



The Internationalization of SMEs: Motives and Barriers

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ABSTRACT: This study answers questions about the motives and barriers to the internationalization of small and medium enterprises (SMEs). A literature review was conducted to identify relevant research findings on the motives and barriers to the internationalization of SMEs. The finding of the study is consistent with the Resource-Sector Model of SME Internationalization, that the internationalization motives of SMEs are classified into internal motives, namely increasing profits, availability of resources, creating market power, and business growth. While external motives are limited domestic market, competition, and proximity to customers and suppliers. In addition, the study shows that resource strength and owner-manager competence are the driving factors for the internationalization of SMEs. SMEs entering the international market will face internal barriers: human resources, product quality, and financial resources, and external barriers: business environment, government barriers, and socio-cultural barriers. This study contributes to providing new insights into consideration of opportunities and threats for the internationalization of SMEs.

KEYWORDS: Barriers, Internationalization, Motives, SMEs.

INTRODUCTION

It is widely recognized that small and medium enterprises (SMEs) are important for the economic growth, based on data that more than 96% of all Asian businesses are SMEs, in addition to providing 30% in the private sector¹. SMEs have a real contribution to the national economy, and job creation². This condition also occurs in Indonesia, according to data the number of SMEs reaches 99% of all business units³, and contributes 61.97% to economic growth in Indonesia⁴. Given the importance of the role of SMEs to the economy, it is necessary to encourage them to increase competitiveness towards internationalization. SMEs need to improve product/service innovation capabilities to increase their competitive advantage^{2,5}. Previous studies have shown that internationalization plays a role in business growth⁶, and triggers the exploration of new opportunities⁷.

The internationalization process is more complicated than just entering the international market⁶, SMEs in Indonesia are still facing various problems such as market knowledge, finance, supporting infrastructure, technology and innovation, human resources, competition, and government policies⁸. This problem is caused by a lack of experience and information to introduce SME products to the international market⁹. SMEs must face new challenges in the era of globalization², they need a strategy for digitizing SME businesses that is oriented towards achieving market growth¹⁰.

The Indonesian government already has policies and programs for the internationalization of SMEs. However, these programs have not run optimally to increase the competitiveness of SMEs⁸. One of the Indonesian government's programs to improve competitiveness in the international market is the digitization of SMEs. However, the programs designed by the Indonesian government are not by the level of readiness of SMEs to carry out the internationalization process. In addition, the supporting facilities for implementing the program are only enjoyed by SMEs that are ready to go international and have not touched SMEs in Indonesia as a whole⁸.

Previous research found different effects of internationalization on firm growth, and this effect is influenced by various factors such as resource availability, managerial experience, and firm age⁷, internationalization strategies, and innovation determine viability in international markets, no single strategy is superior¹¹. Internationalization strategies vary based on contextual driving factors and influences¹², internationalization processes are influenced by human capital and the entrepreneurial orientation of SMEs⁹. The success of penetrating international markets depends on the entrepreneurial orientation of the owner or manager of the company, interacting with various networks in the international market environment to be able to see opportunities and new markets for the development of company performance¹³. It is still necessary to investigate the internationalization process of SMEs in developing



countries, to answer the question of what are the opportunities and challenges of SMEs in internalization. The purpose of the study is to formulate the motives and barriers to the internationalization of SMEs in Indonesia.

LITERATURE REVIEW

Definition of Internationalization

Internationalization of increasing international market share through expanding the flow of goods/services, and resources¹⁴. Internationalization is a process that begins with the awareness to expand into international markets in the future and is realized through transactions with other countries¹⁵, developing strategies, structures, resources to the international environment¹⁶. Internationalization consists of various processes including market internationalization, production internationalization, capital internationalization, labor internationalization, and regulatory internationalization¹⁷.

Internazionalitation Model of SMEs

Daszkiewicz and Wach² lassify internationalization models namely the classical model, network model, and new model. Popular classic models are widely known including stage models, Resource-based Models, REM models, and Resource-Sector Model.

Stage models

It is an initial approach that describes internationalization, this model describes the commitment of resources and experience in the market required to enter the international market^{2,18}. This model assumes that the company will go through several stages for internationalization, initially operating in the domestic market, if the company's operations are stable, then gradually towards internationalization². Included in these models are the Uppsala Internationalization Process Model and the Innovation-related internationalization model. Uppsala's internationalization model emphasizes knowledge and experience as an organizational learning process that is carried out systematically and gradually¹⁹. Resource decisions for foreign operations are based on firm's knowledge and experience²⁰, the learning process required to acquire and use knowledge in foreign markets²¹. Whereas Innovation-related internationalization is a model that emphasizes innovation in every stage of the internationalization process, in addition to learning and acquiring company knowledge during the process¹⁹, this model combines innovations in information, computers, and technology (ICT) as a means to acquire international knowledge²¹.

Resource-based Models

This model states that the company's resources are the advantages to getting international opportunities, information and knowledge as internal factors that affect the growth and development of the company²¹. The resource-based view (RBV) argues that competitive advantage is derived from a set of firm resources²², identify the potential of the company's main resources, and evaluate whether these resources meet the criteria of valuable, rare, in-imitable, and non-substitutable (VRIN)².

REM Models

The REM model combines three things, namely R-Factor (reason for internationalization), E-factor (environment selection), and M-factor (mode choice)². The R-factor identifies what factors drive companies to make decisions to internationalize. These factors can be due to external factors such as global customers, or internal factors, namely to increase profitability. The e-factor identifies the preferred business environment in internationalization. Several factors influence environmental selection such as resource search, market search, efficiency, and strategic asset search. Mode choice will be influenced by many factors such as cost, commitment, experience, capabilities, requirements, resources, and socio-cultural.

Resource-Sector Model

As a development of the REM model by considering the economic changes faced by SMEs for internationalization², by adding the key roles of owner/manager, resources, and the environment in the internationalization process as R-Factor (reason for internationalization).

Network-based approaches to internationalization² that are popular among researchers include the Network Perspective and The Uppsala Model Revised. Network Perspective of SMEs Internationalization is an approach that emphasizes interaction with various networks in the international market environment²¹, the network that is built is very important to trigger internationalization²³, so as to be able to see new opportunities and markets for company performance development¹³. Daszkiewicz & Wach² revealed several types of networks for internationalization, namely personal and ethnic, organizational, community, and supplier-buyer. The Uppsala



Process Model Revised is a development of the Uppsala model, considering market and relationship aspects as aspects that affect the company's internationalization process²⁴.

Daszkiewicz & Wach² introduced three new approaches to the internationalization of SMEs, namely 1) The Holistic Approach, an approach that seeks to integrate existing approaches in the context of internationalization. This model presents three forms of the company's international activities, namely: outward, inward, and linked which are interrelated and influenced by the internal and external environment; 2) the Integrative Model, three pathways of internationalization of SMEs consisting of gradual foreign market penetration, internationalization, and entering foreign markets; 3) The Knowledge-Based Models, model that emphasizes the role of market knowledge, network, experience, culture, entrepreneurship knowledge in the internationalization of SMEs. SMEs are generally more reactive, because unfavorable domestic market conditions push them to international markets, in order to increase income².

METHODS

The study carried out a synthesis based on sources from scientific journals as data sources. We carried out a two-step process to identify articles in our review, step 1. identify articles included in our review with the keyword internationalization, and the SME internationalization model. Step 2, conducted an analysis to identify the factors driving the internationalization of SMEs. Based on theory and literature review, an analysis was carried out using the Resource-Sector Model of SME Internationalization approach from Daszkiewicz & Wach². The analysis stage is to identify R-factors including resources, owner-manager in the process of internationalizing SMEs in Indonesia.

RESULT AND DISCUSSIONS

This study adopts the Resource-Sector Model of SME Internationalization² that the motive (reason for internationalization), will also be influenced by resources, and owner/manager.

Motive for internationalization

The motive of SMEs for expansion into international markets (internationalization), is based on the results of a literature review. Korsakienė & Tvaronavičienė¹⁸ revealed that internationalization motives are classified into external and internal motives, external motives such as domestic market limitations, competitive pressures in the domestic market, and proximity to suppliers and customers.. While internal motives such as profit goals, and resources. In order to maintain business survival and growth (profit goals), internationalization will be an option for SMEs when facing a limited domestic market and increasingly intense competition. Bowen's study found that the most prominent motivation for internationalization of SMEs was to increase profits, they saw opportunities to internationalize in their markets²⁵. Market strength and development, technology development, location advantage, and profit as the motives of internationalization²⁶. Normative aspects such as institutional and business culture as well as favorable regulatory aspects motivate SMEs to internationalize²⁷.

The resource factors referred to in the Resource-Sector Model include capital, technology or innovation, and human resources^{2,11}. The internationalization emphasizes the role of the capital element²⁸ both financial capital and human capital. Human capital such as attitudes and managers' perceptions of the risks and benefits to be obtained²⁹. SMEs will face additional costs to enter international markets, such as export tariffs, administrative costs, packing and distribution and so on, so the availability of capital will be a factor considered by SMEs. Moreover, the ability of SMEs to obtain capital from financial institutions is a separate problem, including export SMEs³⁰, this will become a financing barrier to the internationalization of SMEs. Financial institutions consider SMEs to be inexperienced in international business and thus are at greater risk.

SMEs must have technology resources to enter the international market, because communication with the current market absolutely uses technology, starting from finding opportunities, introducing products, to transactions, all of which will use technology. The problem is that in general, companies in developing countries lack the technological resources to create value³¹. The ability of SMEs to adopt technology, and respond to IT changes is an important aspect of internationalization³². Another resource that is an important factor in internationalization is innovation because the innovation orientation will accelerate the pace of SMEs to the global market. Innovation as part of a strategic orientation will improve the international marketing performance of SMEs^{33,34}. The last factor is the importance of human resources to compete and succeed in a dynamic and competitive international



environment³⁵ including knowledge of foreign languages³⁶, knowledge of international trade policies and so on. The limitation of human resources is a factor that SMEs consider to entering the international market.

The Owner-Manager factor referred to by the Resource-Sector Model includes education, knowledge, skills, intelligence, and motivation. The level of education will determine the manager's ability to run an efficient organization, understand resource requirements, know technological developments, and be able to respond to new technologies. In addition, they will have the ability to get the human resources needed to enter the international market³². Another factor is the knowledge, skills, and international experience of managers, which will be a superior resource because they will have special knowledge of opportunities that are different from competitors^{18,37}. International knowledge, skills, and experience will create the ability to read opportunities in international markets and will become the competitiveness of SMEs. The owner-manager must also have intelligence skills, useful for formulating competitive strategies in the international market, with increasingly high competition. Finally, the owner-manager needs to evaluate the motivation for internationalization, and the opportunities, challenges, and benefits to be gained by internalization.

Internationalization Barriers of SMEs

Internationalization barriers in this study are reviewed from several previous studies, from 2010 to 2020, as well as considering research in various countries (Table 1). The model of internationalization barriers that is widely adopted by researchers is the model of Leonidou³⁸ which divides it into two groups, namely external barriers, and internal barriers.

Table 1. Internationalization barriers of SMEs

| Author | Country | Barriers |
|---|---------------------|---|
| Chandra A, Paul J, Chavan M. ³⁹ | Development country | Internal: 1. Human capital 2. Managerial capability 3. Product quality 4. Resource poverty External: 1. Market conditions 2. Currency risk and transactional 3. Government 4. Socio-cultural |
| Revindo MD, Gan C, Massie NWG ⁴⁰ | Indonesia | 1. Tariff and non-tariff 2. Human resource and information 3. Procedural 4. Distribution 5. Business environment |
| Hasim MA, Ishak MF, Shamsudin MF ⁴¹ | Malaysia | 1. Lacks market knowledge 2. Inability to understand foreign customer wants and needs |
| Revindo MD ²⁸ | Indonesia | 1. High risk 2. Financial 3. Economic fluctuations in target markets SMEs |
| Roy A, Sekhar C, Vyas ³⁰ ; Amal M, Rocha Freitag Filho A ⁴² | India | External: 1. Governmental 2. Economic & political 3. Procedural 4. Currency 5. Task and socio-cultural |



| Author | Country | Barriers |
|--|---------------|---|
| | | Internal: 1. Managerial 2. Informational 3. Financial 4. Marketing |
| Fayos Gardó T, Calderón García H, Mollá Descals A ⁴³ | Spanish | Endogeneous: 1. Training and professionalization of human resources 2. Business Model 3. Financial resources Exogenous: 1. Procedures 2. Communication 3. Foreign business practices 4. Verbal/nonverbal language |
| Narayanan V ³⁷ adopt Leonidou Models | Turkish | External: 1. Procedural 2. Governmental 3. Task 4. External Environmental Internal: 1. Informational 2. Functional 3. Marketing |
| Kahiya ET ⁴⁴ | New Zealand's | Internal: 1. Resource related 2. Managerial related 3. Marketing related 4. Knowledge related External: 1. Home-based market 2. Host-based market 3. Industry-level |
| Al-Hyari K, Al-Weshah G, Alnsour M ⁴⁵ | Jordan | 1. Political instability 2. Deteriorating in economic situation 3. Financial 4. Informational 5. Competitive price |
| Abdullah N, Halim NA, Mohd Zain SN ⁴⁶ | Malaysia | 1. Experience 2. Risk and uncertainty 3. Cultural differences 4. Language differences 5. Network and customers 6. Difficulties of making profit |
| Pinho JC, Martins L ⁴⁷ | Portugal | 1. Potential markets 2. Product/service suitability 3. The degree of competition 4. Qualified personnel |



Based on the literature review, SMEs internationalization barriers can be identified which are divided into 2 classifications, namely internal and external barriers.

Internal Barriers

Human Resources

Internal barriers to internationalization include limited human resources, product quality, and financial resources. Included in the human resource barriers are owner-manager capability (knowledge, skills, experience) in the international market which are barriers to internationalization. The owner-manager capability will affect managerial capability which determines the ability to formulate competitive strategies (product, competitive price, potential market, marketing strategy, etc.) in the international market.

Product quality

Another barrier is product quality, SMEs must ensure that the products produced have advantages and good quality. In addition, the suitability of the products/services produced is really needed in the international market, so SMEs must have knowledge of potential markets.

Financial resources

Although several studies have found that financial factors are not a significant obstacle to internationalization, the availability of capital will be a factor considered by SMEs, while SMEs face difficulties in accessing capital from financial institutions.

External barriers

Business environment

Included in the business environment includes risks in international markets, the uncertainty of foreign, and the degree of competition. Fluctuations in foreign currencies are one example that must be faced in the international market.

Government barriers

These barriers include the tariffs that must be borne to conduct foreign trade, as well as the procedures that must be carried out by SMEs (procedural barriers). This obstacle can be minimized if the SME owner-manager has sufficient knowledge and experience in foreign trade, but for new ventures it will certainly be a barrier.

Socio-cultural barriers

International trade relations will involve cooperation between two or more countries, and there will certainly be socio-cultural differences such as levels of commitment, habits, ways of working and so on.

CONCLUSION

The internationalization strategy of SMEs varies, each country will have different driving factors, contextual factors, and barriers, no single model is superior. The study explains several main motives that drive SMEs to the international market, namely internal motives and external motives. Included in the internal motive is the desire to increase profits, and create market power and business growth. External motives include limited domestic market, competition, and proximity to customers and suppliers. Based on the Resource-Sector Model of SME Internationalization, the two motives will be influenced by factors of resource strength, owner-manager competence, and the environment that will encourage the internationalization of SMEs. The internationalization of SMEs will face several barriers to human resources, product quality, and financial resources as internal barriers, as well as the business environment, government barriers, and socio-cultural barriers as external barriers.

This study only discusses the motives and barriers to the internationalization of SMEs and does not discuss environmental choice and mode choice in internationalization, so that it can be developed for future research. Future research is expected to examine the moderating role of resource factors and owner-manager competencies of SMEs in triggering internationalization.

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