



MSMEs Move Up a Class: Sustainable Strategies to Encourage MSMEs to Enter the International Market

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Abstract

Blitar City is the largest producer of jimbe drums in East Java, and even in Indonesia. The market segment for jimbe drum products is China and Canada. However, not all jimbe drum craftsmen in Blitar City are able to access the export market. This study aims to (a) Identify the characteristics of SMEs in the Jimbe drum industry in Blitar City (b) Describe the obstacles faced by jimbe drum craftsmen to move up to the export market (c) Develop strategies to encourage SMEs in the jimbe drum industry in Blitar City to move up in a sustainable manner. The type of research is a qualitative case study. The subjects of the study were jimbe drum craftsmen in Sentul Village, Blitar City, Head of the Cooperatives and MSMEs Office of Blitar City, Head of the Trade and Industry Office, Head of Sentul Village, Blitar City. Data collection was carried out by direct interviews with research subjects, observation and documentation. Triangulation of methods and data sources was carried out to obtain accurate data. Data analysis using the Miles, Huberman and Saldana (2024) formula and SWOT analysis. The results of the study showed that there are 2 types of Jimbe drums MSMEs in Sentul village, namely craftsmen and collectors, who do not yet have an association/cooperative to accommodate the aspirations of craftsmen. The obstacles faced revolve around the difficulty of accessing capital and obtaining raw materials. Based on the SWOT analysis, the appropriate strategy for sustainable upgrading is to first improve the organization, help access capital and increase international marketing reach through partnerships.

Keywords: MSME strategy, international market

1. Introduction

Data from the Ministry of Cooperatives and SMEs shows that Indonesia has 65.5 million MSMEs or 99% of all business units in Indonesia. Micro, Small and Medium Enterprises (MSMEs) are now an important pillar of Indonesia's economic development. For this reason, MSMEs must continue to be encouraged to move up a class, so that they can make a greater contribution to the economy and absorb more workers. The contribution of MSMEs to Gross Domestic Product (GDP) is 61%, or equivalent to IDR 9,580 trillion, even the contribution of MSMEs to labor absorption reaches 97% of the total workforce (Source: ekon.go.id August 24, 2023).

One of the efforts made by the government to develop MSMEs to move up a Class and MSMEs to Go Export is through increasing access to financing. Financing for MSMEs is an important factor that can be an accelerator of MSME development. The government has issued various forms of financing, from ultra-micro to medium business levels. People's Business Credit or also known as KUR in Indonesian is a form of support for financing MSMEs with low interest rates and easy requirements. In addition, ultra-micro financing is also carried out using funding from the State budget and revolving funds as well as sharia financing and is channeled through Microfinance Institutions (MFIs). As stated by Daszkiewicz, N., & Wach (2012) who stated that businesses with export potential are not only dominated by large businesses, but many MSMEs have entered the international market. Even the results of research by Lobo, et al. (2020) show that MSMEs that are under greater institutional pressure are actually growing and becoming more radically involved in international activities. The jimbe drums industry in Sentul Village, Kepanjen Kidul District, Blitar City is one type of craft business that has reached the export market. This business had fallen badly during the Covid 19 pandemic, they were unable to even pay employees. The results of a preliminary study at the research location showed that soaring distribution costs and dependence on brokers were the main obstacles to regaining the export market. Currently, they are beginning to realize the importance of independence in reaching

markets both domestically and abroad. Dependence on third parties such as brokers cannot be done in the long term. When economic conditions change like during the Covid 19 pandemic that hit Indonesia a few years ago, Indonesian MSMEs cannot do anything because brokers stop export activities. The impact is truly extraordinary because the stock of raw materials, goods in process and finished goods that are piling up are threatened with damage, employee wages are not paid and debts to suppliers are piling up.

For this reason, efforts to socialize, train and assist MSMEs to move up a class are very much needed both from the local government and from the Ministry of Cooperatives and MSMEs.

Several research results related to MSMEs moving up a class include Sijabat (2020) which states that an important factor influencing MSMEs in the city of Semarang to move up a class is the personal component. The sincerity and fighting spirit of MSME actors are needed so that the products produced can be accepted in the export market. Another thing that is no less important is that most MSME actors in Indonesia have not carried out work specifications which have an impact on the failure to meet export product quality standards.

Meanwhile, the research results of Tambunan (2023) showed that the Medan city government plays a good role in encouraging MSMEs to move up a class, which is manifested in the form of capital assistance and digital marketing assistance. Based on the problems above, this study aims to develop a digital strategy to encourage MSMEs in the jimbe drums industry in Blitar Regency to move up a class towards the international market.

2. Literature Review

2.1. Characteristics of MSMEs

Basically, Micro, Small and Medium Enterprises (MSMEs) are productive economic businesses owned by individuals or business entities that meet the criteria as stipulated by law. The number of MSMEs in Indonesia reaches 99% of the total number of Indonesian entrepreneurs, and most of them are controlled by micro businesses. According to Law Number 20 of 2008 concerning MSMEs, there are several criteria that indicate a business or business can be said to be an MSME.

a. Micro Business

A micro business is a productive business owned by an individual or business entity with the following characteristics (a) Having a maximum net worth of IDR 50 million, (b) Having a maximum sales result of IDR 300 million,

b. Small Business

A small business is a productive economic business that stands alone and is carried out by individuals or business entities that are not subsidiaries or branches. With the following characteristics (a) Having a net worth of more than IDR 50 million up to a maximum of IDR 500 million and not including land and buildings where the business is located. (b) Have annual sales results of more than IDR 300 million up to a maximum of IDR 2.5 billion.

c. Medium Enterprises

A medium enterprise is a stand-alone productive economic enterprise, carried out by individuals or business entities that are not subsidiaries or branches of companies owned, with the following characteristics (a) Have net assets of more than IDR 500 up to a maximum of IDR 10 billion (b) Have annual sales results of more than IDR 2.5 billion up to a maximum of IDR 50 billion.

2.2. MSMEs Move up a Class

MSMEs move up a class is a process to improve the quality of products or services in order to increase productivity and operational efficiency, develop better marketing strategies, build strong brands and increase market share. The purpose of MSMEs move up a class is to achieve significant growth and increase the scale of the business so that it can compete in a wider market. There are several benefits obtained by MSMEs move up a class, including (a) revenue growth (b) Increasing business sustainability (c) Obtaining wider market access (d) Improving customer image and trust.

To be called an MSME move up a class, there are several criteria. According to Government Regulation Number 7/2021 concerning Ease, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises, the criteria for MSMEs upgrading are an increase in MSME turnover and assets. Meanwhile, the Ministry of Cooperatives and Small and Medium Enterprises stated that in an effort to realize MSMEs upgrading, there are three approaches to detecting it, namely (a) productivity, (b) accessibility, and (c) intervention. The productivity approach emphasizes increasing business capacity and business performance. The accessibility approach to capital from changes in business capital sources is becoming more formal. The government's financial intervention approach is the graduation of MSMEs from government assistance programs. Meanwhile, Bank Indonesia stated that the indicators for MSMEs moving up a class are detailed in more detail, namely (a) Digital MSMEs, (b) MSMEs connected to financing access, (c) export MSMEs, and Green MSMEs.

3. Materials and Methods

3.1. Materials

This study uses a qualitative approach, while the type of research is a case study. The location of the study is in Sentul village, Kepanjen Kidul sub-district, Blitar city. The subjects of this study are MSMEs Jimbe drums actors in Sentul village, Blitar city, Head of the Cooperative and MSMEs Office of Blitar city, Head of the Trade and Industry Office of Blitar city and Head of Sentul Village, Blitar city. Data collection was carried out through interviews, observations and documentation. To obtain accurate data, triangulation was carried out, both method triangulation and data source triangulation.

The following is a location map.



Figure 1: Maps of Research Location

3.2. Methods

Data analysis using the Miles, Huberman and Saldana (2014) formula which is strengthened by SWOT analysis to develop a strategy to move up to the international market. The stages of data analysis according to Miles, Huberman and Saldana (2014) consist of data condensation, data display, and conclusion drawing and verification. Meanwhile, the stages of SWOT analysis according to Rangkuty (2013) are as follows.

- a. Identify internal and external factors
- b. Conduct internal analysis
- c. Conduct external analysis
- d. Compile a SWOT matrix
- e. Formulate the most effective strategy
- f. Implementation and monitoring

4. Results and Discussion

4.1. Description of Jimbe Drums Industry in Blitar City

Blitar is one of the largest Jimbe drums producing cities in East Java. The center of Jimbe drum crafts in Blitar City is located in Sentul Village, Kepanjenkidul District. Jimbe drums are musical instruments originating from the African continent. However, Jimbe drums are currently also popular with people outside Africa, including China and Canada. In China, Jimbe drums are not only used as souvenirs, but also used as musical instruments in learning activities in schools. The number of Jimbe drum craftsmen in Sentul Village, Blitar City is approximately 145 people, consisting of 125 craftsmen and 20 collectors. The difference between craftsmen and collectors lies in the type of work. If the craftsmen's work includes the production process of Jimbe drums from start to finish. While the collectors' job is to accommodate Jimbe drum crafts from craftsmen to be sold to other parties including the export market. Every week, Sentul sub-district is able to produce around 8000 jimbe drums, with various sizes ranging from small, medium, to large.

The characteristic of jimbe drums from Sentul village is that they have carvings with special motifs. Due to the high demand from consumers both from within and outside the country, jimbe drum craftsmen need production

innovations in order to meet the quality standards desired by the international market. The best quality jimbe drums are made of mahogany wood. However, the availability of mahogany wood as the basic material is increasingly difficult to obtain in the city of Blitar. For this reason, several craftsmen have started to import mahogany wood from the city of Bali. In addition to mahogany wood, other materials include old goat skin, paint, and alpine rope to make handles. In addition to wood, all auxiliary materials are taken from suppliers. There is a problem in meeting the raw materials for this drum, one of which is mahogany wood. Actually, the local Forestry Service has mahogany wood but the price tends to be more expensive than wood taken from Bali. The process of making a drum consists of several stages, namely (a) cutting wood, (b) turning, (c) sanding, (d) carving motifs, (e) painting, (f) installing leather, (g) installing ropes, and (h) finishing. While the motifs used in carving jimbe drums are decorative and non-decorative motifs.



Figure 2: Jimbe Drum Crafts in Sentul, Blitar City

4.2. Supporting and Inhibiting Factors for MSMEs Kendang Jimbe to Move up a Class

The Ministry of Cooperatives and Small and Medium Enterprises stated that in an effort to realize micro, small and medium enterprises to move up a class, there are three approaches to detect it, namely (a) productivity, (b) accessibility, and (c) intervention. First, the productivity approach emphasizes increasing business capacity and business performance. Second, accessibility to capital from changes in business capital sources to become more formal. Third, the government financial intervention approach or government intervention, namely the graduation of MSMEs from the government assistance program (PP Number 7/2021). Meanwhile, the criteria for MSMEs to move up a class according to the Regional Government are having several indicators, namely (a) productivity, (b) access to capital, (c) government intervention, (d) a sustainable business environment (green economy), and (e) preserving local wisdom.

Based on these criteria, the productivity aspect of kendang jimbe in Sentul Village, Blitar City is 8,000 drums per month, from around 100 craftsmen and 20 collectors. When compared to other villages that produce jimbe drums such as Tanggung village, Sentul village is still relatively superior. In terms of capital, many craftsmen use their own capital. For this reason, the Blitar City Cooperative and UMKM Office intends to establish an industrial cooperative for UMKM in Sentul village to facilitate access to capital. From a green economy perspective, the basic material for jimbe drums is mahogany wood imported from Bali. The production process is carried out using a lathe. While the coloring is done manually by female workers. Therefore, this jimbe drum SME absorbs a lot of female workers. The jimbe drum product is a local wisdom product because this product is made based on local natural resources that can be a source of income for the community. The skills of producing jimbe drums can be passed down to children and grandchildren as the next generation.

Several supporting factors that encourage kendang jimbe craftsmen in Sentul village, Blitar city to move up a class include: (a) The motivation of kendang jimbe craftsmen is very high to get buyers from abroad. (b) The craftsmen have mastered the skills of making kendang jimbe, so they have the potential to advance and develop. (c) There has been advertising innovation on social media such as Instagram and YouTube about playing percussion music using kendang jimbe made in Sentul, Blitar city, although the quality of the content is still informational. Meanwhile, the obstacles faced by kendang jimbe craftsmen in Sentul village to move up a class are: (a) There is no organization to accommodate the aspirations of kendang jimbe craftsmen, so each craftsman seems to be walking individually. (b) Craftsmen who have large capital tend to continue to move up a class, while those with small capital will go their own way to reach the local market or become partners of craftsmen with large capital. (c) It is still difficult for craftsmen to access capital because the requirements as debtors of financial institutions have not been met. (d) There is

unhealthy competition among craftsmen as a result of the lack of cohesiveness of craftsmen as a community or association. This is relevant to the research results of Sudarmiatin, et al. (2023) which shows that marble craft MSMEs in Tulungagung Regency also experience difficulties in accessing capital due to the limitations of MSMEs in preparing financial reports.

4.3. Strategy to Encourage MSMEs to Move up a Class Sustainably

It is undeniable that the growth of MSMEs can go up and down like a spinning wheel, sometimes up and sometimes down. There are several factors that influence the growth of MSMEs, including changes in consumer behavior, the presence of competitors, changes in regulations, limited managerial capabilities, and others. In general, factors that influence the growth of MSMEs can be grouped into internal and external factors. For this reason, a strategy is needed that encourages MSMEs to grow and develop sustainably.

One way used to create a business strategy is to use SWOT analysis which stands for strength, weakness, opportunity, threat. SWOT analysis itself is a method of planning a strategy by considering and analyzing internal factors (IFAS) and external factors (EFAS) that affect the growth of a business. Internal factors include elements of strength and weakness. External factors include elements of opportunity and threats. The following is an analysis of the internal factors of UMKM kendang jimbe Blitar.

Table1: Internal Factors Analysis

| Internal Factors | Aspects |
|------------------|---|
| Strength | 1. The motivation of craftsmen to get high buyers |
| | 2. Craftsmen have high skills so that they have the potential to advance and develop |
| | 3. Already have digital advertising even though it is still informational |
| Weakness | 1. There is no organization to accommodate the aspirations of jimbe drum craftsmen, so that each craftsman seems to be walking individually |
| | 2. Craftsmen with large capital tend to continue to move up a class, while those with small capital will go their own way to reach the local market or become partners of craftsmen with large capital. |
| | 3. It is still difficult for craftsmen to access capital because the requirements as debtors of financial institutions have not been met. |
| | 4. There is unhealthy competition among craftsmen as a result of the absence of an organization/association/ association with a vision and mission that is mutually agreed upon. |

The following is an analysis of external factors that encourage Jimbe drums SMEs to move up a class sustainably.

Table 2: External Factors Analysis

| External Factors | Aspects |
|------------------|--|
| Opportunity | 1. Obtain buyers in the international market |
| | 2. Connect directly with foreign buyers without going through intermediaries |
| | 3. Set your own selling price according to the prevailing market price |
| Threats | 1. Need to understand regulations related to export and import |
| | 2. Need to understand digital finance |
| | 3. Anticipate the risk of decreasing the number of craftsmen as a result of unfair competition |

Based on the analysis of internal and external factors above, a SWOT analysis matrix can be created as follows.

Table 3: SWOT Analysis Matrix

| | | |
|---|--|--|
| IFAS & EFAS | Strength | Weakness |
| | 1. High craftsman motivation 2. Adequate production skills 3. Already have basic digital marketing skills | 1. There are no associations/cooperatives/associations 2. There is a gap between large and small craftsmen. 3. Each craftsman seems to be walking alone. |
| Opportunity | SO Strategy | WO Strategy |
| 1. Building trust with overseas buyers 2. Obtaining overseas buyers without intermediaries 3. Setting your own selling price according to the prevailing market price | 1. Never stop innovating to adapt to changing consumer behavior. 2. Past experience is the best teacher to advance today's business | 1. Need to form associations/cooperatives to accommodate the aspirations of craftsmen as well as to overcome potential conflicts. 2. The role of local governments is very important for the sustainability of the local wisdom industry. |
| Threats | ST Strategy | WT Strategy |
| 1. Understand import export regulations 2. Understand financial management 3. Decrease in the number of craftsmen as a result of unfair competition | 1. Need to share opinions with fellow craftsmen in community/cooperative forums to solve common problems 2. Need to build a triple helix strategy to realize the internationalization strategy. | 1. Coordination with local governments as those responsible for the region 2. Building partnerships with large and small businesses |

From the SWOT results above, it can be seen that the strategies that can be developed for the internationalization of the jimbe drums industry in Blitar city include efforts to build customer trust, the need to continue to innovate by utilizing technology, the involvement of local governments, efforts to build partnerships with fellow MSMEs and with large businesses to facilitate access to international consumers, efforts to facilitate access to capital. Based on the results of the SWOT analysis above, the strategy/model for MSMEs to move up a class for the jimbe drums industry in Blitar city can be described as follows.

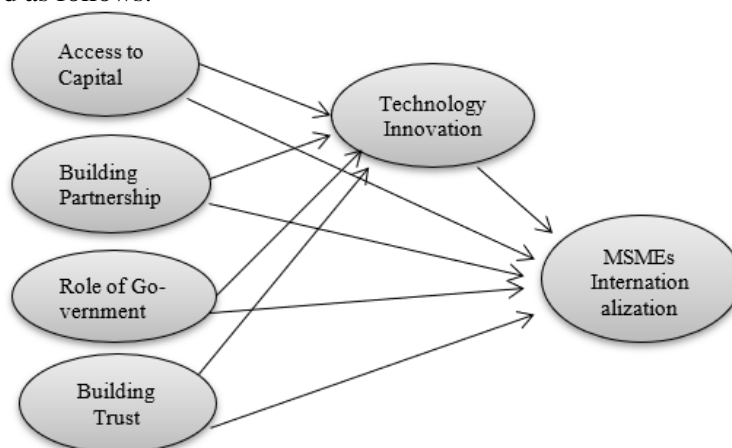


Figure 3: MSMEs Internationalization Model

Technological innovation is essential both in the production process of jimbe drums and in terms of creating marketing strategies. Innovation in the production process involving technology aims to improve quality and productivity. The use of lathes by craftsmen shows the involvement of technology in the production process. Meanwhile, in the marketing sector, the involvement of technology is in the form of the use of various digital media

to support marketing both domestically and abroad. Website creation and various social media can build a positive consumer image that has an impact on purchasing intentions. This is supported by Atirah (2023) and Lazo-Amado (2021) who state that adaptation to the culture of the target market segment, including technology, is one of the supporting factors for the success of MSME internationalization in Yogyakarta. Meanwhile, Khirom et al. (2023) stated that creating competitive advantage is a determining factor in the success of MSMEs in the international market. Meanwhile, Roque, et al. (2019) stated that the MSME internationalization model includes the U model, I model, integrated model and network theory.

Building consumer trust can be done from pre-purchase, during purchase to post-purchase. Building pre-purchase trust can be done through content creation on digital media, both websites and social media. Positive consumer ratings and reviews can build consumer trust in a company. Building trust during purchase can be done through delivery services, packaging, quality assurance and payment methods. Meanwhile, building post-purchase trust can be done through warranties and free consultations on product care and how to use it. Cabral, et al. (2020) stated that a high level of commitment from MSME actors has a significant effect on internationalization performance. This means that the seriousness of the jimbe drums industry to enter the international market is highly prioritized in order to enter the export market. Meanwhile, Sudarmiatin, et al. (2019) stated that building customer trust in the international market can also be done by doing a franchise business. Access to capital for MSMEs can be done through official financial institutions in banking or through cooperatives and BUMDES. The limitations of MSMEs in financial records are often an obstacle to accessing capital to banks, because there is no information about the guarantee of smooth credit repayment. For this reason, the existence of legal entities such as cooperatives and BUMDES is a solution that can help jimbe drums industry meet their capital needs. Cooperatives and BUMDES gain trust from banks because of their legal entity status, so there is a guarantee of smooth credit repayment. Currently, the government has facilitated MSMEs to move up a class by providing easy access to capital through People's Business Credit (KUR) (ekon.go.id August 24, 2023)

The role of government is very important in encouraging MSMEs to go international. Several regulations related to exports and imports have been socialized by the Industry and Trade Service to MSMEs in the city of Blitar. Likewise, related to mentoring activities in pioneering cooperation with partners, it can be carried out by the Industry and Trade Service. However, the results of interviews with jimbe drums industry show something different. According to the craftsmen, the role of the government is still not apparent in encouraging jimbe drums industry to enter the international market. As stated by one craftsman as follows:

So far, we have experienced difficulties related to bureaucracy in entering the export market, to the point that we are being played by brokers. The involvement of local governments to date has not been related to overcoming problems with foreign buyers.

The lack of involvement of local governments in this case is also triggered by the absence of an association that accommodates the aspirations of craftsmen. As stated in linkumkm.id, some of the requirements for MSMEs to move up a class include (a) Meeting administrative requirements (b) Meeting product standards (c) fulfilling export documents (d) registering with the Directorate General of Customs and Excise to obtain a NIK (Customs Identification Number). Omer et al. (2015) stated that the lack of government support in Africa actually encourages the growth of MSMEs in exporting their products to the international market.

Building partnerships with both large companies and fellow MSMEs of jimbe drums is an important strategy to reach the export market. Demand from buyers in the required quantity and quality cannot be met if done alone. As experienced by one of the exporters of jimbe drums in Blitar City, Mrs. Anik Sriati (39) who succeeded in bringing jimbe drums to various countries. She established partnerships with around 23 jimbe drums industry. The craftsmen are given training related to the quality that must be met, so that they can be accepted by foreign consumers. One of the recommended craftsmen's requirements is to use mahogany wood. Mrs. Anik is able to send an average of 1 container (containing 4000 pieces jimbe drums) every week, so that in a month she is able to send 4 containers to customers abroad. The largest consumer is China, in addition there is also Canada but the number of purchases is smaller.

This is in accordance with what Sani et al. (2018) stated that several factors that influence MSMEs to enter the international market are external, internal and networking factors. Meanwhile, Haase and Franco (2015), Gancarczyk and Gancarczyk (2018) also stated that the participation of MSMEs in alliances affects the success of MSMEs in entering the export market. Based on the results of the study above, the empirical implications of the results of this study are that to achieve the export market, sincerity and hard work are needed. The proposed model in Figure 3 above was developed based on input from the local government (Industry and Trade Service, Cooperatives and UMKM Service, Village Head), banking and jimbe drum craftsmen in Sentul Village, Blitar City. For this reason, the model can be further developed for the sustainability of the Blitar city jimbe drums industry towards the export market. In this case, a partnership program needs to be pursued both through collaboration with exporters, associations/communities/cooperatives, local governments, universities, banking and even with business partners abroad. Specifically for this partnership program, a model has been known called the helix model. The most famous helix model is the triple helix, namely cooperation between government, industry and universities. In its development,

the helix model became a quadruple helix and quintuple helix by adding elements of society and the environment for sustainable business (Etzkowitz and Leydesdorff, 1990).

5. Conclusion

The Jimbe drums industry in Blitar city is spread across several villages including Santren village, Tanggung village and Sentul village, Kepanjen Kidul sub-district. The number of Jimbe drum craftsmen in Blitar city is around 100 people, and 20 collectors. Some craftsmen have succeeded in reaching the export market, but most still meet local market demand, including for reog art games and children's toys. Some of the obstacles faced by Jimbe drums craftsmen in reaching the export market include the still difficult access to capital and obtaining raw materials. Limited knowledge about exports and imports has an impact on the risk of being manipulated by brokers. Export demand, which had fallen during the Covid 19 pandemic, has now started to rise again. There is a Jimbe drums exporter who has succeeded in reaching the export market to China, by building partnerships with craftsmen. There are also those who reach the export market individually. The arrival of buyers or brokers directly to Blitar city is not always beneficial for the growth of MSMEs as a whole because craftsmen set different strategies in terms of product quality, price, and payment methods. The internationalization model in this study was developed to encourage the growth of jimbe drums crafts in the city of Blitar as a whole. Thus, the approach used is the empowerment of MSMEs based on integrated education. Partnership strategies such as triple helix and quintuple helix are more recommended in order to build collaboration with parties who care about MSMEs.

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