

## Understanding The Internalization Strategy For MSMEs

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### **Abstract.**

Recently many micro, small, and medium enterprises (MSMEs) play important role in international market. They are expanding their business to international market. Internationalization provides many strategic benefits to the business of MSMEs. However, for many business groups on this scale, internationalization is not easy due to limited resources and capabilities. In order to achieve efficient and effective internationalization, it is important to understand the determinants of MSMEs internationalization and its relationship to the internationalization of firms. This study explores how the international orientation of employer, human resources, technology capabilities of the company, and the external environment can explain understanding the level of internationalization of MSMEs. The study showed that the orientation of entrepreneurial and investment in human resources is an important factor to explain the internationalization MSMEs. Additionally, technology turbulence and market similarities moderate this relationship. The results imply that the manager/owner of MSMEs should consider these internal and external factors in order to improve their performance in the international market.

**Keywords :** Internationalization, MSMEs, the orientation of international businessmen, human resources, technology capabilities, external environment

### **I. INTRODUCTION**

Micro, small, and medium enterprises (MSMEs) plays an important role in the economy, because of their significant contribution to the national revenue. The rising GDP contribution by SMEs, signify their potential to promote domestic-led growth in existing and new industries. They also strengthen the resilience of the economy in intensifying global economic competition. Furthermore these businesses group also contributed to creating work fields and absorbing number of work forces. Moreover, SMEs are also a source of innovation, generating exporting opportunities, and as the source of future successful large-scale enterprises. Similarly in Indonesia, MSMEs are important actor in the national economy, it includes 99.9% of the total number companies and 96,9 % of the total overall number of employees, while the contribution in GDP is 60.51% in the year 2019 (Kemenkopukm, 2021).

Even though they are small companies, but they can prove resistant to various kinds of economic storms. It is because micro, small, and medium enterprises ease in adopting and implementing the new technology. Adoption to new technology is easy to carry out to improve the growth and power of business competitiveness. It is because they do not have a complex bureaucracy and the structure of the organization was still relatively slim. It makes coordination and communication between the managerial level tend to be easy. In addition, maintaining relations between employees also become one of the advantages due to the number of employees is still relatively small.

MSMEs can more easily to adjust its business to the condition of the market dynamic. Their ability to take the risk allowing MSMEs to take advantage of capital and resources that are owned by themselves to enter a challenging new business environment, including entered international market. Among the factors that motivate SMEs in entering overseas markets including market expansion, more profit, and exposure to new ideas.

Internationalization for MSMEs is more complex than for large companies because of limited capabilities and resources. The barriers to internationalization among SMEs are shortage of capital, management characteristics and attitudes, lack of knowledge of potential markets and how to enter the

markets, and lack of qualified staff. However, MSMEs try to build specific capabilities to carry out an effective internationalization process. Globalization gives advantages to obtain and disseminate information easier as ensuing of the transformation of information and communication technology (ICT). It provides MSMEs more opportunities to enter the international market. But, even with the increased opportunities and encouragement to pursue a government assistance and globalization, internationalization is complicated. Thus, MSMEs require strategic management of their limited resources to carry out the company internationalization process.

The purpose of this study is to determine the factors that influence the internationalization of MSMEs. The key questions addressed in this study are as follows: How does the international orientation of entrepreneurs affect the degree of internationalization of MSMEs? Are human resources/employees crucial? What impacts the capability of the technology on internationalization? How does the external environment affect the internationalization of MSMEs? Understand the questions are essential because micro, small, and medium enterprises have an opportunity to develop a competitive strategy as a tool to be able to operate in a global environment.

### **MSMEs Internationalization Theory Perspective**

Internationalization is processing increasing engagement in international operations (Daniels et al., 2009; Antoldi et al., 2011). Over the last few decades, the internationalization expansion of MSMEs attracted a theoretical framework. Its interest in explains and analyze the MSMEs internationalization processing. MSMEs internationalization theory develops on the understanding of the different internationalization patterns of large companies. Based on the perspective of theoretical differences, literature internationalization MSMEs focuses on the factors that affect the performance of MSMEs in the market internationally.

**The Uppsala model** is a theory that explains how firms gradually intensify their activities in foreign markets introduced by Jan-Johansson and Jan-Erik Ahlen in 1977. This model attention to the gradual and incremental character of international expansion. Organizations could best reduce their risk level by adopting this approach. Additional growth also suggests that companies begin the Internationalization process in markets that have less psychic distance. It is the individual's perceived differences between the home and the foreign country. The theory states that the firms with no exporting activity will start by exporting via an agent. Firms may also use other entry modes such as joint venture, licensing, or franchising. It depends on the nature of the firm. Gradually, firms will gain more market knowledge and use more intensive and demanding operation modes such as sales subsidiaries and followed by wholly-owned subsidiaries.

**According to the resource-based view**, companies define having scarce and valuable resources that generate competitive advantage (Stoian et al., 2011) and provide a basis for implementing an internationalization strategy (Knight and Cavusgil, 2004; Hwang, 2010). The reason why companies choose to start their activities internationally referred to valuable, rare, and hardly replacive resources that give the firm a competitive advantage. This view suggests better performance gets by reaching and exploiting the scarce and valuable resources inherent in the company ( Sousa and Bradley, 2008). Source power refers to the tangible assets, such as physical properties and capabilities of the company, and intangible assets such as knowledge, experience, and management characteristics (Ruzzier et al., 2006; Kamakura et al., 2012). The resources aspects are the main components of competitive advantage, human and social capital, positively impacting internationalization. This view can be advantageous for MSMEs when they have limited but scarce and valuable resources or capabilities to enter the international market (Leonidou, 2004).

**In a network-based view**, internationalization defines as a process of building business networks in international markets (Ruzzier et al., 2006). It highlights the importance of relationships with suppliers,

customers, and International markets. This condition can stimulate or help a firm to become internationalized. The pattern of internationalization influence by the network structure that companies tend to build or have achieved (Antoldi et al., 2011). This view shows that business networks allow companies to have tangible and intangible resources to support the internationalization process (Wright et al., 2007). Hence, this view suggests SMEs with limited experience and resources develop business networks such as local distributors or agents in their International target markets. The available networks help entrepreneurs to initiate their business activity internationally and obtain International integration (Kunday& Pi, 2015; Chandra & Wilkinson 2017). Working together among all components of the firm can help the company overcome adversity and lack of motivation (Chetty and Patterson, 2002).

**International entrepreneurship theory**, a relatively new theory, tries to include the so-called global birth phenomenon of internationalization since the 1980s. The rapid development of international ICT and logistics has led to a new business environment in which young and small companies can enter global markets (Knight and Cavusgil, 2004). These companies overcome internationalization barriers through the ability to adapt quickly to new information technology (Prange and Verdier, 2011). International entrepreneurship theory is focusing on the firms 'international activities and strategies. Therefore, it has recognized their impact. The concept of internationalization, associated with International Entrepreneurship theory, refers to managers'/entrepreneurs' behaviors. It includes risk tolerance, innovativeness, and proactiveness, which leads the firm towards successful international expansion (Martin & Javalgi 2018). Bolzani and Foo pointed that The International Entrepreneurship theory started to focus on the entrepreneur's abilities in making decisions and setting high goals. These qualities accelerate international expansion and boost the whole performance of the company.

None of the MSME internationalization theories described above can fully explain the character of the process. Each approach can only partially explain this phenomenon because the internationalization of MSMEs shows the relationship of many important factors involved in international operations. This understanding provides insight for researchers about the need for a more sophisticated picture of MSMEs internationalization or at least a mix of different theories.

#### **International Orientation of Business Actors and Company Internationalization**

Indicators of the international orientation of business actors are managerial values, attitudes, and behaviour at the corporate executive level (Covin and Slevin, 1989). The characteristic of Entrepreneur International orientations is innovation, proactivity, and risk-taking (Wiklund and Shepherd, 2003). Innovation is concerned with supporting creativity, developing new services and products, and promoting it in new ways or processes (Lumpkin and Dess, 1996). Proactivity concerns introduce new products and services before entering new markets (Lumpkin and Dess, 1996). Furthermore, risk-taker refers to the tendency to take action challenging, such as entering new international markets (Lumpkin and Dess, 1996). Researchers use the three dimensions to explore MSMEs performance (Todd and Javalgi, 2007; Wiklund and Shepherd, 2003) in an international context. Having international orientation provides an opportunity for entrepreneurs to enter into the International market.

Innovation and risk-taking are the main dimensions of entrepreneurship orientation (Zahra and Garvis, 2000). Micro Small Medium Enterprises's action in seeking opportunities to enter foreign markets is an entrepreneurship attitude because it represents a combination of innovation and risk-taking abilities. Evidence of the effect of Internationalization orientation entrepreneurship present in several studies of MSMEs (Kuivalainen et al., 2004; Spence and Crick, 2006). The influence of the orientation of entrepreneurship in the internationalization of the company presented in the findings of research on new business (Yiu et al., 2007), the company which is born globally (Knight and Cavusgil, 2004), and small to medium-sized companies (Crick and Jones, 2000). Early development of

entrepreneurship culture positively influences the international intentions of the company, allowing the company to become more competent and ready to look for opportunities in foreign markets (Zucchella et al., et al., 2007)

### **Human Resources and company internationalization**

The traditional sources of competitiveness (like protected markets, technology, access to financial resources, and economies of scale) are insufficient for maintaining a competitive advantage in today's competitive markets. As the importance of adequate human resources is needed, more and more companies make considerable efforts to improve the effectiveness of human resource management.

Personal factors or employees influence the process of MSME's Internationalization. Human capital is associated with a range of knowledge, experience, and valuable skills that possessed man ( Burt, 1992). The most critical characteristic of human capital is its manifestation in humans (Becker, 1993). Employees as human resources use all values, knowledge, and skills to increase the company's interest. Human resources are critical factors for improving organizational performance and growth ( Novak and Bojnec, 2005). Increasing employee knowledge and experience is an investment for the company. High-quality employees are able to develop and identify the opportunities that exist. When the process of internationalization is already engaged then each individual still has to improve a higher ability to capitalize on these opportunities ( Davidsson and Honig, 2003).

Manolova et al. (2002) identified human resources as a common theme in their study of the internationalization of small firms, on the others hand, researchers were less concentrated on the relative importance of the various dimensions of human capital contained in employees concerning the internationalization of MSMEs. Research results confirm the positive effects of education, foreign language skills, and international experience on corporate internationalization (Athanasios and Nigh, 2002; Herrmann and Datta, 2005). A study on international trade also provides support to a manager who has experience in international trade. It is a driver of the internationalization of MSMEs by involving in international business activities (Ibeh, 2001). As a result, human capital tends to be a more critical matter in the process of internationalization of MSMEs (Patterson and Cicic, 1995; Ruzzier et al., 2006). It reveals by several empirical studies on the positive effects of humans resources.

### **Technology and Internationalization of MSMEs**

Technological capability is described as the basis for a company's sustainable competitive advantage because it generally consists of technical knowledge, production skills, and patents which are very valuable and difficult to imitate by competitors (Lee et al., 2001). Technology capability is indispensable to achieve high internationalization performance (Kang, 2004; Kuivalainen et al., 2010) because it allows companies to complete core business activities such as offering products and services, gaining market acceptance, surviving in competitive markets, and achieving financial success. Empirical studies show that technological knowledge is a representative resource for MSMEs, especially in high-tech industries, the skills and superior products and services are essential for high international performance ( Kuivalainen et al., 2010; Lee et al., 2001).

Research & Development, as an essential element of technical capability, is the ability to make changes in existing technologies and develop new products to meet customer needs rapidly changing and high demand in the global market ( Lefebvre and Lefebvre, 1999). It is a barometer of product competitiveness and the core of superior international performance ( Filatotchev et al., 2009). The outcome of empirical research conducted at MSMEs Korea and Canada confirm that R&D and product characteristics affect international performance as significant factors. Notably, the case studies found a positive interaction between R&D intensity and motivation for export activities (Kang, 2004). Esteve-Perez and Rodriguez (2012) also conducted an empirical analysis using firm-level data on Spanish MSME producers and

examined the strong interdependence between R&D and export activities. They strongly suggest that involvement in R&D activities increases a company's prospects for engaging in export. In turn company's chances of success in R&D. In conclusion, technological capabilities are understood as the basis for maintaining a firm's competitive advantage by offering competitive products, gaining market acceptance, and retaining customers, thereby achieving improved performance in foreign markets.

### **External environment and internationalization of MSMEs**

Effects of the strategies and activities of the company on the performance in the international market depends on the specific context of the company. Industry and market conditions conceivably moderate the influence of organizational culture, corporate strategy, and technological competence on performance in international markets (Cavusgil and Zou, 1994). Several research outcomes on the performance of companies in International markets found that companies that can enter International markets are manufacturing companies that operate in a relatively stable environment.

Dynamism environment or changes continuously and rapidly in technology, the competitiveness of late and market demand environmental conditions underlying fundamental uncertainties and business risks (Davis et al., 1991). Rapidly changing technologies and short life cycles resulting from changing and improving products create sustainable changes in the business environment. When new technologies developed competitiveness of emerging businesses often redefining the structure of the existing product markets (Benkenstein and Bloch, 1993). Turbulence can trace from consumer expectations. When consumers become accustomed to the change, consumers will develop a desire for this change situation have to allow the proper pressure on the company to continue to undertake strategic change (Benkenstein and Bloch, 1993). Therefore, companies that are oriented international require resources and a higher ability to cope with environmental change such as the uncertainty of market or technological turbulence. Uncertainty in international markets influences a company's decisions about different strategies in each market to meet specific needs. Particularly, when the technological environment is constantly changing, companies have difficulty understanding market trends and predicting the introduction of new products and technologies, especially in the international market conditions. In high-tech turbulence, companies must develop new technologies and products continuously. It is becoming more difficult for micro, small, and medium-scale companies. It is because of limited resources and the ability to cope with changes in the environment that continues to happen. When the market situation can predict technological change, the company will be easy to develop strategic marketing internationally even though the organization's resources and capabilities are limited.

Because international-oriented behavior is more related to the aggressive exploitation of foreign markets and the sufficient application of foreign market knowledge from diverse environments. The ethics are similarities between the overseas markets and the domestics market, including in it there is a preference to foreign customers, so in this context that the international orientation will be less effective. Substantially, because MSME has the strength in choosing to adapt their International strategies to the specific needs of each national market and the rapid adjustment of their International marketing mix to various market conditions. The influence of internationally MSME-oriented can take a comparative advantage in the market similarity rate lower to improve performance in the international market.

## **II. CONCLUSION**

This study provides several theoretical and managerial implications. From the theory, the study offers extra that draws on current knowledge about the importance of the strategic orientation of international for entrepreneurs, the source power human/employees, and the ability of technology

to explain the efforts of internationalization of SMEs. From the description above can be concluded that human capital influence the internationalization of SMEs. Skills language foreign and experience internationally is also important as a predictor of the internationalization of the company. Researchers Johanson and Vahlne (1990), for example, show that companies that have experience in the market of international will tend to engage in many activities of internationalization.

The international orientation of entrepreneurs is also positively related to the level of internationalization of MSMEs. The study previously showed that the entrepreneurs' International point of view has a significant impact on the performance of exports (Knight, 2001; Kuivalainen et al., 2004). Entrepreneurs or leaders of MSMEs implement programs to foster an attitude positive towards expansion internationally among employees. They show the importance of thinking beyond the domestic market will increase the likelihood of success and create advantages for competitive companies. Besides that, utilize a source of the power of man to strategic business internationally to capture opportunities in the market internationally. Acknowledgment of this matter will lead to the understanding of the factors that contribute to successful international operating.

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