

PalArch's Journal of Archaeology of Egypt / Egyptology

MAPPING THE ANTECEDENTS OF THE INTERNATIONALIZATION OF INDONESIAN SMES: THE MANAGERIAL & POLICY IMPLICATIONS

Ono Supriadi

International Business Program, Management Department,
BINUS Business School International Undergraduate Program,
Bina Nusantara University
Jl. Hang Lekir I No. 6 Senayan, Jakarta 10270, Indonesia

ono.supriyadi@binus.edu

Ono Supriadi: Mapping the Antecedents of the Internationalization of Indonesian SMEs: The Managerial & Policy Implications-- Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(7), . ISSN 1567-214x

Keywords: Antecedents, Internationalization, SMEs, Implications

ABSTRACT

Even though a vast amount of previous research examining the antecedents of firm internationalization is widely documented, the examination of comprehensive antecedents of SME internationalization in Indonesia's context is not yet found. This study is aimed at exploratively mapping the antecedents of the internationalization of Indonesian SMEs. Based on a survey of 131 SMEs, employing SmartPLS3, all 85 indicators of SME internationalization were mapped. The findings show that out of 85 indicators, 55 are positive antecedents of SME internationalization. The coefficient of determinant, R^2 of all antecedent dimensions are strong with CFMs (characteristics of foreign markets) endogenous latent variable is 0.706, the largest, followed by the R^2 for OCs (organizational characteristics), HC (human capital), SC (social capital), CDM (characteristics of domestic market), MI (market internationalization) and I (industry) which are 0.562, 0.547, 0.312, 0.310, 0.267, and 0.166 consecutively. In addition, the inner model suggests that overall IAs (internationalization antecedents) has the strongest positive relation with Characteristics of Foreign Markets (0.840), followed by Organizational Characteristics ($P=0.749$), Human Capital ($P=0.740$), Social Capital ($P=0.559$), Characteristics of Domestic Markets ($P=0.557$), and Industry ($P=0.408$). Only Market Internationalization was found not to be an antecedent of SME internationalization, indicated by the negative coefficient on the path from Internationalization Antecedents (IAs) to Market Internationalization (MI) at $P=-0.517$. This study contributes to the stream of literature from the perspective of a developing country, Indonesia, and provides managerial and policy implications as suggested by the findings.

INTRODUCTION

Traditionally, SMEs have a small financial capability, are domestic-oriented, and have a limited market scope. Therefore, international expansion is an especially important decision for them to make (Barringer & Greening, 1998). The importance of such expansion for SMEs is also reflected in their increasingly active role in international markets (O'Cass & Weerawardena, 2009; Oviatt & McDougall, 1994). The increasing importance of SMEs in international markets has led to substantial research on the internationalization of SMEs. The focus has been largely on SME export activities such as the differences between exporters and non-exporters (Manolova, Brush, Edelman, & Greene, 2002; Dichtl, Koeglmayr, & Mueller, 1990; Cavusgil & Naor, 1987); antecedents such as personal factors (Ruzzier, Antoncic, & Konecnik, 2006; Herrmann & Datta, 2002; Adler & Kwon, 2002; Manolova et al., 2002; Koch, 2001); organizational characteristics (Musso & Francioni, 2009; Bell, Crick, & Young, 2004; Wolff & Pett, 2000); characteristics of domestic market (Antoncic & Hisrich, 2001; Nakos, Brouthers, & Brouthers, 1998); characteristics of foreign markets (Musso & Francioni, 2009; Nakos & Brouthers, 2002; Antoncic & Hisrich, 2001); market internationalization (Madsen & Servais, 1997), and industry (Clercq, Sapienza, & Crijns, 2005; Reuber & Fischer, 1997).

This study focuses on examining 85 internationalization antecedents well documented in previous studies, classified in seven dimensions: human capital (HC), social capital (SC), organisational characteristics (OCs), characteristics of domestic market (CDM), characteristics of foreign markets (CFMs), market internationalization (MI), and industry (I). Employing SMartPLS3, mapping these dimensions based on their coefficient determinant, R^2 , and path coefficient significances, as well as mapping all 85 internationalization antecedents based on their loadings were conducted.

LITERATURE REVIEW

Human Capital and Firm Internationalization

Seven categories of human capital are important determinants of the internationalization of SMEs: (1) "demographics of founders/owners" (Manolova et al., 2002; Antoncic & Hisrich, 2001; Nakos et al., 1998; Moini, 1995); (2) "international business skills" (Ruzzier et al., 2006; Manolova et al., 2002; Herrmann & Datta, 2002), (3) "international orientation" (Ruzzier et al., 2006; Clercq et al., 2005; Manolova et al., 2002; Antoncic & Hisrich, 2001), (4) "environmental risk perception" (Ruzzier et al., 2006; Manolova et al., 2002; Koch, 2001), (5) "management know-how" (Ruzzier et al., 2006; Westhead, Wright, & Ucbasaran, 2001), (6) "industry-specific know-how" (Westhead et al., 2001; Cooper & Bruno 1977), and (7) "ability to acquire financial capital" (Ruzzier, Hisrich, & Konecnik, 2006; Westhead et al., 2001).

Burt (1992) defines human capital as the valuable knowledge and skills that someone accumulates over time. The most important characteristics of human capital (knowledge, skills, and values) are manifested in people (Becker, 1993). Human capital considerably affects the survival and growth of the company (Greene, Brush, Hart, & Saporito,

2001). Manolova et al. (2002) argue that human capital of entrepreneurs strongly influence the choice and level of internationalization in small firms. According to Bloodgood, Sapienza, and Almeida (1996), “firms with unique resource bundles had a greater tendency toward internationalization”.

Social Capital and Firm Internationalization

According to Mayerson (in Agndal, Chetty, & Wilson, 2008), social capital is "the array of valuable relationships someone has accumulated over time", which gives one access to valuable resources embedded in their personal relationships, and which accelerates the pace of start-up internationalization with learning experience in market knowledge (Arenius, 2005; Prashantham, 2005). Nahapiet and Ghoshal (1998) proposed a broader definition of social capital as “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit”.

The relationship between social capital and internationalization of SMEs has been well documented (Arenius, 2005; Jones & Coviello, 2005; McDougall & Oviatt, 2003). Previous research (Davidsson & Honig, 2003; Greene & Brown, 1997), often operationalized social capital through network identification and network relationships that can be determined by the strength of their relationships, as well as informal meetings, other social activities, and social and family connections. In this study social capital consists of network size (Ruzzier & Antoncic, 2007; Hoang & Antoncic, 2003), frequency of contact with professionals (Ruzzier & Antoncic, 2007; Hoang & Antoncic, 2003), accessibility to various information sources (Brewer, 2001), as well as links to international business networks (Ruzzier & Antoncic, 2007; Lloyd-Reason & Mughan, 2002).

Organizational Characteristics and Firm Internationalization

Previous research examining the relationship between firm size and internationalization found that export and non-export companies differ in their size in the sense that exporting firms are larger than non-export companies (Cavusgil & Nevin, 1981). Meanwhile, Nakos et al. (1998) study found that larger companies had higher export performance than their smaller counterparts.

In a study to examine the relationship between overall business strategy and internationalization, Bell et al. (2004) empirically investigated a number of key issues, including the company's initial business strategy, growth goals and international orientation, stimuli that influence choice of strategy and later operational decisions, and the role of the overall company's business strategy in its internationalization. According to Aaby and Slater (1989) and Bijmolt and Zwart (1994), the formulation of strategy in terms of systematic exploration, analysis, and export planning can be crucial for export success. In addition, the selection of internationalization mode is often based on strategic considerations (Agarwal & Ramaswami, 1992).

The company's international experience is also an important organizational characteristic. According to Erramilli (1991), international experience refers to the extent to which a company has engaged in international operations. It is said that companies with greater international

experience have typically developed processes and systems for managing international operations (Anderson & Gatignon, 1986). Conversely, those without extensive international experience have no opportunity to develop such systems, tend to exaggerate the risk of international entry, and as a consequence tend to prefer non-equity entry mode to minimize financial risks associated with international expansion (Anderson & Gatignon, 1986).

Madsen and Servais (1997) emphasize that the activities of the internationalization of individual enterprises cannot be seen separately but must be understood by analyzing their inter-organizational relations. In line with this, Pepe and Musso (2003) consider corporate relationships in industrial networks an essential element of the internationalization process. Past studies have neglected to analyze whether the differences in the choice of entry mode exist dependent on the membership of the industrial district. A study by Musso and Francioni (2009) found that belonging to industrial districts did not have a significant impact on the choice of SME entry mode. Regarding this result, Musso and Franciani (2009) argue that “the firms’ adoption of an active approach to the entry mode selection process reduced the district’s influence, and hence the firms revealed a more autonomous capability to evaluating the critical factors for entry mode decisions”.

The ability of a company to produce or offer differentiated products or services is another important organizational characteristic, which according to Porter (1980) is a firm-specific competitive advantage. Previous research has investigated the company's ability to produce or offer differentiated products or services that can impact on international entry mode options (Nakos & Brouthers, 2002; Brouthers, Brouthers, & Werner, 1999).

Characteristics of Domestic Market and Firm Internationalization

Part of the environmental conditions are the characteristics of the domestic market. Like other environmental conditions, the characteristics of the domestic market are essential to internationalization (Antoncic & Hisrich, 2001). Previous research has found that: first, exports are important for small countries with open economies (Bijmolt & Zwart, 1994); secondly, countries with small domestic markets and a high percentage of immigrants associated with more international start-ups (Madsen & Servais, 1997); and third, competitive domestic market conditions affect internationalization (Nakos et al., 1998). Antoncic and Hisrich (2001) also argue that the characteristics of the domestic market, such as size, level of immigrants and internal competitiveness can affect internationalization. They proposed that a relatively larger domestic market, more internally competitive and having more immigrants would have a positive impact on internationalization (Antoncic & Hisrich, 2001).

Another domestic factor to be investigated is institutional export support (Prijadi & Desiana, 2017). The influence of these factors on the internationalization of firms, especially on entry mode decisions is also widely discussed in the international business literature (eg, Root, 1998; Douglas & Craig, 1995). Nakos et al. (1998) study found that the relationship of institutional export promotion factors to export performance was partially supported, in which firms participating in trade shows and missions performed better than those that did not participate in export in

term of firm's profitability but not export size. The observation of the effect of export promotion on its performance has not really been empirically tested for the most part. Other studies in Sweden show that it has relatively small results (Wiedersheim-Paul, Olson & Welch, 1978). However, these government stimulation measures may have more influence, not only in the case of the direct financial effects they may have but may also be important in other areas. This includes, for example, providing information about market opportunities in a foreign country.

Characteristics of Foreign Markets and Firm Internationalization

The characteristics of overseas markets consist of "market closeness" (Antoncic & Hisrich, 2001; Calof & Viviers, 1995), "market potential" (Nakos & Brouthers, 2002; Koch, 2001); "Market risk" (Musso & Francioni, 2009; Malhotra, Agarwal, & Ulgado, 2003; Nakos & Brouthers, 2002); "Market barriers" (Wood & Goolsby, 1987); and "market appeal" (Musso & Francioni, 2009; Koch, 2001).

Studies conducted by Hornell, Vahlne, and Wiedersheim-Paul (1972) and by Johanson and Wiedersheim-Paul (1975) found that a similar successive establishment of operations in new countries appears to be related to the psychic distance between home and host countries. The market potential in terms of size and growth (Nakos & Brouthers, 2002; Koch, 2001), as well as demand for potential sales and demand (Alon & McKee, 1999), can affect not only the decision whether to enter overseas markets but also entry mode choices (Agarwal & Ramaswami, 1992).

Market Internationalization and Firm Internationalization

The internationalization of markets consists of the number of foreign competitors in the domestic market, the number of foreign products or services in the domestic market, and the domestic market share of foreign competitors' products or services. Internationalization of markets can be related to the internationalization of SMEs. Johanson and Mattsson (1988) argue that internationalized market conditions will accelerate the process of internationalization of the company. In fact, many international start-ups are found to be from internationalized markets (Madsen & Servais, 1997).

Industry and Firm Internationalization

This study involves investigating the broader industry context, including high-tech and knowledge-based SMEs; low technology and knowledge-based; natural and non-natural resources; labor-intensive and unskilled labor-based work. Moini (1995) stresses the need to explore export behavior based on industry per industry because firms in different industries may differ in their export behavior. The intensity of the technology can be attributed to the tendency to export (Aaby and Slater, 1989). Initial internationalization is essential for companies in knowledge-based industries such as software industry (Oviatt & McDougall, 1994). Bonaccorsi (1992) and Reuber and Fischer (1997) also argue that industry-specific characteristics can influence the internationalization of SMEs.

The industrial sector also needs to be considered because firms in a particular industry may be more international-oriented than in other industrial sectors, for example, the level of domestic and global competition

in the industry, or the extent to which the product can or needs to be tailored to overseas markets (Clercq et al., 2005). In this study, SMEs are assigned to four industry sectors: manufacturing, services, agribusiness, and others.

MATERIALS AND METHODS

The survey questionnaires with a cover letter were posted directly to the owner or manager of 1726 SMEs taken conveniently¹ from 2010 SMEs in the five provinces (DKI Jakarta, West Java, Central Java, Yogyakarta, and Bali) listed with the Trading Board of the Indonesian's Ministry of Cooperative and SMEs. A total of 323 questionnaires were returned. Out of the 323 returned questionnaires, 40 were completed, and 283 remained unanswered citing reasons such as address moved (63.4%), receiver unidentified (16.7%), office closed down (11.7%), address incomplete (4.2%), letter rejected (3.3%), or receiver passed away (0.7%). Then the follow-up calls and emails to each of non-responding SMEs yielded a further 96 completed responses. Therefore, altogether, the survey resulted in 136 completed responses. Finally, an analysis of the pattern and extent of missing data from 136 completed responses was made which yielded 131 usable responses. Five questionnaires had a high proportion of lost data (17.8% or more) and were excluded.

The current study justifies the size of the sample obtained by the "typical" sample size (Israel, 1992) from other similar studies. Thus, 131 SMEs are currently involved in one or more international activities (Manolova et al., 2002) included in the analysis. This is advantageous in comparison with similar previous SME internationalization studies (Fillis, 2002; Manolova et al., 2002; Nakos et al., 1998; Beamish, Craig, and McLellan, 1993; Czinkota & Ursic, 1991).

RESULTS AND DISCUSSIONS

Employing the repeated indicator approach² on SmartPLS3, the collected data were analyzed. Figure 1 provides the PLS Path modeling estimation for the antecedents of internationalization. By looking at the diagram, we can make the following observations:

¹ The SMEs chosen are those that the researches thought they are engaging in one or more internationalization activities, such as exporting and importing.

² The indicators of the first-order constructs are used as indicators for the second-order construct.



Figure 1. PLS-SEM Results

The coefficient of determinant, R^2 , for CFMs (Characteristics of Foreign Markets) endogenous latent variable is 0.706, the largest, followed by the R^2 for OCs (Organizational Characteristics), HC (Human Capital), SC (Social Capital), CDM (Characteristics of Domestic Market), MI (Market Internationalization) and I (Industry) which are 0.562, 0.547, 0.312, 0.310, 0.267, and 0.166 consecutively. These mean that 70.6% of the variance of Characteristics of Foreign Markets, 52.6% of the variance of Organizational Characteristics, 54.7% of the variance of Human Capital, 31.2% of the variance of Characteristics of Social Capital, 31.0% of the variance of Characteristics of Domestic Market, 26.7% of the variance of Market Internationalization, and 16.6% of the variance of industry endogenous latent variables are identified as the antecedents of internationalization of Indonesian SMEs.

The inner model suggests that overall IAs (Internationalization Antecedents) has the strongest relation with CFMs/Characteristics of Foreign Markets (0.840), followed by OCs/Organizational Characteristics (0.749), HC/Human Capital (0.740), SC/Social Capital (0.559), CDM/Characteristics of Domestic Markets, I/Industry (0.408), and MI/Market Internationalization (-0.517). The model suggests that the path relationships between IAs and CFMs, OCs, HC, SC, CDM, and I dimensions are statistically significant. However, the model suggests that the path relationship between IAs and MI dimension is not statistically significant. It is because its standardized path coefficient (-0.517) is lower than 0.1. Thus, it can be concluded that: CFMs, OCs, HC, SC, CDM, and I are strong antecedents (determinant factor) of internationalization (IA), but

MI is not the antecedent of (not a determinant factor of) internationalization.

The outer model loadings³ indicate the correlations between the latent variables (CFMs, OCs, HC, SC, CDM, I, and MI) as the dimensions of IAs and the indicators in each of its latent variables. In Figure 1 the outer loadings are hidden. However, they are clearly listed in the sorted order from the highest to the lowest in Table 1 below.

The highest loadings of items in each of the internationalization antecedent dimensions indicate the most important antecedents of internationalization. The lowest loadings of items in each of the internationalization antecedent dimensions indicate the least important antecedents of internationalization. All negative loadings of items mean the items are not the antecedents of internationalization. The higher the loadings of the items the more important and the more determinant the items are as the antecedents of internationalization.

Table 1.: *Outer Loadings, R Square and Path Coefficients*

Items	Human Capital (HC)	Outer Loading	R ²	Antecedents → HC Path Coefficient
HC_16	International business environment (overseas markets) is riskier than domestic business environment (Indonesia).	0.485	0.547	0.740
HC_13	The risk of doing business internationally is greater than the risk of doing business in Indonesia.	0.365		
HC_15	The opportunities to grow in the domestic market (Indonesia) are larger than those in overseas markets.	0.354		
HC_22	How would you rate your skills in oral presentation?	0.346		
HC_10	How often do you have foreign visitors visiting your firm?	0.345		
HC_11	How would you rate your knowledge of foreign competitors?	0.324		
HC_17	Domestic (Indonesia's) business regulations are more supportive of business than international regulations.	0.324		
HC_20	How would you rate your skills in negotiating?	0.313		
Items	Social Capital (HC)	Outer Loading	R ²	Antecedents → SC Path Coefficient
SC_5	How would you rate the frequency of your contacts for professional help with governmental institutions and non-governmental institutions?	0.792	0.312	0.559
SC_6	How would you rate the frequency of your contacts with the chamber of	0.664		

³ In an exploratory research, outer loading 0.4 or higher is acceptable (Hulland, 1999).

commerce?				
Items	Organizational Characteristics (OCs)	Outer Loading	R ²	Antecedents → OCs Path Coefficient
OC_6	Please classify the length of your firm experience in selling overseas!	0.842	0.562	0.749
OC_8	Where your firm is located? (Rural or Urban area)	0.832		
OC_5	Does your firm adopt a market differentiation strategy and a cost advantage strategy at the same time?	0.826		
OC_7	Does your firm belong to an industrial district/cluster?	0.824		
Items	Characteristics of Domestic Market (CDM)	Outer Loading	R ²	Antecedents → CDM Path Coefficient
CDM_4	How would you rate the intensity level of domestic competition in Indonesia?	0.466	0.310	0.557
CDM_2	Who is the majority of your consumer in Indonesia?	0.275		
CDM_3	How would you rate the level of demand for your products in Indonesia?	0.267		
Items	Characteristics of Foreign Markets (CFMs)	Outer Loading	R ²	Antecedents → CFMs Path Coefficient
CFM_3	How would you rate the influence of cultural differences of foreign markets with Indonesian culture on your internationalization efforts?	0.705	0.706	0.840
CFM_16	How would you rate the size of competitors in the foreign targeted countries as a whole?	0.699		
CFM_20	How would you rate the distribution access in your targeted foreign markets as a whole for your products or services?	0.699		
CFM_17	How would you rate the aggressiveness of competitors' marketing efforts?	0.681		
CFM_1	How would you rate the influence of geographical distance of foreign markets on your internationalization efforts?	0.672		
CFM_19	How would you rate the non-tariff barriers (e.g. administrative, quota, etc.) for selling your products or services into targeted foreign markets as a whole?	0.540		
CFM_18	How would you rate the tariff barriers for selling your products or services into targeted foreign markets as a whole?	0.528		

CFM_10	How would you rate the risk of converting and repatriating income from your targeted foreign markets as a whole?	0.517		
CFM_2	How would you rate the importance of geographical distance for transportation costs?	0.492		
CFM_12	How would you rate overall operation risks (price control, local content requirements) in your targeted foreign markets as a whole?	0.449		
CFM_11	How would you rate the risk of expropriation (ownership/control risks) in your targeted foreign markets as a whole?	0.444		
CFM_15	How would you rate the risks of dissemination or misuse of your proprietary knowledge or technology if you operate jointly with a local firm in the in your targeted foreign markets as a whole?	0.437		
Items	Market Internationalization (MI)	Outer Loading	R²	Antecedents → MI Path Coefficient
MI_2	The number of similar foreign products distributed in Indonesia.	0.894	0.267	-0.517
MI_1	The number of foreign competitors doing business in Indonesia.	0.859		
MI_3	What is the size of the distribution of your foreign competitors in Indonesia?	0.809		
Items	Industry (I)	Outer Loading	R²	Antecedents → I Path Coefficient
I_2	Please classify your sector of the industry.	0.931	0.166	0.408
I_1	Please classify your industry type (tick all that apply).	0.274		

The current study findings show that Human Capital (HC), Social Capital (SC), Organizational Characteristics (OCs), Characteristics of Domestic Market (CDM), Characteristics of Foreign Markets (CFMS), and Industry (I) are strong antecedents of SME internationalization. Only Market Internationalization (MI) is found not to be an antecedent of SME internationalization.

The coefficient on the path from Internationalization Antecedents (IAs) to Human Capital (HC) indicates that Human Capital (HC) is a strong antecedent of SME internationalization at $P=0.740$. This result is consistent with the result of Bloodgood et al.'s (1996) study that found firms with unique bundles of resources have a greater tendency towards internationalization.

Previous research that relates social capital with SME internationalization (Arenius, 2005; Jones & Coviello, 2005) are also supported by the results of this research which indicate that the coefficient on the path from Internationalization Antecedents (IAs) to Social Capital (HC) is strong at $P=0.559$.

The path coefficient from Internationalization Antecedents (IAs) to Organizational Characteristics (OCs) is also strong at $P=0.749$, which indicates that organizational characteristics are strong antecedents of SME internationalization. This result supports previous research which relates organizational characteristics with firm internationalization (Pepe & Musso, 2003; Nakos & Brouthers, 2002; Antoncic & Hisrich, 2001).

Characteristics of Domestic Market (CDM) was also found to be a strong antecedent of SME internationalization, indicated by a strong path coefficient from Internationalization Antecedents (IAs) to Characteristics Domestic Market (CDM) at $P=0.557$. This result is consistent with the result of previous research (Antoncic & Hisrich, 2001; Root, 1998).

Another important finding shows that Characteristics of Foreign Markets (CFMS) was a strong antecedent of SME internationalization with the coefficient on the path from Internationalization Antecedents (IAs) to Characteristics of Foreign Markets (CFMS) is strong at $P=0.840$. This finding is consistent with previous similar studies from Musso & Francioni (2009); Ulgado (2003); Nakos & Brouthers (2002); and Antoncic & Hisrich (2001).

The last strong antecedent of SME internationalization is Industry (I), indicated by a strong coefficient on the path from Internationalization Antecedents (IAs) to Industry (I) at $P=0.408$. This finding is also consistent the similar previous study (Clercq et al., 2005; Reuber & Fischer, 1997).

However, the current study findings show that Market Internationalization (MI) is not an antecedent of SME internationalization, indicated by the negative coefficient on the path from Internationalization Antecedents (IAs) to Market Internationalization (MI) at $P=-0.517$. As this finding is incongruent with the previous study (Johanson & Mattsson, 1988), this may reveal that internationalized market conditions will not always speed up the process of internationalization.

CONCLUSIONS

The main purpose of this study was to map the antecedents of internationalization of Indonesian SMEs. The findings showed that out of seven antecedents of firm internationalization, six were strong antecedents. These were Human Capital (HC), Social Capital (SC), Organizational Characteristics (OCs), Characteristics of Domestic Market (CDM), Characteristics of Foreign Market (CFMS), and Industry (I) with the Characteristics of Foreign Markets (CFMs) the strongest antecedent ($P=0.840$) and Industry (I) was the least strong antecedent of SME internationalization ($P=0.408$), while Market Internationalization was found not to be an antecedent of SME internationalization ($P=-0.517$).

In addition, out of 85 indicators of observed internationalization antecedents, 55 (64.7%) were positive indicators of antecedents of SME internationalization shown by positive loadings. Many of them were strong indicators of SME internationalization, such as firms experience in selling

overseas (0.842), firm's adoption of a market differentiation strategy and a cost advantage strategy at the same time (0.832), and firm's affiliation to an industrial district/cluster (0.824).

Policy Implications

In this research, many indicators like the frequency of firm's contacts for professional help with governmental institutions and non-governmental institutions as well as the frequency of firm's contacts with the chamber of commerce were found to be strong indicators of SME internationalization antecedents with 0.792 and 0.644 loadings consecutively. This implied that external professional help either from government and/or non-government institutions were important factors that drove Indonesian SMEs to internationalize. Government and other related stakeholders' policies that support SMEs to more internationalize should be viewed as the priority.

Managerial Implications

The analysis of the inner model shows that Characteristics of Foreign Markets (CFMs with $R^2=0.706$), Organizational Characteristics (OCs with $R^2=0.562$), and Human Capital (HC with $R^2=0.547$) were the three strongest dimensions of SME internationalization antecedents. These were important findings suggesting that internationalization of Indonesian SMEs was driven mostly by how they perceived foreign market conditions (CFMs) such as the influence of cultural differences of foreign markets with Indonesian culture on SME internationalization efforts (0.705), followed by their organizational characteristics (OCs) and human capital (HC). Taking other samples from Organizational Characteristics (OCs), it was proven that indicators such as the length of firm experience in selling overseas (0.842), where the firm was located (0.832), firm's adoption of a market differentiation strategy and a cost advantage strategy at the same time (0.826), and firm's belonging to an industrial district/cluster (0.824) were strong antecedents of the internationalization of Indonesian SMEs. SMEs should consider these factors seriously when internationalizing the business activities as they were found to be the strong driving factors of SME internationalization.

REFERENCES

- Aaby, N. & Slater, S. F. (1989). Management influences on export performance: A Review of the empirical literature 1978-88. *International Marketing Review*, 6(4), 7-26.
- Adler, P. S., & Kwon, S. W. (2002). Social capital: Prospects for a new concept. *Academy of Management Review*, 27(1), 17-40.
- Agarwal, S. & Ramaswami, S. N. (1992). Choice of foreign market entry-mode: Impact of ownership, location and internationalization factors. *Journal of International Business Studies*, 23(1), 1-28.
- Agndal, H., Chetty, S. & Wilson, H. (2008). Social capital dynamics and foreign market Entry. *International Business Review*, 17, 663-675.
- Alon, I., & McKee, D. (1999). Towards a macro-environmental model of international franchising. *Multinational Business Review*, 7(1), 76.

- Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of international business studies*, 17(3), 1-26.
- Antoncic, B. & Hisrich, R. D.. (2001). An integrative conceptual model. *Journal of Euromarketing*, 9(2), 17-35.
- Arenius, P. M. (2002). *Creation of firm-level social capital, its exploitation, and the process of early internationalization*. Helsinki: Helsinki University of Technology.
- Barringer, B. R., & Greening, D. W. (1998). Small business growth through geographic expansion: A comparative case study. *Journal of Business Venturing*, 13(6), 467-492.
- Beamish, P. W., Craig, R., & McLellan, K. (1993). The performance characteristics of Canadian versus UK exporters in small and medium-sized firms. *MIR: Management International Review*, 121-137.
- Becker, G. S. (1993). Nobel lecture: The economic way of looking at behavior. *Journal of political economy*, 101(3), 385-409.
- Bell, J., Crick, D., & Young, S. (2004). Small firm internationalization and business Strategy: An Exploratory study of ‘knowledge-intensive’ and ‘traditional’ manufacturing firms in the UK. *International Small Business Journal*, 22(1), 23-56.
- Bijmolt, T. H. A., & Zwart, P. S. (1994). The impact of internal factors on the Export success of Dutch small and medium-sized firms’. *Journal of Small Business Management*, 32(2), 69-83.
- Bloodgood, J. M., Sapienza, H. J. & Almeida, J. G. (1996). The internationalization of new high-potential U.S. ventures: Antecedents and outcomes. *Entrepreneurship Theory and Practice*, 20.
- Bonaccorsi, A. (1992). On the relationship between firm size and export intensity. *Journal of International Business Studies*, 23(4), 605-635.
- Brewer, P. (2001). International market selection: developing a model from Australian case studies. *International Business Review*, 10, 155–174.
- Brouthers, K. D., Brouthers, L. E. & Werner, S. (1999). Is Dunning's eclectic framework descriptive or normative? *Journal of International Business Studies*, 30(4), 831-844.
- Burt, R. S. (1977). Positions in multiple network systems, part one: a general conception of stratification and prestige in a system of actors cast as a social topology. *Social Forces*, 56(1), 106–131.
- Calof, J. & Viviers, W. (1995). The promotion of exports in South Africa. *Africa Insight*, 25(4), 248-253.
- Cavusgil, S. T., & Naor, J. (1987). Firm and management characteristics as discriminators of export marketing activity. *Journal of Business Research*, 5(3), 221-235.

- Cavusgil, T. S. & Nevin, J. R. (1981). Internal determinants of export marketing behavior: An empirical investigation. *Journal of Marketing Research*, 18(1), 114–119.
- Clercq, D. D., Sapienza, H. J. & Crijns, H. (2005). The internationalization of Small and Medium-Sized Firms. *Small Business Economics*, 24, 409–419.
- Cooper, A. C. & Bruno, A. V. (1977). Success among high-technology firms. *Business Horizons*, 20(2), 16-22.
- Czinkota, M. R. & Ursic, M. L. (1987). A refutation of the psychic distance effect on export development. *Developments in Marketing Science*, 10, 157–160.
- Davidsson, P., & Honig, B. (2003). The role of social and human capital among nascent entrepreneurs. *Journal of business venturing*, 18(3), 301-331.
- Dichtl, E., Koeglmayr, H-G. & Mueller, S. (1990). International orientation as a precondition for export success. *Journal of International Business Studies*, 21(1), 23–40.
- Douglas, S. P., & Craig, C. S. (1995). *Global marketing management*. New York: McGraw Hill.
- Erramilli, M. K. (1991). The experience factor in foreign market entry behavior of service firms. *Journal of International Business Studies*, 22(3), 479-501.
- Fillis, I. (2002). The internationalization process of the craft microenterprise”. *Journal of Developmental Entrepreneurship*, 7(1), 25-43.
- Greene, P. G., & Brown, T. E. (1997). Resource needs and the dynamic capitalism typology. *Journal of Business Venturing*, 12(3), 161-173.
- Greene, P. G., Brush, C. G., Hart, M. M., & Saporito, P. (2001). Patterns of venture capital funding: is gender a factor? *Venture Capital: An international journal of entrepreneurial finance*, 3(1), 63-83.
- Herrmann, P. & Datta, D. (2002). CEO successor characteristics and the choice of foreign entry mode: An empirical study. *Journal of International Business Studies*, 9(2), 193–206.
- Hoang, H., & Antoncic, B. (2003). Network-based research in entrepreneurship: A critical review. *Journal of business venturing*, 18(2), 165-187.
- Hornell, E., Vahlne, J.J., and Wiedersheim-Paul, F. *Export and foreign establishments*. Uppsala, Sweden: Almqvist & Wicksell.
- Hulland, J. (1999). Use of partial least squares (PLS) in strategic management research: A review of four recent studies. *Strategic Management Journal*, 20(2), 195-204.
- Israel, G. D. (1992). *Determining sample size: University of Florida Cooperative Extension Service*. Institute of Food and Agriculture Sciences, EDIS.

- Johanson, J. & L.G, Mattsson. (1988). Internationalization in the industrial system – a network approach. In Hood, N., and J-E. Vahlne (Eds.), *Strategies in Global Competition*, Croom Helm, Kent.
- Johanson, J., & Wiedersheim-Paul, F. (1975). The internationalization of the firm—four Swedish cases. *Journal of management studies*, 12(3), 305-323.
- Jones, M. V., & Coviello, N. E. (2005). Internationalization: conceptualizing an entrepreneurial process of behavior in time. *Journal of International Business Studies*, 36(3), 284-303.
- Koch, A. J. (2001). Factors influencing market and entry mode selection: developing the MEMS model. *Marketing Intelligent and Planning*, 19(5), 351–361.
- Lloyd-Reason, L. & Mughan, T. (2002). Strategies for internationalization within SMEs: the key role of the owner-manager. *Journal of Small Business and Enterprise Development*, 2(2), 120-129.
- Madsen, T. K. & Servais, P. (1997), The internationalization of born global: An evolutionary process? *International Business Review*, 6(6), 651-683.
- Malhotra, N. K., Agarwal, J. & Ulgado, F. M. (2003). Internationalization and entry modes: A multitheoretical framework and research propositions, *Journal of International Marketing*, 11(4), 1-31, published by American Marketing Association.
- Manolova, T. S., Brush, C. G. Edelman, L. F., & Greene, P. G. (2002). Internationalization of small firms: personal factors revisited. *International Small Business Journal*, 20(1), 9–31.
- McDougall, P.P., & Oviatt, B.M. (2003). *Some Fundamental Issues in International Entrepreneurship*. Retrieved on December 20, 2015 from <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.210.861&rep=rep1&type=pdf>
- Moini, A. H. (1995). An inquiry into successful exporting: An empirical investigation using a three-stage model. *Journal of Small Business Management*, 33(3), 9-25.
- Musso, F. & Francioni, B. (2009). Foreign markets entry mode decision for SMEs. Key factors and role of industrial districts, *35th EIBA Annual Conference - Valencia, 13-15 December 2009*.
- Nahapiet, J., & Ghoshal, S. (1998). Social capital, intellectual capital, and the organizational advantage. *Academy of management review*, 23(2), 242-266.
- Nakos, G. & Brouthers, K. D. (2002). Entry mode choice of SMEs in Central and Eastern Europe. *Entrepreneurship Theory and Practice*, 26(2), 47-63.
- Nakos, G., Brouthers, K. D., & Brouthers, L. E. (1998). The Impact of Firm and Managerial Characteristics on Small and Medium-sized Greek Firms' Export Performance. *Journal of Global Marketing*, 11(4), 23-47.
- O'Cass, A., & Weerawardena, J. (2009). Examining the role of international entrepreneurship, innovation and international market performance

- in SME internationalization. *European Journal of Marketing*, 43(11/12), 1325-1348.
- Oviatt, B. M., & McDougall, P. P. (1994). Toward a Theory of International New Ventures. *Journal of International Business Studies*, 25(1), 45-64.
- Pepe, C., & Musso, F. (2003, September). *The international opening of small district firms. flexibility vs. consolidation in channel relations*. Proceedings of the Conference on Clusters, Industrial Districts and Firms: The Challenge of Globalization, Modena, 12-13 September.
- Porter, M. E. (1980). *Competitive Strategy. Techniques for Analysing Industries and Competitors*. New York: Free Press.
- Prashantham, S. (2008). *The Internationalization of Small Firms: A strategic entrepreneurship perspective*. London: Routledge.
- Prijadi, R. & Desiana, P.M. (2017). Factors Affecting the Profitability and Growth of Small & Medium Enterprises (SMEs) in Indonesia. *International Journal of Economics and Management*, 11(S1), 35 – 44.
- Reuber, R. A. & Fischer, E. (1997). The influence of the management team's international experience on the internationalization behavior of SMEs. *Journal of International Business Studies*, 28(4), 807–826.
- Root, F.R.. (1998). *Entry strategies for international markets*. San Francisco, CA: Jossey-Bass.
- Ruzzier, M. & Antoncic, B. (2007). Social capital and SME internationalization: An empirical examination". *Transformations in Business & Economics*, 6(1/11), 122–138.
- Ruzzier, M., Antoncic, B. & Konecnik, M. (2006). The resource-based approach to the internationalization of SMEs: Differences in resource bundles between internationalized and non-internationalized companies. *Zagreb International Review of Economics & Business*, 9(2), 95–116.
- Ruzzier, M., Hisrich, R. D. & Antoncic, B. (2006). SME internationalization research: past, present, and future. *Journal of Small Business and Enterprise Development*, 13(4), 476–497.
- Westhead, P., Wright M. & Ucbasaran, D. (2001). International market selection strategies of manufacturing and services firms. *Entrepreneurship & Regional Development*, 13, 17-46.
- Wiedersheim-Paul, F., Olson, H. C., & Welch, L. S. (1978). Pre-export activity: The first step in internationalization. *Journal of International Business Studies*, 9(1), 47–58.
- Wolff, J. A. & Pett, T. L. (2000). Internationalization of small firms: An examination of export competitive patterns, firm size, and export performance. *Journal of Small Business Management*, 38(2), 34–47.

Wood, V. R., & Goolsby, J. R. (1987). Foreign market information preferences of established US exporters. *International Marketing Review*, 4(4), 43-52.