Smes In The Era Of Industrial Revolution 4.0

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## **Abstract**

*The level of globalization that goes hand in hand with the 4.0 industrial revolution demands the fighting power of companies both in large and small and medium scales to determine dynamic strategies in anticipating competition and expansion targets through international markets. SMEs in Indonesia as the spearhead and pillars of Indonesia's economic strength are also required to be able to improve their performance, especially in promoting their business on an international scale. Indonesian product SMEs for export competitiveness are mostly based on local wisdom-based products, therefore innovation is needed in developing products with local wisdom. Various obstacles faced by SMEs in managing their businesses, especially related to limitations in implementing production management activities, human resource management and marketing management. The solution to the various limitations that have become problems for SMEs in facing the internationalization process is to establish a network that involves various stakeholders. The network quality and integrated with the support of government programs will be able to support the competence and capabilities of SMEs in facing the internationalization process in the industrial revolution 4.0. This study examines the role of networks in enhancing the internationalization strategy of Indonesian SMEs.*

**Keywords:** SMEs / UKM, networking, Industrial Revolution 4.0,

## **I. INTRODUCTION**

The level of competition and challenges of companies in the era of globalization and in the ASEAN market demands the ability of companies to determine dynamic strategies in anticipating global competition. Indonesia as a country whose growth and development is largely determined by the growth of businesses with a small and micro scale Medium (UKM), must also be able to increase competitiveness in dealing with countries in ASEAN. SMEs as the spearhead of Indonesia's economic competitiveness must be able to improve their performance, especially because they play a role as a driver of economic activity in the community.

Data from the Ministry of Cooperatives and SMEs of the Republic of Indonesia in 2018 shows: the share of SMEs is around 99.99% or 64,194,057 units. Meanwhile, the share of large businesses is 0.01% or around 5,550 units. Absorption of labor for Micro businesses was 107,376,540 people (89.04%), absorption of labor in Small Businesses was 5,831,256 workers (4.84%), and Medium Enterprises amounted to 3,770,835 workers (3.13%). ); and employment of large enterprises of 3,619,507 workers. This clarifies the role of small and medium enterprises in the Indonesian economy.

The Minister of Cooperatives and SMEs set a target of 6% of small and medium enterprises (SMEs) in Indonesia to upgrade from small to medium enterprises and from medium to large enterprises. the number of small businesses amounting to 700,000. This means that 6% of the total 42,000 must go to class. Meanwhile, the medium-sized businesses to date have reached 60,000. This means that 6% of this amount of 6,000 must be promoted. "So the target to go up to grade in the next five years is 48,000 small and medium enterprises,". Micro, small and medium enterprises (UKM) must be the backbone of the national economy as well as the spearhead of the domestic economic turnover. However, the facts faced are that SMEs still face various challenges to be more competitive internationally.

The development of Indonesian SMEs towards the era of global markets or international markets is still relatively lagging behind. Most research on SMEs from developing countries states that the challenges faced

by local SMEs are in their size and ability or capability, while studies on the efforts of SMEs in Indonesia to face internationalization are still limited. As a result, little is known about efforts to prepare SMEs for global markets. Therefore this article attempts to analyze the various problems faced by Indonesian SMEs in the internationalization process. Especially regarding the involvement of Indonesian SMEs in the international market is still relatively low compared to SMEs from other countries in Asia, though the commitment of the Indonesian government to SMEs is quite high, but the level of internationalization of SMEs is still low, and recommendations for SMEs in the midst of the Indonesian government's efforts to develop SMEs to face the 2015 AEC.

*Network* or networking is one strategy that allows SMEs to penetrate the international market. Network provides a different view on the efforts of SMEs to enter international markets. With a network, the market is a network of relationships between business people. Internationalization that utilizes networks as a strategy, focuses attention on the efforts of companies to build, cultivate, maintain and change relationships for the benefit of the company's presence in the international market. According to the network concept, internationalization is influenced by the relationships established between networks rather than company advantages. Network members influence the decisions and activities of companies in the network. This study aims to understand the small business networking process to work on the international market and the negative impact of the network itself on international business. To achieve this, a qualitative research approach will be used.

Previous research has revealed that networks have succeeded in facilitating small companies, especially in reducing losses in international operations (Coviello and McAuley, 1999; Mort and Weerawardena 2006). This limited number of studies invites other researchers to examine the role of entrepreneurs in their networks (Rasmussen et al, 2001; Anderson and Victor, 2003), The role of decision makers in seizing business opportunities, developing and integrating their businesses (Chetty and Holm, 2000). networks in small enterprise business development (Mort and Weerawardena, 2006).

Industry 4.0 is an industrial era that utilizes technology to facilitate human work in it. The application of technology in the industrial era 4.0 streamlined the use of time and made services easier for business actors everywhere. UKM development does require hard work and persistence. This industrial revolution does not mean that it will facilitate the development of SMEs, because hard work is still needed. The industrial revolution 4.0 is proof that technological developments are real. SMEs and industry 4.0 are two things that are closely related. Today's UKM players like it or not have to follow this industrial revolution in order to develop their business.

The results of this study will focus on understanding how the role of networks in improving the capabilities and behavior of SMEs in the internationalization strategy, and the networks discussed emphasize cooperation in technology so that SMEs are able to increase their business scale internationally.

## II. METHOD

This article is part of a qualitative study conducted through a conceptual study through a literature review. The purpose of this study is to determine the role of networks in strengthening the competence of SMEs towards the global market in the era of the industrial revolution 4.0. To get an in-depth answer, it is necessary to discuss the cases of 2 SMEs that have gone through the internationalization process. The information obtained was obtained through semi-structured interviews.

The results of data collection were analyzed using content analysis method. then compared with the theoretical framework where an understanding of various empirical data and the content of communication messages conveyed by the object of research will be obtained. Data from the research objects of SMEs show that they are able to produce export-quality products and have potential in the internationalization process.

## II. LITERATURE REVIEW

Internationalization encourages large companies and SMEs to operate on a national scale and compete with other foreign companies (Barkema et al., 2002). Compared to large companies, SMEs have

to overcome bigger obstacles. SMEs must be able to take advantage of their advantages and create a niche market to cover their losses (Pleitner et al., 1998).

SMEs must identify and optimize their limited resources to carry out their best activities. The production process must be divided into several stages through linking and networking in order to provide better results in business. Networking as an important factor in entrepreneurship can affect the number of entrepreneurs and start-up businesses (Acs & Szerb, 2010). Networking is a key factor in developing SME export activities, and most SMEs have limitations in building networks and their components (Tambunan, 2011). Another opinion was put forward by Mourougane (2012) and Aldaba (2021) who stated that networks are related to human resource capabilities, because human resources are capable of being a barrier faced by SMEs. In addition to networks and human resources,

Based on the research recommendations above which support the argument that networks have a significant influence on the internationalization process related to: speed, pattern, market selection and mode of entry. Mohamed Zain and Siew Imm Ng (2006) from Malaysia analyzed literature from developed countries regarding the relationship between SME networking and internationalization. The formulation of the proposition put forward by the researchers is as follows:

1. Network relationships spark and motivate companies, initial internationalization intentions - network relationships spark knowledge opportunities and motivate firms to enter international markets. In addition, working together can help companies overcome difficulties and lack of motivation.
2. Network relationships influence the company, the decisions the market chooses
3. Network relationships influence companies, fashion decisions enter. Relationships between firms (eg with clients, customers) influence the selection of markets and modes of entry for small firms. The main partner often guides the selection of foreign markets and provides a mechanism for entry to the market.
4. Network relationships allow enterprises, access to additional relationships and an established channel. Starting a business overseas requires a company to develop distribution channels to market its products. One way to overcome this problem is to develop network relationships with foreign partners - especially those with established distribution channels<sup>17</sup>). Networks also help companies connect with potential buyers. The use of alliances and cooperation arrangements by SMEs can increase penetration of foreign markets by providing access to additional links.
5. Network links allow companies access to local market knowledge.
6. Network relationships help companies gain initial credibility. Network links help companies to access local market knowledge and obtain business information and contacts. Credibility and trust are developed through collaboration.
7. Network relationships assist companies in lowering costs and minimizing risks of internationalization. Business networks in the form of social capital that are based on interrelated relationships give Asian companies a variety of competitive advantages, for example. reduce transaction and search costs for buyers. When entering a new market, decision makers usually minimize their risk by making use of known contacts and connections. Through collaboration companies can achieve rapid internationalization.
8. Network relationships affect the speed and pattern of corporate internationalization. found that the speed and growth patterns of international markets and the choice of entry modes for small firms were influenced by close customer relationships. Also, Coviello and Munro (1995) found that through network relationships companies can internationalize very quickly by connecting themselves to wide and established networks.
9. Network relationships limit the future scope and market opportunities of the company. Although network relationships facilitate the international growth of SMEs, they also limit the pursuit of other opportunities. Network relationships can hinder product development activities and market diversification due to corporate network ties and high dependability.

10. Johanson and Mattsson developed an internationalized network model based on business network research. They discuss the internationalization of companies in the context of the company's own business network and the relevant network structures in foreign markets. Their model highlights the importance of a network structure outside of the company's own business network. According to the network approach, internationalization is seen as a process in which relationships are continuously built, developed, maintained and dissolved with the aim of achieving company goals.
11. A newer form of networking has emerged among companies involving e-commerce (ECCs) on the internet. This network is formed from a coalition of interdependent entities based on skills (Achrol & Kotler, 1999; Singh & Kundi, 2002).
12. Research conducted on Australian SMEs found that exports are usually initiated on the basis of existing social networking decisions (Ellis & Petocich, 2001). Hendry and Brown (2000) stated that national and international relations involve technology-based companies more highly than local companies. Therefore, this article basically uses network theory to examine the internationalization process of SMEs. For the purposes of this research, a network is defined as the relationship between a company's management team and employees with customers, suppliers, competitors, governments, distributors, bankers, family, friends, or whatever other parties allow it to internationalize its business activities (Axelsson & Johanson, 1992; Sharma & Johanson, 1987).

**Table 1:** The impact of the network on the internationalization process of SMEs according to several researchers

Impact	Researcher
Trigger and motivate firms, Internazional intention	Sharma & Johanson (1987), Conviello and Munro (1995), Korhonen et. al (1995), Anderson (1996), Ellis (2000), Chetty and Patersen (2002).
Influence firm's market - selection decision Influence firm's entry - decision mode	Bell (1995), Conviello and Munro (1997)
Gain access to additional relationships And established channel	Welsch (1995), Bjorkman and Kock (1995), Conviello and Munro (1995), Chetty and Patersen (2002)
Gain access to local market knoweldge	Larson (1992), Bucklin and Sengupta (1993), Conviello and Munro (1995), Fukuyama (1995),
Obtain initial credibility	Larson (1992), Oslan and Yarpak (1995), Turnbull et, el (1996). Nahapiet and Ghoshal (1998), Chetty and Patersen (2002)
Lower costs and minimizing risk of internationalization	Dichtl et.al (1990), Hamilton (1991), Katsikeas and Morgan (1994), Conviello and Munro (1995), Burgel and Muray (2000), Ellis and Pecotish (2000), Chetty and Patersen (2002).
Influence firms's internationalization pace and pattern	Linqvist (1988), Conviello and Munro (1995), Jones (1999)
Constraint firms'future scope and market opportunity	Conviello and Munro (1995)

Sources: Zain M., Ing Imm S; Relationships on firms' Internationalization process, "Thunderbird International Business Review, 2006, Vol 48, No. 2, p. 188.

The role of networks is evident from the results of research to encourage the internationalization process of SMEs. This support is also evident from the collection of empirical data from interview and observation techniques, carried out in two internationalized SMEs located in Batu, East Java, namely Arjuna Flower and Arjuna 999. The SMEs which are the object of this research have similar characteristics, namely; small and medium sized companies, which have adopted a business-to-customer and business-to-business approach, and have carried out export activities. Sources of data in this study are company owners and company managers related to operational activities and the internationalization process in these SMEs.

### **PT. ARJUNA FLOWER**

CV. Arjuna Flora was founded in 2007, led by a female director, Ir. Luki Budiarti. Ms. Luki Budiarti received many awards from government and private agencies for the management of CV. Arjuna Flora and in social service activities as Chairman of the Association of Horticultural Farmers Group (Gapoktan) Mitra Arjuna. CV. Arjuna Flora was originally engaged in the export of a flower bulb called *Sandersonia aurantiaca*: an orange flower-shaped lantern with bright green leaves to Japan with a partnership with Sagami Jitsugyo Co. Ltd and The Agri Matsumoto Co. Ltd. Over time, the CV. Arjuna Flora has developed into several businesses. Both the exclusive marketing of agricultural products to Japan by implementing "Export Import Destination Commodities", exploring the export potential of Indonesian agricultural resources, and establishing cooperation with various national partnerships".

Arjuna Flower was founded in 2000, with main activities in export and import. The main product was originally the enlargement of the *sandersonia* tuber and is now expanding into other crops, with labor drawn from the surrounding community. Starting internationalization with export-import starting with Japanese entrepreneurs and expanding to Taiwan, the Netherlands and Nepal as a Japanese network. The products developed at the beginning were *sandersonia* and *zhepyranthus* flowers. This effort is mutually beneficial because of the different seasons in Indonesia and Japan.

The implementation of exports initially encountered various obstacles, the main one being the commitment and responsibility to protect the nation's good name. Japan made a constructive partnership by inviting and facilitating the participation of Arjuna Flower at the International Flower Expo in Japan. For farmers around Arjuna Flower, it opens up opportunities to jointly open land for cultivation of *sandersonia* and *zhepyranthus*, but local farmers do not respond positively to these opportunities. Before the pandemic, Arjuna flower's turnover was 500 - 600 million per year. The basis for managing Arjuna Flower's business are: 1) smart work, and 2) can't be wrong.

The existing network creates opportunities in Eastern Indonesia, allowing local farmers to participate in training in Singapore, while on-the-ground training is conducted in Japan. The weakness of local farmers is reluctance to grading. Initially established for exim, imported flower seeds from Japan were planted, used as cut flowers in the local market, there were hybrid seeds (couldn't be developed anymore), imported seeds: lily, licensing was extremely difficult, selling prices adjusted,

*Zandershonia* from Bromo, introduced by the tutor, has land, finally cooperated, once good planting in Pujon, must have a company, established Arjuna Flower 2005, focused on enlarging tubers, came from Japan. cold storage, so that the temperature is like the area of origin, a temperature of 15 degrees, shoots out, is sent to Japan. Current seedlings from Nepal, with network coordinators from Japan.

Tubers are planted again in Japan, used as cut flowers, the longer the stalk is the more expensive it is, only 1 company can cultivate *zandershonia*, and it has become an icon in Japan, although the% is small. There is a sense of trust ... opportunity: another import, bonding like your own parents, growing with *zhepyranthus* seeds, plastic bottles (keeping flower stalks durable during the trip, 1 day on a plane trip), 1 container plastic bottles shipped by sea. Japan: not cultivated in Japan, because of land problems, labor, because it needs land rotation with other crops, Indonesian climate with 2 seasons / suitable sun.

The most important export factor is to maintain commitments (payment, support for activities) in accordance with the MOU (despite losses) and the main thing is to maintain the good name of the nation. Next year will be networked to other countries. Japan felt that the cooperation with Arjuna Flower was proud and its good name was raised. Arjuna Flower is a blessing. 2007: Int Flower Expo, invited, added to New Zealand, Netherlands. Japanese name took off.

Japan builds a positive perception through Networking with Nepal on the basis of humanity. Seed-to-bulb enlargement in Nepal. Nepal to Indonesia tubers. SAGAME JITSUGYO, built relations by Japan. Mr. Matsumoto, 5 countries sent to Japan. Imports brokering, If Arjuna Flower does not exim, it will be subject to sanctions from customs. The operational costs are sometimes not good, the flower process is 2.5 months to produce seeds, after 4 months of cold storage for the dormancy period The motivation from the Central Government is good and real, it has to be introspective of market opportunities, for once, it doesn't have to be



sustainable. The market is uncertain, the long-term plan with Japan is definitely 5 years, with local farmers unpredictable, farmers' mindsets are different. Japan, 1998, with Japanese companies. Japan is more about performance.

### **PT. ARJUNA 999**

CV. Arjuna 999 is a shop that is domiciled in Batu City, East Java, which processes various kinds of fruit chips. According to the CEO of CV. Arjuna 999 Anjun Hasiholan, that all the processed food on display comes from local fruits and vegetables, especially those from Malang City, East Java. "Kota Batu Malang is famous for its fruits and vegetables, with the condition that Kota Batu is a producer of vegetables and fruit for processing its agricultural products into something that has a selling value, so that it becomes a processed chip product with a variety of fruit and vegetable flavors."

This family business that has been running for 3 years has succeeded in penetrating overseas markets. Even the food that was exported was originally food that was made traditionally, that is peanut brittle aka peyek. Not only in chips, CV Arjuna 999 has also expanded its business wing by creating a type of cereal that comes from fruits and vegetables, namely "Hapy Chips Cereal." packaged beautifully and suitable for children because it contains vitamins and is rich in fiber. (\*).

The owner's internationalization process occurs after going through a long process, even after being rejected many times because the product is deemed not meeting quality requirements and similar products already exist in the shop. Finally, with the help of her children marketing online through social media, at that time she immediately got a response from the typical Indonesian souvenir business owner who lives in Hong Kong. This first request cannot be done alone, therefore with the help of local women and borrowing the equipment needed, the owner can fulfill the request. This new demand is also still constrained by packaging, because peanut brittle is easily crushed, so it becomes a challenge in packaging. The next product development is to make various variants of the project. Currently, almost all Asean countries have ordered the project, with an average turnover of 14 thousand packs a month. The marketing area has expanded to the Middle East, and with the current business development, Arjuna 999 is also committed to fostering and accommodating the business results of business actors who are relatively new to go international.

All the results of this business are managed professionally and creatively with young, digital-savvy workers. The main product relies on local wisdom, and currently a variety of crispy and frozen chips have been developed. Marketing is done through online IG, FB, Shopee, and Content is managed by a special team as a partner.

### **III. RESULTS AND DISCUSSION**

Besides having many functions and benefits, SMEs also still contain various fundamental problems that need to be immediately studied and resolved. Apart from problems in the field of management, small entrepreneurs (SMEs) also face problems: marketing, human resources, capital, technology, partnerships and social, economic, political and cultural problems (Anoraga, 2002).

The problem of networking in small businesses can be interpreted in different ways. Network problems can be interpreted as working together between small entrepreneurs or working with medium or large entrepreneurs. Network problems in small businesses, both with fellow small entrepreneurs or with large entrepreneurs, are still lacking and limited.

Paying attention to the current internationalization process of SMEs in Indonesia, in general, the following problems can be found:

1. SMEs in carrying out activities are still running separately, marked by limitations in the use of technology, production quality still requires time and a long process to meet export product requirements.
2. Market Knowledge.

Lack of experience, access and information to introduce SME products to potential international markets is an obstacle for SMEs in the internationalization process, making them reluctant to undertake risky expansion efforts. On the other hand, SMEs have a fairly large orientation towards the domestic market

rather than the global market so that brands have less experience in conducting international business practices

3. SMEs have limited knowledge of legal issues, due to a lack of assistance from relevant institutions that can advise them on legal issues, international rules and certain regulations in a country.

4. Financial constraints.

SMEs often complain about a lack of access to financiers or institutions that can offer financial assistance. The funds that have been obtained are often used for the development of the domestic market and are almost never used to prepare business lines abroad. In addition, funds from venture capital, which can actually be used as initial capital, are still not developed properly.

5. Lack of supporting infrastructure. The main obstacle to the growth of Asian countries is a lack of infrastructure support. Weak transportation connectivity and logistics systems are hampering business growth in Indonesia and this makes it difficult for the government to reduce poverty and inequality.

6. Limitations of technology and innovation. SMEs have limited access to adopting appropriate technology. Even if SMEs are able to adopt technology, in general they adopt an entry-level level of technology, with a low level of information technology (IT) capability and implementation, and are unable to properly conduct research and product development. IT implementation among Indonesian SMEs is still at a basic level, where computers are only used for word processing and simple calculations or access to social media such as Facebook and Instagram as a means of marketing.

7. Limited human resources. Quality information management plays an important role in creating competitive advantage and adapting to changes in the fast business environment. However, SMEs face major problems in managing information due to their limited human resources. Human resource constraints include lack of motivation, lack of skilled and talented workers and limited ability to transfer knowledge and technology management. As a result, SMEs are not able to increase the efficiency, productivity and quality of their production.

8. Keballow the government.

Another big challenge has to do with public policy. the bureaucratic level in government agencies also contributes to the obstacles faced by SMEs. SMEs face problems from the government if there is no synergy from institutions and programs designed to develop SMEs. The lack of government incentives to support the adoption of new technologies and programs that support the internationalization of SMEs is a weakness in delaying the acceleration of the internationalization of Indonesian SMEs. It is often found in the field that the framework developed for the development of SMEs is not comprehensive. There are also agencies or channels involved, but most of them are unrelated and uncoordinated. In addition, data and information on Indonesian SMEs are inadequate and rarely updated.

### **Problem Solution**

The solution that is able to solve the problems mentioned above which is felt to be more urgent or urgent is action that directs SMEs so that they do not walk alone into areas that are not very well known to them. A strategic step to spur a new or global region is the establishment of a network for SMEs. Networks must be able to bridge the various limitations faced by SMEs. The main objective is that this network is expected to increase competencies which are considered capable of increasing the competitiveness of SMEs in the international market. This is in line with what Chetty and Patterson (2002) stated, namely that the concentration of business networks comes from exchanges on social networks, and the internationalization process of SMEs from this perspective is considered capable of overcoming limited resources, experience and credibility.

The government plays a role by fostering SME actors, especially in the field of production management. This can be seen from the capital or equipment assistance programs for SME actors from local governments through various agencies such as Disperindagkoptan, Disnaker, Social Agency, and others. However, the provision of assistance is less coordinated and integrated, so that the driving force for strengthening SMEs is less than optimal. It is not uncommon for aid to be misused into unproductive expenses, causing bad credit and stagnating business development.

The stage of strengthening production management for SMEs from various dimensions is more directed at increasing their production. As a result, the development of SME actors leads to certain groups that have various advantages, such as capital, tenacity and adequate human resources that can develop properly, but on the other hand, actors who lack the capital, skills and tenacity cannot develop, so that many government assistance programs are not well targeted. In this development, production management cannot be implemented optimally.

Therefore, relationship marketing that emphasizes the ability to adopt and respond quickly to environmental marketing is more appropriate as their tool for marketing strategy (Zontanos and Anderson, 2004). Relationship marketing, entrepreneurship and networking are interwoven (Anderson, 1998). In addition. Networking contributes to enlightening the association between entrepreneurial concepts and relationship marketing (Walter and Gemunden, 2000).

#### **IV. CONCLUSION**

Network or network plays an important role in facilitating the internationalization of SMEs in Indonesia. This happens because SMEs in Indonesia are still constrained by the various resources they have. Indonesian SMEs that go international have a tendency to produce products that are based on local wisdom, so a network in the field of production is needed, especially in developing product innovation to be the dominant factor. In the field of human resources, networking with the Government and other institutions is needed to provide training and understanding of export procedures for both administrative and legal matters, while in the field of promotion it is time for SMEs in Indonesia to catch up in online marketing and the use of e-commerce in their business management .

Industry 4.0 is an industrial era that utilizes technology to facilitate human work in it. The application of technology in the industrial era 4.0 streamlined the use of time and made services easier for business actors everywhere. UKM is required to be able to follow the development of existing technology if they want to be successful and move up the level at the international level.

SME networks that support the internationalization of SMEs in Indonesia can be carried out with the Central and Regional Governments, business associations, research institutes in various universities, similar companies both still competing locally and those that have implemented internationalization, partners among SMEs who go international, colleagues, family, and Indonesian emigrant communities abroad. The established network must be downstream and upstream in accordance with the constraints and challenges in the internationalization process.

The government through related institutions must be able to provide the three management assistance needed by SMEs in developing micro and small businesses. So far, the government has played more roles as a provider of facilities and a conducive business climate (enabling), maker and enforcer of regulations, and providing assistance to the weak (protecting). What is more needed is the role of the government in strengthening management with an approach to empowering the economy of the people (UKM).

1. More Intensive, Collaborative and Comprehensive UKM Mentoring Program for Scale-Up UKM.
2. Build and develop an integrated "Digital Economy" ecosystem with the "Online Education" system for SMEs in Indonesia
3. Guidance in innovation, product development, quality, technology and management, capital and wider market access incl e-commerce
4. There is a need for a quality and integrated training and development program for SMEs with the support of government programs.

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