

Internationalization MSMEs Export Challenge: Case Study on Kopi Dampit East Java, Indonesia

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ABSTRAK

The objectives of this study are to explore the experiences of MSMEs towards internationalization, Identify the main barriers of MSMEs in entering international markets, and What are the barriers that cannot be overcome by MSMEs, forcing MSMEs to choose to de-internationalize international markets?

Case study research was conducted in this study, This research carried out in February 2024. The method used is a qualitative method with descriptive analytical, verification and explanatory approaches. The results of the research conducted can be concluded that to make efforts to internationalize small businesses need to pay attention to the challenges and factors that become obstacles in its implementation. The study contributes significantly knowing what aspects cause failure in the internationalization of MSMEs because this can be improved so that it can be maximized in the future and can contribute to encouraging MSMEs to go to the next level.

INTRODUCTION

The General Condition Of MSMEs In Indonesia is very significant for the economy, especially in creating jobs and reducing unemployment and poverty. MSMEs in developing countries, including Indonesia, generally have the characteristics of being very large in number, spread across all regions and absorbing labor or being labor intensive. Currently, Micro, Small and Medium Enterprises (MSMEs) continue to be a prominent sector that can contribute to the growth of the Indonesian economy.

This is apparent from the substantial contribution of Micro, Small, and Medium Enterprises (MSMEs) to the Gross Domestic Product (GDP), as well as their significant role in generating employment and facilitating exports. In 2019, it was documented that the MSME sector's contribution to GDP rose to 60.51%. The MSME sector makes a significant contribution to total employment, specifically accounting for 96.92%. In addition, the MSME sector accounted for 15.65% of total non-oil and gas exports.

The majority of economic activities in Indonesia are dominated by micro, small, medium, and cooperative scale commercial entities. These include farmers, fisherman, livestock breeders, miners, craftspeople, traders, and service providers. In 2019, the total count of MSMEs reached 65.46 million, marking a growth from 57.9 million units in 2013. In 2019, the total workforce in MSMEs grew to 119.56 million individuals, up from 114.1 million in the previous year.

In addition to significantly contributing to the Indonesian economy, MSMEs also serve as a means to alleviate inequality and income disparities within Indonesian society, owing to their strong economic resilience. This is the driving force behind the government's commitment to develop and endorse programmes that empower individuals and promote economic growth.

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indonesian economy due to their substantial contribution, particularly in the generation of gross domestic product and employment opportunities. MSMEs are considered to possess significant economic resilience, enabling them to contribute to the stability of financial and economic systems. Nevertheless, the progress of MSMEs continues to encounter numerous hindrances, with one of the major challenges being limited finance accessibility. Consequently, entrepreneurs are unable to raise their production levels in order to get more turnover.

Based on data from dataindonesia.id, Indonesia has the largest proportion of MSMEs among Southeast Asian countries, with a rate of 97%, surpassing other countries in the region which do not exceed 86%. According to this statistics, Indonesia has the potential to effectively compete on the global level alongside other Southeast Asian nations that have already made progress. An inadequate compatibility of Indonesian products in meeting export needs is one of the primary factors contributing to the low export levels of Indonesian MSMEs. The primary determinant of Indonesia's poor exports is the insufficient expertise of commercial entities in utilising digital marketing strategies. In the age of globalisation, possessing a presence in the digital realm and expertise in marketing significantly influences worldwide competition. Furthermore, there is a deficiency in human resources management.

The problem includes mindset, recruitment, mentoring, work culture, quality of HR, to management issues such as business licensing, product standards, and business contract issues. fourth, lack of understanding about online marketing. One of the factors that causes the distribution of MSME goods to be less widespread is because entrepreneurs have not carried out online marketing either through websites or optimization. Perhaps, several MSME players have marketed their products online via [social media](#), marketplace sites, and others. However, in practice it is still less than optimal. So, the results obtained are less than optimal.

Internationalization Regulations

MSMEs have been significant contributors to the national economy over the past thirty years. At now, MSMEs appear to have a significant influence in terms of employment and the generation of job opportunities. In addition to this, MSMEs possess dynamic and adaptable attributes, enabling them to rapidly adjust to volatile economic circumstances and various risks. Internationalisation and globalisation present both risks and opportunities for MSMEs. Potential strategies to pursue include expanding exports, entering new markets, and fostering foreign collaborations, but the primary concern is the growing competition.

The primary driver for the internationalisation of micro, small, and medium-sized enterprises (MSMEs), as stated in the European Commission's SME Observatory Survey Summary (2007), is the aspiration to enhance the company's competitiveness. This is primarily achieved by accessing new and larger markets. MSMEs engage in internationalisation mostly due to growth factors, based on a theoretical perspective. This can be seen by the aspiration of MSME managers who are focused on expanding their company to venture into international markets.

According to the OECD (2007), there are four elements that contribute to the acceleration of internationalisation for MSMEs. The first component is the entrepreneurial factor, which refers to the enthusiasm of entrepreneurs who are focused on growing their companies and expanding into international markets. This aspect is the essential factor among other factors. The second determinant is the company's incapacity to expand in the local market. This factor is sometimes referred to as a detrimental factor that compels enterprises to exit a competitive market. The third pull factor pertains to the company's comprehension of the prospects present in international markets or when there is a sole demand for the product in foreign markets. This component is commonly referred to as a positive factor. Entrepreneurial internationalisation, also known as business internationalisation, is regarded successful when a product is sourced from another country. Entrepreneurial globalisation refers to the extension of multinational economic operations to encompass global boundaries. An appraisal of the potential for globalisation, particularly for micro, small, and medium enterprises (MSMEs), necessitates the following examination: 1) The possibility for globalisation typically arises from companies' aspiration to conform and adjust to worldwide circumstances (such as laws, culture, and administration) and global events (such as politics and

economics). Furthermore, the capacity to adjust necessitates a gradual process of growth and must be methodically delineated. 2) There exists a clear correlation between the potential for entrepreneurial globalisation, the structure of the organisation, and the human resources of the enterprise. The company's overall organisational and structural capacity, staff qualifications, and management/owners' willingness to incur additional resources for international expansion are key factors. 3) The issue of financing foreign and worldwide operations is a crucial factor in decision-making, especially when there is a possibility of both positive and negative outcomes in the process of globalising MSMEs.

The Indonesian Minister of Finance, Sri Mulyani, has identified five key reasons why Micro, Small, and Medium Enterprises (MSMEs) in Indonesia face challenges in exporting their products. According to him, MSMEs play a significant role in the national economy, particularly in terms of providing and employing labour. The ex-Managing Director of the World Bank explicitly stated that the government should prioritise MSMEs to enhance their output. The government consistently promotes the international expansion of MSME products. The government aspires for the successful entry of MSMEs into the global market. Sri Mulyani highlighted in a webinar on Tuesday (20/4/2021) that Indonesian MSMEs are anticipated to develop self-assurance, acquire expertise, and become prepared to participate in global markets through diverse initiatives.

The primary challenges faced by MSMEs in exporting are related to legal matters. MSME actors lack comprehension of legality, taxpayer identification numbers (NPWP), the significance of business identity numbers, intellectual property rights (IPR), and permissions for export-import procedures. The government acknowledges that it bears the responsibility of promptly streamlining processes to ensure that MSMEs can obtain all necessary resources. "This assignment pertains to government matters, specifically how to streamline it, and MSMEs should prioritise compliance with legal requirements," he stated. Furthermore, another important aspect is the availability of financial resources. Sri Mulyani stated that a significant number of domestic micro, small, and medium enterprises (MSMEs) continue to have challenges in obtaining financial support from national financial institutions or banks. The limited availability of funds and assets, along with exorbitant interest rates, provide significant challenges for the growth and expansion of domestic Micro, Small, and Medium Enterprises (MSMEs). Furthermore, mentoring is another important aspect. Sri Mulyani emphasises the significance of mentorship for MSMEs in enhancing corporate governance and boosting product competitiveness.

Fourth is the production problem. The lack of product standardization is a barrier to Indonesian MSMEs penetrating the global market. "In the production area, the lack of product standards according to global standards is a barrier for MSMEs to be able to penetrate the global market. There are inconsistencies and non-continuity in production and product quality," he said. The last one is related to marketing. According to him, MSMEs' limited information about market opportunities is one of the reasons why it is difficult for their products to penetrate the global market. Apart from that, the lack of

logistics infrastructure also makes the competitiveness of national MSME products low. MSMEs are considered inconsistent in updating products sold in market places. According to Sri Mulyani, this is one factor. Apart from that, the lack of logistics infrastructure also makes the competitiveness of national MSME products low.

Lack of export awareness

Aspects that cause failure

MSMEs are one of the critical aspects driving the wheels of the Indonesian economy. However, to enter the business world itself, there are many things that need to be prepared and studied so that the products sold suit the needs and target market.

According to Market Research data from Evermos, social-commerce which focuses on assisting MSMEs, published by the World Economic Forum in 2021, 99% of MSMEs failed to develop because the products presented did not match market needs. This is especially often the main challenge among businesses in the new comer category. They are a form of business that is just starting out. Generally, they are still stuck in identifying market suitability, have income of under IDR 1 billion per year, very limited or even non-existent logistics and production capabilities, and only have one to two sales distribution channels.

Determining the product to sell is the main element that needs to be determined when starting a business. Unfortunately, 99% of MSMEs that are trapped in the new comer category still find it difficult to determine which products suit their market or product market fit, so they are at greater risk of failure in developing their business in the future. One way to find out product market fit is through primary or secondary data analysis, much of which can now be obtained digitally. Data from the Ministry of Cooperatives and SMEs on June 2 2021 states that the number of MSMEs that have onboarded or entered the digital ecosystem has reached 19% or around 12 million. With more and more MSMEs joining the digital ecosystem, this shows the potential amount of data that can be captured and processed by these business owners as a basis for analyzing their business decisions. "MSMEs need to have the ability to read and process data. "Whether for those who are just starting out or at the development stage, by moving from data, business owners can create business policies and capture market needs more precisely," explained Ilham Taufiq, Co-founder of Evermos.

In short, the data needed by MSME players can be obtained through Google Trends, hashtags on social media, or directly into the field. However, this data will be meaningless without processing it first, while not all business actors have the ability to draw analysis from the existing data distribution. In line with this need, Evermos and the Soka Institute also took the initiative to conduct market research to find out what products and categories are currently popular, to support MSME players to develop, and avoid business failure in the early stages.

With a number reaching more than 64.2 million, there are [MSMEs](#) has enormous potential for the Indonesian economy. If they are able to develop

well, MSMEs will become a strong foundation for Indonesia. However, in reality there are various factors that are the reasons why MSMEs find it difficult to develop. In fact, most MSMEs in Indonesia run their businesses stagnantly, that is, without any progress.

The research findings indicate that addressing the issues and causes hindering the internationalisation of small firms (MSMEs) is crucial for successful implementation. If micro, small, and medium enterprises (MSMEs) can adhere to regulations and surmount these challenges, they will achieve success in terms of worldwide expansion. Subsequent researchers should employ other study methodologies to ensure the produced results are more statistically significant.

Previous reviews have not addressed the topic of the internationalisation of micro, small, and medium enterprises (MSMEs) from developing nations, which is the focus of this review. Research on developing economies is limited, with a focus on variables that affect the performance of small and medium-sized enterprises (SMEs) and multinational corporations (MNCs). Some specific studies have been conducted by Paul et al. (2017), Morais and Fereira (2020), Moghaddam et al. (2014), Athanassiou and Nigh (2000), Agndal and Chetty (2007), Lu and Beamish (2006), and Dabic et al. (2019). Studies have shown that small and medium-sized enterprises (SMEs), which play a vital role in the economic growth of Asia, have a substantial influence on growing nations in the region.

LITERATURE REVIEW

MSMEs theory

MSMEs Micro, Small, and Medium-Sized Enterprises (MSMEs) are commercial ventures that have the potential to create more jobs, contribute significantly to income equality and growth, foster economic expansion, and achieve national economic stability. The following are the general provisions for Micro, Small, and Medium-Sized Enterprises (MSMEs) as per Law Number 20, 2008:

1. A Micro Business is a profitable enterprise that is held by a person or individual business entity and satisfies the requirements for Micro Businesses set out in this Law.
2. Small businesses are profitable enterprises operating independently that are run by people or organisations that do not function as subsidiaries or branches of larger enterprises that either directly or indirectly own, control, or are a part of medium-sized or large enterprises that satisfy the requirements for small businesses as defined by this law.
3. Medium-sized businesses are profitable ventures that operate independently and are run by people or organisations that are not subsidiaries or branches of larger businesses or small businesses with total assets that are owned, managed, or involved in some other way. net or yearly sales revenues as specified by this Law.

The following are the requirements for Micro, Small, and Medium-Sized Enterprises (MSMEs):

1. These are the microbusiness criteria that apply: either a. have an annual sales revenues of no more than IDR 300,000,000.00 (three hundred

million rupiah) or b. have a net worth of no more than IDR 50,000,000.00 (fifty million rupiah), excluding land and buildings used as company premises.

2. The following criteria apply to small businesses: If you don't include land and buildings used for business purposes, your net worth must be greater than IDR 50,000,000.00 (fifty million rupiah) up to a maximum of IDR 500,000,000.00 (five hundred million rupiah); alternatively, you must have annual sales proceeds of more than IDR 300,000,000.00 (three hundred million rupiah) up to a maximum of IDR 2,500,000,000.00 (two billion five hundred million rupiah).
3. The following criteria apply to medium-sized businesses: If you don't include land and buildings used as business premises, your net worth must be greater than IDR 500,000,000.00 (five hundred million rupiah) up to a maximum of IDR 10,000,000,000.00 (ten billion rupiah). Alternatively, if your annual sales proceeds are greater than IDR 2,500,000,000.00 (two billion five hundred million rupiah), you can have a net worth of up to IDR 50,000,000,000.00 (fifty billion rupiah).
4. As per Presidential Regulation, the nominal value of the criteria as specified in paragraphs (1), (2), and (3) letters a, b, as well as their intended meaning, may be modified to reflect changes in the economy.

MSME Performance

Mutegi, Njeru, and Ongesa (2015) state that MSME performance is the outcome of work completed by individuals who, within a certain time frame, adjust to their job or responsibilities in a firm. This work is connected to a particular value measure or standard at the company where the worker is employed. One of the most crucial goals of financial management for MSME success is to maximise both the company's worth and the owner's prosperity.

Performance, according to Hasibuan (2012), is the outcome of the work done by people and organisations while completing the tasks given to them in accordance with their experience, skill level, and time commitment. Rivai (2005), on the other hand, defines performance as the outcome or overall success rate of a person within a certain time frame while completing activities in comparison to possibilities, such as goals, work outcomes, goals, or criteria that have been previously decided and generally agreed upon. MSME performance is a comprehensive representation of the state of the business over a certain time period, including the outcomes and accomplishments that are impacted by the business's operational actions in making use of its available resources. From the preceding definition, it can be inferred that MSMEs' performance is based on the total amount of work completed and compared to the legal criteria, objectives, targets, and outcomes.

METHODOLOGY

Case study research was conducted at the Dampit Coffee MSMEs located at the Amandanom Coffee Plantation, Dampit, Malang Regency, East Java, Indonesia. The research carried out in February 2024. The method used is a qualitative method with descriptive analytical, verification and explanatory

approaches. The type of data collected is primary data obtained from unstructured interviews via Company Visit MSMEs to sources of information (key informants and informants), namely the owner of MSMEs Kopi Dampit. The data analysis technique uses a qualitative descriptive model in the form of data collection, data reduction, data display and conclusions.

RESEARCH RESULTS

The results of research and interviews conducted with Dampit Coffee MSMEs show that MSMEs have difficulty in carrying out internationalization efforts, this is due to several reasons, including:

1. Poor Managerial Skills
2. Limited Distribution Network
3. Limited Financial Access
4. High Level of Market Rivalry
5. Absence of Business Planning
6. Product quality
7. Changes in Government Regulations

DISCUSSION

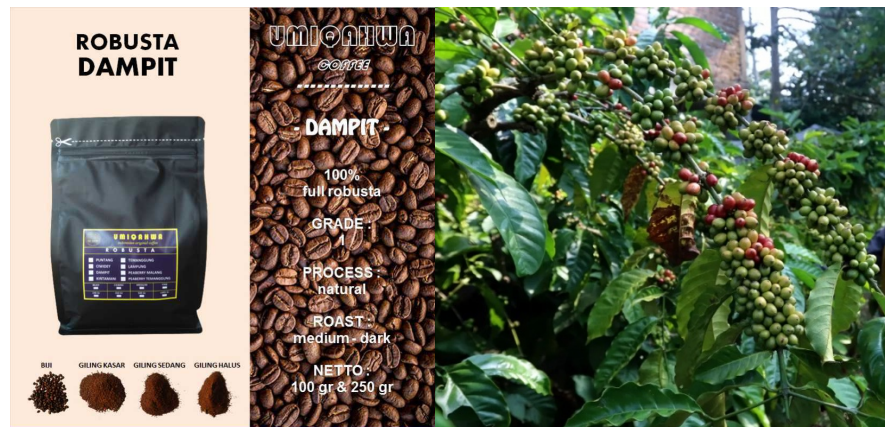


Figure 1. Dampit Amandanom Coffee

1. Poor Managerial Skills

The owner's poor managerial skills are the first thing impeding the growth of Dampit Coffee MSMEs. In international operations, human resources are the cornerstone for attaining a lasting competitive advantage (Mendy and Rahman, 2019). Thus, performance is not at its best. The management of employees is one instance. The majority of MSMEs employ few people. For these reasons, they decide to assign workers to multiple tasks at the same time. The production process is thereby drawn out. In addition, workers are unable to concentrate on their tasks, and as a business owner, you are unable to boost output. According to Ortiz (2009), age and education of employees also affect how productive they are at work, thus if MSME owners ignore this, it will have an impact on low work productivity.

2. Limited Distribution Network

The restricted distribution network is the second element that makes it challenging for MSMEs to grow. In reality, MSME participants frequently rely solely on their personal connections to distribute their products. Marketing efforts are therefore conducted on a relatively small scale. Research from (Lu et al., 2010; Oehme and Bort, 2015; Owen-Smith and Powell, 2008) lends credence to this. Prior studies indicate that effectively leveraging networks to expand internationalization and permitting entrepreneurs to model their network partners' methods would be acknowledged as drivers of MSMEs' internationalization.

3. Limited Financial Access

MSME participants typically have extremely little money. According to Al-Hyari et al. (2012), one of the biggest challenges MSMEs confront is getting access to financing. Limited access to financing exacerbates this predicament. Their business consequently tends to remain stagnant and does not grow. As per the findings of (Manolopoulos et al., 2018; O'Cass and Weerawardena, 2009; Rutashobya and Jaensson, 2004; Dasanayaka, 2007), MSMEs in developing nations encounter numerous obstacles due to insufficient financial and material resources, which restricts their capacity to expand globally.

4. High Level of Market Rivalry

The fierce rivalry in the industry is another factor that makes it challenging for MSMEs to grow. MSMEs face competition from more than just other MSMEs when it comes to promoting their products, both commodities and services. But they also have to contend with big businesses. Entrepreneurs' tendency toward internationalization is moderated in highly fragmented markets by a lack of expertise resulting from a lack of market information and inexperience in handling foreign markets (Hutchinson et al., 2009).

5. Absence of Business Planning

It is essential to carefully construct a business strategy when the primary barriers to MSMEs' worldwide expansion remain their lack of managerial experience and understanding of internationalization. According to Boermans and Roelfsema (2013), this business planning can serve as a crucial starting point for a more concentrated business development process.

The majority of MSMEs in Indonesia actually don't follow the steps involved in creating a business plan when operating a company. They so have trouble with their business development initiatives. This corroborates the claim made by Al-Hyari et al. (2012). According to Hsu et al. (2013), the association between internationalization and corporate performance is moderated by a deficiency in management competency.

6. Product quality

MSMEs find it challenging to grow in the future for reasons that are directly tied to the products they sell. To certify items, the majority of nations have their own testing facilities and precise quality standard requirements (Roy et al., 2016; Leonidou, 2000; Pinho and Martins, 2010;

Karabulut, 2013). Some MSMEs, like Kopi Dampit, are viewed as avoiding exporting to nations that restrict their access and presence since they are unable to meet these stringent requirements. According to Al-Hyari et al. (2012), one of the main challenges facing Jordanian MSMEs is the inability to satisfy importers' demands for product quality.

7. Changes in Government Regulations

Finally, there are causative factors that hinder the development of MSMEs concerning modifications to governmental rules. In actuality, the government frequently makes abrupt regulation changes. It is extremely difficult for MSMEs to take advantage of international market prospects due to laws in both their home and host countries, as well as underdeveloped institutions (Manolopoulos et al., 2018; Cardoza and Fornes, 2015).

CONCLUSION

The study's findings lead to the conclusion that, in order to internationalize small enterprises (MSMEs), attention must be paid to the issues and problems that arise and become roadblocks to the process. Small enterprises (MSMEs) will succeed in internationalization if they can adhere to the regulations and get beyond these challenges. To get more meaningful results, future researchers should employ other study techniques.

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