

THE ROLE OF FINANCIAL LITERATURE OF SMEs IN THE INTERNATIONALIZATION OF EXPORT PRODUCTS

Achmad Mamduh, Imam Mukhlis, Danardana Murwani
Malang State University, Indonesia
Email: achmad.mamduh.2004139@students.um.ac.id,
imam.mukhlis.fe@um.ac.id, f_danardana_fe@um.ac.id

ARTICLE INFO

Received:
April, 26th 2022
Revised:
May, 14th 2022
Approved:
May, 16th 2022

ABSTRACT

This research is a literature study on financial literacy and the internationalization of SMEs. This study aims to discuss the role of SME financial literacy in the internationalization of export products. The research method used in this study is a qualitative descriptive method. The type of data used in this research is qualitative data, which is categorized into two types, namely primary data and secondary data. Sources of data obtained through library research techniques (library study) which refers to sources available both online and offline such as: scientific journals, books and news sourced from trusted sources. The results of the study conclude that the role of SME financial literacy in the internationalization of export products is very important. Financial literacy is one of the important knowledge resources that increase the capacity, skills and expertise of individuals and companies to use technology effectively. Important aspects to consider in the internationalization of SMEs include entrepreneurship, finance and technology, SME resources, routines within the company, entrepreneurial knowledge and actions. All these aspects, especially financial literacy, are important to be considered by SMEs that will become Global SMEs and when assessing opportunities in foreign markets in export products.

KEYWORDS

Financial Literacy, SMEs, Product Internationalization



This work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International

How to cite:

E-ISSN:

Published by:

Achmad Mamduh, Imam Mukhlis, Danardana Murwani. (2022). The Role of Financial Literature of SMEs in the Internationalization of Export Products. Journal Eduvest. Vol 2(5): 885-892
2775-3727

<https://greenpublisher.id/>

INTRODUCTION

The development and competitiveness of SMEs in general is still limited. Most MSMEs are only able to produce, but have not been able to market their products better. Weak marketing is not only a market problem, but many other aspects directly or indirectly affect so that many MSME businesses are slow to develop, some suffer losses, do not return on investment, and some even stop their business.

Many factors affect the quality of MSME performance, one of which is financial literacy. This factor is one of the determinants in improving the performance of MSMEs themselves. Financial literacy enriches the decision-making resources of SME owners, such as cultural values. Financially literate SME owners enable financial planning and control, as well as ensuring the proper source and application of funds less financially literate they are, the less likely they are to accumulate wealth. On the other hand, successful entrepreneurs show a character that is rooted in cultural values and principles.

Financial literacy is one of the main factors in solving the problems of MSMEs in the internationalization of export products. The internationalization of SMEs today is not an impossible opportunity because SMEs in the knowledge economy era are supported by the development of communication and information technology that is increasingly user friendly. In addition, the financial literacy of entrepreneurship actors, namely the owners and managers of SMEs, is increasing.

Research by Lamb and Liesch (2002) in (Fitriasari, Himawan, Yanida, & Widayatama, 2021). shows that the internationalization of SMEs in the global era tends to increase. Internationalization is theoretically a strategic evolution for SMEs. Approaches to the internationalization of SMEs are usually assessed using the stage models and the incremental internationalization theories. The theory views the internationalization of SMEs as an evolving stage. This stepwise approach has received criticisms such as those proposed by (Purnomo, Aisyah, Mulahele, & Nugraha, 2020). which states that the internationalization of SMEs with this approach is too deterministic. The author views that such criticism is reasonable because the internationalization of SMEs is currently developing and shows a new phenomenon of internationalization of SMEs in the field that is not incremental. For example, the author's observations on SMEs in traditional markets in Bandung City, West Java Province, show that internationalization has now been carried out by apparel retail SMEs in traditional markets as well as micro and small businesses selling apparel with distribution concepts. While providing assistance to new entrepreneurs at the Home Entrepreneurship and Self-Development Foundation, the author also identified that now many entrepreneurs have internationalized their businesses in the early stages of opening a business, even for micro-scale companies.

These phenomena show that the internationalization of SMEs is no longer a gradual model. In addition, the company's decision to conduct entrepreneurship at the organizational level and the internationalization process of SMEs will determine the organizational behavior of SMEs. Under these conditions, small and medium-sized companies will create value by exploring and exploiting opportunities and utilizing a unique set of resources owned by the company. Globalization and international markets are opportunities for SMEs to behave entrepreneurially.

The phenomenon of globalization attracts SMEs to internationalize. The limited resources of SMEs such as financial, managerial, and information are alleged to often frustrate SMEs' efforts to develop their companies internationally. However, research by Oviatt and McDougall (1994) and McDougall and Oviatt (2000) shows that SMEs can internationalize from the time they are planned or operating in the first year. Such

companies are also known as International New Ventures, Global Start-ups/ Global Borders, International SMEs or Global SMEs.

Based on the considerations above, this article is a literature study on financial literacy and the internationalization of SMEs. This study aims to discuss the role of SME financial literacy in the internationalization of export products.

RESEARCH METHOD

The research method used in this study is a qualitative descriptive method. The type of data used in this study is qualitative data, which is categorized into two types, namely primary data and secondary data. Sources of data obtained through library research techniques (library study) which refers to sources available both online and offline such as: scientific journals, books and news sourced from trusted sources. These sources are collected based on discussion and linked from one information to another. Data collection techniques used in this study were observation, interviews and research. This data is analyzed and then conclusions are drawn.

RESULT AND DISCUSSION

1. The Urgency of SME Financial Literacy

Financial literacy is one of the important knowledge resources that increase the capacity, skills and expertise of individuals and companies to use technology effectively. Furthermore, financial literacy and technological literacy often support each other at the individual and corporate levels. Therefore, the integration of technology and financial literacy becomes important to improve organizational performance.

Business continuity must be maintained in total business operations in order to remain competitive in the market. Dynamic and fluctuating competitive conditions make SME actors sensitive to change, so SMEs must build a competitive advantage in order to have an advantage in competition and be sustainable in the market (Dalimunthe, 2017). Business continuity is influenced by several factors that cause the business to become strong and survive, including the compilation of business plans, general updating of business plans, analyzing competitors, ease of entering the business, and the ability to calculate risk. Business continuity can be seen from the success in innovation, management of employees, and customers (Hudson-Hanley, Smit, Branscum, Hystad, & Kile, 2021).

Day and Wensley (1988) explain that competitive advantage has 2 (two) different but interrelated views. First, competitive advantage is based on the resource base. The skills and competencies of employees in the fields of marketing, production, and innovation are strategies that can be developed so that the company has an advantage in the market. Second, competitive advantage looks at the company's performance that is better than other companies. Competitive advantages of employee skills and competencies include good financial literacy skills so that business continuity can be maintained. Financial literacy that is properly applied by business actors can be used to make strategic decisions. Likewise, according to Draxler, et al (2014) that the owner or manager is very

closely related to making financial decisions from complex situations and the right strategy to maintain business continuity.

Financial literacy can be seen from attitudes and behavior in planning investments, savings, and consumption in managing finances. Financial literacy attitudes are shown how to manage financial problems as measured by responses that generate opinions to solve these problems. Financial literacy behavior is a person's ability to manage financial funds. Research conducted by (Ramadhan & Asandimitra, 2019) shows that there is an influence of financial literacy on the performance and business sustainability of MSMEs in Central Java. Good financial literacy will result in the right management and financial decisions to improve performance and business continuity. Widayanti et al (2017) also explain that financial literacy has an effect and contributes 28.9% to business sustainability. Likewise, research conducted by (Fitriasari et al., 2021), states that financial literacy affects business performance and sustainability. Various theories and other research that have been put forward show that financial literacy is very much needed in the process of progressing SMEs.

2. Approach in Internationalization of SMEs

The approach in the internationalization of SMEs is dominated by establishment chain theory or also called stage theory. This theory was proposed by Johanson and Weidersheim-Paul (1975) and then developed by Johanson and Vahlne (1977). This theory suggests that companies develop towards international markets through several stages of internationalization. The stages begin with internationalization with low risk -low commitment- exports to high risk internationalization -high commitment- production. These stages reflect the increasing commitment of SMEs to foreign markets caused by the company's management learning process towards internationalization (Johanson and Vahlne 1977). Internationalization according to stage theory is a cumulative, tiered process, and the internationalization behavior of a company depends on its past experience (Eriksson et al., 2000). So, the more experience of SMEs in conducting internationalization will increase the commitment of SMEs in managing international markets.

Renata and Emőke-Szidónia (2009) stated that the internationalization process of SMEs can generally be studied with three approaches, namely the stage approach, the resource-based approach and the network approach). Each approach is briefly described as follows:

1. The stage approach.

The tiered approach describes internationalization as a linear, sequential, and reactive process. Knowledge gained by the company from its experience when dealing with foreign markets. This knowledge is psychologically a solution to overcome problems faced by companies and foreign markets. Knowledge also allows the company to adopt decisions that are useful in ensuring that the company is able to properly exploit opportunities.

2. The resource-based approach.

The resource-based approach explains the internationalization of a company by considering certain capabilities to gain competitive advantage.

3. The network approach.

The network approach explains the motivation and modalities of internationalization by prioritizing the importance of the company's position in the industrial network that the company enters.

By combining the level of corporate internationalization and the level of market internationalization, strategies in the stepwise internationalization approach can be identified and related to three things, namely the pressure for the development of corporate knowledge, adaptation of corporate resources, and exploitation of relationships in a network. In this perspective, the internationalization of SMEs appears as a complex and heterogeneous process. However, in general the SME internationalization model is approached with a gradual and incremental, linear, gradual evolution type of approach, and requires the mobilization of resources and competencies (financial, material, relational, learning competencies, and other resources) (Bell, 2021).

Corporate networks streamline and facilitate the entry of SMEs into international business flows (Pauluzzo & Shen, 2018). The internationalization strategy taken by SMEs will depend on the company's relationship with the business network and the company's influence on the business network. Under these conditions, the concept of resource and competence correlates the three approaches to internationalization and provides the ability to identify the causes that determine SMEs in entering each stage of internationalization (Laghzaoui, Abbad, & El Mouden, 2020).

3. Triggering Factors for Internationalization of SMEs

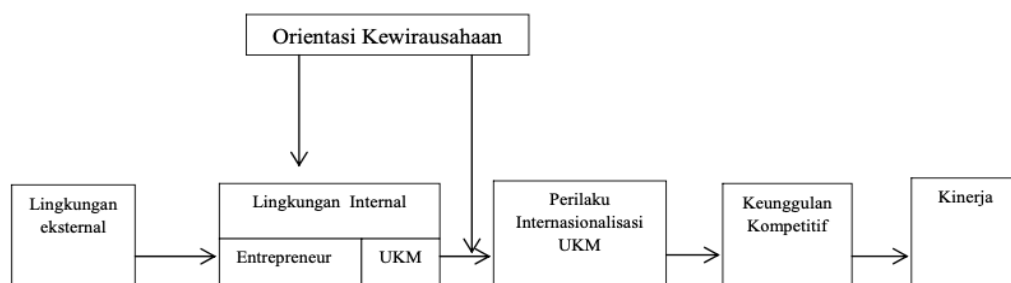
Changes in the world economy, the revolution in communication and information technology, increasingly complex business networks, and the increasing knowledge and experience of SME owners and managers are seen as factors that trigger the growth of market niches and the increasing demand for specialized goods. Under these conditions, SMEs have the opportunity to move globally to face increasingly competitive challenges and have the potential to grow very quickly. In many cases, Global SMEs in developed countries tend to be less serious in handling the home market and concentrate more on entering the international market. Meanwhile, global SMEs in developing countries pay more attention to the home market and international market. Therefore, observers of the internationalization of SMEs such as McDougall and Oviatt (2000), and Gemser et al. (2004) stated that the knowledge of SMEs gained from international experience is not seen as the main factor determining the effectiveness of the internationalization process. There are other factors that determine the success of the internationalization of SMEs, both internally and externally.

Coviello and McAuley (1999) state that subsequent research does not continue the idea that SMEs adopting a stage approach are exceptions to the SME internationalization process, but confirms the importance of such an approach in its proper position. In general, the difference in the internationalization process of SMEs is the time (Lechuga Sancho, Martín-Navarro, & Ramos-Rodríguez, 2020). Global SMEs have been internationally oriented since their conception, while SMEs in general have evolved over time depending on their importance to internationalization and the speed with which SMEs internationalize (Watson et al., 2020). In other words, the international behavior of SMEs is indicated by the mode of entering the market, foreign markets to be entered, and the stage of development of SMEs. These aspects are in practice temporary. Other important aspects to consider in the internationalization of SMEs include entrepreneurship, finance and technology, SME resources, routines within the company, knowledge, and entrepreneurial action (Teece, 2012). All these aspects are important to be considered by SMEs that will become Global SMEs and when assessing opportunities in foreign markets (Kapoor & Teece, 2021).

4. SME Internationalization Process

The process of entrepreneurship and internationalization determines corporate behavior, particularly in the context of creating value through exploiting opportunities and increasing the potential of the company's unique set of resources (Vahlne & Johanson, 2020). International entrepreneurship combines two things. First, internationalization is a firm level activity whose activities extend beyond national boundaries (Verbeke & Ciravegna, 2018). Second, the characteristics of the company's entrepreneurial orientation, which are related to innovation, proactive behavior and risk assumptions that are considered by the company (Lee, Zhuang, Joo, & Bae, 2019).

Covin and Slevin (1991) and Jones and Coviello (2005) view that in general the internationalization of SMEs appears as entrepreneurial behavior which is determined by the company's innovation, company's proactiveness, company-calculated risk, and value creation. Therefore, the internationalization behavior of Global SMEs is the response of companies and entrepreneurs to changes at a certain time which are influenced by internal and external factors of the company. Entrepreneurs by considering their competence, level of innovation, and the risks to be borne, will combine resources within the company to achieve competitive advantage. This is in the perspective of resource-based view carried out in order to adapt the company structure to the business environment. The condition of this phenomenon becomes a model for the internationalization of SMEs and determines the performance of the company as measured by financial and non-financial indicators. Based on these considerations, the relationship between the variables of the internationalization process SMEs in the perspective of resource-based view can be designed as presented in Figure 1.



Gambar 1. Internasionalisasi UKM

Sumber: Purnomo (2014)

In conditions where knowledge is a basic competency and a source of competitive advantage, the goods and services offered by SMEs become highly specialized and SMEs act globally in order to achieve efficiency. This from a knowledge-based view perspective is also carried out in the context of the company's adaptation to the business environment. Therefore, Global in the era of the knowledge economy is approached with a knowledge-based view, this perspective makes it easier to understand why SMEs can internationalize more quickly, either since they were conceived or when they became a short-term goal for SMEs.

CONCLUSION

Based on the discussion above, it can be concluded that the role of SME financial literacy in the internationalization of export products is very important. Financial literacy is one of the important knowledge resources that increase the capacity, skills and expertise of individuals and companies to use technology effectively. Important aspects to consider in the internationalization of SMEs include entrepreneurship, finance and technology, SME resources, routines within the company, entrepreneurial knowledge and actions. All these aspects, especially financial literacy, are important to be considered by SMEs that will become Global SMEs and when assessing opportunities in foreign markets in export products.

REFERENCES

- Bell, Marcus. (2021). Invisible no more: White racialization and the localness of racial identity. *Sociology Compass*, 15(9), e12917.
- Dalimunthe, Muhammad Bukhori. (2017). Keunggulan Bersaing Melalui Orientasi Pasar dan Inovasi Produk. *JKBM (Jurnal Konsep Bisnis Dan Manajemen)*, 3(2), 140–153.
- Fitriasari, Pipin, Himawan, Bobby, Yanida, Maria, & Widyatama, Arif. (2021). Apakah Literasi Keuangan Dan Inovasi Digital Mampu Meningkatkan Kinerja UMKM Saat Menghadapi Covid-19? *Jurnal Akuntansi Dan Ekonomika*, 11(2), 195–202.
- Hudson-Hanley, Barbara, Smit, Ellen, Branscum, Adam, Hystad, Perry, & Kile, Molly L. (2021). Trends in urinary metabolites of polycyclic aromatic hydrocarbons (PAHs) in the non-smoking US population, NHANES 2001–2014. *Chemosphere*, 276, 130211.
- Kapoor, Rahul, & Teece, David J. (2021). Three faces of technology's value creation: Emerging, enabling, embedding. *Strategy Science*, 6(1), 1–4.
- Laghzaoui, El Mustapha, Abbad, Abdelaziz, & El Mouden, El Hassan. (2020). Host-parasite association of *Placobdella costata* (Glossiphoniidae: Hirudinea) and *Mauremys leprosa* (Geoemydidae: Testudinoidea) in aquatic ecosystems of Morocco. *Parasitology Research*, 119(10), 3459–3467.
- Lechuga Sancho, María Paula, Martín-Navarro, Alicia, & Ramos-Rodríguez, Antonio Rafael. (2020). Will they end up doing what they like? The moderating role of the attitude towards entrepreneurship in the formation of entrepreneurial intentions. *Studies in Higher Education*, 45(2), 416–433.
- Lee, Younggeun, Zhuang, Yiming, Joo, Minjoo, & Bae, Tae Jun. (2019). Revisiting Covin and Slevin (1989): Replication and extension of the relationship between entrepreneurial orientation and firm performance. *Journal of Business Venturing Insights*, 12, e00144.
- Pauluzzo, Rubens, & Shen, Bin. (2018). *Impact of culture on management of foreign SMEs in China*. Springer.
- Purnomo, Wahyu, Aisyah, Rr Herini Siti, Mulahela, Thoriq, & Nugraha, Xavier. (2020). Analysis of Lawsuit Against the Factual Action which Conducted by Military after Law Number 30 Year 2014 Concerning Government Administration. *UNRAM Law Review*, 4(1), 17–25.
- Ramadhan, Aditya Yanuar, & Asandimitra, Nadia. (2019). Determinants of financial management behavior of millennial generation in surabaya. *Jurnal Minds: Manajemen Ide Dan Inspirasi*, 6(2), 129–144.

- Teece, David J. (2012). Dynamic capabilities: Routines versus entrepreneurial action. *Journal of Management Studies*, 49(8), 1395–1401.
- Vahlne, Jan Erik, & Johanson, Jan. (2020). The Uppsala model: Networks and micro-foundations. *Journal of International Business Studies*, 51(1), 4–10.
- Verbeke, Alain, & Ciravegna, Luciano. (2018). International entrepreneurship research versus international business research: A false dichotomy? *Journal of International Business Studies*, Vol. 49, pp. 387–394. Springer.
- Watson, Christina Vaughan, Lewin, Michael, Ragin-Wilson, Angela, Jones, Robert, Jarrett, Jeffery M., Wallon, Kristen, Ward, Cynthia, Hilliard, Nolan, & Irvin-Barnwell, Elizabeth. (2020). Characterization of trace elements exposure in pregnant women in the United States, NHANES 1999–2016. *Environmental Research*, 183, 109208.