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Business Models and Patterns of SME internationalization (Case Study of Furniture SMEs in Pasuruan)

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Abstract

Small and Medium Enterprises (SMEs) in the Furniture sector have overcome internationalization barriers. However, research is still scarce, particularly on achieving the Sustainable Development Goals, despite the importance of this sector. The main objective of our research is to explore the basic pattern and speed of internationalization of SMEs in the forestry products (timber) sector, adopting an external perspective and an empirical approach. More specifically, the interaction effect of demand-side innovation and management control systems (MCS) on firms in the industry is examined. A qualitative research design was developed to gain an in-depth understanding of the contextual factors that influence Furniture SMEs in Pasuruan that have gone international, using direct and semi-structured telephone interview methods conducted with three furniture UKM managers who are members of the furniture and arts forum (FORMAKER).) Pasuruan, Our findings show that Furniture SMEs in Pasuruan also feel that there is strong competition between Furniture SMEs, thus helping the development of collaborative innovation, directing progress to meet consumer demands, by creating trust and confidence and the process of production innovation and business networks.

Keywords: Model, Business patterns, SMEs

INTRODUCTION

Small and Medium Enterprises (SMEs) are the backbone (Ivanova Ruffo et al., 2018) of the European Union (EU) economy: 99.8% of companies operating in the EU-28 non-financial business sector in 2016 were SMEs. They employ 93 million people, accounting for 67% of total employment in the EU-28 non-financial business sector, and generate 57% added value in the EU-28 non-financial business sector.

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The growth potential and innovation of SMEs will determine the future prosperity of the EU (Cernat, L.; 2104)

SME's limited capabilities and market presence make it more difficult to access innovative technologies, a barrier that is avoided by establishing alliances and collaborations with buyers and suppliers (Galdeano-Gómez, E.; 2014). SMEs use their network to combat size-related disadvantages, but it doesn't do so with growth; instead, the network allows them to remain small and independent, while further strengthening their position as a small producer (Brinkmann, P. 2014).

In the era of globalization, companies of all sizes are starting to share the same competitive space. For example, a symbiotic arrangement evolves through small firms by entering the value chains of large firms, in a deal that is good for both sides of the transaction Collaboration enables companies to overcome inherent size constraints and to achieve the efficiencies required for global competition (Etemad, H.; 2001).

The two models of internationalization that are more widely cited in the literature are the Uppsala model and the emerge-global model (Buckley, P.J. 2016) The Uppsala model, 'through the fortuitous combination of time in the intellectual trajectory of the field of international business and the inherent characteristics of the model, has developed from a model with refutable hypotheses to a 'paradigm' in the Kuhnian sense' (Buckley, P.J.; 2017). The Uppsala approach examines the effect of organizational learning on internationalization while internalization theorists concentrate on the effects of innovation on internationalization. Perhaps the interplay of the three processes is the way forward, but precise causality is problematic.' (Buckley, P.J. 2016). It can be said that the main advantage of the Uppsala Model, its general validity, can also be the main weakness of the model, because the predictive power is difficult to test rigorously. (Hennart, J.F. 2007)

In the area of internationalization and corporate performance, previous research has highlighted the role of management (Hsu,W.T.T.; 2014). Future research should also consider the influence of variables related to the organizational environment and context that may affect internationalized companies (Knight, G.A.; 2016). Another call was made (Prashantham, 2019) to seek differences between SMEs and large exporters, whose resource advantages give them more options for internationalization and can make other characteristics of information, such as integration or aggregation, more salient. It is also important to provide better contextualization of the results of new research and theory development.

A contingency approach is recommended, because various firm internationalization decisions, which incorporate product decisions, market choices, and entry modes, are made in a holistic way (Kano, 2019) In this study, the main aim

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of our study was to explore, adopting an external perspective and an empirical approach, contextual explanations that explain the pattern of internationalization and speed of SMEs.

Our findings suggest that SMEs are the type of organization that best fits the archetype of the Casino model. Companies seek to minimize risks and exploit market opportunities, looking for new opportunities anywhere that lead to a higher probability of profit. The internationalization pattern turned out to be a wave of internationalization. It was also found that strong competition fosters collaborative innovation development, directing innovation to meet consumer demand.

Regarding speed, internationalization has traditionally been considered as an evolutionary process (Hennart, J.F, 2007). The ability to internationalize has become imperative for many companies, enabling them to survive today (Kamakura, W. A.; 2012). Internationalization patterns (both in terms of speed and mode) are influenced by several dimensions. The process of internationalization of SMEs stems from the combined action of a number of internal and external factors that arise in the stages of business activity at several levels. Two of the more cited models of internationalization are the Uppsala model and the emerging global approach In addition to this model, three perspectives have dominated international business research over the last four decades (Hennart, J.F, 2007) Dunning's framework, transaction costs, and internalization theory. Advocates of this theoretical perspective, although competing for the supremacy of the model, have also attempted to reconcile their differing views.

The Uppsala model describes internationalization as a sequential process (Joensuu-Salo, S.; 2018). Therefore, the current stage of internationalization is relevant for explaining the future path of internationalization. They differentiate in the model between two groups of state variables: the capability variables and the commitment/performance variables, both of which result from and influence change variables. In earlier versions of the model, country variables (existing 'company' commitment and experiential knowledge) were the basis for decisions to commit resources to international operations which in turn shaped the model change variables (future operational performance and learning processes). (Hennart, J.F, 2007). 'The Uppsala model is a micro-level analytical tool that essentially provides a holistic account of the evolution of MBE'. It also provides a starting point for a better understanding of the relationship and impact of networks on the internationalization of firms. The augmented model in 2017 shows that discontinuous decision-making processes related to resource commitment and continuous knowledge development processes are starting points for change (Vahlne, J.E.; 2017). The dimensions of the commitment process include reconfiguration and coordination (opportunity

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development: includes identifying opportunities and implementing them). 'In general, this will require further managerial intervention through the commitment of resources to support smoother functioning, eg, where the unit has an information advantage' (Vahlne, J.E.; 2017). Regarding the process of developing knowledge, they rely on the concept of social construction and understanding. The innovation process can be characterized as uncertain and dynamic, following a trial-and-error process, based on experiential learning and identifying and exploiting opportunities.

Building trust is an important sub-process of the knowledge development process from this point of view (Vahlne, J.E.; 2017). In the model, dynamic capability is the ability to “integrate, build, and reconfigure internal and external competencies to cope with a rapidly changing environment”, whereas “commitment” describes the distribution of resources across the SME's functions, its product lines, the countries in which it operates. Active and the relationships in which he has invested. The term also has forward-looking connotations: a position reflects a commitment to a particular course of action. Instead, "performance" refers to what has been achieved. Both connotations are relevant and coexistent, and they will determine the scope and content of the subsequent knowledge development processes discussed above. The relevant dimensions of resource positioning and performance depend on the context and issue focus of the particular research process. For example, a company's status in its network might be a focal dimension, reflecting both resource position and performance results. The degree of globalization is sometimes considered a relevant performance variable, and is also a meaningful measure of a firm's resource position driving the potentially virtuous MBE evolutionary cycle (Chandra, Y., 2017).

The emerging global approach applied to early or soon after internationally oriented companies, which viewed the world as their market and were usually small companies with limited tangible resources, but significant intangible resources and capabilities. The main differences between the two approaches are summarized in Table 1 below:

Table 1 the two approaches are summarized

Model	Uppsala	Born Global
Internationalization	After domestic market	World is their domestic market
Behavioral assumption	Risk aversion, uncertainty avoidance	Entrepreneurial, proactive risk taking
Advantages from internationalization	Economies of scale	Market dominance in global niches
Key capabilities in international expansion	Experiential knowledge, network position	Flexible, innovative adaptation to foreign market opportunities
Approach to internationalization	Causation, opportunity recognition	Effectuation, opportunity creation
Internationalization Pattern	Sequential	Quick expansion from foundation

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Although generally accepted, the Uppsala model has been widely criticized. When a critique of international business (IB) research with a focus on whether IB scholarship addresses the “big questions” is reviewed (Santangelo, G.D, 2017), a shift of IB research towards “big challenges” in global business is suggested, encouraging the use of interdisciplinary research methods, multilevel approaches, and perspective-driven by phenomena to achieve goals

METHODE

As the aim of this article is to generate deeper and richer insights into the role of contextual factors influencing the internationalization of Furniture SMEs in Pasuruan, a qualitative research design was developed (Bell, J.; 2014) The current study is, therefore, primarily exploratory in nature. After a review of the literature, field research was carried out using a multi-case study approach, by conducting a sample of three Furniture SME managers by conducting interviews with the aim of obtaining broad generalizations based on evidence from a single case study that while presenting findings and conclusions. Case studies allow the researcher to gain a holistic understanding of the phenomenon being investigated. The aim is to explore the factors that contextualize the process of internationalization of companies. This context is analyzed because it rarely appears in the academic literature with high scientific impact (Mugera, A.W.; 2005).

FINDING AND DISCUSSION

When analyzing patterns of internationalization, the shifting, digital, globalized world has changed the way businesses are conducted and SMEs are not behaving fundamentally differently, as was the norm before. Despite their different sizes and resources, they may share resource allocation strategies, in line with the Casino Model proposed by (Hakanson and Kapen 2017) All firms in this study were found to have rational strategies to mitigate the potential impact of poor outcomes. They seek business opportunities, and rationally develop their skills and abilities for international expansion. It could be argued that a few decades ago the world context was different; however, this pattern of internationalization is the result of a rational strategy. This is one of UKM's visions of the internationalization process. SMEs that best fit the born global characterization are considered as proactive opportunity takers rather than proactive risk takers. Every new venture is carefully planned and risks are minimized, and the company's eggs are never placed in one basket, but are diversified.

Furniture SMEs in this study were found to have a similar approach to internationalization, trying to minimize risks and exploit market opportunities, placing

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more leading bets (given that there is a limit to the number of bets a company can make) with higher probabilities. In the results of interviews with SME managers who are members of FORMAKER Pasuruan, it can be seen that the process of internationalization of their business has not been able to develop with various obstacles, one of which is the government's role in supporting and fostering SMEs in the region, so that these Furniture SMEs carry out international sales independently with the provision network experience and relations and participating in furniture exhibitions.

Business synergy arises from sharing and common use of resources (Giagnocavo, C.;2014). In line with previous research, companies in this sector have been looking for new ways of collaboration, such as sales scheduling. Cooperation in this study shows how entering into strategic alliances, collaboration and integration allows companies to reposition and remain competitive by increasing exports. This industry appears to be a mismatch with (Child et al. 2017) international business models. The interviews show how the industry has the characteristics of a traditional model that is adaptive to markets and technology exploiters. It is true that they rely on their suppliers in some cases to develop new products to meet demand, and their speed and delivery capabilities are key to the industry's success. However, this industry is demand-driven and innovation plays a significant role in their international mode of business. They are looking for new technical possibilities to meet market needs. Constantly, different products and characteristics are sought; the attraction of innovation unfolds as a competitive strategy. This industry is characterized by risk-averse suppliers; the fact that they prefer smaller, more stable incomes to higher, more variable incomes challenges the innovation process. This finding is in line with previous research (Baregheh, A.; 2016).

CONCLUSION

In this globalized world, new opportunities for Furniture SMEs are emerging due to the latest innovations in information technology and the strategic reorientation of technological change. The findings indicate that organizational involvement with innovation positions and paradigms is not affected by age or size (Wright,M.; 2007). A strong competitive environment fosters the development of collaborative innovation, directing product, process and organizational innovation towards meeting consumer demands (Batterink, M, 2006), as revealed in the cases in this study. Products and demanded attributes are constantly changing, and managers must take advantage of large opportunities to attract innovation to pay off as a competitive strategy. (Batterink, M, 2006). However, the collaboration did not end there. Companies can combine marketing campaigns and adopt joint measures to help

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implement required quality certifications in foreign markets. As the case revealed, the relationship between the exporting company and the wholesaler was developed with the aim of improving the service to the retailers or even to achieve more direct sales. The cooperative case shows that this relationship also helps to increase bargaining power. Lastly, there is also room for collaboration on joint research projects (Giagnocavo, C.; 2014).

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