

## Internationalization Strategy and Process: Evidence from Indonesian SMEs

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*Small and Medium-sized Enterprises (SMEs) are less able to take advantage of export opportunities from trade liberalization than large firms despite various export assistances provided by the government. This study aims to investigate the strategy and process undertaken by Indonesian SMEs to become exporter. The evidences were collected from 271 exporting SMEs and 226 non-exporting SMEs in 7 provinces. The findings show that potential exporters can be identified through their firm and owner characteristics. Exporting SMEs are driven by certain motivating factors and utilize certain types of networking to source reliable information regarding export opportunities. The findings also show that SMEs' initial export market is mainly determined by target markets' size and purchasing power and the time taken for SMEs to internationalize differs across provinces and product groups.*

**JEL Classification:** F23, M16, M13

**Keywords:** SME internationalization, internationalization process, export motivating factors, internationalization strategy, Indonesia

### 1. Introduction

The world's rapid export growth has been evident in the last two decades. The world's merchandise export value had more than tripled from USD 6.1 to 18.9 trillion during 2001-2014 (ITC 2016) which helped the global economy to sustain 2.58% annual growth in that period albeit interrupted by the 2007-08 global financial crisis (The World Bank 2016). Trade also allowed firms worldwide to expand their business and productivity during the times of economic turbulence (OECD 2012).

However, the benefits of trade opportunity are not shared equally among all countries and firms. Large firms capitalise the trade opportunity better than Small and Medium-sized Enterprises (SMEs). For example, in the mid-2000s SMEs in the US, Switzerland, Netherlands, United Kingdom and Japan contributed only between 30-38% of their respective national export (Hammer & Stamps 2010). SMEs' marginal export contribution is even more prevalent in emerging countries, where for example SMEs in Malaysia and Vietnam accounted for 28% and 17% of their respective national export (Wignaraja 2012).

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## Revindo, Gan & Nguyen

In Indonesia, SMEs' export contribution is meagre at 9.3% which contradicts their roles in making up 99.9% of business entities, providing 97% job opportunities and creating 59% of the country's GDP (Ministry of Cooperatives and SMEs 2014). SMEs' poor export performance persists despite various export assistances launched by the government including export financing, export promotion, and technical and managerial trainings.

To foster SME export, the extant literature asserts the importance of firm internationalization strategy, pattern and process. Hence, studies on firm internationalization has intensified in the last four decades with the early stream of research resulted in some influential theories including *the Transaction Cost Theory* (Teece 1986; Buckley & Casson 2009), *the Eclectic Paradigm* (Dunning 1988) and *the Monopolistic Advantage Theory* (Caves 1971; Hymer 1976). However, those theories are more applicable to international business activities of multinational enterprises with more emphasis on foreign investment than direct export activities (Hollenstein 2005). The second stream of research began to draw attention on smaller firms (i.e. SMEs) which internationalization process is more dynamic and less deterministic. SMEs are less likely to set up subsidiaries abroad but rather decide between making direct export and being involved in global supply chain. One leading theory within this stream of research is *the Stage Theory (or the Uppsala Model)* that argues firms will give more commitment on international business as they accumulate foreign market knowledge and therefore would take small incremental, gradual and sequential steps in their engagement in cross-border activities (Johanson & Vahlne 1977; Johanson & Vahlne 1990). However, *the International New Ventures (INV) Theory* contends that small firms can internationalize in a short time (born global) if the managers have strong international entrepreneurial orientation, develop distinctive products for global *niche* markets, optimize the advancements of information and communication technologies (ICT) and use external intermediaries for distribution in foreign markets (Cavusgil & Knight 2009; Oviatt & McDougall 1994). A rather different perspective is posited by *the Resource-Based View* which suggests that firms may aspire to enter global markets if their resources are valuable, rare, imperfectly imitable or substitutable and thereby source of competitive advantage (Peng 2001; Barney 1991; Wernerfelt 1984). However, *the Network Approach* emphasizes the role of external agents such as suppliers, distributors, regulatory and public agencies in facilitating small firms to venture abroad (Coviello & Munro 1997; Johanson & Mattsson 1988).

To date, none of those theories can be accepted as the generic internationalization theory because firm internationalization process varies across countries and industries (Thai 2008; Onkelinx & Sleuwaegen 2008). However, evidences from Indonesia are limited, with a few exceptions such as Tambunan (2009) that identifies the export constraints, Sari et al. (2008) on the role of entrepreneur human and social capital, and Tambunan (2012) on the importance of trade facilitation in fostering SMEs' export. These studies, however, looked at particular aspects of internationalization and therefore failed to provide comprehensive analysis of the internationalization process of Indonesian SMEs. Hence, strict preconception of a particular internationalization theory may not be appropriate to investigate Indonesian firm's internationalization process due to lack of previous evidences.

Alternatively, internationalization can be perceived as a set of elements that firms have to address in their process to become exporter (Moberg and Palm, cited in Negrusa 2009). The six key elements of internationalization process include: firm and owner characteristics (*who*), export motivating factors (*why*), product selection (*what*), target

market selection (*where*), entry modes (*how*) and point of entrance (*when*).<sup>1</sup> This study aims to investigate the internationalization strategy and process of Indonesian SMEs using the six-element framework. The significance of this study are twofold: to the extent of authors' knowledge this is the first empirical study on SME internationalization process using the six-element framework and the first study on the internationalization process of Indonesian SMEs. Evidence from Indonesia may enrich the extant literature due to country's rapid changes in the international environment and involvement in various free trade agreements.<sup>2</sup>

The remainder of the paper is organized as follows. Section 2 reviews the literature and develop the testable hypotheses. Section 3 discusses the data source and the empirical method. Section 4 provides the findings. Section 5 concludes and discusses the findings. Section 6 provides the implications and recommendation for further research.

## 2. Literature Review

The first key element of internationalization process is firm and owner characteristics (*who*). In terms of firm characteristics, firm's age and size may affect SMEs' behaviour towards export activities (Wiedersheim-Paul et al. 1978; Ottaviano & Martincus 2011; Suárez-Ortega & Álamo-Vera 2005). Owner characteristics may also distinguish exporters and non-exporters as they represent entrepreneurs in which various dimensions of human capital are embodied (Ruzzier et al. 2007). Some dimensions of human capital that are positively related to internationalization including international work experience, international education and socio-demographic characteristics such as age and experience (Suárez-Ortega & Álamo-Vera 2005; Ruzzier et al. 2007). The following relationships are therefore hypothesized:

**Hypothesis 1a:** *Exporting SMEs have longer operational experience than non-exporters.*

**Hypothesis 1b:** *Exporting SMEs are larger in size than non-exporters.*

**Hypothesis 1c:** *Exporting SME owners have longer work/business experience than non-exporters'.*

**Hypothesis 1d:** *Exporting SMEs owners have higher education level than non-exporters'.*

**Hypothesis 1e:** *Exporting SMEs owners have more international exposure than non-exporters'.*

The second key element of internationalization process is the factors that motivate firms to export (*why*). Motivating factors are critical because internationalization is a lengthy process with enormous obstacles to be overcome (Morgan & Katsikeas 1997; Acedo & Galán 2011). Studies reported that motivating factors are crucial at the export stage (i.e. to sustain export, increase product lines or widen destination markets) (see for example Bianchi & Wickramasekera 2016; Acedo & Galán 2011) as well as at pre-export stage (see for example Lautanen 2000; Leonidou 1995). The following relationships are thus hypothesized:

**Hypothesis 2a:** *Exporters are driven by stronger motivation to export than non-exporters.*

**Hypothesis 2b:** *SMEs at export stage are driven by main export motivating factors that differ to those at pre-export stage.*

## Revindo, Gan & Nguyen

The third key element of internationalization process is the entry modes (*how*). Firms may begin by exporting via an agent, joint venture, licensing or franchising before performing direct export (Johanson & Vahlne 1977; Johanson & Vahlne 1990). However, this present study focuses on direct export activities and examines the entry modes from network perspective. For SMEs, formal and social networking could be a feasible route and strategy towards internationalization as the relations in the network will help them obtain reliable information on foreign market opportunities (Abdullah & Zain 2011; Ruzzier et al. 2006). The following relationship is thus hypothesized:

**Hypothesis 3:** *SMEs obtain reliable information on export opportunities from particular formal and social networking sources.*

The fourth key element of internationalization process is the market selection (*where*). *The Stage Theory* argues that firms will begin international activities from foreign markets that have less psychic distance or have many similarities to the home market (Johanson & Vahlne 1977; Johanson & Vahlne 1990). However, other studies also reported that SMEs may initiate export to distant markets (see for example Ojala 2009; Ojala & Tyrväinen 2007). The contradiction leads to the following hypothesized relationships:

**Hypothesis 4a:** *SMEs initiate export to markets with close cultural and physical distances.*

**Hypothesis 4b:** *SMEs expand their export gradually to the more distant markets.*

The fifth and the sixth key elements of internationalization process are the product selection (*what*) and timing of entrance (*when*). One of the consequence of *the Stage Theory* is that firms gain domestic experience before venturing abroad (Johanson & Vahlne 1977; Johanson & Vahlne 1990). On the contrary, *the INV theory* argues that born global firms only take short time to internationalise, despite not necessarily internationalized immediately after the inception. Rennie (1993) and Cavusgil and Knight (2009) define born global firms as those which begin to export within two years and three years of establishment, respectively. However, the time taken to internationalize may be related by SMEs' types of product. The following relationships are hypothesized:

**Hypothesis 5:** *SMEs begin exporting after three years of establishments.*

**Hypothesis 6:** *The time taken by SMEs to internationalize vary across products.*

### 3. Data and Method

This study focuses on SMEs, defined as enterprises with 5-99 employees (BPS-Statistics Indonesia 2014a), and excludes micro and large-sized enterprises.<sup>3</sup> The primary data was collected through a survey questionnaire administered randomly to SME owners/managers in 7 provinces in Java and Bali regions during April-August 2014.<sup>4</sup> The sample composition was governed by a quota in which at least 200 observations were targeted from each exporter and non-exporter groups. A total of 522 SMEs agreed to participate in the survey, of which 497 responses were useable, consisted of 271 exporters and 226 non-exporters. However, 114 non-exporters reported that they have intention/plan to export in the future while the remaining 112 have no intention to export. Hence, for the remainder of this study, the term *export status* is used to represent the grouping of SMEs by export experience and intention, *exporters* or *exporting SMEs* refers to SMEs with export experience, *aspiring-exporters* refers to non-exporting SMEs that have intention/plan to export (pre-export

stage), and *non-intenders* refers to non-exporting SMEs with neither intention nor plan to export. The data analysis includes descriptive statistics, mean comparison (t-test and ANOVA) and test of independence (Chi-square test).

#### 4. Findings

The sample consists of 185 SMEs from Jawa Timur Province, 100 from DKI Jakarta Province, both are largely populated and industrialized provinces, while the remaining 212 sample were obtained from 5 other provinces. In terms of products, 74 SMEs produce more than one types of merchandise and the remaining 423 SMEs produce one of the following merchandises: furniture, handicraft, garments, household utensils, leather products, fashion accessories, food and beverages, agro products and machinery components.

##### 4.1 Firm and Owner Characteristics

The surveyed SMEs vary in their firm age and size. Table 1 shows the significant difference of firm age across the three export status. The exporters on average have been operating longer than non-exporters. Hypothesis 1a is therefore supported. However, the finding also shows that within non-exporter group the aspiring-exporters are younger than non-intenders, which indicate strong international aspiration among young firms.

Table 1 also shows the average number of employees (as a measure of firm size) differs significantly across the three export status. Exporters have larger average size than non-exporters. Hypothesis 1b is therefore accepted. Further, within non-exporter group the aspiring-exporters have larger average size than non-intenders. This indicates that firm size is also related to SME’s behaviour towards internationalization at pre-export stage.

**Table 1: Differences in Firm Characteristics across SME's Export Status**

Firm Characteristics	SMEs' Export Status			ANOVA
	Exporter	Aspiring-exporter	Non-intender	
Firm age (year)				
Mean	19.67	15.91	18.45	F = 4.428**
Std. deviation	11.692	9.406	12.158	
Number of employees				
Mean	37.00	23.11	20.35	F = 20.305***
Std. deviation	29.530	23.450	22.617	

(\*\*) and (\*\*\*) represent significance at the 5% and 1% levels, respectively.

Source: Author’s calculation based on survey data.

The surveyed SME owners have diverse socio-demographic backgrounds. Table 2 shows that SME owners’ age and work/business experience differ significantly across the three export status. In terms of age, the exporter owners are older than aspiring-exporter owners but younger than non-intender owners. However, owner’s age does not necessarily reflect their work/business experience. Table 2 shows that exporter owners have longer experience than non-exporter owners, which indicates the relevance of owner experience in internationalization process. Hypothesis 1c is therefore supported. Further, within non-exporting group the aspiring-exporter owners have less experience than non-intender

## Revindo, Gan & Nguyen

owners, which implies owner experience could be less important factor for internationalization in the future.

**Table 2: SME Owners' Age and Experience across Export Status**

Owner Characteristics	SMEs' Export Status			ANOVA
	Exporter	Aspiring-exporter	Non-intender	
Age (year)				
Mean	49.37	46.32	50.25	F = 4.853***
Std. deviation	11.298	8.518	9.267	
Business/work experience (year)				
Mean	18.71	16.27	17.67	F = 3.087**
Std. deviation	9.090	8.540	8.630	

(\*\*) and (\*\*\*) represent significance at the 5% and 1% levels, respectively.

Source: Author's calculation based on survey data.

SME owners' educational background vary significantly across the export status (see Table 3). More than half of exporter owners have bachelor degree, aspiring-exporter owners have equal large share of bachelor degree and high school graduates while more than 63% of non-intender owners are high school graduates. This shows positive association between owners' education and internationalization. Hypothesis 1d is therefore accepted.

**Table 3: SME Owner's Education across Export Status**

Owner Characteristics	SMEs' Export Status						Chi-square Test
	Exporter		Aspiring-exporter		Non-intender		
Education							
Primary school	10	3.7%	4	3.5%	11	9.8%	$\chi^2 = 59.619^{***}$
High school	74	27.3%	48	42.1%	71	63.4%	
College	27	10.0%	7	6.1%	5	4.5%	
Degree	139	51.3%	49	43.0%	21	18.8%	
Postgraduate	21	7.7%	6	5.3%	4	3.6%	
Total	271	100.0%	114	100.0%	112	100.0%	

Note: Primary school category includes no formal education; high school category includes junior and senior high.

(\*\*\*) represents significance at the 1% level.

Source: Author's calculation based on survey data.

Four indicators are used to measure SME owners' international exposure: overseas education, training and work experience and multinational enterprise (MNE) work experience. Table 4 shows that all indicators of international exposure vary significantly across the three export status. Exporter owners have more international experience and exposure than aspiring-exporter owners and non-intender owners, respectively. Hypothesis 1e is therefore supported.

**Table 4: SME Owner's International Exposure across Export Status**

International Exposure	SMEs' Export Status						Chi-square Test
	Exporter		Aspiring- exporter		Non-intender		
Overseas education							
Yes	38	14.0%	5	4.4%	1	.9%	$\chi^2 = 20.587^{***}$
Never	233	86.0%	109	95.6%	111	99.1%	
Total	271	100.0%	114	100%	112	100%	
Overseas training							
Yes	27	10.0%	2	1.8%	0	0%	$\chi^2 = 18.800^{***}$
Never	244	90.0%	112	98.2%	112	100%	
Total	271	100.0%	114	100%	112	100%	
Overseas work							
Yes	35	12.9%	2	1.8%	1	.9%	$\chi^2 = 23.493^{***}$
Never	236	87.1%	112	98.2%	111	99.1%	
Total	271	100.0%	114	100.0%	112	100%	
MNC work							
Yes	44	16.3%	6	5.3%	7	6.2%	$\chi^2 = 14.341^{***}$
Never	226	83.7%	108	94.7%	105	93.8%	
Total	270	100.0%	114	100%	112	100%	

(\*\*\*) represents significance at the 1% level.

Source: Author's calculation based on survey data.

#### 4.2 Export Motivating Factors

Table 5 presents 22 specific export motivating factor items/statements used in the survey questionnaire. The exporter and aspiring-exporter respondents were asked to rate how important each of the item in their export activities on a 3-point Likert-scale (1 = not motivating, 2 motivating, 3 = very motivating).<sup>5</sup> Table 5 shows that exporters are generally driven by stronger motivation to export than aspiring-exporters as indicated by higher average Likert score in 20 items, 12 of which are statistically significant. This shows that motivating factors are crucial in driving SMEs to venture abroad and therefore Hypothesis 2a is supported.

**Table 5: Motivating Factors to Export**

Motivating Factor Items	Mean Likert Score (Rank)		Statistical Tests	
	Exporter	Aspiring-exporter	Levene's Test	Mean Difference
(S1) Find new markets	<b>2.458</b> (4)	2.412 (1)	1.214	0.722
(S2) Find large & high income markets	<b>2.465</b> (3)	2.184 (4)	3.021*	3.931***
(S3) Find stable markets	<b>2.207</b> (6)	2.035 (8)	4.992**	2.540**
(S4) First mover advantage	<b>1.996</b> (15)	1.781 (18)	1.763	2.783***
(S5) Follow peer firms' action	<b>1.934</b> (17)	1.912 (12)	5.009**	0.282
(S6) Manager's international exposure	<b>1.915</b> (18)	1.658 (22)	.889	3.355***
(S7) Manager's global awareness	<b>2.133</b> (11)	1.825 (16)	.392	4.539***
(S8) Firm's maturity	<b>2.062</b> (12)	1.825 (16)	2.097	3.743***
(S9) Product innovation	<b>2.347</b> (5)	2.158 (6)	4.069**	2.687***
(S10) Product's quality & uniqueness	<b>2.506</b> (2)	2.272 (3)	.909	3.615***
(S11) Revenue in foreign currencies	<b>2.151</b> (8)	1.982 (9)	5.383**	2.114**
(S12) International business networks	<b>2.044</b> (13)	1.912 (12)	.019	1.924*
(S13) Social networks	2.151 (8)	<b>2.175</b> (5)	6.561**	-0.348
(S14) Emigrant communities	1.731 (22)	<b>1.781</b> (18)	.346	-0.649
(S15) Foreign buyers	<b>2.561</b> (1)	2.333 (2)	10.481***	3.258***
(S16) Limited domestic market	<b>1.838</b> (20)	1.763 (20)	1.425	1.054
(S17) Stiff domestic competition	<b>1.970</b> (16)	1.912 (12)	.089	0.716
(S18) Government support	<b>1.836</b> (21)	1.702 (21)	.333	1.621
(S19) Home country's good image	<b>2.163</b> (7)	1.956 (11)	2.757*	2.865***
(S20) Close distance to target market	1.852 (19)	<b>1.860</b> (15)	3.697*	-0.103
(S21) Low transportation cost	<b>2.148</b> (10)	2.096 (7)	3.026*	0.824
(S22) Simplified export procedures	<b>2.037</b> (14)	1.974 (10)	.005	0.864

Note: Levene's test is used to test the equality of variances assumption.  
 (\*), (\*\*) and (\*\*\*) represent 10%, 5% and 1% significant level, respectively.  
 Source: Author's calculation based on survey data.

The Likert-scale average score can also be ranked to obtain the main export motivating factors for each group. For example, the most important motivating factor for the exporters is “(S15) Foreign buyers”, followed by “(S10) Product's quality and uniqueness”. On the other hand, the aspiring-exporters are driven mainly by “(S1) Find new markets”, followed by “(S15) Foreign buyers”. These findings show the differences in main export motivating factors between SMEs at pre-export and export stages. Hypothesis 2b is therefore accepted.

### 4.3 Networking and Information

The exporter and aspiring-exporter respondents were asked to identify the sources of information they accessed to obtain information regarding export opportunities. Ten sources of information were reported but the Chi-square value indicates that the two SME groups differ in the extent to which they use those information sources (see Table 6). Both exporters and aspiring-exporters rely on two main networking sources; business partners/associates and foreign buyers. However, the third main source of information for the exporters is business associations as opposed to aspiring-exporters that rely on web/internet resources. Hypothesis 3 is therefore supported. Exporters appeared to have better networking relations with business associations than aspiring-exporters.



**Table 6: Source of Information regarding Export Opportunities**

Source of Information	Exporter		Aspiring-exporter		Chi-square Test
	Count	%	Count	%	
Newspapers and television	31	4.9%	23	8.3%	$\chi^2 = 42.049^{***}$
Web/internet resources	68	10.8%	51	18.3%	
Business association	72	11.4%	25	9.0%	
Business partners/associates	152	24.1%	68	24.5%	
Central government agencies	59	9.4%	13	4.7%	
Regional government agencies	36	5.7%	12	4.3%	
Family/relatives	39	6.2%	23	8.3%	
Indonesian emigrant societies	7	1.1%	8	2.9%	
Contact made by buyer	148	23.5%	54	19.4%	
Trade Show/Expo	19	3.0%	1	0.4%	
Total		100%		100%	

Note: The counts exceed the number of respondents because each respondent may mention more than one sources of information

(\*\*\*) represents 1% significance level

Source: Author's calculation based on survey data.

#### 4.4 Export Destinations

SMEs must decide which foreign market they will first attempt to enter. In the survey, the exporters were asked to indicate which market(s) they initially entered while the aspiring-exporters were asked which foreign market(s) they plan to initially enter. Table 7 shows that aspiring-exporters' market selection plans differ to the actual initial export market reported by exporters. The aspiring-exporters mostly plan to initiate export to neighbouring ASEAN countries (37.4%), followed by East Asia (17.4%). However, the exporters reported that their actual first export was shipped mainly to Europe (27.1%) and East Asia (23.2%) while the neighbouring ASEAN countries are only third most important destination (21.1%). Hypothesis 4a is therefore rejected.

**Table 7: Foreign Markets Targeted for Initial Export**

Foreign Market Destinations	Exporter (Actual)		Aspiring-exporter (Planned)		Chi-square Test
	Count	%	Count	%	
ASEAN	59	21.1%	43	37.4%	$\chi^2 = 22.640^{***}$
East Asia	65	23.2%	20	17.4%	
Rest of Asia	14	5.0%	4	3.5%	
Oceania	36	12.9%	16	13.9%	
Europe	76	27.1%	17	14.8%	
America	24	8.6%	14	12.2%	
Africa	6	2.1%	1	0.9%	
Total		100%		100%	

Note: The counts exceed the number of respondents because each respondent may mention more than one target markets.

(\*\*\*) represents 1% significance level

Source: Author's calculation based on survey data.

SMEs that were successful in their initial export may consider to expand their export to other markets. Table 8 shows that most of the exporters are not content with initial export, regardless of their market selection, and therefore expanded their export thereafter. The

## Revindo, Gan & Nguyen

export market expansion begins from the initial export market's neighbouring countries. For example, SMEs which initially export to a European country will expand their export to other European countries. Hypothesis 4b is therefore rejected.

**Table 8: Market Expansion after Initial Export**

First Export		Expand after First Export	Export Expansion Destinations (counts)						
Markets	Count		ASEAN	East Asia	Rest of Asia	Oceania	Europe	America	Africa
ASEAN	59	51 (86.4%)	<b>41</b>	16	20	15	13	16	4
East Asia	65	62 (95.4%)	<b>44</b>	<b>44</b>	22	18	23	21	4
Rest of Asia	14	12 (85.7%)	<b>9</b>	6	<b>10</b>	6	4	1	1
Oceania	36	34 (94.4%)	<b>26</b>	<b>22</b>	14	<b>23</b>	19	15	9
Europe	76	72 (94.7%)	41	39	33	30	<b>67</b>	43	13
America	24	23 (95.8%)	9	12	8	11	<b>15</b>	<b>14</b>	2
Africa	6	5 (83.3%)	<b>4</b>	2	3	2	3	2	<b>4</b>

Source: Author's calculation based on survey data

### 4.5 Timing to Become Exporter

Table 9 shows the exporters on average take 6.2 years to internationalize but the timing differs significantly across products. SMEs that produce furniture or multi-products become exporter in a relatively short time (3.77 and 4.02 years, respectively) while in contrast SMEs in agro products and food and beverages took the longest time to make their first export (9.57 and 11.12 years, respectively). Hypothesis 6 is thus supported.

**Table 9: Firm's Age at the First Export (years), by Products**

Products	N	Mean	Std. Dev.	Min.	Max.	ANOVA
Furniture	43	3.77	6.803	0	34	F = 2.203**
Handicraft	59	6.46	7.923	0	38	
Garments	33	6.58	6.787	0	32	
Household Utensils	15	7.13	3.461	1	13	
Leather Products & Fashion Accessories	15	5.93	5.982	0	20	
Food & Beverages	17	11.12	12.237	1	44	
Agro Products	23	9.57	8.500	0	29	
Machinery Components	7	6.29	5.407	1	16	
Other Products	9	7.78	8.497	0	27	
Multiproduct	50	4.02	7.121	0	41	
Total	271	6.20	7.736	0	44	

(\*\*) represent 5% significant level.

Source: Author's calculation based on survey data

However, none of these groups can internationalize within less than 3 years (born global). Alternatively, the significant difference in timing to internationalize can also be shown across provinces (see table 10). Exporters in Jawa Timur and Jawa Tengah on average took 10.79 and 8.92 years to internationalize, respectively, probably because the two provinces have large population and advance industrialisation that allow local SMEs to concentrate on the local markets. In contrast, exporters in Bali and Yogyakarta on average take 1.98 and 3.55 years to internationalize. The two provinces are small in size but are the main international tourist destinations in Indonesia. Hence, Hypothesis 5 is marginally

supported. Only exporters in Bali Province can internationalize within 3 years after establishments.

**Table 10: Firm's Age at the First Export (years), by Province**

Province	N	Mean	Std. Dev.	Min.	Max.	ANOVA
Bali	43	1.98	3.327	0	13	F = 9.811***
DI Yogyakarta	53	3.55	5.391	0	32	
Jawa Barat	19	3.95	6.087	0	24	
DKI Jakarta	56	5.77	5.843	0	37	
Banten	11	6.64	7.567	1	26	
Jawa Tengah	13	8.92	8.995	0	28	
Jawa Timur	76	10.79	9.763	0	44	
Total	271	6.20	7.736	0	44	

(\*\*\*) represent 1% significant level.

Source: Author's calculation based on survey data

## 5. Conclusions and Discussions

SMEs in developing countries, particularly in Indonesia, are less able to capitalise trade opportunities compared to their larger counterparts. The extant literature suggests that effective policies for SME internationalization require comprehensive understanding of SMEs' internationalization strategy and process. This study attempts to close the gap in the literature by analysing the internationalization of Indonesian SMEs and incorporating the six key elements of internationalization process. The study uses primary data of 271 exporting SMEs and 226 non-exporting SMEs surveyed in 7 provinces.

The findings indicate that firm and owner characteristics are crucial in SME internationalization process. Exporting SMEs are characterised by longer operational experience and larger size than non-exporters, which confirm the relevance of firm experience and size in internationalization process (Suárez-Ortega & Álamo-Vera 2005; Ottaviano & Martincus 2011; Wiedersheim-Paul et al. 1978). Exporter owners have better formal education, longer business experience and more international exposure than non-exporter owners. These are consistent with Ruzzier et al. (2007) and Javalgi and Todd (2011) studies that showed how owners' formal education level and international exposure may shape their behaviour towards internationalization. However, within non-exporting group the younger firms with less experienced owners have stronger export aspiration than their older and more experienced counterparts, probably highlighting the risk-aversion that increases with age (Gray 2002) and young entrepreneur's' exposure to ICT and international environment (Lopez-Nicolas & Soto-Acosta 2010). In the future many young entrepreneurs can venture overseas as age and experience will be less important factors for internationalization.

Motivating factors are crucial in driving SMEs to venture abroad due to the complexity, the lengthy process and the risk of internationalization (Morgan & Katsikeas 1997; Acedo & Galán 2011). In addition, our findings are consistent with Acedo and Galán (2011) and Leonidou (1995) studies that indicate motivating factors at export stage are different to those at pre-export stage. Exporters are motivated to sustain and develop export by the presence of foreign buyers and the confidence on their products. In contrast, the aspiring-exporters are motivated to initiate export mainly to find new markets and the presence of

## Revindo, Gan & Nguyen

potential buyers. The foreign buyer factor appears in both stages because it can minimize risk borne by international operation such as payment collection and customer complaints (Shih & Wickramasekera 2011; Battaglia et al. 2006; George et al. 2005).

The interaction with potential buyers also give SMEs reliable information regarding export opportunity. In addition, Indonesian SMEs also put their trust in the information provided by their business partners/associates, with whom SMEs may have built trust through previous business transactions (Senik et al. 2011). However, exporters utilize the network relations with business associations better than aspiring-exporters.

When SMEs select target markets for their initial export plan, they mainly consider the close cultural or physical distance factors as predicted by *the Stage Theory* (Johanson & Vahlne 1977; Johanson & Vahlne 1990). However, in many cases SMEs' initial export are actually shipped to Europe and East Asia. The actual markets reported by the exporters show that markets size and purchasing power are more critical factors in determining the success of initial export than close distance and socio-economic similarities (Ojala 2009; Ojala & Tyrväinen 2007). Following the success of the initial export, SMEs will expand their export mainly to other countries in the same region as the initial export market.

Finally, the time taken for SMEs to become exporter vary across products and provinces. SMEs that produce furniture or multi-products can become exporter earlier but none of the product group can represent born global firms (internationalized within 3 years). The initial evidence of born global SMEs was found in Bali, a main tourist destination province, probably affected by local entrepreneurs' strong international orientation since firm inception due to exposure and interaction with foreigners (Poulis & Yamin 2009).

## 6. Policy Implications and Further Research

The findings of our study highlight some important implications for the policy makers as well as SME owners/managers. First, potential exporters can be identified from their firm and owner characteristics. Hence, the effectiveness of export assistance programmes can be improved by selecting SMEs with export potentials. Second, the following types of export assistances should be prioritized: business matches between potential SMEs and potential buyers, product development and quality assurances, and reliable supply of information regarding export opportunities. Third, despite the increasing importance of ASEAN market, the alternative markets with large size and high-end consumers such as Europe and East Asia should be explored. Fourth, government agencies may use indirect intervention to strengthen the networking relationship between SMEs and business associations or distribution channels in target markets.

Further studies in this area can be conducted upon the limitation of this study. First, this study did not capture the effect of ASEAN economic community implemented in 31 December 2015 and therefore serial studies in the future can be conducted. Second, the six-elements of internationalization process can be expanded including, but not limited to, export barriers, performance and impact. Third, the internationalization process may actually vary across products or provinces and therefore more specific or case studies may further enhance the extant literature.

## Endnotes

<sup>1</sup> We modified the six-steps model of internationalization initiated by Moberg and Palm (Negrusa 2009). We treat each step as element of internationalization and replaced SWOT (company situation) with firm and owner characteristics (*who*) (Ottaviano & Martincus 2011).

<sup>2</sup> As of August 2016, Indonesia had eight FTAs in effect including ASEAN (1993), ASEAN-China (2010), ASEAN-Australia and New Zealand (2010), ASEAN-India (2010), ASEAN-Japan (2008), ASEAN-Korea (2007), Indonesia-Japan (2008) and Indonesia-Pakistan (2013). The country also has ongoing negotiations on several other regional and bilateral FTAs.

<sup>3</sup> Micro-sized enterprises are excluded for two reasons: the unavailability of database in Indonesia as they mostly take the form of individual business or home industries; and they are also less likely to engage in exporting activities (Pendergast et al. 2008).

<sup>4</sup> Despite of 34 provinces, Indonesia's economy are largely concentrated in seven provinces located in Jawa, Bali and Madura Islands. As of 2013, the seven provinces generated over 58% of total GDP, inhabited by 57.5% of total population and populated by approximately 60% of total SMEs in Indonesia (BPS-Statistics Indonesia 2014b).

<sup>5</sup> We use a three-point scale without neutral scale following OECD (2012) in the study on SMEs Participation in Global Market.

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