

# An Overview of Digitalization and Internationalization Msmes: A Conceptual Paper

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## ABSTRACT

This study aims to conduct a library review of the phenomenon of digitalization and internationalization in MSMEs so that a summary and starting point will be obtained for academics and researchers interested in the phenomenon of digitalization and internationalization of MSMEs. Researchers studied and explored several studies on digitalization and internationalization to formulate a conceptual framework on digitalization and internationalization patterns/models in MSMEs. Research into empirical research results shows that digitization is identified as a resource that shifts the conventional internationalization process and some internationalization models evolve from the original model. The results of this study offer advice for subsequent researchers to better understand digitalization and the internationalization process in MSMEs.

**Keywords:** *Digitization, Internationalization, SMEs*

## 1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the drivers of the world economy. MSMEs make a great contribution to economic and social life in various countries. According to the Global Research Report, smes account for more than 95% of the business landscape worldwide and play an important role in maintaining economic health, both in high and low income countries. In each of these countries, MSMEs contributed to an increase in Gross Domestic Product (GDP) and a decrease in unemployment. It is recorded that MSMEs control 96% of the company's market share worldwide. [1]. Further mentioned, while according to the Asia SMEs Finance Monitor report (2019), published by the Asian Development Bank, the number of MSMEs in 20 countries in Asia Pacific is 96% of the total number of companies and provides 62% of the total employment. Although the reality in the field often shows that there are inclusive conditions in MSMEs, which include limited financial access, wage inequality, limitations on managerial skills,

limitations on investment in technology, skills, and innovation, MSMEs remain a sector that persists and grows in every condition and challenge. Globalization and digitization are both challenges and opportunities for MSMEs to enter the international market.

Even the discourse of MSMEs to expand their domestic market into an international market is increasingly developed. Digital transformation has the opportunity to contribute to business model innovation, products, create value in customers, and create new distribution channels. In terms of creating new distribution channels, digital transformation accelerates the change of MSMEs in the internationalization process. Some studies use the term "internetization" to term the process of increasing adoption, diffusion, and the use of internet-based technologies and processes that serve as the backbone of the internationalization of MSMEs. Based on the description, digitalization is inseparable from internationalization opportunities. Based on the description above, the research aims to conduct a

library review of the phenomenon of digitization and internationalization in MSMEs so that a summary and starting point will be obtained for academics and researchers interested in the phenomenon of digitization and internationalization of MSMEs

### ***1.1 Digitization and MSMEs***

The global market confronts MSMEs on a number of challenges in their business operations. Traditional industrial MSMEs must adapt to rapid business environment changes, overseas market expansion, new technological innovations, diffusion and adoption. Today, mastery of digital information technology is identified as a resource capable of providing a sustainable competitive advantage. Many MSMEs use web portals to implement value creation strategies. MSMEs can perform through digital platforms. Research [2] provides empirical results that digital platform capabilities have an indirect positive effect on the performance of MSMEs through network capability. Digital platform capabilities enable MSMEs to communicate with external partners, both sharing information and gaining information and knowledge from external partners by forming networks. Network capability makes relationships with partners more transparent, trust each other, reduce opportunistic actions, reduce transaction costs and distribute knowledge between partners. This causes the company to quickly respond to market trends and respond to market needs. MSMEs have the opportunity to interact better with consumers from the purchase stage to after-purchases[4]. The relationship with customers is getting better and the reputation in front of customers is also improving.

### ***1.2 Internationalization and MSMEs***

Internationalization is an entrepreneurial strategy for the survival of MSMEs and long-term growth. Most of the literature and research results found that companies that are faced with competition in the international market, usually perform better than companies that only operate in the domestic market. This is usually because the company is becoming steadily learning and more efficient[8]. But the influence of internationalization on the efficiency of companies in this study is not linear but U-shaped. This sometimes increases the risk to the company and

threatens the company's performance in the long run. Therefore, the influence of internationalization on performance varies depending on the internal and external conditions of the company as well as the measure of performance used.

Apart from the understanding of MSMEs towards internationalization, it turns out that over the last 20 years, a number of traditional MSMEs who have limited market knowledge, network, and international experience, have accelerated their international commitment to expand their business to international markets. [10]; [11]. Whereas in some research, the internationalization of the company is a long process that develops gradually assuming the knowledge of internationalization is obtained from experience. Some companies are internationalized for long periods of time and are termed late internationalizing SMEs, but some companies do so quickly. Many terms are used to refer to companies that internationalize quickly, namely International New Ventures (INVs)[13] ; Born-Global Firms (BGFs) [14]; [15]; [16], Global Start-Ups, Born International SMEs[17] ; [15], Early International Firms [18]; [19], Rapidly Internationalizing Firms[ 20]. Many of these terms have similarities that refer to the same phenomenon, namely new or young businesses that internationalize at the beginning of their business usually 3 years since its establishment. Furthermore, this article uses the term rapidly internationalizing firms.

Late internationalizing firms adopt the traditional internationalization model, which embraces evolution to form their own resources and networks to enter the international market, while rapidly internationalizing firms or Born-Global Firms utilize the company's external network of work to drive its international performance. [15]

Internationalization is the activity of companies that cross national borders at a certain point in time[21]; [9]. In general, the company will internationalize gradually (slowly). The company will develop its domestic market first, then enter the international market. But in recent decades, as globalization and digitization have grown, many traditional MSMEs have decided to accelerate their international expansion. This has consequences for the rapid development of internationalization literature.

**Table 1.** Terms for Company Speed in Internationalization

No.	Researchers and Years of Research	Terms for Rapid Internationalization Companies
1.	[13]	International New Ventures (INVs)
2.	[14]; [14]; [14]	Born-Global Firms (BGFs)
3.	[14]; [15]	Global Start-Ups, Born International SMEs
4.	[18]; [19]	Early International Firms
5.	[20]	Rapidly Internationalizing Firms

Previous internationalization studies have discussed three main internationalization patterns, namely: the pattern of gradual internationalization, for example the Uppsala model; radical internationalization patterns, e.g. Born-Global and New International Ventures models, and radical but belated internationalization patterns, e.g. Born-Again Global [23]. In the 70s, business theorists at Sweden's Uppsala University coined a traditional internationalization theory describing internationalization as a gradual incremental process, in which companies internationalized their business from nearby countries to further afield. Uppsala model has been widely applied, both in multinational companies and MSMEs. This model explains that internationalization is a process of learning for companies gradually and incrementally about overseas markets. Uppsala model is built on the results of previous research that shows that many companies that since its inception and throughout the time of operation there has been no regular export activities, exports through representatives / sales agents, or subsidiaries. Although popular, but this model is widely criticized because there is no clear size and explanation of the interaction between knowledge development and the improvement of the company's international market. However, this model has been empirically proven in many large companies that are gradually internationalized. The second pattern of internationalization is the pattern of radical internationalization. Some research shows that there are many companies that became international since its inception or not long from the time of establishment. The phenomenon of the emergence of Born-Global or New International Ventures challenges the assumptions present in the model of gradual internationalization and previous empirical results. In this radical model, the company has been trying to produce something that has a competitive advantage in the use of resources and usually moves in two markets at once, domestically and internationally. The company sees the world as a single market without distinguishing domestic and international markets so that the two markets develop together. The

third pattern of internationalization is the process of internationalization that is not caused by special interests but is sudden. This can be caused by certain important things or events such as management changes, ownership changes, or resource availability. This sometimes takes place very quickly, where the company has been established in the domestic market for a long time, then there are certain extraordinary events that cause such companies to be reborn as global companies.

### ***1.3 Digitization and Internationalization of MSMEs***

MSMEs usually use conventional international networks, through export intermediaries, which play a certain role of export activities, such as marketing, financing, logistics, credit financing [26]. Along with the development of information technology, the internet was born. The Internet became an attractive internationalization media for MSMEs and shifted the phenomenon of conventional msme internationalization. The Internet allows MSMEs to introduce products through the web, social media, digital platforms, marketplaces so that consumers get information about products, prices, or benefits and manufacturers can contact potential foreign buyers from all over the world. [26]. The influence of the internet and digital innovation on internationalization has been widely done and shows mixed results. Research [27] on the influence of the internet on the export performance of MSMEs shows that the internet serves as a fast facilitator for MSMEs exporters, especially for Born-Global Firms and International New Ventures (INVs). This research also shows that MSMEs exporters can utilize the capabilities of platforms and web to improve their foreign marketing which will later improve the export performance of MSMEs. These findings provide empirical evidence of the internet's influence on the speed of internationalization. Often internationalization is referred to as a corporate strategy to accelerate growth and improve the profitability of the company. Internationalization orientation can be done with

digital technology innovation. Research into international MSMEs in several industries operating in several innovative industries in the UK found that technological innovation positively moderates the influence of international orientation on the company's international performance. [28]. Another study found that THE limited ability of MSMEs to digital platforms requires the role of industry business associations (IBAs) to be supporters for MSMEs in obtaining access to appropriate contacts and information [29].

Based on the description above, there are 3 internationalization patterns that can be formulated as empirical results from previous studies, namely traditional patterns, Born-Global patterns, and Born-Again Global patterns. The implementation of these three patterns is still often found in the practice of internationalization of MSMEs but often there have been modifications in the pattern. [24] Research on the Uppsala Model found that in its development, there were conditions that caused this gradual traditional model to undergo several modifications and adjustments according to the conditions of each company and the environment in which the company operates. Further research [24] found that in its implementation, the internationalization stage created, is not always patterned by the company. But internationalization is formed from relationships. First, the relational relationship creates a network of

companies that have operated in the domestic market and then begin to have a network. The network connects between companies and creates markets. Sometimes internationalization is created successfully from the established market so that the internationalization process is not patterned from insidership but from the power of outsidership. Second, the relationship builds trust and commitment as a prerequisite of internationalization. The company finally entered the international market starting from the trust and commitment of other parties.

In practice, the process and pattern of internationalization of MSMEs is inseparable from the external factors that affect them. Digital transformation or digitalization is a way for companies to use digital technology to develop digital business models and increase the value of companies. Some research on the impact of digital transformation on the internationalization and export performance of companies. The mastery of MSMEs on digital technology opens the opportunity for MSMEs to more quickly internationalize and improve the export performance of the company. The ability and knowledge of MSMEs on digital and web platforms can facilitate the development of export markets. Intense international competition may be overcome by the company's website to communicate the benefits of the product in depth to potential consumers about the benefits of the product. This can improve export marketing capabilities effectively and efficiently.

**Table 2.** Internationalization Pattern

<b><i>Uppsala Model (Traditional Model)</i></b>	<b><i>Born-Global (Radical Model)</i></b>	<b>Radical patterns with late internationalization <i>(Born Again Global Model)</i></b>
Internationalization is a process of learning for the company gradually and incrementally about overseas markets.	The phenomenon of the emergence of Born-Global or New International Ventures  the company since its inception has been trying to produce something that has a competitive advantage in the use of resources and usually moves in two markets at once, domestic and international.	The internationalization stage created, is not always patterned by the company but formed from <i>relationships</i> . First, the relational relationship creates a network <i>that</i> connects between companies and creates a market. Sometimes internationalization is created successfully from the established market so that the internationalization process is not patterned from <i>insidership</i> but from the power of <i>outsidership</i> . Second, the <i>relationship</i> builds trust and commitment as a prerequisite of internationalization. The company finally entered the international market starting from the trust and commitment of the other.

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