

## APPLICATION OF UPPSALA THEORY IN THE INTERNATIONALIZATION OF FURNITURE PRODUCTS

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### Abstract

*The research problem raised aims to find out how the process of internationalization of furniture companies is related to the Uppsala theory. This research is a case study with an object, namely the company Aida Furniture which is one of the Micro, Small and Medium Enterprises (MSMEs) engaged in the furniture industry. This research was conducted through a descriptive and qualitative approach. To obtain the necessary data, the authors conducted in-depth interviews with business owners from Aida Furniture. Determination of the subject is done purposively where the researcher determines the sampling by determining the special characteristics that are by the research objectives so that they are expected to be able to answer research problems. The biggest problem in the process of market internationalization is on the supply side where the government and universities are expected to be able to fill this gap by standardizing treatment in usage and other processes. In the internationalization process described, Uppsala's theory cannot be used to explain the internationalization process model at Aida Furniture. Meanwhile, the process of spreading sales areas can be explained by the Uppsala theory..*

**Keywords:** *Internationalization, Application, Uppsala Theory*

### 1. INTRODUCTION

Globalization, technological developments, increasingly fierce competition, changing consumer demands, as well as economic and political changes influence companies' decisions to take greater risks by expanding their activities overseas (Akbar et al., 2022; Jin & Lee, 2020; Zakery & Saremi, 2021). These activities can be in the form of exports, licensing, joint ventures, and foreign direct investment (FDI). The expansion of company activities abroad or internationalization can be used as a benchmark to show the company's growth and competitive performance. Internationalization is recognized as contributing to the company's revenue growth, because it enables it to achieve economies of scale and scope, makes it easier to gain access to foreign technology, carries out manufacturing activities more effectively, and can carry out marketing and knowledge management better (Genc et al., 2019).

In Indonesia, there are many furniture companies. One of the MSMEs engaged in the furniture export trade is Aida Furniture. The complexity of the phenomenon of Micro, Small and Medium Enterprises (MSMEs) is increasingly attracting the attention of researchers. The scale of small and medium enterprises cannot be interpreted that MSMEs being only a small form of large companies or multinational companies. The relatively unstructured characteristics of MSME activities compared to large companies offer high challenges and complexity in research (Akbar & Adi, 2022). Every company, including MSMEs, operating in the international market will try to find a competitive advantage. For this reason, it is necessary to understand what determines the success and failure of a company's internationalization efforts, especially in the MSME setting.

Competitive advantage is the essence of strategic management and an issue that has attracted the attention of researchers who focus on the problem of the internationalization of companies.

Internationalization itself is a major important dimension of the strategic process for most companies (Donbesuur et al., 2020). The success of internationalization means little if internationalization cannot contribute to achieving greater strategic performance. International expansion is no longer the exclusive domain of multinational companies (Sui & Baum, 2014).

Although research exploring the internationalization phenomenon has so far been dominated by large (multinational) companies, in recent years several studies have emerged studying the process of internationalization for smaller-scale companies. Kolagar et al., (2022) state that a stronger trend in an increasingly globalized environment is the entry of small companies into international business.

Globalization offers many opportunities for the MSME sector, one of which is the thinner trade barriers across countries. This phenomenon encourages small companies that previously only operated at the local level to enter foreign markets, thereby further encouraging the growth of the business itself (Akbar & Nefrida, 2021). Several other significant impacts have been studied by several researchers, for example, access to new market niches, opportunities to absorb excess production or output capacity, gaining insight into best practices in international business, achieving economies of scale, as a tool for diversifying business risks, minimizing costs, and optimizing market segmentation (Akbar et al., 2021; Rhommadhonni & Dhewanto, 2019). One of the earliest studies emphasizing the importance of studying the process of internationalization for small companies (MSMEs), which later this idea developed quite rapidly within the scope of strategic management and international business.

Experts who pioneered the research agenda in the field of strategy and entrepreneurship stated that the internationalization of small companies is a topic that will provide a lot of knowledge from a strategic perspective. Hitt et al., (2010) stated that the study of internationalization is a study that appears naturally in the domain of strategic entrepreneurship. Several other researchers (Bagheri et al., 2019; Yaskun & Bidin, 2022; Zakery & Saremi, 2021) classify this study of business internationalization into the international entrepreneurship research field. Theoretically, the international entrepreneurship research field shows high heterogeneity, which stems from the lack of established theoretical foundations. Many established theoretical frameworks have been adopted and used as foundations in this field of research, such as the resource-based view (Peng, 2001; Wenerfelt, 1984), the internationalization process theories (Johanson & Vahlne, 1977, 2009), and the new international venture theory (Oviatt & Phillips Mcdougall, 2018).

Several other frameworks such as social network theory, organizational learning, interfirm network theory, and social cognition are frameworks that are also widely used as the foundation for business internationalization research. The main characteristic of MSMEs is the limited ownership of their resources relative to large companies. However, this does not always result in a company's lack of capability in expanding its reach beyond its domestic market. Many small/medium-sized companies have the advantage of having unique skills, products, and skills that are successfully applied to foreign markets. In line with these findings, Vera et al., (2022) stated that many small companies are able and successful in leveraging their limited resources to achieve a strong position in the market. For that, the importance of studying internationalization in small companies with a strategic and entrepreneurship perspective.

The process of product internationalization is one way that can be done by MSMEs to expand the market. This method, on the one hand, can be an effective solution to obtain clarity of place

where SMEs often find it difficult to find a place for product absorption, but on the other hand, it can also cause difficulties if there are no parties who support the availability of the required facilities, for example in terms of capital, networking, and human resources. Capital facilities are an integral part of MSMEs, it seems that the Non-Bank Financial Industry is a party that can support the realization of MSMEs that are competitive. Through Non-Bank Financial Industry, because the business scale is not that large, financing issues can be covered. The Financial Services Authority noted that there was an increase in the portion of the non-bank financial industry assets to the financial services sector throughout 2016. It was recorded that, until the end of 2016, Non-Bank Financial Industry assets reached Rp. 1,845 trillion contributed 20.8 per cent of the total assets of the financial services sector ([www.kompas.com](http://www.kompas.com)).

Therefore this phenomenon becomes interesting to study. In this regard, the research issue to be raised is how the internationalization process of the furniture company is related to the Uppsala theory.

## 2. IMPLEMENTATION METHOD

This research is a case study with an object, namely the company Aida Furniture which is one of the Micro, Small and Medium Enterprises (MSMEs) engaged in the furniture industry. Aida Furniture products are sold widely in Indonesia and have been 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 studied in depth, breadth, and detail. This research method is used to solve and answer problems by collecting data, classification, analysis, conclusions, and reports (Akbar, 2020). To obtain the necessary data, the authors conducted in-depth interviews with business owners from Aida Furniture. Determination of the subject is done purposively where the researcher determines the sampling by determining the special characteristics that are by the research objectives so that they are expected to be able to answer research problems.

Internationalization theories can be grouped into stage theories and non-stage theories. Stage theories view internationalization as a continuous process that occurs slowly, gradually, and sequentially, increasing its activity to an international scope. The Uppsala internationalization model (Johanson & Vahlne, 2009) are examples of stage theories. Meanwhile, non-stage theories view internationalization, not as a gradual process. The eclectic modelling theory is part of the non-stage theories. This study will analyze the internationalization model carried out by Aida Furniture Company with the Internationalization Model Using Uppsala Theory.

The Uppsala internationalization model assumes that companies have bounded rationality (rational and informational limitations) towards international business and make trade-offs between growth and risk. Steps to minimize risk are carried out by entering foreign markets step by step, starting from the mode of entry that has the smallest cultural distance (low psychic distance), then gradually increasing it to a mode of entry that is riskier and farther culturally distanced (Welch & Paavilainen-Mäntymäki, 2014). Psychic distance is defined as differences in terms of language, culture, political system, level of education and so on which can hinder the flow of internationalization. The company's knowledge of psychic distance will enable the company to see opportunities better and not have to worry too much about the uncertainty of the international market.

The Uppsala internationalization model is divided into 4 stages:

- Irregular export activities (sporadic export), at this stage the company exports to countries that are close to the home market and exports are still sporadic (not routine and the frequency changes);
- Exporting by the independent representative (export mode), this stage is carried out through cooperation with companies/independent parties abroad to help make sales and expand overseas marketing networks. The company only exports, while independent parties are allowed to manage their own sales activities;
- Establishment of a foreign sales subsidiary, this stage is carried out by establishing a branch company abroad to support the company's sales and marketing activities in foreign markets; and
- Installation of foreign production facilities, at this stage the company begins to carry out all production and sales activities in foreign markets (foreign direct investment). This process evolves according to the development of knowledge and experience of the company and the increasing commitment to the company's operations in international markets.

### **3. RESULTS AND DISCUSSION**

#### **Company profile of Aida Furniture**

At first, the owner of the Aida Furniture business worked for a furniture company in the city of Jepara that did exports. Then, he was interested in opening the same business in his hometown, the city of Pasuruan. Sales are carried out by distributing these furniture products to Bali using their fleet of cars. Direct marketing in the Bali area has resulted in a network of several overseas consumers.

As a differentiation step, the business owner makes furniture products that are not the same as the place where he worked before, both in terms of form and quality. However, in this case, the business owner only takes the same market but with a different product model. For raw materials, business owner Aida Furniture accommodates semi-finished products from MSME players in the city of Pasuruan, according to incoming orders from customers.

To support their business performance, business owners have participated in various pieces of training and empowerment from the government and have attended repainting training in Japan. In maintaining product quality, the company takes great care of the results of the painting so that it is of high quality and long-lasting.

#### **The process of internationalization: the perspective of Uppsala Theory**

Companies carry out internationalization gradually and in several stages and at the same time acquire specific knowledge at each of these stages. The emphasis is on the specific knowledge of the market that is gained by doing business in that market and is directly influential in determining the move to the next stage. For example, a company does business in the domestic market and its first contact with a foreign market occurs through direct ordering. Export decisions are not taken immediately or exports may be carried out irregularly and in limited quantities. As orders increased, the company started fulfilling requests through its international agents. In cases where the foreign market shows satisfactory conditions, the company's management may move to the next stage. The third stage represents the establishment of a foreign branch (the foreign market). If the



results remain satisfactory, the company can move into the final stages of internationalization and open a manufacturing facility in that country.

Realization of the internationalization of MSME products requires connectivity between MSMEs and related stakeholders. Aida Furniture Company does not only export but also has an interest in maintaining product quality and providing guidance to MSMEs. There is high interdependence between Companies, Importers and Suppliers to jointly maintain quality. In this cooperation, there must be high trust and mutual support. In the past, wholesalers only chased quantity without regard to quality, but if they want to be able to reach foreign markets, wholesalers must also play an active role in maintaining the quality of the products they obtain. The interaction system that is created by itself keeps each party from having opportunistic behaviour that is only concerned with themselves/the group. To maintain quality, the MSME group holds regular member meetings to discuss business issues and strengthen communication and trust between members. As acknowledged by several informants, this forum is quite effective with indications of increasing awareness among members to maintain product quality.

The biggest problem in the process of market internationalization is on the supply side where the government and universities are expected to be able to fill this gap by standardizing treatment in usage and other processes. The government, universities, Bank of Indonesia, and NGOs have been running their programs so that the assistance provided overlaps with programs from other institutions. There is no grand design that can describe the flow of institutional cooperation and its programs. This side becomes urgent to be repaired considering the problem does not only come from the internal side. The current process of internationalization of SMEs is unpredictable, which is why a model cannot explain all of these phenomena. The internationalization process described through the Uppsala Model (developed by Uppsala University) cannot be used to explain the internationalization process in this case, because the Uppsala Model assumes 4 phases, from the absence of export facilities to the phase of establishing manufacturing facilities in foreign markets. It seems that the application of the Uppsala model is limited to technology-based manufacturing industries.

Even though this company has been exporting, the internationalization process it has gone through resembles the internationalization process that occurs in small and medium enterprises. Using the Cavusgil & Knight (2009) model, Aida Furniture, which has succeeded in dominating the domestic market (domestic focus), then enters the pre-export stage. Involvement in overseas sales occurred accidentally because of the high level of customer loyalty. The entry of products that started with the hand-carry activities of consumers then created market demand from abroad. Local distributors who are sensitive to the needs of the niche market mediate the needs of these consumers by placing orders directly with the company. However, the company's dependence on distributors is very high due to the form of broken orders and small quantities. Market information is highly dependent on the distributor. Orders do not occur regularly. The process of spreading sales territories can perhaps be explained by Uppsala's theory.

The process of globalization has had a strong impact on the business philosophy of SMEs. Some MSME entrepreneurs see this phenomenon as an opportunity to expand and see that relying solely on the domestic market will be detrimental in the long term and to the growth of the business itself. Internationalization of business is defined as a series of business activities outside national borders based on international marketing principles. This process often occurs quickly and in several stages that lead to significant changes in the business (company) itself and its economic

activities. When MSMEs decide to engage in international activities, MSMEs tend to follow activity patterns that can be called internationalization development strategies. Luostarinen modified the concept of product-market-based strategic decision-making proposed by Ansoff et al., (2019) to reflect this internationalization strategy. In this model, the product concept is extended to include how it operates. The company's decision to internationalize depends on several conditions, such as the size of the domestic market, market position and firm flexibility, domestic market openness, management capabilities and so on. The thing that must be considered is that the internationalization process is closely related to the application of a good marketing strategy. No company can internationalize its business without accepting the marketing concept.

In the world economy, MSMEs play a dominant role in business activities because more than 95% of business activities in all countries come from this sector. Being a small company (UKM) can be an advantage in itself because it means having flexibility, openness, dynamics, and innovation, but also having constraints that are mostly related to finance. To face new challenges and threats successfully, companies must pay attention to external and internal factors that can drive competitive values.

Differences in manufacturing conditions, innovation, acceptance of new technology, market knowledge and access to finance are the basic categories that management (MSMEs) need to understand. The advantage of this sector compared to large companies is the lack of hierarchical barriers, greater flexibility in the decision-making process, shorter periods of responding to consumer and market needs, and easier partner determination to achieve business synergies.

Sui & Baum (2014) identified two motivations why companies internationalize, traditional motivations and emerging motivations. The initial motivation that drives companies to invest abroad is to secure important raw materials, especially minerals, energy, and scarce raw material resources. Another trigger for internationalization can be described as market-seeking behaviour. This motivation is especially strong for companies that have an intrinsic advantage, especially those related to technology or brands that provide a competitive advantage. Another trigger is the desire to access low-cost factors of production. For example, the availability of lower costs of capital is also a strong driver of the internationalization process.

#### **4. CONCLUSION**

Realization of the internationalization of MSME products requires connectivity between MSMEs and related stakeholders. Aida Furniture Company does not only export but also has an interest in maintaining product quality and providing guidance to MSMEs. The biggest problem in the process of market internationalization is on the supply side where the government and universities are expected to be able to fill this gap by standardizing treatment in usage and other processes. The government, universities, Bank of Indonesia, and NGOs have been running their programs so that the assistance provided overlaps with programs from other institutions. There is no grand design that can describe the flow of institutional cooperation and its programs. Based on the results and discussion, it is concluded that in this case the internationalization process explained through Uppsala Theory cannot be used to explain the internationalization process at Aida Furniture. Meanwhile, the process of spreading sales areas can be explained by the Uppsala theory.

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**Adaptation Of Technology And Use Of International Languages In Increasing Msmes Towards Internationalization At Aida Furniture**

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