



INTERNATIONALIZATION OF PASURUAN COFFEE MSMEs, ANALYSIS OF UPPSALA THEORY AND ITS APPLICATION

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Abstract

This study aims to analyze the application of Uppsala Theory to export MSMEs in Indonesia. The main focus of this research is to analyze the relationship between Uppsala Theory and exporting MSMEs in Indonesia. This research is important because MSMEs have a strategic role in the Indonesian economy and exportation is one of the important factors in economic growth in Indonesia. Descriptive qualitative method was used in this research, with a case study analysis on coffee MSMEs in Pasuruan, Indonesia. The results show that the internationalization process explained through Uppsala Theory can be used to explain the internationalization process of coffee MSMEs in Pasuruan. The Uppsala model is also useful in helping coffee MSMEs in Pasuruan improve their business activities in the international market.

Keyword : internationalization, Uppsala, MSMEs

INTRODUCTION

MSMEs are the driving force of Indonesia's national economy as these units are more numerous than large enterprises. They are spread widely in rural areas and have great potential for employment growth. The development or growth of them can be included as an important element in policies to create jobs and generate income. Although SMEs are labor-absorbing and are the backbone of the economy in developing countries, they still have classic problems. Access to finance, production process technology, human resource capacity, raw materials, and marketing are common problems in the development of SMEs in developing countries, including Indonesia. (Revindo, 2018). MSMEs also have unstructured characteristics when compared to large companies, making it a challenge to compete in both domestic and international markets.

The phenomenon of export and industrialization in diverse developing nations is presently commencing to encompass a greater number of small and medium enterprises (SMEs). Presently, SMEs have evolved into the predominant cohort of industrial components in the majority of developing nations, and have made notable contributions to the advancement of the manufacturing sector and workforce in these regions. The impact of SMEs is evident in the escalation of earnings, fostering of entrepreneurial skills, integration of technology, resilience to evolving market needs, job generation, reduction of wage disparities, dispersion of industrial activities to peri-urban zones, and promotion of regional growth. This constitutes a noteworthy accomplishment, given that SMEs confront constraints relating to their scale and sectoral expertise. SMEs in developing nations have similarly propelled export expansion and industrial advancement. SMEs exhibit active involvement in export activities,

albeit the extent of their input to exports varies across these developing countries (Dwi Hernanik et al., 2023).

Reynolds (1997) posits that SMEs generally exhibit a tendency to engage in foreign markets as exporters and/or foreign investors. Small enterprises traditionally concentrated on their domestic market, with the likelihood that most SMEs will persist in this focus in the future. The challenges of international markets present significant obstacles for smaller firms, who often grapple with constraints related to their size and resources. Conversely, larger enterprises frequently establish partnerships with other large firms to address resource constraints and other requirements (Geruh et al., 2014). The phenomenon of internationalization has been scrutinized through various lenses, including developmental stage models, network-based approaches, and resource-oriented strategies. An additional perspective is the rapid internationalization model, which suggests that numerous enterprises undergo a swift internationalization process, sometimes right from their inception.

The Uppsala Theory, also known as the Uppsala Internationalization Model, is a process by which firms gradually and slowly increase their business activities in foreign markets. The Uppsala Model, proposed by Johanson and Vahlne in 1977, is the most well-known stage model and is often considered a pioneer in internationalization research. Johanson and Vahlne were inspired by their research on Swedish firms that internationalized. They found that these companies tended to start by exporting to countries that were geographically and culturally close. As their experience and capabilities increased, these companies then began to target more distant markets.

The Uppsala model provides a useful framework for understanding the process of firm internationalization. The model emphasizes the importance of learning, commitment, and market knowledge in the internationalization process. Uppsala's theory has had a significant impact on the field of international business. It has helped researchers to better understand how firms internationalize and has provided guidance for firms looking to enter international markets. Therefore, this study aims to apply Uppsala Theory in the context of exporting MSMEs in Indonesia to identify opportunities and obstacles faced by MSMEs in increasing exports and identify the benefits of applying Uppsala Theory in overcoming these obstacles.

METHOD

This research is a case study with the object, namely coffee exporters in Pasuruan, which is one of the Micro, Small and Medium Enterprises (MSMEs) engaged in the food sector. Coffee products are the hallmark of products from the slopes of Mount Bromo, Pasuruan, which are widely sold in Indonesia and successfully sold to other countries.

This research was conducted through a descriptive and qualitative approach. This research method seeks to describe the object or subject under study in depth, breadth, and detail. This research method is used to solve and answer problems by collecting data, classification, analysis, conclusions,

and reports. Interviews were conducted to obtain research data. Determination of the subject is done purposively where the researcher determines the sampling by determining specific characteristics that are in accordance with the research objectives so that it is expected to be able to answer research problems.

Data analysis was carried out in several stages, namely (1) analyzing descriptive characteristics of coffee MSMEs in Pasuruan. (2) analyzing the internationalization process of coffee MSMEs in Pasuruan. The stages of data analysis were carried out systematically through data reduction, data presentation, and conclusion drawing.

RESULT AND DISCUSSION

Profile of coffee MSMEs in Pasuruan.

Coffee is one of the export commodities in Indonesia. According to data from the Central Statistics Agency (BPS) in 2022 total coffee exports reached 433,780.8 tons, the coffee was sent to various countries such as America, Japan, Malaysia, Germany, Egypt and various other countries. Pasuruan produced 3,714 tons of coffee commodities in 2022. Coffee exports are not only carried out by large producers but also coffee MSMEs which are widely found on the slopes of Mount Bromo, Pasuruan, Indonesia.

Coffee in Pasuruan Regency has several advantages such as Kapiten (kopi asli kabupaten) Pasuruan brand rights certificate. coffee products from farmers in 8 coffee plant producing centers are requested from other cities such as Gresik, Malang, Surabaya. It even penetrates into national markets such as Jakarta, Bandung, Yogyakarta, Bogor, Bali, Kalimantan and Sulawesi. In addition, coffee products from the Candi Mulyo Farmer Group, Sekarmojo Village, Purwosari District are highly popular in Malaysia, Hong Kong, Singapore and the United States.

Coffee exports are routinely carried out by sending 200 kilograms of arabica coffee to Malaysia every month. In 2021, there was even a customer from America who directly surveyed the location to explore and build cooperation.

The internationalization process of coffee MSMEs in Pasuruan

The internationalization process of Pasuruan coffee MSMEs generally follows the Uppsala Theory, which explains that companies do internationalization in stages, starting from the domestic market to geographically and culturally closer markets, until finally reaching more distant markets.

The first stage is known as the Pre-Export Stage.

At this stage, MSMEs prepare themselves to join the international market. This is done by increasing their knowledge and understanding of the international market. MSMEs need to learn about the international markets they are targeting, including culture, consumer preferences, regulations, and

competition. It is also important to develop products that are suitable for international markets, ensuring that their products meet the needs and tastes of consumers in international markets. It is also necessary to build international networks with companies, organizations and individuals in the International Market.

Coffee MSMEs in Pasuruan have implemented this first stage by participating in various cooperative service trainings in an effort to increase knowledge and develop products by improving the quality of premium coffee that is characterized and favored by the international market. In addition, it is necessary to expand the network with the existence of coffee MSME associations or cooperatives and also work with related agencies to prepare for export.

The second stage is known as the Indirect Export Stage

At this stage, MSMEs export their products or services through a third partner, such as an export agent who assists MSMEs with finding buyers, handling logistics, and finalizing export documents. Indirect exports can also be through trading companies that buy MSME products and then sell them to international markets.

Initially, coffee MSMEs in Pasuruan also exported indirectly, with the help of export agents who collected coffee products from coffee MSMEs in various regions in Pasuruan and then exported them abroad, this was done because at first the MSMEs still had difficulties in finding buyers, preparing documents and providing large quantities of goods.

The third stage is known as the Direct Export Stage

At this stage, MSMEs export their products or services directly to buyers in international markets. These activities can include selling products online in international markets or can be executed by participating in international trade shows. MSMEs can also export directly to overseas buyers. However, in reality, not all coffee MSMEs in Pasuruan can export directly. Only a few MSMEs can reach this stage. The barriers faced include a lack of funds (capital) a lack of human resources who can take care of the documents for export and the existence of fierce competition in direct export activities abroad.

The Uppsala model, proposed by Johanson and Vahlne in 1977, is the most well-known stage model and is often considered a pioneer in internationalization research. The Uppsala model suggests that firms begin internationalization by exporting, then formalize their entry through intermediaries, and finally establish their own sales and production organizations in foreign markets.

The internationalization process in a business can be described as a cycle of learning and commitment. The Uppsala model provides a useful framework for understanding the internationalization process of firms. The model emphasizes the importance of learning, commitment, and market knowledge in the internationalization process.

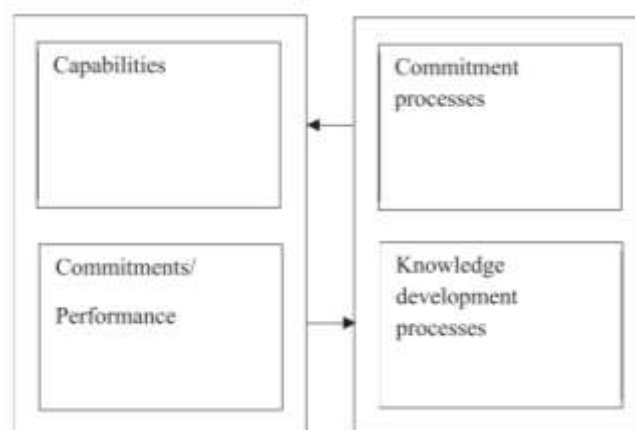


Figure 1. The Uppsala model of firm's internationalization

Johanson and Vahlne (2009) state that, a new model, the business network internationalization model, is proposed in order to link different variables such as the firm's knowledge capability, the firm's network position, and perceived business opportunities; and that these variables are expected to play a major role behind SMEs in their internationalization process. The authors explain the terms “outsider responsibility” and “foreigner responsibility” as the main challenges that firms face during internationalization. Outsider liability is explained as the lack of knowledge in the field of business and its players in the targeted demand and stranger liability is the psychic distance, the sum of all the factors similar to different laws, language walls that generate problems for an establishment to become important and well-known in the target demand (Cahyono, 2022).

The Uppsala theory is based on several key concepts, which are:

Learning: Companies learn about international markets through a process of trial and error. They start by entering markets they are familiar with and then gradually expand their reach to more unfamiliar markets. In the case of coffee MSMEs in Pasuruan, the learning process is done in many ways, one of which is done by the Pasuruan District Government to increase the economic added value of the coffee commodity. By carrying out Business Acceleration Training activities for Coffee MSMEs organized by Dinas koperasi dan UMKM

Networks and market knowledge: The network of relationships between firms plays an important role in the internationalization process. Companies often leverage their networks to obtain the information and resources they need to enter international markets.

The data suggests that firms that export products or services have a higher level of interaction with external entities compared to those that do not engage in exporting. These external entities encompass various stakeholders such as government agencies at both central and local levels, business associations, academic and research institutions, private enterprises, state-owned enterprises (SOEs), business partners, relatives, and Indonesian communities residing abroad (Sugawara & Nikaido, 2014).

UMKM kopi di Pasuruan tergabung dalam komunitas dan koperasi Kopi. Selain itu juga bekerja sama dengan dinas perdagangan dan dinkopukm daerah dan pusat untuk memperluas jaringan agar mampu merambah pasar luar negeri.

Commitment: The decision to enter the export market is a big one and requires significant commitment from MSMEs. MSMEs that want to succeed in international markets must be willing to invest time, money, and effort in internationalization efforts and entering foreign markets. Only a few MSMEs are able to make the commitment to export directly to foreign markets.

A major challenge encountered during the market internationalization process lies in the supply aspect, which necessitates collaboration between government bodies and academic institutions to establish standard protocols for utilization and other operational procedures. Various entities such as the government, universities, Bank Indonesia, and NGOs have embarked on initiatives to align their respective assistance efforts, potentially leading to duplication with other organizations' initiatives. The absence of a comprehensive framework that outlines the dynamics of collaborative efforts and related programs further complicates the situation. This issue demands immediate attention, given its sudden onset and implications (Martin et al., 2022).

CONCLUSION

Internationalization of MSMEs is not simple, requiring synergy between MSMEs and stakeholders. MSMEs that will internationalize need to upgrade their knowledge and technology in an effort to improve product quality to be able to compete in the international arena. The biggest problem in the internationalization process lies in the availability of raw materials which are now uncertain. Based on the results and discussion, the internationalization process explained through Uppsala Theory can be used to explain the coffee internationalization process in Pasuruan. The Uppsala model is also useful in helping coffee MSMEs in Pasuruan improve their business activities in the international market by increasing their knowledge of the market, adaptability, ability to compete, ability to face challenges, and ability to develop strategies.

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