

Internationalization Of Smes: SLR (Systematic Literature Review)

Nova Dwi Hernanik^{1*}, Sudarmiatin², Hadi Sumarsono³

^{1,2,3} Doctoral Program in Management Science, State University of Malang, Indonesia

¹ Lecturer at the Faculty of Economics and Business, Wisnuwardhana University, Indonesia

*Corresponding Author:

Email: nova.dwi.2104139@students.um.ac.id

Abstract.

This article aims to provide a systematic review of the literature on the current state of research on highly diverse and collaborative and internationalization of small and medium enterprises (SMEs). We analyze the processes that affect the internationalization of SMEs. Additionally, highlighting the limitations of the literature, especially in terms of theoretical fragmentation; existing theories are deployed and illustrated but are rarely extended in a way that significantly informs subsequent work. With this, we highlight the need for a more rigorous and empirically informed exploration of contextual effects that considers the consequences of development in global economic ecosystems. From the results of a review of several literatures, it shows that there is an internationalization theory that tries to analyze, process, and produce results. Because in the era of globalization, small and medium companies see internationalization activities as a great opportunity to progress and develop.

Keywords: *Internationalization, SMEs, International Trade, Developed and Developing Countries.*

I. INTRODUCTION

The process of export and industrialization in various developing countries is now starting to involve more small and medium enterprises (SMEs). Currently, SMEs have developed into the largest group of industrial elements in most developing countries, and have contributed significantly to the growth of the manufacturing industry and employment in these countries. The contribution of SMEs can be seen in income growth, entrepreneurship training, technology adoption, adaptability to changing market demands, job creation, lower wage gaps, industrial spread to suburban areas, and regional development. This is a special achievement, considering that SMEs actually have limitations in terms of size and industry experience. SMEs in developing countries have also been a driver of export growth and manufacturing progress. SMEs have an active participation in export trade, although the level of their contribution to exports varies among these developing countries. Some SMEs have even gone a long way in foreign markets by investing in developing their own brands. All of the above, together with improvements in quality, prompt delivery and competitive prices, have made SMEs a business worth reckoning with in the international market. The contribution of SMEs in Asia to export trade is recorded at more than 35%. The development of SMEs in Southeast Asian countries has been placed as a development priority scale, as mandated in the *Asia Pacific Economic Cooperation Forum*.

In developing countries, SMEs are defined as business organizations that cover a wide range of economic enterprises varying from a small shop, to a craftsman, to engineering firms that produce sophisticated products for sale in foreign markets. There are several criteria that can be used to differentiate between SMEs and large enterprises in developing economies. Three criteria that are commonly used are the number of employees, the value of sales and the value of production assets owned. This definition of SMEs can vary from country to country, but SMEs can be determined by the number of employees, as this figure is the easiest to obtain. In Indonesia, there are several definitions of SMEs provided by various government agencies and ministries. UU no. 20 of 2008 concerning Micro, Small and Medium Enterprises defines small businesses as business units with initial total assets of up to Rp. 200 million, excluding land and buildings, and a maximum annual sales value of Rp. 2.5 billion, medium-sized companies are classified as business units with an annual sales value of more than Rp. 2.5 billion but less than IDR 50 billion. The Indonesian Ministry of Industry and the Central Bureau of Statistics (BPS) use the number of employees as an indicator to classify company size. BPS classifies small businesses as companies with 5-19 employees and medium-sized businesses as business entities with a workforce ranging from 20 to 100 people.

The Essence of Internationalized Business Activities in several countries

Internationalization is international business, which has the form and strategy of companies in economic activities abroad. Internationalization requires large capital expenditures, as well as knowledge in entrepreneurship, the advantage of internationalization activities is the creative mobility of ideas (Chang et al. 2017). Internationalization activities are carried out by many governments including institutions in Europe, as well as providing information on export promotion, assistance with international exhibitions, making it easier for companies to operate abroad and playing an important role in enabling companies to establish business relations with their competitors. Internationalization is the process of transferring business activities by a company outside its country. An important role in the company's internationalization process is marketing, but with product features to match. Internationalization depends on the policies of exporters and the organization of export activities in companies to eliminate surplus production or often unwanted orders especially in the domestic market. There are two ways of internationalization: first, as a transfer of business outside the country of origin, and second, as a process of increasing corporate involvement in international transactions, Piercy & Turnbull (1985). The process of corporate internationalization has been tested empirically showing that there is no broad way to capture the potential paths of corporate internationalization, (Welch and Luostarinen 1988).

Another form of internationalization is export development, which was also carried out by Johanson & Vahlne (1977), which is one of the most well-known developments in the definition of internationalization in internationalization activities, namely the Uppsala model. Internationalization is the company's acquisition of knowledge of the domestic market, world markets, and knowledge of international markets. Internationalization activities take place at different times and for quite a long time. It is very important to study, understand and be directly involved in the process of international market activity. Small and Medium Enterprises decide to internationalize, when demand in the domestic market has decreased significantly, because only exports are able to increase sales. In addition to that in foreign markets create a network of sales and trust of local business partners, and acquire knowledge about the distribution network, Johanson and Vahlne (1977). The first well-known literature study on internationalization theory, shows that small and medium enterprises acquire knowledge about certain characteristics of certain foreign markets. Specifically the business climate, behavior patterns and consumer segmentation, can be obtained through exporting and taking over foreign companies or establishing new businesses. In the early stages of development, companies will not choose internationalization, because the domestic market is more predictable, minimizes exchange rate risks in domestic transactions, and is not worried about complicated forms of payment. The domestic market is easier to identify with marketing tools. The costs of supplying goods to foreign markets, which are getting lower in the process of globalization, are also important. All company workers participate in the learning process under the supervision of company management, who must be aware of the need to acquire knowledge about world markets. Companies often choose to process the internationalization of their operations by taking on the task of supplying foreign markets through increasing exports, before making foreign direct investment.

This is due to the fact that companies acquire special knowledge about foreign markets, especially in the export business, which requires higher variable costs but lower fixed costs. Internationalization is not an easy process, entrepreneurs in local markets need to assess the situation of economic opportunities and business development in international markets, namely the exchange of products and services, (Angelsberger et al. 2017). In the study of internationalization, it is recognized that knowledge of market characteristics can only be achieved by gaining experience in foreign markets. Companies must have excellent knowledge that will enable them to operate in international markets. Companies can specialize in many types of intermediate products. The internationalization of firms is not decided by the desire to benefit from financial markets, but by strategic decisions firms enable export growth (Hymer 1976). Companies deciding to internationalize must have extensive knowledge of intellectual property protection in international markets, increasing brand awareness. Products are often offered in international markets at better prices than counterparts in certain markets which can come from all over the world. One form of internationalization, namely anonymous contracts and FDI, requires an increase in fixed costs to cover other costs, this forces

companies to take advantage of scale that may be difficult for small and medium enterprises to obtain due to limited company resources. As a result, small and medium enterprises experiencing a downturn in the world's economy, choose a development strategy by increasing R&D, production and distribution in foreign markets.

Companies are increasingly choosing to contract outsourcing, rather than forming subsidiaries in the process of foreign direct investment (Hollenstein 2005). To outsource contracts, rather than having to establish subsidiaries in the process of foreign direct investment flows, social capital plays a very important role in the process of internationalization of companies, thereby enabling the survival of small and medium enterprises in the global market, (Hollenstein 2005). However, small and medium enterprises, with their financial constraints compared to large firms, still accept export as the most cost-effective form of internationalization (Westhead 2008). Only less than 3% of EU-based small and medium enterprises have overseas subsidiaries. A much larger number of small and medium enterprises have decided to export to third countries of the European Union (European Commission 2015). In addition, internationalization is direct trade, namely the entire international trade carried out by producers abroad. Merchants buy and sell themselves, goods purchased from manufacturers are simply repackaged and then sold under their own brand and design. Agents bear marketing and promotional costs, but not potential losses related to under-sale of goods. In the case of homogeneous goods such as cotton or wheat, special agents are marketed as intermediaries at a reasonable cost. The full range of services is offered by export management companies conducting marketing research on foreign markets, distributing, logistics, transporting goods and services. Trade intermediaries play an important role in international trade and can help gain market share, with relatively limited search costs. The use of intermediaries by companies is, in a sense, the best way to deal with companies that do not deal with the market. Intermediaries have more information about a given market than firms using a market entry strategy (Rubinstein and Wolinsky 1987).

Intermediaries have more information about a particular market than firms using a market entry strategy (Wong and Wright 2011). Just as the characteristics of optimization issues may be related to the contracting customer environment or market-level factors, contracting issues can also affect the choice of export mode. Most small and medium export trade transactions are carried out directly, and indirect trade also plays an important role in international trade, although currently the scientific research literature on the share of manufacturing companies in indirect exports is still lacking. Companies that decide on the internationalization process and take foreign markets into account in their business can be broken down according to their performance. This labor productivity will be determined by international cooperation. Only the best companies will become the internationalization process. Of course, also companies with low labor productivity may choose to expand slightly into international markets. While most such companies seek to help themselves in various ways, it is understandable that small and medium enterprises do not have the necessary capital to employ specialized human resources who would be very highly qualified in managing the internationalization process, specialists in all respects. marketing field. For small businesses with few human resources, Companies deciding internationalization will be forced to develop strategies to enter international markets. Usually, companies with small capital will choose to trade on the basis of internationalization, that is, export to foreign markets. This form of cooperation with the rest of the world is relatively simpler and less complicated. This requires a market to be identified and a diversified stock of competitive products to be available, so it must be a diversified assortment. Although it is possible that small capitalization companies may choose to invest in foreign direct investment by investing abroad from scratch or buying controlling shares, but in small capital enterprises, research conducted by Felbermayr and Jung (2011) and Ahn et al . (2011)

Internationalization of European and Indonesian Small and Medium Enterprises

The internationalization process makes it possible to increase sales opportunities in the era of globalization on world markets and at the same time enables the competitiveness of small and medium-sized companies in Europe and increases the company's turnover. Companies in Europe choose to participate in the internationalization process in order to increase jobs due to increased demand for goods. According to data from the European Commission, companies exporting goods and services increase employment by 7%,

and small and medium enterprises monopolize the domestic market by 3% (European Commission 2010 , 2012). Small and medium enterprises in Europe, emphasize that they play an important role in the economy, because more than two-thirds of jobs are created and play an important role in the global economy. However, many obstacles were encountered in the internationalization process, especially the lack of working capital to finance business. Investors are reluctant to invest in small and medium enterprises due to the huge financial market uncertainty. Large companies in Europe prefer to invest in capital markets than small and medium enterprises. So that many small and medium businesses use the financing offered by banks, a small number participate in the capital market (Demary and Hornik 2016). Whereas SMEs can improve performance by importing more foreign material inputs and by leveraging foreign technology from technologically advanced economies (Bilgin et al. 2012). If small (R&D-intensive) firms are to become a driving force for substantial structural change in the EU economy, from being driven by a somewhat mid-technology sector to a high-tech based economy, they will need substantial finance, (Voigt and Moncada-Paternò-Castello 2012).

Due to the lack of capital associated with a small base, the European Commission recommends that small and medium enterprises use clusters with specialized knowledge of demand in certain regions of the world. Clusters allow for greater worker mobility using greater venture capital, (Delearde and Schmerber 2017). European companies use various forms of internationalization. One form of corporate socialization in Europe is to create clusters. Establishing manufacturing facilities overseas and selling them in local markets enabled companies to internationalize their activities and sell their products abroad (Helpman 1984). Many companies try to export, but foreign investment is also a very popular form of internationalization. Companies have to make a number of decisions regarding foreign direct investment, both horizontally and vertically (Markusen 1984). Export firms are more efficient firms than local firms, find it easier to gather information on world markets and often require inappropriate staff (Helpman 2011). The 23 million small and medium enterprises (SMEs) conducting single market operations account for more than two-thirds of private sector jobs in the European Union. More than 25% of small and medium enterprises in the European Union export. Small and medium enterprises play a very important role in the internationalization process, (European Commission 2011). As discussed, small and medium enterprises are the backbone of the economy, as employers accounted for more than 70% of total employment after 2008 (Parliament Europejski 2009). Therefore, small and medium enterprises are recipients of the activities of the State government which has developed programs for small and medium enterprises.

The main priority in Europe is to encourage the internationalization of companies, both small and medium scale businesses. This activity aims to support export policies and increase the competitiveness of European companies in the global economy, leading to increased employment . The second priority is the creation of an "International Business Portal", which will enable international action, there is a thematic portal that includes information on international target markets, providing solutions for European companies. Virtual information aimed at SMEs who want to develop their business activities outside. In the form of websites, online contacts and information portals, including data-based market access and access for exports. The most important tool for meeting this need is the market access team set up by the European Commission on international markets. Small and medium enterprises seeking partnerships with international partners seeking business partners to trade/sell in international trade and service provision, compete in the global economy. Promoting and targeting internationalization of small and medium enterprises, namely by increasing the competitive advantage of products and services, every SME must have partners to support marketing and have innovation in producing a product.

The Influence of Internationalization Process on MSMEs in Indonesia

Over the last three decades, MSMEs have played an important role in the national economy. Currently MSMEs seem to be dominant in terms of employment and job creation. In addition, MSMEs have dynamic and flexible characteristics, easily adaptable to unstable economic conditions and many risks. However, in facing liberalization with very tight competition, MSMEs are faced with many new challenges and must be able to react in order to adapt to the latest conditions. The process of internationalization and globalization is both a threat and an opportunity for MSMEs. Opportunities that can be taken include

exports, new market entries, and foreign cooperation, while the threat is increasing competition. According to the SME Observatory Survey Summary European Commission (2007) the main motivation for the internationalization of MSMEs is the desire to increase the competitiveness of companies by gaining access to new and bigger markets. In the theoretical approach, the most basic assumption that MSMEs internationalize is due to growth factors. This can be exemplified by the desire of MSME managers who are oriented towards company growth to try to enter foreign markets.

There are four factors in accelerating the internationalization of MSMEs (OECD, 2007), the first is the entrepreneurial factor where growth-oriented entrepreneurs are very enthusiastic about expanding their business in the international market. This factor is the most important factor among other factors. The second factor is the driving force, namely the company's inability to grow in the domestic market. This factor is sometimes referred to as a negative factor which forces companies to leave a competitive market. The third factor is pull, namely how the company understands the opportunities that exist in foreign markets or when product demand only appears in foreign markets. This factor is often called the positive factor. The fourth factor is the opportunity where the company has the opportunity to appear in the international market. If MSMEs always increase their competence in adjusting to global competition, there are still questions about how MSMEs do it. Ch. Stehr (2010) argues that nowadays more and more companies are developing globalization strategies in entrepreneurship. Ch. Stehr also argues that there is a difference between the internationalization of entrepreneurship and the globalization of entrepreneurship. Entrepreneurial internationalization is considered to have been achieved if products have been supplied by other countries. While the globalization of entrepreneurship is the expansion of international economic activities to the world's limits. Analysis of the potential for globalization, especially for MSMEs, requires the following analysis:

1. The potential for globalization usually develops from the desire of companies to adjust and adapt to global conditions (legal, cultural, administrative) and situations around the world (political/economic). In addition, the willingness to adapt requires gradual development and must be described in a systematic manner.
2. There is a direct relationship between the possibility of globalization of entrepreneurship, the organizational structure, and the human capital of a company. This consists of the general organizational and structural capacity of the company, the qualifications of employees, the willingness of management/owners (managers) to take on additional costs for foreign expansion.
3. The problem of financing foreign and global activities is also the main criterion in making decisions when it is possible that there will be both positive and negative potentials in the process of MSME globalization.
4. Thus, competence and ability for entrepreneurial globalization refers to certain resources, company goals, business segments, and the position of MSMEs in the competition.

Internationalization of MSMEs in Indonesia

Internationalization is closely related to the activities of a company abroad. The most prominent activity in internationalization is export activity. The stages of internationalization described above illustrate how a company develops its business by seeking patterns of entry into a wider market, namely the international market. Export activities carried out are not only for large companies but have penetrated the MSME sector. MSMEs are a cornerstone of the Indonesian economy. Nearly 99.9 percent of business actors in Indonesia are MSMEs and even contribute an economic growth rate of 2-4 percent per year for Indonesia. The large potential of the MSME business unit, which reaches 48.9 million MSMEs, is an important part of the Indonesian economy. Its contribution to GDP reached 56.7 percent compared to contributions from non-oil and gas exports which only reached 15 percent. MSMEs also contribute 99.6 percent in terms of employment. Even when the 1997/1998 crisis occurred, the real sector (MSMEs) continued to survive in the midst of limitations when many large businesses collapsed, as a result of the onslaught of worsening internal and external conditions.

The greatness of MSMEs was again proven when the global financial crisis returned in 2008, when the global economy was disrupted due to the recession in the United States. However, MSMEs still survive

and even grow well. Along with the growth of networks and communication between countries that rapidly provide opportunities for MSMEs to enter into international market competition. MSME products that previously only circulated in the local market must be able to improve quality so that they have export standards. Exports have a positive impact on a country's economic development, and exporting companies usually have higher productivity than those that do not export (Achtenhagen, 2011). The problem faced by MSMEs is how to create competitive advantage due to the rapid competition both domestically and globally (Taher & Mehmoud, 2010).

Some of the barriers to MSME exports in Indonesia include:

1. The globalization of trade demands a higher response by business people to market changes and consumer behavior in particular. The speed of changes in market demand and consumer tastes, demands that the products offered must be innovative, diverse and product cycles become relatively shorter. The ability to access global markets, adopt product innovations or even create product innovations that suit market needs, are a series of weaknesses that are generally owned by MSMEs.
2. In general, SMEs in producing their goods/services are only concentrated on a number of products/services that have traditionally been handled by certain groups of business actors and in certain markets. Therefore, it does not encourage the diversification of MSME products/services, both in design, form and function of the products produced. The low level of diversification of MSMEs, gives the impression that MSMEs only specialize in traditional products/services that have comparative advantages such as apparel and several other textile products, leather goods such as footwear and wood, including furniture and handicrafts.
3. Low accessibility to productive resources, especially those related to financing, information, promotion, technology, and business networks for export products.

MSME Internationalization Strategy

Seeing some of the obstacles that often occur in MSMEs in Indonesia, several strategies can be implemented to reduce the possibility of failure in the internationalization process of MSMEs (Neddy, 2004).

1. The prospects for the MSME business in the era of free trade and regional autonomy are highly dependent on the efforts made by the government in developing the MSME business. One way is through the development of a conducive business climate. To achieve this conducive business climate, it is necessary to create a conducive policy environment for MSMEs. The intended conducive policy can be interpreted as a policy environment that is transparent and does not burden MSMEs financially and excessively. This means that various excessive government interventions, both at the central and regional levels, must be eliminated, in particular the elimination of various regulations and administrative requirements that are complicated and hinder MSME activities.
2. MSME development that is directed at a supply driver strategy should be directed at developing MSME programs that are market oriented, and based on efficiency considerations and the real needs of MSMEs (market oriented, demand driven programs). The focus of this program is efficient MSME growth which is determined by sustainable MSME productivity growth, which in turn will encourage sustainable MSME growth.
3. Facing the challenges of economic globalization and free competition, unequal structures and disparities in access are no longer relevant to defend. For this reason, it is necessary to reform the existing business structure. In the context of this reform, it is very relevant to give MSMEs loose space to catch up but also with the right strategy.
4. Trade liberalization should also open up opportunities for expanding the MSME product market itself, through the emergence of institutions, which are specifically aimed at opening and expanding MSME market access. Among the forms of institutions considered capable of playing this function are strengthening the trading house as a door for export channels for MSME products and subcontracting patterns.
5. The formation of strategic alliances between MSMEs and foreign businesses is the most important and effective mechanism for transferring business information, technology, managerial and organizational capabilities, and access to export markets for MSMEs rather than assistance provided by government

agencies. This strategic alliance is different from the partnership program and foster fathers that we know so far. In this alliance, MSMEs or foreign or domestic businesses cooperate based on mutual will and interests.

6. Another strategy to encourage the performance and role of MSMEs in the free market and overcome the gaps that occur is to grow medium-sized businesses in building industrial structures. This strategy for developing medium-sized businesses has practically been forgotten in line with the lack of attention paid to entities and the position of medium-sized businesses in economic growth and in MSME development policies.
7. Developing institutions to support Indonesian exports abroad by revitalizing the role of the Trade Attache and/or Head of Economics at Indonesian Embassies/Representatives abroad and reactivating the Indonesian Trade Promotion Center (ITPC) by involving Indonesian entrepreneurs who are very familiar with the ins and outs of export trade in other countries. concerned. Optimizing the role of export support institutions is expected to be able to provide international market information for exporters, map buyers who are able and committed to accommodate and market Indonesian products in the country concerned as well as provide protection and business consultancy to Indonesian exporters who will enter foreign markets including providing consulting in the field of procedures and export requirements that must be met.

II. CONCLUSION

Internationalization is a considerable challenge, most of the theories about the nature and form of internationalization, will be a consensus on how important this phenomenon is. Today, internationalization is increasingly attracting the attention of European companies due to the globalization process. Internationalization theory has explained the causes and forms of internationalization in modern world economic activities, in the process of internationalization of business. In Europe, almost all small and medium enterprises are required to act in a wider geographic market. It maintains its international economic policies at the forefront of the internationalization of European companies, taking action steps at the institutional level that will enhance foreign market knowledge for European companies. The government has taken special steps to foster companies that are considered quite vulnerable but are the basis of a modern economy, namely small and medium enterprises. SMEs create the most jobs in the private sector and their share in total exports is currently increasing dynamically. However, they faced many challenges when trying to increase their international activities, most importantly a lack of funds and knowledge of the proper way to do business overseas. Policies drafted by the European Union that are intended to assist SMEs include increasing their economic activities outside their home country, for example by creating an "International Business Portal" as well as supporting and promoting business networks (for example by establishing a Market Access Team) and clusters. Latin America regards SMEs as economic engines in terms of job creation and contribution to GDP.

However, high competition stemming from commercial openness, coupled with the volatility of the political and economic environment, has implications for creating competitive advantage to achieve business sustainability. The evolution of international sales of mechanical metal products by Peru and Mexico has a slightly positive perception. Mexico has increased its sales more than Peru; however, products that were not previously produced in Peru now appear on the list of products that can be exported. Opportunities to increase exports of metal-mechanic products are open because there are still many unfulfilled demands. It is necessary to motivate more companies to take steps towards internationalization. It is necessary to motivate more studies in Latin America to understand the internationalization model used by companies today. With respect to public policy, highlighting the positions of the two countries. Latin America in the export of metalworking products can support the creation of programs and incentives for SMEs. The use of funds and resources for regional development can focus on the internationalization of companies towards markets that require manufactured products in both countries. Indonesia MSMEs are a cornerstone of the Indonesian economy. Nearly 99.9 percent of business actors in Indonesia are MSMEs and even contribute an economic growth rate of 2-4 percent per year for Indonesia. The large potential of the MSME business unit, which

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