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The Antecedents of Internationalisation of Manufacturing SMEs: The Case of Indonesia

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This thesis is submitted towards the fulfillment of the requirements of the degree of Doctor of Philosophy

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October 2011

Dedication

In the name of Allah the most generous, the most merciful

Love of my Life

To my husband, Cahyo Adi, who has always trusted and believed in my doing this PhD. Thank you for looking after our daughters when I was not around. To my three angels, Raihana, Zahira, and Dzakiya, thank you for your understanding and patience during my candidature.

Your unconditional love and support makes it all possible to achieve

My Beloved parents and sisters

To my dad, Mr. Namuri Anoem and my mom, Mrs. Hafsah Namuri, thank you for all your love and support and for your confidence in my finishing this thesis. Your never-ending prayers are truly valuable for me. To my beloved sisters, Atu, Desy and Lisa, I thank Allah for giving me the best sisters ever.

In Loving Memory

To my late mother in-law, Mrs. Siti Rukmiati Hartoyo, thank you for your love and support. It is sad that I am not being able to show this thesis to you. Until we meet again in the life hereafter.

"The greatest waste in the world is the difference between what we are and what we could ultimately be."

- Martin Luther King, Jr.

Statement of Authorship

This Thesis contains no material which has been accepted for the award of any other degree or diploma in any university. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person, except where reference is made in the text of the thesis.



Diana Sari

Abstract

Research on firm internationalisation has tended to focus on Large Enterprises (LEs), with relatively less focus on Small Medium Enterprises (SMEs), despite the importance of SMEs in generating national employment and economic development. In many countries the government has acknowledged SMEs as a key source of domestic income growth and employment creation, most particularly from export activities. Studies on internationalisation of SMEs, however, have been predominantly focused on developed countries. This study therefore is focused on the internationalisation of SMEs from Indonesia, which represents developing countries.

Most studies of exporting SMEs focus on macroeconomic factors such as regulation, infrastructure and programs which assist SME development. On the other hand, management literature has recognised the important roles of senior managers in terms of their management know-how and international business skills as human capital which can influence the export activity of the firm. At the same time, social capital is also recognised a further resource needed for SME internationalisation. Therefore this research will address this gap in order to examine the role of entrepreneur's human and social capital in internationalisation of the firm.

Further to this, findings on the relationship between firm internationalisation and firm performance are mixed. More specifically, the effect of internationalisation of SMEs on business performance has not been seriously investigated. This study therefore seeks to fill this gap by examining the unique effect of different dimensions of internationalisation on business performance.

Overall, this study has three purposes: the first is to measure company resources (Human and Social Capital) influencing Indonesia's manufacturing exporting SMEs in their internationalisation process; the second is to examine the effect of human and social capital in relation to three dimensions of internationalisation (international performance, number of markets and time to internationalise); and the third is to assess the effect of the aforementioned internationalisation dimensions on firm financial performance.

This study used a mixed method combining quantitative and qualitative approaches. The quantitative data was drawn from 241 SMEs' managers and/or owners who have exporting activities from a total of approximately 3 million SMEs based on the Indonesian government database. The qualitative data was

collected through interviews with ten SMEs owner-managers who were participating in the survey.

Using Structural Equation Modelling (SEM) technique, the findings suggest that Management Know-How have no positive relationship with any dimension of internationalisation, but, interestingly, it has a negative relationship with time for internationalisation; suggesting that it delays the internationalisation of the firms. The findings also show that both International Business Skills and Social Capital skills have a positive relationship with international performance and number of exporting markets, but not with time for internationalisation. With regard to the effect of internationalisation on business performance, the findings show that international performance has no effect on business performance, but the number of export market has a positive relationship with business performance. On the other hand, the time for internalisation has a negative effect on business performance, meaning that the later the SMEs internationalise, the better their performance. Qualitative findings indicate that good networks with competitors, suppliers and government will help a firm to serve the international market successfully.

From theoretical perspectives, the findings support the Resource-Based View theory as international business skills have positive relationships with two dimensions of internationalisation. The findings of this study also support the traditional view of incremental internationalisation advanced by Stage Theory. Consequently, the findings imply that International New Venture Theory, which supports born-global or leap-frog approach in internationalising SMEs, is not appropriate for Indonesian context. Finally, this study also supports the Network Perspective which suggests that the relationships built by firms with other businesses, community leaders, and government have significant effect on internationalisation of SMEs. Overall, this study demonstrates the unique effect of different organisational capitals (i.e. human and social) as key resources for facilitating internationalisation.

Publications Arising from This Study

Refereed Conference Papers:

Sari, D., Alam, Q., Beaumont, N. (2009) Determinant of Internationalisation of Small Medium Enterprises (SMEs): Evidence from Indonesia, Competitive paper presented at the ATINER, the 6th International Conference on Small and Medium Sizes Enterprises, Athens 10-12 August 2009.

Sari, D., Alam, Q., Beaumont, N. (2008) Internationalisation and Performance of Indonesian Manufacturing Exporting SMEs, Proceeding at The 13th Faculty Doctoral Conference, Faculty of Business and Economics Monash University, Kalorama Victoria, 27-28 October 2008.

Sari, D., Alam, Q., Beaumont, N. (2008) Internationalisation of Indonesian Manufacturing Exporting SMEs,Entrepreneurand SME Global Conference Proceeding, Melbourne 3-4 July 2008.

Sari, D., Alam, Q., Beaumont, N. (2008) Internationalisation of Small Medium Sized Enterprises in Indonesia: Entrepreneur Human and Social Capital, Asian Studies Association of Australia, 17th Biennial Conference: Is this Asian Century? Proceeding, Melbourne 1-3 July 2008.

Sari, D., Alam, Q., Beaumont, N. (2008) Entrepreneur Human and Social Capital Determinants of the Export Propensity of Indonesian Small and Medium-sized Enterprises, PPIA Conference 2008 :The Voice of Indonesian Future Leaders, Friday-Saturday, Victoria University Melbourne, Australia, 2-3 May 2008.

Book Chapter:

Sari, D. (2008), Entrepreneur Human and Social Capital Determinants of the Export Propensity of Indonesian Small and Medium-sized Enterprises*, the Voice of Indonesian future leader,* ISBN978-979-1355-223

Poster:

Sari, D., Alam, Q., Beaumont, N. (2009), Entrepreneur Human Capital in Internationalisation of SMEs: Evidence from Indonesia, Monash University Research Month, HDR Poster Competition.

Sari, D., Alam, Q., Beaumont, N. (2007), Antecedents of Manufacturing SMEs Internationalisation and its Relationship on performance: Case from Indonesian Manufacturing SMEs, Monash University Research Month, HDR Poster Competition.

Acknowledgements

I have been blessed that many people have supported and encouraged me during the writing of this Ph.D. thesis. I am very grateful to all my friends, colleagues and relatives both in Indonesia and Melbourne whose support made writing this thesis become memorable. There are several individuals who deserve special mention for their involvement in this thesis, and I would like to take this opportunity to express my gratitude for their support.

First and foremost, I would like to thank my supervisors, Dr. Quamrul Alam and Dr. Daniel Prajogo, for their critical reading of the chapters in this thesis and for their persistent encouragement and support. As a supervision team they proved to complement each other perfectly. Dr. Quamrul Alam and Dr. Daniel Prajogo have helped on the methodological clarity, also in developing the conceptual framework in this thesis. I am very grateful that it has been them who have helped me, especially during the last month of my candidature. I would also like to express my appreciation for my former supervisor, the late Dr. Nicholas Beaumont, for his support during the first two years of my candidature. I would like to take this opportunity to thank Dr. Jeffrey Keddie, for proof reading this thesis and for his encouraging comments.I am also very much indebted to Dr. Brian Cooper, of the Department of Management, Monash University, for his assistance and valuable comment on reshaping my methods chapter and quantitative analysis. I thank Prof. Chris Nyland for his support in regard to my candidature extension.

I would like to thank Liza Binder for her administrative support, and for her valuable suggestions and kindness in supporting the social activities of the Level 5 community. I also thank Soula Tsoulios for her friendship, and for her support in regard to computer facilities.

I want to express my sincere gratitude to all my dear friends in Level 5, Building N, at Monash University Caulfield Campus, for all the laughs and the supportive work environment. I especially give my thanks to Yolande McNicoll for her kindness and sincerity during my stressful times of my candidature, Lily Pang for her attention and sincere care, especially during the last month of my candidature, Thin Vu for her friendship and support in formatting my final document, Bevaola Kusumasari for her encouragement and support during my bad times, Dr. Chris Dembek and his family, for their friendship and caring, particularly when my family were not in Melbourne, and Sarah Lindsay and Karen Medica for their caring and understanding, my dear friends Yefriza, Prue Burns,Dan Wang, and Nathasa Mwila for always be supportive.

I would also like to acknowledge my friends from outside the university for their support and friendship during my Ph.D. journey. I thank Miftahul Jannah, especially to Ade Infitah, Dr. Hanny Nugraha, Lies P., and Pudak N. I thank MIIS, specifically to Netty, Ekki, Azhari, Novi, Rizal, Parman, Itho and Wawan. I thank my BMG familyparticularly to Dr. Nana Saleh, Atje, Lily, Ningsih, Ruby, Dian F., Misita, Acok, Zaky, Rini, Ami, Anca, Wendy, Farid, Dr. Sudirman, Adnan and Mutia. I also thank my colleague at Universitas Padjadjaran, Dr. Erie Febrian for his intellectual sharing.

I would like to deeply thank my new family at Unit 4, No.1 Bates St, Malvern East; Ama, Indah and Adib, for their generous love and care during the last month of my candidature.

Finally, I gratitutely acknowledge the support of AUSAidfor awarding me Australian Development Scholarship for doing my Ph.D.

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List of Acronyms

AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
AGFI	Adjusted Goodness of Fit Index
ASEAN	Association of South East Asian Nations
AVE	Average Variance Extracted
BG	Born-Global
BPS	Badan Pusat Statistik
Bus	Business
CFA	Confirmatory Factor Analysis
CHE	Cottage or Household Enterprises
CIA	Central Intelligent Agency
ComLead	Community Leaders
CR	Construct Reliabilities
DGNED	Directorate General for National Export Development
DSL	Digital Subscriber Line
EHC	Entrepreneurial Human Capital
EM	Expectation Maximisation
ESC	Entrepreneur Social Capital
ESTS	Export Sales to Total Sales
FDI	Foreign Direct Investment
FP	Firm Performance
FSTS	Foreign Sales to Total Sales
GDP	Gross Domestic Product
GFI	Goodness of Fit Index
GOF	Goodness of fit
Gov	Government
GSU	Global Start-ups
IBS	International Business Skills
ICT	Information and Communication Technology
IDP	International Development Program
IE	Instant Exporters
IFI	Incremental Fit Index
INT	Internalisation Theory
INV	International New Venture
IOR	International Orientation
IP	International Performance
IPC	Indonesian Port Corporations
ITPC	Indonesia Trade Promotion Centre

Kemenkop	Kementrian Koperasi [MCSME]
LEs	Large Enterprises
MAR	Missing at Random
MCAR	Missing Completely at Random
MCSME	Ministry of Cooperative and Small Medium Enterprises
MDGs	Millennium Development Goals
MKH	Management Know-How
MLE	Maximum Likelihood Estimation
MNAR	Missing Not at Random
MNEs	Multinational Enterprises
MoT	Ministry of Trade
NAFED	National Agency for Export Development
NNFI	Non Normed Fix Index
OECD	Organisation for Economic Co-operation and Development
OLI	Ownership Location Internalisation
PLN	Perusahaan Listrik Negara
RBV	Resource Based View
RETPC	Regional Export Promotion and Training Centres
RMSEA	Root Mean Square
RMSR	Root Mean Square Residual
ROE	Return on Equity
ROI	Return on Investment
SCERH	Standing Committee on Ethics in Research Involving Humans
SEM	Structural Equation Modelling
SIC	Squared Inter-construct Correlation
SIC	Standard Industrial Code
SRMR	Standardised Root Mean Square Residual
TC	Transaction Cost
TLI	Tucker Lewis Index
UKM	Usaha Kecil Menengah [SMEs]

Chapter 1 Introduction

1.1 Chapter Introduction

As markets become more integrated, and the advancement of information technology allows easier and faster global market scanning, there are more opportunities for Small and Medium Enterprises (SMEs) in developing economies to extend their cross-border markets. Nevertheless, there are some preconditions in SMEs necessary for such market expansion, which may differ across countries. In the case of Indonesia, which is largely dominated by SMEs, it is important to know how particular factors explain the internationalisation process of SMEs.

This Chapter introduces research on the internationalisation processes of SMEs in Indonesia. It outlines the research background, the research objective, the research questions and hypotheses and the contribution of this research, and, finally, provides an outline of the thesis as a whole.

1.2 Research Background

In an integrated and interdependentmarket globalisation era, enterprises look for opportunities for new target destinations for their products, a possible source of supplies, and a possible source of competitors likely to enter their markets (Agmon & Drobnick, 1994; DGNED, 2010; Murphy, Daley, & Dalemberg, 1991). This global phenomenon drives enterprises to search for new markets and opportunities. The world becomes borderless; firms organise, source, manufacture, market and conduct other value-adding activities on an international scale. They seek foreign customers and engage in collaborative relationships with foreign business partners (Cavusgil, Knight, & Riesenberger,

2008). The accelerating speed of information, together with rapidly developing information and communication technology (ICT) developments enabling real-time information exchange, are part of the globalisation phenomenon (Törnroos, 2000). This phenomenon applies not only to large multinational enterprises (MNEs) but also to SMEs. Entrepreneurs and newly developed businesses are required to learn about global business if they are to do well alongside large enterprises (LEs) that have entered the international marketplace (Etemad & Wright, 2003).

1.2.1 Internationalisation and Challenges for SMEs

To perform successfully in overseas markets, owner-managers of small enterprises should strengthen their sources of competitive benefit to compensate for the disadvantages of constrained resources, limited access to international markets, and general inexperience in international operations (Bakenda, 2002). Business organisations that operate in a global marketplace face a more complicated challenge to identify, gather, sort, and analyse the relevant information required for constructing, monitoring, evaluating and modifying successful strategy (Montgomery & Weinberg, 1998). Furthermore, Vernon-Wortzel and Wortzel (1997) suggest that the company's capability to gather, process, examine and distribute information has been a crucial element for competitive advantage in a global company.

With respect to explaining overseas market access, Carlson and Davis (1998) also state that those factors most often considered have to do with the vagueness of the foreign markets, the firm and the task to be carried out, the manager, and the characteristics of information sources.

1.2.2 Export-Oriented SMEs and Preparation to Access Overseas Markets

In most developing countries, including Indonesia, SMEs play a critical role in the economy (Luo, Zhao, & Du, 2005). According to the Indonesian Central Bureau of Statistics (BPS, 2009), there are 52.8 million SMEs in Indonesia and they account for 99.9 percent of total business. SMEs in Indonesia employ 96.2 million people, which is equal to 97.3 percent of the total Indonesian workforce. Moreover, the contribution of SMEs to gross domestic product (GDP), excluding oil and gas, is 56.5 percent (Kemenkop dan UKM, 2009). SMEshelped the nation survive the Asian crisis by, among other actions, creating more job opportunities to increase numbers in the workforce.

In the study of international business, internationalisation of SMEs ishighly topical particularly in developed ones.Those countries rely on the economic benefits that internationalisation of SMEs bring. SMEs make up 98 percent of exporting companies in Sweden, over percent in Australia, and 97 percent in the US (Senik, 2010).

Just as in other developing countries, SMEs in Indonesia experience serious problems in management development. According to Witjahjono (2004), their common organisational weaknesses are poor utilisation of technology-based means, lack of skilled human resources, an inadequate ability to access new markets and develop existing ones, and limited access to funding sources. In the particular context of Indonesian export-oriented SMEs, the major flaw of such organisations is insufficient overseas market access. Budiman (2003) states that, in undertaking overseas market search activities, most Indonesian export-oriented SMEs rely too heavily on the information access provided by government bodies or the national industrial chamber. In fact, this practice is

less efficient since the long procedures involved do not allow them to quickly respond to environmental changes and opportunities. Those institutions also fail to provide equal access opportunity to all export-oriented SMEs.

The government and the authorised agencies have indeed realised the importance of the Management Know-Howof SMEs owner-managers in the context of export activities and have tried to enhance the capability of Indonesian SMEs' manager-owners toaccess overseas market through development programs, such as introduction to quality management systems like ISO-9000, internet marketing advisories, partnership programs, and establishment of the National Export Support Board. However, these programshave proven to be unable to provide equal and adequate assistance to all potential export-oriented SMEs. Van Diermen (2004)reveals the extent of ineffectiveness of government assistance to SME development, especially in rural and remote areas. Thee (2006) further indicates that generally the government has failed to raise the technological, managerial, marketing, and financial capabilities of SMEs.

Supporting the statement above regardingindirect access to foreign markets, Chetty and Campbell-Hunt (2003b) indicate that SMEs have insufficientknowledge of foreign markets and international contacts, in addition to having insufficient financial and managerial resources for international growth.Consequently, Agndal, Chetty, and Wilson (2008) suggest that SMEs willenter overseas markets consecutively rather than simultaneously, and with limited numbers of foreign markets. The aforementioned studies on the identification of information sources, the recognition of issues explaining foreign market search practices, and the characteristics of the practices reveal that most export-oriented SMEs more frequently employ personal, external, and

informal sources. Chetty and Wilson (2003) add that SMEs use their relationships with other firms. Moreover, according to Yeoh (2004), SMEs may alleviate problems related to psychological distance by pursuing network relationships and/or establishing relationships with main distributors in culturally distant countries. Through such relationships, the SME manager-owner may discover and take advantage of particular business opportunities. Building social capital in export-oriented SME manager-owners is therefore crucial. It enables the SME manager-owner to know well the other firms in a relationship network and to exploit that knowledge to improve International Performance(Blomstermo, Eriksson, Lindstrand, & Sharma, 2004).

Previous studies have been done on the drivers of SME internationalisation. Extensive study has been done by the OECD (2009) on this issue.The study conducted by the OECD (2009) concludes that there are a number of key motivating factors for SME internationalisation, including (1) growth motives, (the firm's overseas venture decision also seems to be motivated by a need for business growth, profits, an increased market size, a stronger market position, and reducing dependence on a single or smaller number of markets); (2) knowledge-related motives (the triggering effects of knowledge aspects, including R&D investment, innovation capabilities, unique product or technology, and language skills); (3) network/social ties (network/social ties are very important in triggering the SME's first step and in extending internationalisation processes, which include social and network capital); and (4) domestic/regional market factors, (this is the push effect of firms' limited or stagnating domestic markets on internationalisation; firms' tendency to export into regions with less favourable domestic conditions, local incentives to export, and good export infrastructure).

In line with the OECD report (2009), the current research investigates and measures the drivers relating to the internal company factors relevant to internationalisation, that is, growth motives, knowledge-related motives, network/social ties and domestic/regional market factors. These drivers will be incorporated in the assessment of the Human and Social Capital relationship to internationalisation, because our Human and Social Capital constructs consist of variables recognised as drivers for SME internationalisation.

1.3 Rationale of the Study

The internationalisation of firms has been widely researched for more than forty years and covers one of the broadest spheres of research today (Ruzzier, Hisrich, & Antoncic, 2006). Internationalisation of SMEs has been viewed as a dynamic process in which firms may enter international markets incrementally, step by step or rapidly soon after their inceptions. This incremental approach can be explained by Stage Models. The Stage Model of internationalisation is a combination of a number of Stage Models (Cavusgil, 1980; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Welch & Luostarinen, 1988). An underlying assumption of all these models is that firms are well-established in the domestic market before venturing abroad (Bell, McNaughton, Young, & Crick, 2003). There are two main Stage Models that are widely used to examine the process by which firms internationalise (Andersen, 1993; Barkema, Bell, & Pennings, 1996). These are the Uppsala internationalisation model (U-model) (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975) and Innovation-related internationalisation models (I-model) (Bilkey, 1978; Bilkey & Tesar, 1977; Cavusgil, 1980). Conversely, there may also be rapid internationalisation in which firms internationalise soon after their inception. Fast internationalisers have been defined differently. The Born-Global

perspective (BG) includes firms that internationalise from their inception (Andersson & Evangelista, 2006; Andersson & Wictor, 2003; Knight & Cavusgil, 1996; Madsen & Servais, 1997; Rennie, 1993) or internationalise during the first three years after establishment (Kuivalainen, Sundqvist, & Servais, 2007). BG is followed by numerous studies on the same phenomenon under names such as International New Venture (INV) (McDougall, Shane, & Oviatt, 1994; Oviatt & McDougall, 2005b; Zahra, 2005), Global Start-ups (GSU) (Oviatt & McDougall, 1995) and Instant Exporters (IE) (McAuley, 1999).

Internationalisation of a firm cannot be separated from its strategy, which includes the resources required within the firm in order to be able to enter international markets. A firm's physical resources and its capabilities (e.g. the mental models of its managers) interact to create competitive advantage (Mahoney, 1995). Loane and Bell (2006a) acknowledge that the Resource Based View (RBV) has applicability for the growth of small firms and also for their internationalisation activities. Based on RBV, our focus is on Human Capital resources or the decision-maker characteristics, since these may influence export activity of the firm (Cavusgil & Naor, 1987).

Another perspective is that the internationalisation process can be enhanced through networking (Johanson & Mattsson, 1988; Knight & Cavusgil, 1996; Loane & Bell, 2006b). According to the Network Perspective, a relationship involves the control of resources, the implementation of activities, or the link between resource and activity. The assumption in the model is that a firm is dependent on other firms' resources within the network, for example, customer and supplier relationships (Osarenkhoe, 2009).

These two perspectives (RBV and Network Perspective) have different implications for internationalisation strategies, with the Stage Model stressing the incremental process of the internationalisation of firms, while the Network Perspective accentuates the importance of external networks on firm internationalisation. By examining these two perspectives, managerial implications ofthe internationalisation process can be better understood.

Based on this rationale, therefore, the conceptual framework of this study incorporates four extensively used theories in internationalisation of the firm: RBV, and Network Perspective and, as previously mentioned Stage Theory and INV/BG.

There are some previous studies that try to define the dimensions of internationalisation. One of the most comprehensive internationalisation dimensions is suggested by Ruzzier, Antoncic, and Hisrich (2007). The definition suggests that internationalisation can be measured through International Performance, the number of foreign markets accessed, and the time between incremental internationalisation and internationalisation at inception. Ruzzier et al. (2007) claimed that the measure was applicable not only to Slovenian circumstances but also to other countries. However, with significantly diversified backgrounds, Indonesian export-oriented SMEs may pose different responses to the measures. Therefore it will be informativeto investigate whether these measures of internationalisation are applicable to the context of Indonesian export-oriented SMEs. For this reason, the impact of internationalisation on the performance of Indonesian export-oriented SMEs will be assessed using the above dimensions.

It should be noted that there is insufficient empirical evidence of the relationship between International Performance and Firm Performance. Chiao et al. (2006), investigating the relationship using data about manufacturing SMEs, found that there was no positive relationship between International Performance and performance of export-oriented SMEs. However, Zeng, Xie, Tam and Wan (2010) found a positive relationship between the two variables. This finding was supported by the results of a study by Park, Yang, Shi and Jiang (2010). Hence a study on the impact of International Performance on the performance of export-oriented SMEs in Indonesian context will make a significant contribution to the discussion.

Similar to these dimensions of internationalisation, the findings of the relationship between the number of markets accessed by SMEs and the SME performance are also ambiguous. Brock and Yaffe (2008) found no significant contribution to Firm Performance from international diversification, whereas Mockaitis, Vaiginiene and Giedraitis' (2006) study on Lithuania's manufacturing firms concluded the opposite. As most Indonesian export-oriented SMEs conduct indirect foreign market penetration, the associated international expansion will not be expensive. Empirical investigation of this concern, using the context of Indonesian export-oriented SMEs, will provide a significant contribution to the theoretical development of this issue.

Another important measure of internationalisation that needs to be assessed in terms of its impact on SME performance is the age of SMEs when they start their internationalisation. According to Antoncic and Hisrich (2000), the Time dimension of internationalisation is critical since it embodies a link between incremental internationalisation and internationalisation at inception and the crucial decision to enter and exit particular markets.

Taking all the evidence above that research on internationalisation of SMEs has focused predominantly on developed economies and only a small number of research publications have addressed internationalisation of SMEs in developing economies, it is clear that two important areas are under-explored in the relationship between the antecedents of internationalisation and performance. First, the issue has been examined in the context of developed countries, butinsufficient attention has been given to developing countries. Second, the relationship between the antecedents of internationalisation and Firm Performance has been investigated separately and none of the previous research looks at the association between antecedents of internationalisation, the internationalisation and Firm Performance simultaneously.

To fill this gap, and taking into account the importance of SMEs in developing countries, particularly in Indonesia, this research explores and measures the internationalisation of Indonesian SMEs. Thefocus on Indonesian small manufacturing enterprise is justified because, in Indonesia, the manufacturing sector accounts for 22.4 percent of the number of establishments among all industries in 2007, and manufacturing is also largest industry followed by trade, restaurants and hotel services. Further, small manufacturing industry employed around 7.3 million people in2007, which was 25.5 percent of all industry sector employment(BPS, 2007).

This research focuses on exports because they represent a strong indicator of productivity, and also because potential SME exports may contribute significantly to total export growth. Further, export performance could allow for the formulation of clear policy measures to help reduce the gap between the actual and the potential capacity of small firms (Wengel & Rodriguez, 2006).

1.4 Research Objectives

The purpose of this study is to assessempirically how Human and Social Capital impact internationalisation and to evaluate how internationalisation influences firm financial performance. Specifically, the current study examines the following issues:

- it measurescompany's resources (Human and Social Capital) influencing Indonesia's manufacturing exporting SMEs in their internationalisation process,
- it examinesthe effect of Human and Social Capitalin relation to internationalisation dimensions (International Performance, Market and time to internationalise), and
- it assesses the effect of internationalisation dimensions (International Performance, Market and time to internationalise) in relation to firmfinancial performance.

1.5 Research Questions and Hypotheses

Based on the literature review (Chapter 2), a conceptual framework has been developed in order to answer the two research questions and 12 hypotheses. The details are in the following subsection.

1.5.1 Research Questions

This current study is largely based on the Stage Theory and (INV)/Born Global (BG). RBVand Network perspectives, Having discussed the theory of internationalisation, issues pertaining to the factors that influence internationalisation of manufacturing exporting SMEs, and the impact on Firm Performance, the author has concluded that the following research questions capture some outstanding issues pertaining to the internationalisation of

manufacturing SMEs indeveloping nations. Answers to these questions would make substantial contributions to knowledge and provide a useful guide for government policy and SMEs considering entry into export markets.

RQ1: "To what extent are Human Capital and Social Capital associated with the internationalisation process of manufacturing exporting SMEs in Indonesia?"

The next question attempts to measure the multi-dimensionality of SME internationalisation. This has not been addressed in past studies. It therefore remedies a gap in the literature on the antecedents of internationalisation and their impact on Firm Performance.

RQ2: "To what extent are the dimensions of internationalisation (International Performance, Market, and Time) associated with the Firm Performance of SMEs?"

1.5.2 Research Hypotheses

Based on the elaboration of the above phenomena in general, the purpose of the study is to reveal the magnitude of the relationship between Management Know-How, International Business Skills, and Social Capital of the owner-managers on the International Performance, number of international markets accessed, and the age of starting internationalisation of Indonesian export-oriented SMEs. To be more specific, the hypotheses of this study are:

- Hypothesis 1: Management Know-How of the owner-managers has a positive relationship to International Performance
- Hypothesis 2: Management Know-How of the owner-managers has a positive relationship to the number of internationalmarkets
- Hypothesis 3: Management Know-How of the owner-managers has a positive relationship to time of starting internationalisation

- Hypothesis 4: International Business Skills of the owner-managers has a positive relationship to International Performance
- Hypothesis 5: International Business Skills of the owner-managers has a positive relationship to the number of international markets
- Hypothesis 6: International Business Skills of the owner-managers has a positive relationship to time of starting internationalisation
- Hypothesis 7: Entrepreneurial Social Capital of the owner-managers has a positive relationship to International Performance
- Hypothesis 8: Entrepreneurial Social Capitalof the owner-managers has a positive relationship to the number of markets
- Hypothesis 9: Entrepreneurial Social Capital of the owner-managers has a positive relationship to time of starting internationalisation
- Hypothesis 10: International Performance has a positive relationship to Firm Performance
- Hypothesis 11: Number of International Markets has a positive relationship to Firm Performance
- Hypothesis 12: Time of starting internationalisation has a negative relationship to Firm Performance.

1.6 Research Implications

The implications of the research can be seen from theoretical and practical perspectives. It is presented as follows:

1.6.1 Theoretical Implication

This research is underpinned by multiple theories and in so doing it brings the literatures on international business and international entrepreneurship together. The current study refers to the RBV and Network Perspective of firms, which are looked at the individual level, that is, the owner-managers. Stage Theory and INV are also used as analytical lenses to assess the incremental nature of SMEs in Indonesia in approaching international markets. The

theoretical concepts directly tested in this research include RBV, Network Perspective, Stage Theory, and INV.

This research has made an important contribution to the literature on international business in assessing internationalisation of SMEs, because this research measures internationalisation as multi-dimensional constructs (Ruzzier, Antoncic, & Hisrich, 2007), therefore the internationalisation process of the firm can be better understood. Three constructs are assumed to improve the level of internationalisation: International Performance, Market and Time. There are no statistically significant relationships between Management Know-How and International Performance or Market. It is supported by a negative relationship between Management Know-How and Time, which implies that the company with high Management Know-How will start its internationalisation later.

The RBV of the firm is a theoretical framework for understanding the source of a firm's competitive advantage and how it can be sustained over time(Barney, 1991; Eisenhardt & Martin, 2000). This current research contributes to the body of literature by identifying the relationship of Management Know-How and International Business Skills to dimensions of internationalisation. With a different emphasis on the effect of Management Know-How and International Business Skills, Management Know-How is the skills that are more suitable for the firm which wants to involve itself in internationalisation at a later stage, while International Business Skills are more appropriate for firms that want to accelerate their involvement in international markets. Thus it contributes to RBV—emphasising that entrepreneurs should have tacit knowledge, the ability to utilise social network and harness social capital to internationalise their operation.

In relation to Network Perspective, the research finds a statistically significant relationship between Social Capital, International Performance and Market. This current research focuses on the structural dimension of Social Capital, because this dimension influences the development of the relational and cognitive dimensions of Social Capital(Nahapiet & Ghoshal, 1998). The finding of this study suggests that networking is critical for realising the potential benefits of Social Capital for SMEs' international growth.

Moreover, this study finds that only two internationalisation dimensions are related to Firm Performance, namely, Market and Time. The significant effect of expanding the overseas market on the performance of firms in internationalisation has been confirmed by Mockaitis et al. (2006). This suggests that the more the markets in which a company sells its products, the higher the Firm Performance is likely to be.

The overall conclusion of the findings is that Human Capital (International Business Skills and Management Know-How) and Social Capital are two necessary constructs that influence the internationalisation of the firm, where Social Capital is the key construct for internationalisation. The findings, however, also show that Human and Social Capitals need to be complemented by other factors such as the external environment (domestic and international). In addition, the current study concludes that the more markets abroad where a company sold its products, the better Firm Performance and the company that has the better performance is characterised as an old company.

1.6.2 Practical Implications

The conceptual framework of the internationalisation process of SMEs in Indonesia used in this study suggests that Human and Social Capital may

influence SMEs towards internationalising. The framework offers some implications for policy makers and SME owner-managers.

1.6.2.1 Human Capital and Internationalisation

Some practical implications for Human Capital and internationalisation drawn from these research findings.The results of this research indicate that to succeed in international markets it is necessary for SME owner-managers to have a good level of International Business Skills and Management Know-How. Notably, as International Business Skills predict better than Management Know-How in terms of International Performance and the number of markets where the company sells its products. Therefore it is necessary for government to provide special training in verbal communication, negotiation and building relationships abroad, specifically for exporting purpose.

What we see in developed economies, the policy regarding internationalisation is nicely synchronised. However, in developing economies there is policy neglect. Therefore the support for SMEs development not as good as in developed economy. Many young and small SMEs need to address liabilities relating to newness, smallness and inexperience. Theoretical evidence shows there is a need for a policy to focus on entrepreneurs (not only SMEs) with regard to the design of policies to support internationalisation.

Our finding is consistent with ASEANfuture policies and programs of the SMEWG which consider the specific needs and objectives of ASEAN SMEs, such as SME entrepreneurship and Human resource development; SME capacity building in management, marketing, networking and supply chain formation, technology and financing.

1.6.2.2 Social Capital and Internationalisation

Results of this study propose Social Capital as a key predictor of internationalisation. Collective social interaction in Indonesian society is an important dimension of the social network within which businesses operate. This social interaction is the depiction of skills in collaborating with others. The relationships formed with business, such as customers, suppliers and competitors, are important factors in internationalisation, notably in export intensity and numbers of markets. Additionally, the relationship and information sharing with government is an important factor that needs to be emphasised.Generally government institutions select SMEs to join international trade exhibitions based on their relationship with particular SMEs. It is therefore important for SMEs to maintain a relationship with government in order to have information about international market opportunities.

1.6.2.3 Internationalisation and Firm Performance

The findings of this research offer several implications with regard to the relationship between internationalisation and Firm Performance. It is important to note that International Performance is not a determinant of Firm Performance. Therefore, if SMEs do not reach a certain level of export sales, it is unlikely that exporting benefits SMEs. Further, the findings of this research show that the later a company starts its internationalisation and becomes active in the international market, the more likely it is that that company's Firm Performance will improve. Those SMEs that lack international experience and financial capital are likely to be better off focussing first on the domestic market first and then moving to international markets later.

1.7 Outline of the Thesis

Chapter 1:Introduction. This thesis comprises eight chapters, including the introduction. This Chapter has introduced the research topic by highlighting the significance of Human and Social Capitalto the internationalisation process of SMEs in Indonesia and their association withFirm Performance.

Chapter 2: Literature Review. This Chapter highlights the significance of the literature in assessing the topic researched. The theories of internationalisation are presented: the RBV, Network Perspective, Stage Theory, and INV/BG. Concepts such as Human Capital, Social Capital, internationalisation and Firm Performance are introduced,followed by hypotheses in relation to the antecedents of internationalisation of SMEs and linksbetween these concepts andFirm Performance. Twelve hypotheses are developed in this thesis. The Chapter concludes by presenting the conceptual framework of the antecedents of internationalisation and Firm Performance.

Chapter 3: SME Development in Indonesia. This Chapter presents anoverview of SME development in Indonesia. It outlines the Indonesian economy during the New Order period (1969-1997) and the reformation period (1997 to date). It also describes issues of employment, export imports, infrastructure development and government support for investment in Indonesia. The Chapter concludes with SME development in Indonesia, presenting the SME sector distribution, SME development programs, SME performance, SME internationalisation and government support programs for SMEs in Indonesia.

Chapter 4: Research Design and Methods. This Chapter describes the research design and the methods used in the current study. The quantitative and

qualitative study methods are presented. Data collection for the quantitative method utilised a mail survey and an administered survey. The samples came from all over Indonesia, but mainly from Java and Bali. The sampling frame used is from the Government database (Directorate of National Export Development) as well as Local Government databases. Usable data of 241 responses wasgathered.This response rate is adequate for conducting analysis with Structural Equation Modelling (SEM). The qualitative analysis was conducted after quantitative data analysis in order to complement the results found in the quantitative phase.

Chapter 5: Quantitative Data Analysis. This Chapter describes the quantitative analysis. It starts with descriptive analysis, which presents the demographic analysis, and follows with the main data analysis using SEM. The two steps of SEM begin with the measurement model and then the structural model tests the 12 proposed hypotheses in this study.

Chapter 6: Qualitative Data Analysis. This Chapter explains the qualitative analysis gathered from the interviews with SME owner-managers. The qualitative phase was carried out by in-depth interviews with 10 SMEs in Indonesia from five cities in Java and Bali Island provinces since those provinces are where most exporter SMEs originated. Content analysis using cross-cased analysis was carried out to do the qualitative analysis.

Chapter 7: Discussion. This Chapter discusses the findingsof the current study. It begins with the discussion of descriptive analysis, followed by discussion of the 12 hypotheses proposed in this thesis. It presents the possible reasons and explanation of the findings.

Chapter 8:Conclusion, Implications, Limitations and Directions for Future Research. This Chapter highlightsthe implications for theory, comprisingthe theoretical and conceptual implications, followed by the implications for practice. The limitations of the theory and method are shown and the chapter concludeswith directions for future research.

1.8 Chapter Conclusion

This Chapter has explained in brief the current research. It included explanation of the research background, research objectives, the significant of the research, including its practical and theoretical contributions, the method and the outline of the thesis.

Chapter 2 Literature Review

2.1 Chapter Introduction

International business scholars have sought to explain how SME have internationalised over the last two decades. It is known that SMEs' behavior in approaching international markets is different from their counterpart Large Enterprises (LEs). This Chapter reviews the relevant literature on internationalisation of SMEs to identify the antecedents that drive the internationalisation of SMEs. First, the Chapter reviews the general internationalisation literature and theories. Second, the international literatures related to SMEs are presented in order to develop a conceptual framework to examine Indonesian SMEs. Third, the core elements of internationalisation are discussed, and then the antecedents of internationalisation (Human and Social Capital) are presented. Finally, Firm Performance as the outcome of internationalisation is reviewed.

2.2 Why Does a Firm Globalise?

Globalisation usually refers to a stage in which the firm's operations are managed on a global scale, not just in a few selected countries. It is characterised by the worldwide integration of ever more competitive markets and companies facing global competition (Prashantham & Dhanaraj, 2010; Ruzzier, et al., 2006). Traditional exports are increasingly coming under pressure while the conditions for marketing and production are changing rapidly. As a result, today's companies, including SMEs, have to respond to markets at an increasingly faster pace(Pleitner, 2002). It is generally agreed that five major forces are driving the globalisation of business:

- The first is **political**. There is a trend toward the unification and socialisation of the global community. Free-Trade agreements that group nations into a single market have presented firms with significant marketing opportunities (e.g., NAFTA, EU). Progressive reduction of barriers to trade and foreign investment by most governments accelerate the opening of new markets by international firms, both exporting to them and building facilities in them. Furthermore, there has been the privatisation of much industry in former communist nations (e.g., Russia and Central-Eastern Europe) and the opening of their economies to global competition. These previously closed areas are now new markets and magnets for investment, opening further opportunities for growth and investment.
- The second is **technological**, the explosive growth of low-cost technology connecting people and locations. Better information-processing and communication technology is creating a greater awareness of international economic opportunities. The internet and network computing enable small companies to compete globally, regardless of the physical location of sellers and buyers.
- The third is the **market**. A saturated home market sends firms into foreign markets to find a new market for their goods or services. As firms globalise, so also do their customers.
- The fourth is **cost**. Economies of scale to reduce unit costs are always a management goal. One means of achieving them is to globalise product lines to reduce development, production and inventory costs. The firm can also move production or other parts of the firm's value chain to countries where the costs are lower.
- The fifth is **competition**. Competition continues to increase in intensity. New firms, many from newly industrialised and developing countries, have entered the automobile, computer and electronic industries. Another competitive driving force is the fact that companies are defending their home markets from competitors by entering competitors' home markets to distract them(Axinn & Matthyssens, 2002; Ball, Geringer, Minor, & McNett, 2010).

The result of this rush to globalisation has been an explosive growth in international business. However, despite all these driving forces, internationalisation has not been replaced, and many observations on internationalisation remain valid today. The fact is that the impact of globalisation on SME sectors is likely to be tougher than on the already highly

internationalised LEs (Ruzzier, et al., 2006). Previously SMEs were considered passive victims rather than active players; this view is no longer valid. Many SMEs have successfully set up activities beyond their home markets in recent decades, and their role is increasingly important in contributing to future growth (Gjellerup, 2000, cited inRuzzier, et al., 2006).

2.3 Internationalisation Theories

In order to establish their internationalisation strategy, firms have to determine the most effective way to deliver their product or services in international markets. This is related to how they enter and serve the international market. In order to understand this, we first need to know the theories underpinning the internationalisation of firms.

2.3.1 Development of Internationalisation Theory

Early theories of international production adopted a macro-economic perspective and centred on the theory of international trade and the movement of capital between countries (Dunning, 1973; Hirsch, 1976; Vernon, 1966). Classical trade theory described a scenario where a country generates goods and services in which it has an advantage, initially for indigenous consumption and subsequently for export of the surplus (Morgan & Katsikeas, 1997). This theory contends that the basis for international trade can be sourced to differences in production characteristics and resource endowments that are related to differences in natural acquired economic advantages between countries (Dunning, 1973; Hirsch, 1976; Morgan & Katsikeas, 1997; Vernon, 1966).In other words, companies trade so as to increase revenues, reduce costs, and/ormitigate risk, i.e., to increase the expected utility of profit.

Internationalisation is defined as a sequential and orderly process of increased international involvement and associated changes in organisational forms (Johanson & Vahlne, 1977). Other definitions see it as a process involving the international market (Bilkey & Tesar, 1977; Johanson & Vahlne, 1977; Reid, 1981a). Albaum, Duerr, and Strandskov (2005) state that 'Internationalisation may be thought of as a process, an end result, and/or a way of thinking. A firm becomes internationalised as it becomes more involved in and committed to serve markets outside of its home country'.

Scholars have varying definitions of internationalisation. There is no single definition: as Chetty and Campbell-Hunt (2003a, p. 798) state, '… the term "Internationalisation" is ambiguous and definitions vary in the scope of phenomena they include'. According to Calof and Beamish (1995, p. 116), internationalisation is 'the process of adapting firms' operations (strategy, structure, resource, etc.) to international environments.' The argument behind this definition is that the term internationalisation can be used for a range of organisational factors, such as products, structures, Human resources, and so forth. Calof and Beamish suggest that sometimes a firm will drop a product or sell foreign production or plant as a response to various factors; in other words, the firm might take the form of de-investment. Another perspective on internationalisation involves inward and outward operations: as Welch and Luostarinen (1988) state, internationalisation is 'The process of increasing involvement in international operations'. The definition by Welch and Luostarinen implies a broader view of internationalisation: it is not mainly outward, as Turnbull (1987) stated, but rather implies that internationalisation can show either inward or outward involvement in the international market. In the same vein, Rialp and Rialp (2001) define internationalisation as 'a set of operations that facilitate the establishment of more stable relationships between

a firm and the international markets throughout a learning process of growing international involvement and patterns of development that may be simultaneously inward and outward'.

This brief discussion indicates that the general definition of internationalisation has three dimensions: *process* (Andersen, 1997; Bilkey & Tesar, 1977; Calof & Beamish, 1995; Johanson & Vahlne, 1977; Turnbull, 1987; Welch & Luostarinen, 1993), *a firm's operation* (Calof & Beamish, 1995; Welch & Luostarinen, 1993), and *relationships* (Johanson & Mattsson, 1988; Johanson & Vahlne, 1990, 2006).

Rialp and Rialp (2001) give perhaps the most appropriate definition, because it integrates aspects of the four views into one holistic interpretation of the internationalisation concept. First, the Rialp and Rialp definition involves the firm's operations. Second, the definition is process-based, which implies that internationalisation is the dynamic process of a company, just as internationalisation is dynamic and evolutionary in nature. Third, it entails relationships and networks. Fourth, it is not restricted to outward patterns of investment, and it also includes companies engaged in international business through modes such as importing and counter- trading.

The Rialps' approach seems to correspond best with the firm path of internationalisation and the Stage Model of internationalisation (which will be discussed further in the next section), as they explain that internationalisation is an incremental process of the firm in going to the international market and this is not restricted to an outward pattern (e.g., export) but also includes an inward pattern (e.g., import). However, this thesis focuses only on the outward pattern in internationalisation, particularly export. Therefore the Rialps' definition is considered the most appropriate for the research objectives of this thesis.

2.3.2 Internationalisation Process Model for Business

In the beginning of internationalisation research in the late 1950s and 1960s, several key theories were applied to the internationalisation process, primarily to explain the international production operations of large multinational enterprises (MNEs) and their international activities. Some of the principal theories on the internationalisation of MNEs include: internalisation theory (INT), the transaction cost approach (TC), the eclectic paradigm (OLI), and monopolistic advantage theory (MAT) (Axinn & Matthyssens, 2002; Ruzzier, et al., 2006). These theories are the dominant approaches in MNE research; however, since the focus of this study is on SMEs, they will only be presented in brief.

2.3.2.1 Internalisation Theory (INT)

INT argues that MNEs represent an alternative mechanism for arranging value-added activities across national borders. This is necessary due to market imperfections such as government intervention or buyer uncertainty (Axinn & Matthyssens, 2002). The concept is that, in order to obtain a higher return on investment, a firm will transfer its superior knowledge to a foreign subsidiary rather than sell it on the open market (Ball, et al., 2010). INT centres on the notion that firms aspire to develop their own internal markets whenever transactions can be made at a lower cost within the firm, and this will continue until the benefits and costs of further internalisation are equated to the margin (Buckley and Casson, 1993). Internalisation of transactions beyond national borders leads to the creation of the multinational enterprise. Antecedent to market internalisation is a process of information gathering and assessment, through which management determines the best foreign expansion approach (Ruzzier, et al., 2006).

2.3.2.2 Transaction Cost Approach (TC)

TC proposes that analysis should focus on entering into transactions. It views organisational structure as one important arrangement for establishing and safeguarding transactions and reducing transaction costs between participants and across organisational boundaries (Osarenkhoe, 2009). Teece (1986) claims that the approach extends the internalisation framework and enables managers to systematically analyse where and when to internalise. Teece remarks that 'At one level the internalisation school and the transaction cost approach are one and the same. Both see the firm as a response to market failure. Profit-seeking firms internalise operations when by so doing the costs of organising and transacting business will thereby be lowered'. The difference between this theory and INT is that in the transaction cost approach the unit of analysis is the transaction itself. (Teece, 1986). In sum TC focuses on cost and how these costs affect a firm's choice of market and mode of entry (Osarenkhoe, 2009).

2.3.2.3 Eclectic Paradigm (OLI)

Dunning's eclectic paradigm, also known as the OLI Paradigm, is currently the most widely cited and accepted theory of foreign direct investment (FDI)(Ball, et al., 2010). It seeks to explain why firms invest and produce overseas, as well as the selection of a particular country for FDI (Ruzzier, et al., 2006). According to Dunning (1973), the decision by a firm to engage in FDI, and whether to allocate resources through its own control procedures (rather than through market mechanisms), depends on the interplay of three variables: ownership-specific advantages, locational attractions of countries or regions and internalisation advantages (Axinn & Matthyssens, 2002):

- Ownership advantages are specific to the company and related to the accumulation of intangible assets, technological capacities or product innovations;
- Location advantages refer to the institutional and productive factors present in a particular geographical area. These arise when it is better to combine products manufactured in the home country with irremovable factors and intermediate products of another location;
- Internalisation advantages stem from the capacity of the firm to manage and coordinate activities internally in the value-added chain. These are related to the integration of transactions into multinational hierarchies through FDI.

The OLI paradigm has proved to be remarkably adaptable and, over the quarter century or so since the publication of Dunning's seminal work in 1977, it has been developed and extended in many directions (Mudambi, Cantwell, & Narula, 2004). As we look to the future, MNEs are beginning in many ways to resemble, eerily, the freestanding companies of the 19th century—companies that leverage knowledge, financial resources, and personal networks across vast geographical distances (Casson, 1994). A book review by Mudambi et al. (2004) suggests that in the future the paradigm will continue to offer a common organising framework to integrate the study of MNEs and claims that the OLI paradigm is alive and well.

2.3.2.4 Monopolistic Advantage Theory(MAT)

The modern monopolistic advantage theory stems from Stephen Hymer's 1960 dissertation, in which he demonstrated that FDI occurs largely in oligopolistic industries rather than in industries operating under near-perfect competition (Ball, et al., 2010). One type of monopolistic advantage is superior ability. Hymer (1976, cited inMcDougall, et al., 1994) argue that MNEs have superior knowledge, as found in the form of superior manufacturing processes, brand names, differentiated products, organisational talents, or patented technology.

FDI takes place because of these product and factor market imperfections, which enable the multinational enterprise to operate more profitably in foreign markets than can local competitors (Ball, et al., 2010). The Eclectic Paradigm focuses on firm FDI activity while the MAT concentrates on the advantage that big companies have in entering foreign markets, although the uniqueness of product that small firms sometimes have can be an advantage for them in entering a foreign market.

To sum up, there is one commonality in all these theories which is supported by empirical studies: the major part of FDI is made by large, research-intensive firms in oligopolistic industries. In addition, all these theories offer reasons why companies find it profitable to invest overseas (Ball, et al., 2010). Thus these theories or approaches are more suitable for assessing large MNE internationalisation. However, theoretical issues about cost-related issues highlight in TC and OLI theory can be used to examine SMEs' internationalisation processes.

With regards to TC, as the theory focuses on cost and how these costs affect a firm's choice of market and mode of entry, SMEs tend to find the closest location geographically and culturally in order to lower the cost of internationalisation. It is assumed that the closest markets have a similar culture and sense of tastes, and therefore it is not necessary to drastically modify the products' features, production process and Human resources practices. Additionally, since the overseas market is geographically proximate, it can save transportation costs. In terms of the OLI paradigm, the application of this theory to SMEs is in the location advantage variable, which is the production of the product with reference to a particular geographical area. Most of the SMEs manufactured their product in their home country since this has abundant

resources to produce their product, because most of their materials and Human resources are local.

2.3.3 Internationalisation Theory for SMEs

SMEs are different from LEs in terms of capital, number of employees and strategic choices in the process of internationalisation. It is important to note that SMEs are not mini–MNEs; they are different in characteristics as well in their strategic choices for firm growth. As Man, Lau and Chan (2002) assert,a small firm is not a scaled-down version of a larger firm. Smaller firms differ from larger firms in their managerial style, independence, ownership and scale or scope of operations (Coviello & Martin, 1999). They have different organisational structures, responses to the environment and ways in which they compete with other firms (Man et al., 2002). Hence the following subsection will explain the SME definition and then follow up with elaboration of theories about the internationalisation of SMEs.

Definition of SMEs

Different countries have different definitions for SMEs. The definition is an important tool for implementing efficient measures and programs to support the development and success of SMEs (European Commission (EU), 2003). Some researchers define SMEs using qualitative criteria while others use quantitative criteria (Von Potobsky, 1992). Chulikavit and Rose (2003) suggest that quantitative criteria involve factors such as sales figures, social assets, number of employees, production, capital investment and so on. Qualitative criteria, on the other hand, involve behavioral dimensions, such as how SMEs are run, how decisions are made, how authority is given, and so on. However,

most SME definitions are based on quantitative criteria, as these are easier to evaluate and compare.

The European Commission defines an SME as a company with fewer than 250 employees, and either annual turnover not exceeding €50m ora balance sheet totalling €43m (European Commission (EU), 2003). In the USA, SMEs are divided into two broad areas: manufacturing, which consists of enterprises with up to 500 employees; and non-manufacturing enterprises, which have less than US$5m sales turnover per year. In defining SMEs, whatever criteria are being used, an entity can be categorised in different ways. Hence, for example, in terms of employee numbers it might be small- or medium-sized, but in terms of capital, technology and production value it could be closer to a large enterprise. Such differences are particularly significant when it comes to measures for the protection or promotion of SMEs (Tambunan, 2006).

Despite the variation in definitions of SMEs, it is generally agreed that Micro Enterprises employ fewer than five fulltime employees; Small Enterprises employ 5 to 19 workers in Indonesia, and more than that in many countries, particularly in Asia-Pacific countries, depending on the industry sector; and a Medium Enterprise may range from 20 to 50 or more employees (Tambunan, 2006). To get a clearer picture of SME characteristics, Table 2-2 gives definitions of SMEs by industry sector from selected Asia-Pacific countries.

Table 2-1Full Definitions of SME by selected countries in the Asia-Pacific Region before 2003

Country / Economy	Employee	Annual Sales/ turnover	Fixed Assets	Capital
Australia				
Micro	0-5			
Small – Manufacturing	6-99			
Services	6-19			
Medium – Manufacturing	100-199			
Services	20-199			
China				
Small	50-100			
Medium	101-500			
Indonesia				
Definition by the Central Bureau of Statistics:	0-4			
Micro	5-19			
Small	20-99			
Medium				
Definition by the Ministry of Cooperatives / Ministry of Industry	≤100	<US$100,000	<US$200,000	
Small		US$100,000-US$5 m	US$200,000-US$1m	
Medium				
Japan				
SME-mining, manufacturing,construction&transportation	≤299			<100m Yen
wholesalers	≤99			
retail&services	≤49			<30m Yen
				<10m Yen
Malaysia				
SEs - manufacturing	≤50	≤ RM 10 m		
MEs – manufacturing	51-150	RM 10m – RM 25m		
Thailand				
Small - manufacturing & services	≤50		≤ 50 m Bath	
- trading : -wholesaling	≤25		≤ 50 m Bath	
- retailing	15		≤ 50 m Bath	
Medium - manufacturing & services	51-200		51-200 m Bath	
- trading : -wholesaling	26-50		51-100 m Bath	
- retailing	16-30		31-60 m Bath	
The USA				
SME – manufacturing	**≤500**			
- non-manufacturing		**<US$5 m**		

Source: Tambunan, 2006: 9-10

All but a few countries have a definition of SMEs for statistical purposes. Most countries also have definitions for policy purposes, and these definitions often differ from the statistical definition, as well as differing according to industry and policy program (Tambunan, 2006). Therefore it is important to state clearly the definition that will be used in any study. With regard to an SME definition, Storey (1994) claims that one of the advantages of the distinction of micro enterprises from small enterprises is that there is a notable shift in the formality regarding organisation and customers around the level of 10 to 20 employees which makes small enterprises different from micro enterprises.

As can be seen from Table 2-2, definitions of SMEs vary even amongst Indonesian government agencies. For example, according to the Ministry of Industry, a Small Enterprise is a business establishment with assets (excluding land and building) of less than 200 million rupiah; Medium Enterprises are from 200 million up to 5 billion rupiah; and firms of more than 5 billion rupiah are considered as LEs. A different definition is given by the Central Bureau of Statistics (Biro Pusat Statistik [BPS]), which classifies enterprises systematically according to the number of fulltime employees. From 0 to 4 workers is classified as Cottage or Household Enterprises (CHEs), 5 to 19 workers as Small Enterprises, and more than 19 as Medium Large Enterprises (MLEs).

According to the definitions of the Ministry for Cooperative, Small and Medium Enterprises (2007), SMEs involve people activity on a small to medium scale, with the following features based on Legislation no. 2/2008:

- They have maximum net assets of up to 10 billion rupiah, excluding land and buildings;
- They are owned by Indonesians;

- They are independent companies not owned by a large company and directly or indirectly affiliated with a large enterprise; and
- They are individual companies, with or without legal entity status (legal permit).

This study uses the definition of the Ministry for Cooperative, Small and Medium Enterprises in outlining the provisions relating to SMEs, which mainly relate to a quantitative definition. The rationale is that the Ministry database will be used to select the samples and collect data through a questionnaire survey.

This explanation about the definition of SMEs, then, must be analysed further with regard to numbers of employees and assets belonging to the SMEs researched. With regard to the difference between SMEs and LEs, Ruzzier et al. (2006) argue in their research that there is a difference in focus for large and small businesses. Large enterprise research is concerned about capital intensive investment, while in a small entrepreneur business research is more concerned with various stages of internationalisation. Because of differences in this characteristic, the endeavour to apply small firm theories developed for or based on large firms may result in uncommon outcomes (Ruzzier, et al., 2006). The following subsection will first detail internationalisation theories of SMEs, examining the Stage Model, the Born Global Perspective, the Resource Based View, and Networks; these are going to be used in developing the conceptual framework in this study. In the previous section (2.3.1.) it was explained that internationalisation normally can be divided into three dimensions, which include process, the firm's operation and networks, and implies that internationalisation of the firm cannot be separated from its firm strategy, which includes resources in the firm as well as networks with other firms, in order to be able to enter international markets.

Internationalisation theories which are appropriate for elaborating internationalisation process of SMEs are as follows:

- The Stage Model
- INV/BG
- Resource Based View (RBV), and
- Network Perspective.

Detailed explanation of these models will be presented in the following subsection.

2.3.3.1 The Stage Model

The internationalisation process is depicted as an incremental development which occurs in discrete stages (Gankema, Snuif, & Zwart, 2000). The Stage Model of internationalisation is a combination of a number of Stage Models (Cavusgil, 1980; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Welch & Luostarinen, 1988) as there is no single model which comprehensively covers all aspects of internationalisation. An underlying assumption of all these models is that firms are well-established in the domestic market before venturing abroad (Bell, et al., 2003). However, there are two main Stage Models that are widely used to examine the process by which firms internationalise (Andersen, 1993; Barkema, et al., 1996). These are:

- The Uppsala internationalisation model (U-model), and
- Innovation-related internationalisation models (I-model).

U-Model - Uppsala Internationalisation Model

The Uppsala internationalisation model, also known as the U-model (Johanson & Vahlne, 1977; 1990; Wiedersheim-Paul, Olson, & Welch, 1978), posits that international expansion is influenced strongly by managerial learning, and this determines that internationalisation begins with low risk indirect exporting to psychically or culturally close or similar markets. Over time and through experience, a firm's foreign market knowledge improves and, consequently, it increases its foreign market commitment and expands to more psychically distant markets (Eriksson, Johanson, Majkgard, & Sharma, 2000; Eriksson, Majkgard, & Sharma, 2000; Johanson & Vahlne, 1977; 1990; Johanson & Wiedersheim-Paul, 1975; Wiedersheim-Paul, et al., 1978). Further, Eriksson et al. (2000) explain that:

> *In the initial stages of internationalisation, a firm's accumulated stock of internationalisation knowledge is limited. This restricts learning by internationalising firms and constricts the steps they take in the international market. The more novel the foreign environment, the more difficult it is for the internationalising firm to add to its knowledge and to apply its current stock of knowledge in foreign markets. The closer the relation between the foreign environment and a firm's stock of knowledge, the more applicable this knowledge will be abroad.*

The initial research conducted by Johanson and Wiedersheim-Paul (1975) focused on the assumption that internationalisation of a firm develops according to a chain of establishment and was supported by four case studies of Swedish firms. Johanson and Wiedersheim-Paul (1975) distinguished four levels of international market entry:

- Stage 1: no export activities
- Stage 2: export via an independent representative or agent

- Stage 3: the establishment of an overseas sales subsidiary, and
- Stage 4: the installation of overseas production or manufacturing units.

Their basic assumption is that the firm first develops in the domestic market and that internationalisation is the consequence of a series of incremental decisions that begin with exporting with low risk and eventually move to more high risk, i.e., direct investment.

The work of Johanson and Wiedersheim-Paul (1975) has been further developed and refined by Johanson and Vahlne(1977; 1990).Johanson and Vahlne (1977; 1990) state that the 'aim is ... to contribute to an understanding of the incremental nature of the internationalisation process'. Johanson and Vahlne (1977; 1990) expect that 'the internationalisation process, once started, will tend to proceed regardless of whether strategic decisions in that directions are made or not'. The core assumption of the model is that (increased) market knowledge will lead to (increased) market commitment, and vice versa.

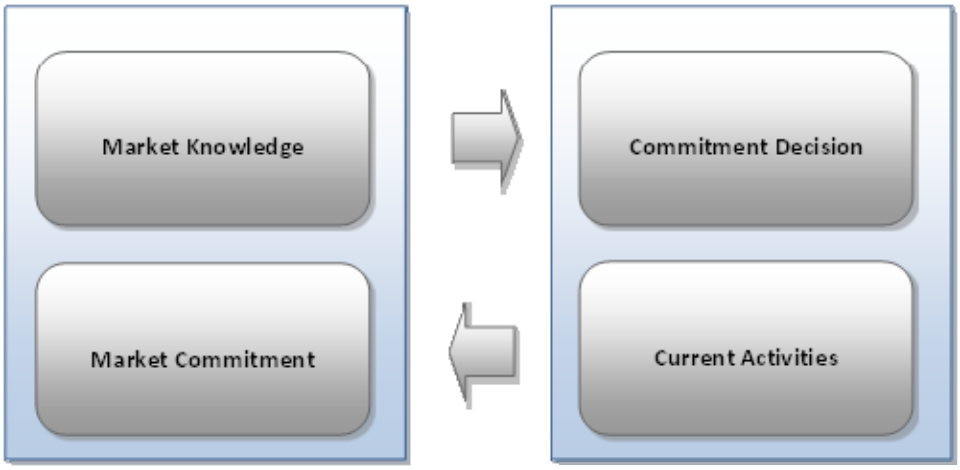


Figure 2-1The Internationalisation Process of the Firm

The basic assumption is that market knowledge and market commitment affect both commitment decisions and the way current decisions are performed, and this in turn changes market knowledge and commitment (Andersen, 1993). Following Johanson and Vahlne (1990, p.12), Figure 2-1 implies that additional market commitment as a rule can be made in small incremental steps, with three exceptions:

- firms that have large resources experience small consequences of their commitments and can take larger internationalisation steps;
- when market conditions are stable and homogeneous, relevant market knowledge can be gained in ways other than experience; and
- when a firm has considerable experience of markets with similar conditions, it may be able to generalise this experience to any specific market.

These exceptions imply that there is a possibility for a firm under certain conditions and with particular characteristics to internationalise early if the company meets the above conditions.

The U-model is associated with research on the internationalisation of Swedish manufacturing industry carried out at the University of Uppsala (Johanson & Mattsson, 1988). The model focuses on firm behaviour by which firms go through stages of increasing commitment to foreign markets. Based on the U-model of Johanson and Vahlne (1977; 1990), the incremental pattern of the firm's internationalisation process can mainly be affected by:

- the lack of knowledge by the firm, especially 'experiential knowledge', defined as market-specific knowledge (Eriksson, et al., 2000; Leonidou & Katsikeas, 1996; Moen & Servais, 2002); and
- the uncertainty associated with the decision to internationalise (Andersen, 1993, 1997).

Proponents of this approach have suggested a generally positive relationship between the decision–maker's knowledge of foreign markets and the level and pace of the firm's resource commitment to these markets.

With regard to decision-maker knowledge of foreign markets, the model shows that the concept of psychic distance is an important variable in understanding the dynamics of the internationalisation process (Andersen, 1993, 1997; Johanson & Vahlne, 1990; Moen & Servais, 2002). The concept of physic distance helps us to understand why owner-managers of the firm are sometimes reluctant to expand their market abroad. Johanson and Wiedersheim-Paul (1975)define psychic distance as the factor preventing or disturbing the flow in information between potential or actual suppliers and customers. Further, Nordstrom and Vahlne (1994, p. 42) redefined psychic distance as 'factors preventing or disturbing firm's learning about and understanding a foreign environment'. These difficulties may relate to direct communication with existing and potential customers or a lack of access to general market information. Differences in language, education, business practices, culture, religion, political systems and industrial development are the most commonly cited of the factors (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Stottinger and Schlegelmilch (1998, 2000) further explain psychic distance as mapping relations between cultural proximity and the 'foreignness' of international markets. Psychic distance will be discussed further along with the 'market' (the internationalisation dimension) discussion in a later section.

In sum, the Uppsala model explains how international actors learn and increase their foreign market knowledge over time primarily through experience, and then start or increase their foreign market commitments and later expand to

more psychically distant markets (Oviatt & McDougall, 2005a). Ruzzier, Antoncic and Hisrich (2007) assert that, once a company starts its international business activity, it will gradually change its entry mode decision in a fairly predictable fashion. This international engagement increases their commitment, with the typical pattern being from exporting via an agent to a sales subsidiary (Welch & Luostarinen, 1993). Themodel also explains how foreign market risks are managed by acquiring tacit knowledge about foreign markets and incrementally changing their commitments to those markets. However, the Uppsala Model is focused on traditional cross-border behaviour, not on accelerated internationalisation (Oviatt & McDougall, 2005a).

I-Model – Innovation-related Model

To further explain the internationalisation process of the firm, Cavusgil (1980) proposed the innovation-related model, or I-Model. The study is mostly based on the work of Bilkey and Tesar (1977) and Bilkey (1978). The I-model is different from the U-model in that it views exporting as an innovation for the firm (Cavusgil, 1980), and it is a compilation of Cavusgil's previous studies (Andersen, 1993, 1997). The study of Bilkey and Tesar (1977) is based on a cross-sectional study (mail survey) of Wisconsin manufacturing SMEs; the Cavusgil (1982) study is a mail survey in Maine and New Mexico. It should be noted that most studies of I-models are restricted to manufacturing SMEs and the use of cross-sectional studies (Andersen, 1993).

Cavusgil (1980) highlighted a series of stages that a firm engages in as it moves through the various stages of the I-model of internationalisation:

- Domestic market stage - the firm has no initial interest in overseas activities
- Pre-export stage - internal and external stimuli arouse exporting interest

- Limited experimental involvement stage - a move toward an indirect export strategy that will only involve a small amount of the firm output
- Active involvement stage – a move toward direct exports and expanding the volume of product exported; and
- Committed involvement stage - the firm is a committed participant in international activity and allocates resources between domestic and foreign markets.

Cavusgil's model points out that motivation isrequired for a firm to develop its own internationalisation process. The process requires a gradual or staged approach to allow a firm to adapt to market uncertainties. Cavusgil (1980, p. 279) explains:

> *The incremental nature of the decision-making process may reflect a cautious attitude on the part of management toward international marketing. The other explanation is, of course, the greater need for information and experiential knowledge and the greater cost in obtaining information.*

The more motivated the manager is to expand his or her business, the more likely it is to happen; it is also true that the more motivated the small business manager is to maintain the current size of the firm, the more likely it is that that will happen.

In Cavusgil's model, the final stage of international development requires a firm to seek out alternatives to exporting, such as licensing and FDI (Gankema, et al., 2000).

In similar manner to Cavusgil's (1980) research, Reid (1981) adapted the Uppsala model to provide a conceptual framework explaining the impact of decision makers in foreign entry and export expansion behavior. Reid classified the five stages for explaining the export expansion process as follows:

- Stage 1: Export awareness: Problem of opportunity recognition, arousal of need
- Stage 2: Export intention: Motivation, attitude, beliefs, and expectancy about export
- Stage 3: Export trial: Personal experience from limited exporting
- Stage4: Export evaluation: Results from engaging in exporting
- Stage 5: Export acceptance: Adoption of exporting or rejecting exporting.

In this model, Reid makes a distinction between the foreign entry expansion process in small and large firms. It is said that small firms' behavior is assumed to be influenced by decision makers, while the entry behavior of a large firm is supposed to be structurally determined (Andersen, 1993).

Later, Cavusgil(1982, p. 279) developed an operationalisation of the internationalisation conceptual framework to add to the study done previously. In the conceptual framework, two stages were created for exporting firms and two for non-exporting firms. The firms in each of the four stages are defined in the following ways:

- Stage 1: Non-exporting firms, not interested in gathering export-related information
- Stage 2: Non-exporting firms, interested in gathering export-related information (roughly corresponding to the 'pre-involvement stage')
- Stage 3: Exporting firms, export less than 10 percent of their output (corresponding to the 'limited experimental involvement stage'); and
- Stage 4: Exporting firms, export more than 10 percent of their output (corresponding to the 'active involvement stage').

Cavusgil(1982) tried to provide meaningful distinctions to the stages, and also addressed the issue that the operational definitions may be not totally satisfactory. By providing the operationalisation of the international framework,

Cavugil helps other scholars interested in the area test for meaningful and statistically significant differences between the stages. For example, for the 'limited experimental involvement stage', this is operationalised as a firm that exports less than 10 percent of its production, while the 'active involvement stage' is defined as a stage when a firm exports more than 10 percent of its output.

Both the U-model and the I-model are based on a behavioural approach that regards internationalisation as a process. The U-model, with its emphasis on learning theory, is presented as a dynamic model, while the I-model portrays the internationalisation process as a step-by-step development (Andersen, 1993).

A number of empirical studies have examined the Stage Model, including Bilkey and Tesar (1977) and Johanson and Wiedersheim-Paul (1975), who have argued that companies follow incremental steps in their internationalisation. Gankema, Snuif and Zwart(2000) found that companies appear to develop their export activities through certain stages and that the Stage Models are more appropriate in explaining a small 'low tech' firm (Bell, Crick, & Young, 2004). A recent study by Barkema and Drogendjik (2007) emphasises that sequential internationalisation processes matter even more in today's economy. While Barkema and Drogendjik's study suggests the acceptance of the model, a number of other studies have failed to support it. In the early 1980s to the mid-1990s, more evidence of the limitations of Stage Models appeared in the literature. Forsgren (2002) states that the model is mostly characterised as a learning model of the internationalisation process. Most studies referring to the model do not look at experiential learning but take it for granted and regard experiential knowledge as the independent variable, and commitment – or, in

some studies performance – as the dependent variable (Johanson & Vahlne, 2006).

Table 2-2Summary of Limitations of Stage Theory

No	Author(s)	Weaknesses
1	Reid (1983), Turnbull(1987), Fina and Rugman (1996), Melin (1992)	**Too deterministic and sequential; excludes other strategic options**
2	McKiernan(1992), Oviatt and McDougall (1994), Rennie (1993), Young (1987)	**Firms frequently skip certain stages; reduction in product life cycles expedites internationalisation**
3	Melin (1992)	**Fails to explain internationalisation in an experienced international firm**
4	McKiernan(1992)	**Does not explain the dynamics of progressing from one stage to another**
5	Dichtl et al.(1983)	**Oversimplifies a complex process**
6	Forsgren (1990),Sharma (1991) Luostarinen (1990)	**Ignores acquisition as an internationalisation path**
7	Sullivan and Bauerchmidt (1990)	**Ignores nation-specific factors such as: government programs, industry competition and market demand promote or inhibit internationalisation**
8	Welch(1982)	**Ignores impact of exogenous variables**
9	Turnbull (1987)	**A firm's internationalisation is influenced by the operating environment, industry structure, and its own marketing strategy**
10	Millington and Bayliss (1990) Welch and Luostarinen (1988)	**Ignores formal strategic planning and systematic appraisal, international experience and formal planning replace market experience, allowing firms to jump stages in the internationalisation process**
11	**Nordstrom (1990), Sullivan and Bauerschmidt (1990)**	**Ignores the fact that psychological distance decreases as the world becomes more homogeneous**

Source: (Chetty, 1999)

McDougall, Covin, Robinson Jr and Herron (1994) suggest that valuable unique assets should permit organisations, such as new ventures with more constrained resources, to enter the international arena. Improved international communication and transportation and the homogenisation of markets in many countries should, *a priori*, simplify and shorten the process of firm internationalisation. Thus firms may skip stages of international development previously thought necessary, or internationalisation may not occur in stages at

all. McDougall et al. (1994) explain that this does not mean that established theories are wrong; they still apply to some firms and industries. Yet it does mean that the established theories are less applicable in an expanding number of situations where technology, specific-industry environments and firm capabilities have changed, as has been described. Stage models (the Uppsala and Innovation-related models) have been used not only to analyse SMEs but also LEs, while the I-model has previously been used only to analyse SMEs.

2.3.3.2 International New Ventures/Born Global/Born International

Another model of internationalisation of the firm highlights how technological advances in transportation, communication, and computers permit entrepreneur actors to form new ventures that internationalise rapidly (Knight & Cavusgil, 1996). Started by individuals or small groups of entrepreneurs, international new ventures (INV) are said to own certain valuable assets, they use alliances and network structures to control a relatively largepercentage of vital assets, and they have a unique resource that provides a sustainable advantage that is transferable to a foreign location (McDougall, et al., 1994; Oviatt & McDougall, 1994, 2005a).

In the last two decades, International New Ventures (INV)/Born Global (BG) and other rapid internationalisers have received more attention (Vissak). Fast internationalisers have been defined differently; BG includes firms that internationalise from their inception (Andersson & Evangelista, 2006; Andersson & Wictor, 2003; Knight & Cavusgil, 1996; Madsen & Servais, 1997; Rennie, 1993) or that internationalise during the first three years after establishment (Kuivalainen, et al., 2007). BG is followed by numerous studies on the same phenomenon under names such as INV (McDougall, et al.,

1994; Oviatt & McDougall, 2005b; Zahra, 2005), Global Start-ups (GSU) (Oviatt & McDougall, 1995) and Instant Exporters (IE) (McAuley, 1999). For the purposes of this study, the term BG will be used for the firms that internationalise in the first six years after their inception.

Even though the BG phenomenon is probably more common today, when internationalisation may be less complicated and risky because of lower trade barriers and cheaper and faster transportation and communication, it is not an entirely new phenomenon (Anderson, Gabrielsson, & Wictor, 2004). For example, McAuley (1999) underlined that, in the UK craft sector, even a micro business, perhaps managed by a single person, can potentially obtain 'global' market reach by selling on the internet, in addition to the usual sales at exhibitions and through their own retail shops. Clearly this is the benefit of using Information Communication Technology (ICT) in opening up trading opportunities in a way that did not previously exist.

BG firms typically possess the following characteristics (Cavusgil & Knight, 2009):

- Highly active in international markets from their near-founding
- Characterised by limited financial and tangible resources
- Found across most industries
- Managers have a strong international outlook and international entrepreneur orientation
- Often emphasise differentiation strategy
- Often emphasise superior product quality
- Leverage advanced communications and information technologies, and
- Typically use external, independent intermediaries for distribution in foreign markets.

BGs internationalise early; there are internal factors that drive them into the international market from or near their inception. Cavusgil and Knight (2009, pp. 16-18) highlight internationalisation triggers:

- Export pull, where local buyers fulfil their product needs by sourcing from abroad. It may be initiated by local intermediaries who perceive a specific product-market opportunity, or it may be initiated by end-customers themselves.
- Export push, where international-oriented entrepreneurs may view much of the world as their marketplace. They apply a push strategy by actively promoting their products to foreign intermediaries, who in turn promote the items to final buyers.
- Worldwide monopoly position, where some companies are lucky enough to have developed a monopoly or near-monopoly position in a given product, and this advantage, even in the face of small size, translates into competitive advantages in international business.
- Product-market conditions necessitating international involvement, where the small size of domestic market forces such companies to begin selling in foreign countries. Management in many BGs is driven to amortise quickly development costs associated with new and improved products. This is accomplished by selling the products in as many markets as possible, an approach that necessitates internationalisation.
- Superior product offering, where many BGs internationalise on the strength of an innovative, unique, and/or high quality product. The product may feature advanced technology, substantial added value, superior quality or unique characteristics.
- Global network relationships, where early foreign expansion may be facilitated through network linkages with foreign distributors, trading companies, strategic alliance partners or more traditional buyers and sellers and other entities located abroad. Networks develop through foreign business activities, government intervention, or personal contacts of management and comprise inward as well as outward interaction.
- Global niche markets, where the globalisation of the market has helped stimulate demand in many industries for customised product and services (Oviatt & McDougall, 1995). Technology facilitates greater specialisation and the emergence of small firms that supply products that occupy narrow, cross-national niches.

In summary, according to Cavusgil and Knight (2009), among the factors that trigger firms to internationalise are those mainly related to products and markets that they sell abroad, i.e., product promotion, product monopoly, improved and innovated superior products, and niche markets. From those seven points, only one point highlights the importance of networks in their foreign expansion, though this factor has been recognised as a crucial step in entering foreign markets since it is a gate that opens up the opportunity to interact with governments, suppliers and customers abroad.

2.3.3.3 Resource Based View (RBV)

As has been discussed previously, internationalisation of the firm cannot be separated from its firm strategy, which includes resources in the firm.This subsection will elaborate the resources of firms from the Resource Based View (RBV). The RBV incorporates traditional strategy insights concerning a firm's distinctive competencies; it also provides value-added theoretical propositions that are testable within the diversification strategy literature (Andersen & Kheam, 1998). The RBV of the firm is a theoretical framework for understanding the source of a firm's competitive advantage and how it can be sustained over time(Barney, 1991; Eisenhardt & Martin, 2000).Chatterjee and Wernerfelt (1991) refer to a substantial body of literature that classifies 'resources' into three categories: physical, intangible and financial. Barney (1991) classifies resources as physical, Human and organisational capital. *Physical capital resources* include the physical technology, the firm's plant and equipment, its geographic location and its access to raw materials. *Human capital resources* include the training, experience, judgment, intelligence, relationships and insight of individual managers and workers in a firm. *Organisational capital resources* include a firm's formal reporting structure, its formal and informal

planning, controlling and coordinating systems, as well as its informal relations among groups within a firm and between a firm and others in its environment. The RBV identifies firms as different collections of physical assets and intangible capabilities (Barney, 1991; Chatterjee & Wernerfelt, 1991). It helps to determine how well positioned a company is to succeed in a challenging external environment.

The RBV examines the importance of turning resources into firm-specific capabilities; capabilities, in turn, are the source of firm core competencies, which are the basis of competitive advantage (Hanson, Dowling, Hitt, Ireland, & Hoskisson, 2008). Core competencies are those capabilities that are critical to a firm's achieving competitive advantage. The main idea about core competencies, as suggested by Hamel and Prahalad (1990), is that over time firms may develop new key competencies which are distinctive and critical to the firm's long-term growth and sustainability. RBV theorises how firms can achieve sustained competitive advantage by properly utilising their tangible and intangible resources. Barney (1991) suggests that for resources to provide sustained competitive advantage they must have the following four characteristics: (1) *value*, which exploits opportunities or neutralises threats in the environment; (2) *rarity*, where the resource must be very rare or unique, so that potential competitors cannot exploit the resource in the same way; (3) *imperfect inimitability*, where it must not be possible to copy the resource; and (4) *non-substitutability*, where it must not be possible to replace the resource with a similar resource. In regard to resources, Ruzzier, Robert and Bostjan (2006) argue that 'resources in general can be considered stocks of available tangible or intangible factors that are owned or controlled by the firm and converted into products or services, using a variety of other resources bounding mechanisms'. A firm's physical resources and its capabilities (i.e., the mental models of its

managers) interact to create competitive advantage (Mahoney, 1995).Consistent with this, the RBV of the firm, Penrose (1959) posits, means that resources, or the inputs to the productive process, are unique, inimitable, and specific to each organisation. Therefore they can determine a firm's size, scope and overall potential for growth and survival, as well as provide a better basis for sustained competitive advantage (Galunic & Anderson, 2000; Pennings, Lee, & Van Witteloostuijn, 1998).

RBV and Internationalisation

A large number of variables have been proposed in explaining the RBV and its relationship to internationalisation. Cavusgil and Naor (1987) explain that unique firm advantages, indicators of resource commitment to exporting, decision maker characteristics, and perceived attractiveness of exporting variables, influence export activity of the firm. However, according to Andersen and Kheam (1998), only unique firm advantages and indicators of resource commitment to exporting are related to the RBV, while decision maker characteristics, it is argued, are too close to independent variables (such as the degree of international involvement), and perceived attractiveness of exporting could only indirectly be interpreted as resource-related. However, given the heterogeneity of small firms and their operating environment, there are fundamental difficulties in seeking to identify and define critical resources needed for internationalisation (Ruzzier, et al., 2006). Bell et al. (1998) state that RBV's major decisions (e.g., on country market choice, market servicing mode or product-market strategies) are based on total consideration of all available resources and capabilities of the firms, as well as environment (including competitive) realities. Loane and Bell (2006a) acknowledge that the RBV has applicability for the growth of small firms and also for their internationalisation

activities. Further, improved export knowledge will significantly reduce perceived barriers to and complexity of exporting and help to implement proactive export marketing strategies. Singer and Czinkota (1994) found that export knowledge increases pre-export activities such as decision, planning, contacts and channels (Shamsuddoha & Ali, 2006). Based on RBV, our focus is on Human Capital resources or the decision-maker characteristics, since these may influence export activity of the firm (Cavusgil & Naor, 1987). More detail about the variables of Human Capital will be discussed in the next subsection.

Another theory suitable to assessing the internationalisation of the company is the Network Perspective, especially for evaluating the internationalisation of SMEs. As Freeman, Edwards and Schroder (2006) assert, 'because of their lack in financial and knowledge resources, lack of economies of scale and aversion to risk taking, smaller firms might be overcome those shortages by using informal and formal alliances developed through networks'. The Network Perspective will be discussed in the following subsection.

2.3.3.4 Network Perspectives

Several studies challenging traditional models of firms' internationalisation have drawn upon Network Perspectives, which focuses on the personal and extended networks of the entrepreneur and his/her management team. For example, a comparative study of export behaviour among entrepreneur software firms in Finland, Ireland and Norway by Bell (1995) argues that the network approach was a better explanation of the internationalisation process of these firms.

Hills, Lumpkin and Singh (1997)indicate that entrepreneurs' networks are important to opportunity recognition. They based their argument on

Granovetter's (1973) classic article on the strength of weak ties, which argues that weak ties (including casual acquaintances) are 'bridges' to information sources not necessarily contained within an individual's strong-tie network (including friends and family). Granovetter argues that the casual acquaintance is more likely to provide unique information than are close friends, because most people have more weak ties than strong. A survey-based study by Hills et al. (1997) reveals that entrepreneurs who have extended networks identify significantly more opportunities than solo entrepreneurs.

The Network Perspective suggests that economic action is embedded in social networks (Granovetter, 1973). International expansion of a firm is impeded by the firm's lack of information about entering a new market and a lack of capabilities that match the new market. Ruzzier et al. (2006) define the network as a combination of extension and penetration.Extension involves investments in networks that are new to the firm, whereas penetration means developing positions and increasing resource commitment in networks in which the firm already has a position. Based on their model, internationalisation of the firm means that the firm sets up and expands positions in relation to other partners in a foreign network.

Parallel with the Network Perspective, Stage Models suggest the development of new organisational capabilities through experience gained in new geographic regions, preferably first in geographically and psychically close markets, which is then followed up in more distant markets (Johanson & Vahlne, 1977). While this incremental learning process helps a firm gain knowledge from new markets, learning by doing is time-consuming and can result in expensive failure (Lu, 2001). Further, Luproposes that the informational benefits from inter-organisational networks are important for internationalising firms,

because such informational benefits might help firms overcome significant limitations in local knowledge and develop capabilities suited to new markets in an efficient manner. By networking with other firms, internationalising firms can gain access to new market information from another firm's experience in these markets. Firms are embedded actors in business networks (Johanson & Mattsson, 1988; McAuley, 1999), whereas when they penetrate they develop positions and increase resource commitments in networks in which the firm already has positions. Thus, if the relationships between firms are seen as a network, it can be argued that firms internationalise because other firms in their (inter)national network are doing so and hence emerges the critical decision on the time to advance in their (inter)national network(Ruzzier, et al., 2006).

Amodel that combines the Stage Model and Network Perspective is the model of Johanson and Mattson (1988) which emphasises gradual learning and the development of market knowledge through interaction within networks. By combining macro (firm to firm) and micro (firm to network) perspectives of networks, Johanson and Mattson (1988) identified four stages of internationalisation: the early starter, the late starter, the lonely international, and the international. The '*early starter*' is the company that is based in the domestic market and has little knowledge of the international market and can expect to gain little knowledge of it from its relationships. The '*lonely international*' is the company that is highly internationalised in a market environment that is not highly internationalised but is a market environment with a domestic focus. The '*late starter*' is domestic-based but has indirect relations with foreign business networks that are internationalised. The '*international*' is a company that operates internationally and whose environment is internationally oriented (Chetty & Holm, 2000). Johanson and Mattson's (1988) model combines two perspectives, the Stage Model and

Network Perspective, into one model. The model emphasises the importance of networks for firms' internationalisation.

Network relationships may be formal and strategic (customers, suppliers, distributors, competitors, bank, trade association) and/or informal and socially oriented (family, friends, colleagues and personal relationships) (Chetty & Wilson, 2003; Littunen, 2000). The distinction between formal and informal networks raises an interesting question by Watson (2010) – 'are formal networks (which typically cost more to access but generally comprise weaker ties) of greater benefit than informal networks (which typically cost less to access but generally comprise stronger ties)?' – given that formal (weak ties) networks result in more benefit than informal (strong ties); moreover, there is Granovetter's argument (1983) that weak ties are likely to result in the transfer of more knowledge and information than strong ties, so that formal networks should me more important to Firm Performance than informal networks (Watson, 2010).

Several studies have described how networks influence the internationalisation process, including those by Chetty and Campbell-Hunt (2003), Freeman, Edwards and Schroder (2006), Loane and Bell (2006b), and Chetty and Agndal (2007). In a qualitative study conducted in Australia, Freeman et al. (2006) revealed that deficits in financial and knowledge resources, lack of economies of scale and aversion to risk taking of smaller firms might be overcome by using informal and formal alliances developed through networks.

Compared to larger multinationals, SMEs typically rely more extensively on network relationships as they pursue international opportunities (Coviello, 2006; Zahra, 2005). Not surprisingly, the role of networks in the

internationalisationof small firms has figured prominently in recent research. An OECD conference on SMEs concluded that the internationalisation of SMEs does not mainly involve outward activities (OECD, 2004). SMEs can engage in internationalisation by way of FDI. SMEs can be suppliers to Multinational Enterprises (MNEs), whose value chain is quite complex and may involve large numbers of SMEs (OECD, 2004). Therefore SMEs are indirectly involving themselves in or engaging in the international market by using their network with MNEs in their home country.

However, much of this body of research focuses on the benefits of such networks, with only a few (e.g., (Chetty & Agndal, 2007; Chetty & Holm, 2000; Jones, 1999) addressing the potential downside of networks in the context of SME internationalisation. The Network Perspective has been criticised by Chetty and Holm (2000) for not acknowledging the importance of decision makers and firm characteristics, and also by Loane and Bell (2006b) for its lack of predictive power. Another criticism of the network approach is that, while networks are helpful in setting up international contacts and building a firm's internationalisation, they do limit the scope and nature of the market opportunities available (Jones, 1999). Nevertheless, as an explanatory model it has received wide support and acceptance. Its strength lies in explaining the internationalisation process and clarifying how the resources, activities and actors within the network affect the various dimensions and provide the context of international activities (Loane & Bell, 2006b). This study tries to fill the gap in the literature raised by Chetty and Holm (2000) that does not acknowledge the importance of decision makers in internationalisation.

For the purpose of this research, a network is defined as the relationship between a firm's owner-managers with customers, suppliers, competitors,

government, distributors, bankers, families, friends or any other party that enables it to internationalise its business activities (Zain & Ng, 2006).

Below is the summary of U-model/Stage Model and Network Perspective which assess the unit of analysis, assumptions about a firm's behavior, explanatory variables, and normative implications for the international business person. These two perspectives have different implications for internationalisation strategies, with the Stage Model stressing the incremental process of the internationalisation of firms, while the Network Perspective accentuates the importance of external networks on firm internationalisation. By examining these two perspectives, managerial implications on the internationalisation process can be better understood. It is depicted in Table 2-3.

Madsen and Servais (1997) suggest that evolutionary economics as well as the network approach offer some promising additional insights into the phenomenon. Based on discussion above, it therefore seems appropriate to use the Stage Model, RBV and the Network Perspective to explain the incremental approach of Indonesian manufacturing SME internationalisation in this research and to assess the importance of decision-maker characteristics of SMEs in the internationalisation process.

Table2-3Summary of the Uppsala Model and Network Perspectives

	U model/ Stage Model	**Network perspective**
Unit of analysis	The firm	Draws on theory social exchange and focuses on firm behaviour in the context of interorganisational and interpersonal relationship.
Assumptions about firm's behaviour	Internationalisation is linked with managerial learning – a key element for a firm moving from one stage to another. Internationalisation is defined as a step-by-step process from the simplest form (export) to manufacturing abroad (this process combines getting experience and knowledge and increasing resource commitment to a foreign market	The 'glue' that keeps the relationships together is based on technical, economic, legal and especially personal ties. It emphasises the role and influence of social relationships in business transactions. A firm does not act alone in relation to other actors in a market. Through interactions, the various actors build knowledge about mutual trust, which leads to a strong commitment.
Explanatory variables affecting the process development	Internationalisation is seen as causal of cycles. Further market commitment occurs in small steps – with three exceptions: the consequences of commitment are small when firms have large resources. Firms with surplus resources are therefore expected to take larger internationalisation steps; relevant market knowledge can be gained in ways other than through experience if market conditions are homogeneous and stable.	Long-term relationships between business actors and the context in which the firm operates have the explanatory value in the description of the internationalisation of firms. Hence the network in which the firm is active enables the internationalisation. All the actors in a network are interdependent and interact with each other in one way or another. This makes it possible for a firm to have a high degree of internationalisation without a high degree of assets in a specific foreign market. The model suggeststhat a firm is dependent on other firms' resources within the network, for example, customer and supplier relationships.
Normative implications for international business people	Additional market commitments should be made in small incremental steps: choose new geographic markets with small psychic distances from existing markets; choose an 'entry mode' with few marginal risks.	Network relationships are critical avenues for the acquisition of resources and knowledge necessary for foreign development of firms. The relationships of firm in a domestic network can be used as bridges to other networks in other countries. Such bridges to different country networks can be important in the initial steps abroad and in the subsequent entry of new markets.

Source: Osarenkhoe (2009)

2.4 The Core Elements of Internationalisation

The working definition that will be used in this research is the definition from Rialp and Rialp (2001). Rialp and Rialp define internationalisation as 'a set of operations that facilitate the establishment of more stable relationships between a firm and the international markets throughout a learning process of growing international involvement and patterns of development that may be simultaneously inward and outward'. The definition mainly uses the Stage Model in explaining internationalisation, incorporated with the Network Perspective and RBV.

Previous research has tried to determine the degree of a firm's internationalisation by examining the evolution, structure and processes of relationships between its demographic, strategic, market, organisational, product and attitudinal characteristics of internationalisation (Johanson & Vahlne, 1977; Welch & Luostarinen, 1993). A criterion such as the ratio of export sales/total sales (EFTS) or some such variant has been the most frequently used indicator for the degree of internationalisation (Ruzzier, Antoncic, & Hisrich, 2007). The research done by Ruzzier et al. (2007) on Slovenian SMEs found that, in order to measure the degree of internationalisation of firms, the main dimensions of International Performance, Market, Mode, Time and Product can be used. Ruzzier et al. (2007) seek to look at internationalisation as multiple dimensions and claim that their findings can be generalised to some degree, not only for Slovenian entrepreneurs and firms, but also to other countries. Details of the dimensions will be explained in the next section.

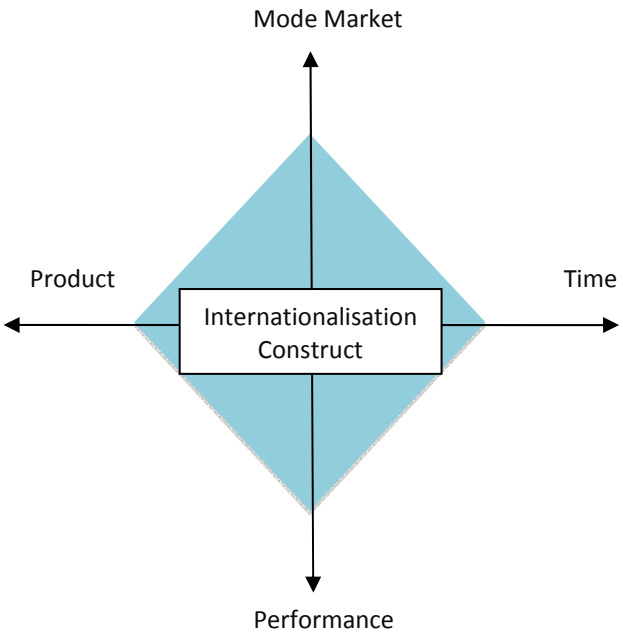


Figure 2-2The Multi-dimensional Internationalisation Construct (Ruzzier, Antoncic, & Hisrich, 2007)

2.4.1 International Performance/Export Performance

There are multiple internal and external factors(Calantone, Kim, & Schmidt, 2002; Calantone, Kim, Schmidt, & Cavusgil, 2006; Mittelstaedt, Raymond, & Ward, 2005; Zou & Stan, 1998)that have a direct or indirect relationship (Aaby & Slater, 1989; Cavusgil & Zou, 1994)with export performance. These factors include firm demographics such as size (Bonaccorsi, 1992; Mittelstaedt, Harben, & Ward, 2003), age (Brouthers & Nakos, 2005; Ursic & Czinkota, 1984), export experience (Kirpalani & MacIntosh, 1980), marketing expertise (Ogunmokun & Ng, 2004), and management traits (Dichtl, Koeglmayr, & Mueller, 1990). Further, there are numerous objective and subjective measures (Lages, Lages, & Lagesc, 2005; Zou & Stan, 1998) for operationalising export performance.

Two extensive literature reviews of export performance studies (Aaby & Slater, 1989; Bilkey, 1978) highlight the difficulties involved in attempting to define International Performance. Many of the measures used, such as export intensity and market spreading, are also used to describe the degree of internationalisation. Luostarinen (1980) states that internationalisation involves increasing the commitment of a company's resources to both market spreading and market penetration activities.

Two of the most frequently used export performance criteria are export intensity (percentage of sales accounted for by exports) and export sales growth (Aaby & Slater, 1989). This research will use the two items to measure International Performance used by Ruzzier et al. (2007). Ruzzier et al. obtained the first item, which is the ratio of export sales to total sales (ESTS); this is also popular and widely used within internationalisation research (Aaby & Slater, 1989; Cavusgil, 1984; Gankema, et al., 2000; Reid, 1981b). The second item is the ratio of foreign sales to total sales (FSTS), taken from Cavusgil and Kirpalani(1993).

2.4.2 Market

Two types of generic classic internationalisation strategy commonly discussed in the literature are a market concentration strategy (few key markets) with gradual expansion into new market over time, and a rapid market diversification strategy (large number of markets strategy) (Ayal & Zif, 1979).

Market spreading (diversification) is an important indicator of the degree of internationalisation, as companies trading in a wider variety of markets are less likely to be concerned about psychic distance as an important barrier to the internationalisation process (Johanson & Vahlne, 1977; Johanson

&Wiedersheim-Paul, 1975). Export intensity (the proportion of total revenues earned overseas) is the most commonly used measure of the degree of internationalisation (Sullivan 1994). However, using market spreading (the number of country-markets) and export intensity as dual measures of internationalisation helps overcome the single-measure biases alluded to by Sullivan (Ruzzier, Antoncic, & Hisrich, 2007).

With respect to market diversification strategy, the objective is to achieve a high return from a low commitment of resources to many markets. The strengths of market diversification include greater flexibility, less dependence on particular markets, and lower perception of risk (Yeoh, 2004), while in market concentration strategy the firm devotes relatively higher levels of marketing effort to each of a few markets in an attempt to win a significant share in these markets (Yeoh, 2004). The strengths of market concentration include market specialisation, economy of scale, greater market knowledge, and a high degree of control (Yeoh, 2004).

Proponents of the market concentration strategy argue that by securing large market share in a few key markets, firms using a concentration strategy are able to generate higher performance results than firms using a geographic diversification strategy. This view is also consistent with internationalisation Stage Theory, which argues for a systematic entry into countries with the highest profit potential that match companies' needs (Olusoga, 1993). For firms without international experience, Anderson and Gatignon (1986) characterise this incremental approach as the more efficient method for international involvement. Because cultures differ at a fundamental level, geographical expansion into new markets tends to start in countries which are perceived to be culturally similar, i.e., those which show small psychological distance.

In terms of mode of entry, most Indonesian SMEs use direct and indirect export as a means to enter international markets. In this arrangement, a firm carries out its production and marketing-related activities at home and has no investment or presence in the target host country. The firm is engaged in domestic transaction of its products with another home country firm, which, in turn, undertakes the host country marketing operations for those products (Kotabe & Hensen, 1998). The home country intermediary includes manufacturers' export agents, who sell for the manufacturer, export commission agents, who buy for their overseas customers, export merchants, who purchase and sell for their own accounts, and international firms, which use the goods overseas(mining, construction company are examples) (Ball, et al., 2010). With the sole exception of Internationalisation Theory, none of the earlier theories of entry mode choice addresses the choice of indirect exporting. Behavioral paradigm researchers (e.g. Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975)have argued that indirect exporting is usually the most preferred starting mode for companies lacking international market knowledge, as it minimises their overseas involvement and perceived risk. As set out in section 2.3.1.1, the RBV approach provides an interesting explanation: that is, when the likelihood of a firm establishing competitive advantage in both production and marketing activities in a host country is low, the firm is unlikely to enter the market, or may choose to enter via indirect exporting through another home country firm that has a business presence in the host country and has resources that are more compatible with host country conditions (Varinder & Erramilli, 2004).

Consistent with the Stage Model, as has been mentioned earlier, the model is related to physic distance. Evans and Mavondo (2002) define physic distance as 'the distance between the home market and the foreign market, resulting from

perception of both cultural and business differences'. The main assumption is that firms are less likely to take up and/or continue business relations with countries that are perceived to be dissimilar to their country of origin (high psychic distance). Moreover, it is perceived that a sense of cultural proximity toward a foreign market (low psychic distance) will encourage business with the country (Moen & Servais, 2002; Stottinger & Schlegelmilch, 1998).

A growing number of researchers has attempted to identify psychic distance and its performance implications (Evans and Mavondo, (2002). Stottinger and Schlegelmilch (1998) argue that the findings of their study question the empirical usefulness of psychic distance. This is because the results contradict the assumptions that psychic distance is negatively related with export development and organisational performance. The internationalisation literature implies that firms will perform better in markets that are perceived to be similar. However, Evans, Mavondo and Bridson (2008) argue there are positive association between psychic distance and Firm Performance. This implies that the more distant the market in the host country, the higher the level of risk perception. This risk perception elicits a strong desire to learn more about the market (country), and consequently this knowledge enhances the company's strategic decision, and, in turn, its performance.

For the purpose of this study, therefore, we measure Market dimension with two important aspects taken from Ruzzier et al.'s (2007) study:

- The number of foreign markets in which the firm's products are sold, and
- The number of country groups in which the products are sold.

By using these two variables we examine 'business' or 'psychic' distance or the location of the market, which is based on cultural and geographical distance.

This might be chosen from countries that are close to Indonesia, such as Malaysia, Singapore or Australia. Also we consider market concentration strategy, as has been suggested in the literature, which is in line with the Stage Model.

2.4.3 Time

In the late 1970s most of the internationalisation theories were developed. Most companies entered international markets incrementally, after having operated for a few years in their own home markets. Even then, there were exceptions (Luostarinen, 1976), where companies started their internationalisation very soon after their inception, but such companies were few. Since then, many things have changed and the number of companies entering foreign markets close in time to their inception has been increasing rapidly. The distinguishing feature of such companies is the significant commitment of resources (e.g., materials, people, financing, time) in more than one nation soon after inception. In contrast to those organisations that evolve gradually from domestic firms, these new ventures begin with a proactive international strategy which implies that a decision was made to do this prior to inception (Oviatt & McDougall, 2005b).

The time taken to start internationalisation is also known as speed of internationalisation (Acedo & Jones, 2007; Juichuan, 2007; Luo, et al., 2005; Oviatt & McDougall, 2005a). To date, there is a lack of empirical study examining the relationship between the speed of internationalisation and the mindset, or cognition, of entrepreneurs or managers involved in the process (Acedo & Jones, 2007, p. 237). The issue of definition of the age of the firm when it starts its internationalisation has come to the attention of researchers.

According to McDougall et al. (1994), a start-up entrepreneur is one in the first six years of its venture.

The Time dimension of internationalisation is crucial since it represents a bridge between incremental internationalisation and internationalisation at inception and the strategic decision to enter and exit specific markets(Antoncic & Hisrich, 2000). The Time dimension will be measured using three variables, used by Reuber and Fischer (1997), which are derived from Cavusgil's I-model (1982):

- Time (age) of starting international activities,
- Time(age) in reaching 10 percent of foreign sales in total sales, and
- Time (age) in reaching 20 percent of foreign sales in total sales.

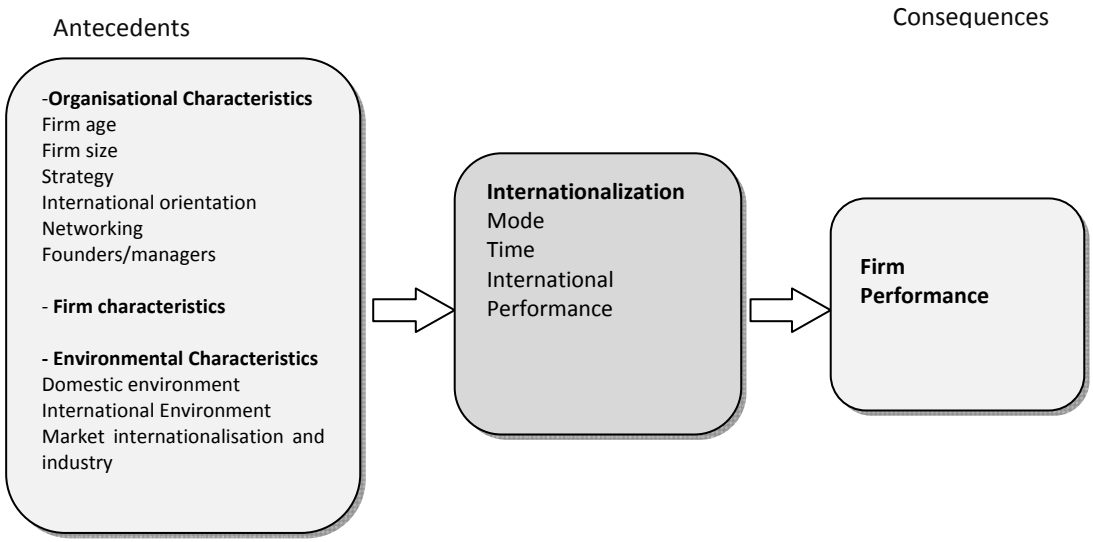
Antoncic and Hisrich (2000) provide a model built around the concept of internationalisation that consists of internationalisation properties (internationalisation performance, Time, Market and mode, product). Other building blocks of the model are internationalisation antecedents (environmental conditions and organisational characteristics) and internationalisation consequences (organisational or Firm Performance). This is shown in Figure 2-3.

The next section will elaborate on this model, which identifies the antecedents of internationalisation with the focus on the importance of Human and Social Capital in the internationalisation of the firm.

2.5 Antecedents of Internationalisation

Antoncic and Hisrich (2000) offer new measurement in the area of internationalisation study. Their study offers multi-dimensional measurement

of internationalisation. The four dimensions are Time, Mode and Market, Product and International Performance, as has been presented in the previous subsection. The model has been modified by Ruzzier, Hisrich, and Antoncic (2006), who incorporates the dimensions of Entrepreneur Human Capital and Social Capital in the antecedents of internationalisation. The Human Capital construct has been empirically tested by Ruzzier, Antoncic, Hisrich and Konecnik (2007) in a study of Slovenian firms. The current research will adopt and modify the conceptual model from the work of Antoncic and Hisrich (2000). The modification of the model will be discussed in the following section.



Source :Ruzzier et.al, 2006

Figure 2-3 An Integrative Conceptual Model (Antoncic & Hisrich, 2000)

Studies suggest that the role of owner-managers of SMEs is very important in exerting substantial influence on small business growth and performance (Shepherd & Wiklund, 2005). The entrepreneur is regarded as an important element in studying SME internationalisation and in the central factors that explain a firm's international behaviour (Andersson, 2000). In contrast,

Network Theory suggests that a firm's external networks may play a greater role in the International Performance of new ventures (Yeoh, 2004). Given the lack of international experience among new ventures, empirical studies suggest that social networks are vital to the discovery of new opportunities, to gaining access to local markets and to developing specific competitive advantages (Coviello & Munro, 1997; Ellis & Pecotich, 2001). These two perspectives have different implications for internationalisation strategies, with the RBV stressing the accumulation of internal capabilities (such as skills and management know-how), while Network Theory underscores the importance of external networks on firm internationalisation. By examining these two divergent perspectives, managerial implications on the Human and Social Capital-internationalisation-performance relationship can be better understood(Yeoh, 2004).

2.5.1 Human Capital

Grant (1996) offers six classifications of resources: physical, Human, capital, financial, technological, and reputational. A firm's physical resources and its capabilities (i.e., the mental models of its managers) interact to create competitive advantage (Mahoney, 1995). On the other hand, improved export knowledge will significantly reduce the perceived barriers to and complexity of exporting and help to implement proactive export marketing strategies. Thus export knowledge increases pre-export activities such as decision, planning, contacts and channels (Singer & Czinkota, 1994, cited in Shamsuddoha & Ali, 2006).

As part of human resources capital, managers or entrepreneurs become essential factors in internationalisation of SMEs. Many empirical researchers have shown that there is an array of factors influencing internationalisation of

firms, including the manager or entrepreneur in the company, the characteristics of the organisation or company and environmental characteristics (Antoncic & Hisrich, 2000). Shepherd and Wiklund (2005) show the importance of managers of small business in exerting substantial influence on small business growth and performance. Further, Shepherd and Wiklund argue that the destiny of a small business is not completely determined by the characteristics of the environment and other factors outside the control of the small business but is highly dependent upon the decisions its management makes.

Sheperd and Wiklund (2005, p. 7) state that

> *The environment has profound impact on small business and it is essential for them to pursue the opportunities that arise in the environment. However, the way in which it is done is determined by internal characteristics. The Human Capital and motivation of small business manager has profound effect on subsequent small business growth.*

This implies that the human factor plays an important role in small business growth. In the following section, we are going to elaborate more on the importance of the manager or entrepreneur in the SME internationalisation process, based on theories that we use in assessing the internationalisation process, the RBV and Network Theory.

Previous research has conceptualised Human Capital as a resource endowment that significantly influences the firm's survival and growth, as well as its potential to generate organisational rents (Greene et al., 2001). In a similar manner, Human Capital is defined as the know-how, information, relationships, and general capabilities that individuals bring to bear on behalf of the firm through their employment relation (Galunic & Anderson, 2000, p. 3).

Cooper, Gimeno-Gascon and Woo (1994) explored the impact of Human Capital (operationalised as the entrepreneur's education, gender, and race), management know-how, or management specific skills and knowledge, as well as industry-specific know-how, or specific experiences in a similar business, on the survival and growth of new ventures. They found that general Human Capital and industry-specific know-how contributed to both survival and growth of new ventures. Therefore the experience and skills of entrepreneur managers are resources that provide managers of a firm with knowledge, skills, motivation, problem-solving abilities and confidence (Styles & Seymour, 2006). Firm-specific Human Capital refers to those human resources that are deployable only within a given firm or industry and has been a topic of interest in the RBV (Coff, 1997; Teece, Pisano, & Shuen, 1997).

Based on the discussion above, there are many specifications of managerial characteristics, with various terms to depict concepts such as Human Capital, managerial characteristics, and individual international posture. The Table 2-4 below consists of selected literatures with managerial characteristic variables and terms.

In sum, while the importance of personal factors is a common theme throughout the streams of SME internationalisation research, none of these domains elaborates on the relative importance of various personal factors, or the individual dimensions of Human Capital, for the internationalisation of small-medium companies. There is no single measurement to measure Human Capital. One might even change from measuring Human Capital as international business skills, international orientation, environmental perception, demographic (age, education, tenure) (Manolova, Brush, Edelman, & Greene, 2002) to education, a technology degree, a business degree,

management experience, and perceived benefits from prior experience(Manolova, Carter, Manev, & Gyoshev, 2007).

Table 2-4 Selected Literature on Human Capital

Terminology used	Measurement Variables	Sources	Method
Decision maker characteristics	Age, education, place of college, foreign language skills	(Cavusgil & Naor, 1987)	Discriminant function
Human Capital	Education, technology degree, business degree, management experience, perceived benefits from prior experience	(Manolova, et al., 2007)	OLS regression
Human Capital	experience in entrepreneur (years spent managing their own business prior to starting current company) experience in general management (years spent as a general manager in a business owned by someone else) experience in technical (years spent in a technical or specialist position)	(Chandler & Hanks, 1998)	ANOVA
Managerial characteristics	Educational level overseas experience (number of years that they had lived abroad) (Axxin, 1988) number of foreign languages spoken we operate on the principle that our presence in international market is very important for our long term profitability (5-point Likert, always-never), we try to constantly increase our international sales (5-point Likert, always-never)	(Nakos, Brouthers, & Brouthers, 1998)	Multiple Regression
Individual International Posture (IIP)	proactive disposition an intuitive cognitive style high tolerance for ambiguity	(Acedo & Florin, 2006)	SEM (PLS)
Human Capital	International business skills International Orientation Environmental Perception Demographic (age, education, tenure)	(Manolova, et al., 2002)	ANOVA, MANOVA, chi-square test
Human Capital	International business skills International orientation Environmental perception Management Know-How	(Ruzzier, Antoncic, & Hisrich, 2007)	SEM

Sources: as indicated in the Table, summarised for the purpose of this thesis

This, therefore, supports Coff(1997) and Teece et al.'s (1997) statement that firm-specific Human Capital refers to those human resources that are deployable

only within a given firm or industry; thus the measurement of Human Capital is varied across context and industries. This current study will focus on specific Human Capital in order to have a better understanding of specific skills of SME owner-managers needed for firm internationalisation, and also because research in specific managerial skills has varied in measurement variables so that it is difficult to compare studies.

The Human Capital of a small business manager gives him or herthe ability to make decisions, solve problems and take actions necessary to achieve growth. It consists of skills and knowledge that assist in running the business successfully (Snell & Dean, 1992, in Shepherd & Wiklund, 2005). According to Shepherd and Wiklund (1994), it is important to acknowledge the distinction between general and specific Human Capital. General Human Capital is related to the years of education or the years of work experience, while specific Human Capital is more related to the ability of manager in conducting a specific job.

Human Capital and Internationalisation

Perhaps some of the most studied variables in the internationalisation of SMEs are the manager's attributes and the relationship between the perception and attitudes of the manager or decision makers and the internationalisation of the firm. The entrepreneur is regarded as an important element in studying SME internationalisation and in the central factors that explain a firm's international behaviour (Andersson, 2000). Wiedersheim-Paul, Olson and Welch (1978) developed a model that stresses the importance of a firm's activities and its 'pre-export' behaviour. The important factors include information and characteristics of the decision maker, the enterprise environment, and extra-regional expansion of the firm. Other empirical studies have shown that

individual characteristics affect the processing of export-related information and influence exporting behavior (Aaby & Slater, 1989; Cavusgil & Naor, 1987; Reid, 1983; Ruzzier, et al., 2007), and the firm's strategic orientation and the patterns and pace of internationalisation (Miles, Snow, Meyer, & Coleman, 1978). Further, Knight and Kim (2009)have added that, although SMEs tend to lack substantial financial and human resources, they may leverage a collection of more fundamental, intangible resources that facilitate their international success. These resources consist largely of the know-how, skills, and overall business competences that reside in the managers who work at these firms. Based on these arguments, we look at management know-how and international business skills in this current study.

Most empirical research has either been done on the impact of internal managerial factors (Axinn, 1988; Cavusgil & Nevin, 1981; Kaynak, Ghauri, & Olofsson - Bredenlow, 1987; Namiki, 1988; Reid, 1983) or on external environmental factors (Becker & Porter, 1983; De Noble, Castaldi, & Moliver, 1989). In this study we do not look at the external factors for number of reasons. First, from the study of Kirpalani and MacIntosh (1980) and Madsen (1989) it appears that the relation between environmental factors and export success is weak, especially compared with internal factors. Secondly, for most SMEs the environmental situation can be considered a constraint, because these firms have only a minor influence on the environment (Bijmolt & Zwart, 1994). Third, internal factors provide a better explanation than external ones for explaining internationalisation among family firms (small firms) (Gallo & Pont, 1996).Furthermore, the environment is approximately the same for all SMEs because the data were collected in a short time (cross-sectional).

2.5.1.1 Management Know-How and Internationalisation

The personal factors of SME owner-managers can be strong influences on the internationalisation of SMEs. Human capital refers to the range of valuable skills and knowledge a person has accumulated over time (Burt, 1992b). Studying Human Capital means we should focus on the person, as Becker (1993; cited inRuzzier, et al., 2007) states that the most important characteristic of Human Capital is its embodiment in people.

As discussed in the previous section, knowledge affects the success of organisations (Nonaka&Takeuchi, 1995; Skaggs&Youndt, 2004) and is the firm's most important strategic resource (Nonaka&Takeuchi, 1995). Knowledge is context-specific (Bloodgood&Morrow, 2003) and comprised of data, information and tacit knowledge (Bloodgood&Morrow, 2003; Nonaka, Von Krogh, &Voelpel, 2006). Knowledge also becomes a driver of internationalisation, based on Stage Theory (Johanson & Vahlne, 1977) and the BG view (Knight & Cavusgil, 1996).

Human capital is the organisation's members' individual tacit knowledge and includes raw intelligence, skills and expertise of the human actors in the organisation which resides inside employees (Bollen, Vergauwen, &Schnieders, 2005). Tacit knowledge is difficult to express or convey via the spoken word and must be acquired through personal experience and direct involvement, such as apprenticeships (Nonaka&Takeuchi, 1995). In contrast, explicit knowledge is easily expressed in a written form and is easily transferable (Kluyver&Pearce, 2006). Tacit knowledge creates value in a resource (Prahalad & Hamel, 1990). According to Brakensiek and Drucker (2002), tacit knowledge is specific to the context and the profession, and often resides only in the minds of experts.

Westhead et al. (2001) assert that firms with diverse management know-how are able to introduce better human resource practices, undertake more promising competitive strategies, and identify more promising market opportunities (i.e., in foreign markets). Taking into account the view of Carter, William and Reynolds (1997), Westhead et al. (2001) state that to supply a firm with necessary resources, the owner-managers of the firm can acquire resources using management know-how and the ability to identify appropriate partners, investors and advisors, who can be nurtured to supply the firm with necessary resources. Therefore management know-how is an essential ability for owner-managers in identifying appropriate partners, investors and advisors (networks) that are able to help firms enter international markets. These arguments lead to the following hypotheses:

Hypothesis 1: Management Know-How of the owner-managers hasa positive relationship to International Performance

Hypothesis 2: Management Know-How of the owner-managers hasa positive relationship to the number of markets

Hypothesis 3: Management Know-How of the owner-managers hasa positive relationship to the time of starting internationalisation.

2.5.1.2 International Business Skills and Internationalisation

Foreign business skills and knowledge that are specific to situations and contexts are an important part of market knowledge (Johanson&Vahlne, 2003). Both INT (Johanson & Vahlne, 1977) and BG views (Knight & Cavusgil, 2004) state that knowledge contributes to firm internationalisation. As knowledge is acquired, a firm is more likely to internationalise, since uncertainty is reduced through acquisition of knowledge (Liesch&Knight, 1999). The BG view suggests that prior knowledge of managers plays a key role in rapid internationalisation (Knight & Cavusgil, 2004). Success is often determined by the willingness to

take risks in entering new international markets (Chetty & Campbell-Hunt, 2004). Their innovative, proactive risk-taking behaviour (Covin & Slevin, 1991) is often influenced by prior experience, in terms of international travel, being born abroad, having studied or worked overseas, access to global networks or foreign language capabilities (Aaby & Slater, 1989; Coviello & McAuley, 1999; Madsen & Servais, 1997).

The RBV supports the view that a firm is able to leverage unique, valuable and rare resources for a competitive advantage, and one such valuable resource is knowledge (Barney, 1991). Knowledge aids a firm in overcoming the liability of foreignness in new, foreign markets (Hymer, 1976). According to the process view of internationalisation, a lack of knowledge and experience is the source of the firm's disadvantage relative to domestic firms in a foreign market (Grant, 1996). Thus knowledge and experience possessed by SMEs' Human Capital allows knowledge-intensive firms to overcome disadvantages and leverage knowledge resources for profitable expansion. Human resources and the management of such resources improve profits, particularly in an emerging economy that is facing competitive pressures from globalisation(Wei&Lau, 2008).

Information use is a crucial factor in determining readiness to commit to international ventures. In respect of SMEs, this information is centralised in the owner-managers(Acedo & Jones, 2007). Further, Acedo and Jones comment that, among the different specifications of managerial characteristics, psychological traits excluded, there is no agreement about what should be included in consideration of the manager's profile as regards readiness to internationalise.

Based on this perspective it seems that Human Capital should be assessed based on its dimensions rather than Human Capital as a latent (unobserved)

variable, so that we may improve the credibility of the finding on the relationship between Human Capital's dimension and internationalisation.

In the international entrepreneurship literature, Bloodgood, Sapienza and Almeida (1996) found that firms with unique bundles of resources (greater international work experience among senior managers, pursuit of product differentiation, and larger firm size) are strongly associated with greater internationalisation of new high-potential ventures in the USA. Additionally, a study on the impact of resources on the internationalisation patterns of British firms (Westhead, et al., 2001) established that businesses whose managers are older have denser information, considerable management know-how, and industry-specific knowledge, are markedly more likely to be exporters. Hence the importance of Human Capital and its relationship to performance and internationalisation is established, yet the effects of particular aspects or dimensions are less clear.

With regard to demographic factors, evidence linking demographic characteristics to internationalisation is inconclusive, despite the prominent position these variables have in international marketing research. Studies examining demographics find that a high level of education, as well as youth, is associated with internationalisation (Cavusgil & Naor, 1987). In contrast, other work shows older age levels of the owner/founder are related to internationalisation (Nakos, et al., 1998); this is also supported by Westhead, Wright and Ucbasaran (2001), who found that older founders with more resources, denser information and contact networks, and considerable management know-how were significantly more likely to become exporters, while other researchers have found no relationship between age, education and

internationalisation(Davis & Harveston, 2000). Therefore, in the current study, we consider demographic factors as control variables in the model.

We modified the construct of Human Capital in this research to fit with the conditions of Indonesian SMEs. Indonesian SMEs are micro enterprises compared to European and American Countries. SMEs' numbers of employees range from 9 to 50 employees. As has been discussed earlier, the relative importance of the various dimensions of Human Capital embodied in the entrepreneur, as these relate to internationalisation of SMEs, has been extensively researched (Bijmolt & Zwart, 1994; Cavusgil & Naor, 1987; Manolova, et al., 2002; Miller, 1993; 1997; Ruzzier, et al., 2007; Westhead, et al., 2001); researchers have identified several dimensions of Human Capital that have a positive relationship with internationalisation:

- International orientation (the extent of travel, time lived, studies and employment abroad)
- Perception of environmental risk (international business riskier than home, international business very risky)
- International business skills (international work experience, international business education foreign languages, expertise in technology and communication, personal networks)
- Management know-how (motivating employees, negotiating, team building and management and verbal communication)
- Demographic characteristics (age, gender, highest educational level completed, years in the firm and years in the present position).

Human capital (HC) in this research represents individual-level managerial behavior (Manolova, et al., 2002) and is operationalised as multi-dimensional constructs. As entrepreneur Human Capital has a positive relationship with the internationalisation process of the firm, we employ individual constructs of International Business Skills and Management Know-How and do not make

composite scores of these. These dimensions can be explained as follows: International Business Skills comprise knowledge and competences contributing to overcome barriers associated with differences in language, culture, business practices, and legislation (Morosini et al. (1998) Ruzzier, et al., 2007, p. 15); Management Know-How includes competences and expertise acquired by the entrepreneur by managing the firm (at the domestic level), allowing the owner-managers to introduce better human resources practices, undertake promising competitive strategies, and identify opportunity in foreign markets (Westhead, et al., 2001).

Shamsuddoha and Ali (2006) suggest that aggregate levels of analysis do not advance understanding of why different people under the same stimuli, other variables remaining equal, react in different ways. This shows that the existence of a certain stimulus is a necessary, but not sufficient, condition for behaviour to occur(Leonidou, Katsikeas, & Piercy, 1998). Therefore, in our study, with respect to HC, we follow Shamsuddoha and Ali (2006)in not using the aggregate level of HC, and assess the relationship of the dimensions of HC with the internationalisation process.

In order to examine the relationship between Human Capital dimensions (International Business Skills) and internationalisation dimensions (International Performance, Market and Time), this research tests the following hypotheses:

Hypothesis 4: International Business Skills of the owner-managers have a positive relationship to International Performance

Hypothesis 5: International Business Skills of the owner-managers have a positive relationship to the number of internationalmarkets

Hypothesis 6: International Business Skills of the owner-managers havea positive relationship to the time of starting internationalisation

2.5.2 Social Capital

In international business study, in addition to the Entrepreneur's Human Capital, Social Capital also affects a firm's internationalisation process (Chetty & Agndal, 2007). Social capital is defined as the actual and potential resources embedded within, available through and derived from the network of relationships possessed by an individual or organisation (Nahapiet & Ghoshal, 1998, p. 243). We also build on Putnam's (1993, p. 167) suggestion that Social Capital represents 'features of social organisation, such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinated action'. This study approaches the Social Capital from Network Perspective, in order to link it with internationalisation of the firm.

SMEs often have limited financial and managerial resources available for international expansion (Chetty & Campbell-Hunt, 2003b). They also often lack knowledge about foreign markets and have few international contacts. As a result, SMEs may have to enter foreign markets consecutively rather than simultaneously, and may have to limit the number of foreign markets in which they operate (Agndal, et al., 2008). For this reason, in order to overcome the limitations they have for internationalising, SMEs use their relationships with other firms (Chetty & Wilson, 2003). In addition, companies can overcome barriers associated with psychological distance by leveraging network relationships and/or developing relationships with key distributors in culturally distant countries(Yeoh, 2004). Relationships may then be used to identify and exploit specific business opportunities. Thus drawing on the expertise of other

firms in a relationship network can improve International Performance(Blomstermo, et al., 2004).

Hills et al. (1997) indicate that entrepreneurs' networks are important to opportunity recognition. They base their argument on Granovetter's (1973) classic article on the strength of weak ties, which argues that weak ties (including casual acquaintances) are 'bridges' to information sources not necessarily contained within an individual's strong-tie network (including friends and family). Granovetter argues that the casual acquaintance is more likely to provide unique information than are close friends, because most people have more weak ties than strong. In their quantitative, survey-based study, Hills et al. (1997) reveal 'that entrepreneurs who have extended networks identify significantly more opportunities' than solo entrepreneurs. Hills et al. also remark that the quality of network contacts can affect other characteristics, such as alertness and creativity.

Adler and Kwon (2002, p. 23) propose Social Capital as 'the goodwill available to individuals or groups. Its source lies in the structure and content of an actor's social relations. Its effect flows from the information, influence and solidarity it makes available to the actor'. Adler and Kwon differentiate three dimensions of social structure that are rooted in different types of relations: market relations, in which products and services are bartered or exchanged for money; hierarchical relations, in which obedience to authority is exchanged for material and spiritual security; and social relations, in which favours and gifts are exchanged. While Adler and Kwon's division of social capital mainly considers the relationship of the actors, Nahapiet and Ghoshal (1997, 1998) consider three dimensions underlying Social Capital.

Nahapiet and Ghoshal's (1998) three dimensions are: structural, relational and cognitive. The **structural dimension** which refers to the network structure's overall pattern of connections between actors (most notably, network structure includes such factors as the existence or absence of direct connections between focal actors and others, and the pattern and number indirect ties between a focal actor and others). The **relational dimension**, which refers to the nature of the personal relationships that develop between specific people, as manifested in 'strong' versus 'weak' ties (the strength of a weak tie is a reflection of the combination of the amount of time, emotional intensity, intimacy, and reciprocal services that characterise the tie). Strong ties are typically associated with trust and facilitate the flow of fine-grained information (Gulati, 1998) and the transfer of tacit knowledge (Uzzi, 1996a). The **cognitive dimension**, refers to shared representations, interpretations, and systems of meaning among parties (this enables individuals within the network to make sense of information and classify it into perceptual categories (Augoustinos & Walker, 1995); shared systems of meanings and language facilitate the exchange of information; learning and knowledge creation that allows individuals to share each other's thinking processes; these common ways of looking at the world help individuals to make sense of new information and knowledge (Grant, 1996; Nonaka, 1994). For the purpose of the recent study, we use the structural dimension of Social Capital, since this dimension influences the development of the relational and cognitive dimension of Social Capital(Nahapiet & Ghoshal, 1998), in other words, the structural dimension is a fundamental factor of the relational and cognitive dimensions.

Strategic management scholars consider that Social Capital can be enhanced and be built on as a source of competitive advantage through management practices (Ireland, Hitt, & Vaidyanath, 2002; Pisano, Ireland, Hitt, & Webb,

2007). Social capital is multi-dimensional and occurs at both the individual and the organisational levels (Nahapiet & Ghoshal, 1988). At the individual level, managerial Social Capital is derived from networking relationships with senior managers of other firms and government officials and is characterised by a high level of intimacy, reciprocal services, and emotional intensity (Granovetter, 1985). Recent study done in Ghana by Acquaah (2007) shows that Social Capital development from social networking relationships and ties with senior manager of other firms, government officials, and community leaders has a significant impact on organisational performance. In his study, Acquaah broadened the view about social relationships by including not only the connection to senior managers of other firms (Peng & Luo, 2000), but also to government officials and community leaders. Peng and Luo (2000) find that the impact of Social Capital on organisational performance is higher for smaller firms and firms in low-growth industries. In addition, research by Shepherd and Wiklund (2005) reveals the importance of Social Capital in providing SME owners with information critical to the success of their venture.

Social Capital and Internationalisation

As has been previously discussed, the current study uses internationalisation as a multi-dimensional construct which consists of variables: International Performance, Market and Time. Consequently, the influence of Social Capital on firms' internationalisation in this research will use these dimensions. The extant literature of Social Capital has shown the impact of Social Capital on firms' international performance (Blomstermo, et al., 2004; Prashantham & Dhanaraj, 2010; Yeoh, 2004), market selection and entry mode decision (Agndal, et al., 2008; Bell, 1995; Chetty & Agndal, 2007; Coviello & Munro, 1997), as well

as the speed of internationalisation or time taken entering the international market (Chetty & Patterson, 2002; Coviello & Munro, 1995; Ellis, 2000).

Social capital's dimensions are diverse, as Chetty and Holm (2000) find in their longitudinal case study of four manufacturing firms in a New Zealand: there are other dimensions to the network, such as customers and government, which drive firms to internationalise. This is supported by Acquaah (2007), who asserts that the senior managers of an organisation can develop Social Capital through a variety of personal, social, and economic relationships with their constituencies that can be used for the benefit of their organisations. These include the managers' personal and social relationships with suppliers, customers, competitors, trade or employee associations, government's political and bureaucratic institutions, and community organisations and institutions. Acquaah(2007)argues that much network-based research on international business focuses on the management of international relationships. What seems to be neglected here is the strategic position and influence of individuals, especially owner-managers in the internationalisation process (Ruzzier, et al., 2006).

Research to date has failed to provide clear guidance on how specific networks and relationships influence internationalisation outcomes. Consequently, knowledge of the role of networks in the internationalisation process of entrepreneur firms is limited (Musteen, Francis, & Datta, 2010). Even less is known about whether certain network attributes are more beneficial than others in the exploration and exploitation of early international opportunities (Agndal, et al., 2008). Our aim is to address this gap. More precisely, with regard to network relationships, the purpose is to study the role of owner-managers' relationships (Social Capital) with suppliers, customers, competitors, trade or

employee associations, government political and bureaucratic institutions, and community organisations and institutions which all affect the internationalisation process. The impact of network relationships (Social Capital) on a firm's internationalisation are summarised below.

Table 2-5 Impacts of Network Relationships (Social Capital) on a Firm's Internationalisation

Impact	Author (s)
1. Trigger and motivate firms' internationalisation intentions	Sharma &Johanson(1987), Coviello and Munro (1995), Korhonen, Luostarinen, and Welch (1996), Andersen (1996), Ellis (2000), Chetty and Patterson (2002)
2. Influence firms' market-selection decision	Bell (1995), Coviello and Munro (1997), Zain and Ng (2006), Agndal, et al.(2008)
3. Influence firms' entry-mode decision	Bell (1995), Coviello and Munro (1997), Zain and Ng (2006), Chetty and Agndal(2007)
4. Gain access to additional relationships and established channels	Welch (1992), Bjorkman and Kock(1995), Coviello andMunro (1995), Chetty and Patterson (2002), Zain and Ng (2006)
5. Influence firms' internationalisation pace and pattern	Lindqvist(1988), Coviello and Munro (1995), Jones (1999)
6. Influence firms' international performance.	Yeoh(2004), Blomstermo et al. (2004)

Source: Originally taken from Zain and Ng (2006), and supplemented to assist with the aims of the current study

In this study, we focus on the Social Capital that is developed by owner-managers through personal and social networking relationships with external entities.

Entrepreneur Social Capital and International Performance

A study by Yeoh (2004) has shown the importance of relationships with customers and suppliers in International Performance. Semi-structured interviews and a mail survey have been done in several new ventures in China. In a similar vein, research into four internationalising new ventures in the

Bangalore software industry by Prashantham and Dhanaraj (2010)concludes that network learning is critical for realising the potential benefits of social capital for international growth for the venture, and entrepreneurs need to cope with the prospect that benefits of their initial social capital likely will run out sooner or later. In the recent study done by Prashantham and Dhanaraj (2010) highlight the dynamic process involved in the evolution of social capital. These arguments lead to the following hypothesis:

> Hypothesis 7: Entrepreneurial Social Capital of the owner-managers has a positive relationship to International Performance.

Entrepreneur Social Capital and the Market

With regards to mode of entry, Chetty and Agndal (2007) state that Social Capital should be developed and managed, because it could be used to enable mode changes, since the information acquired through Social Capital may enable a firm to switch mode of entry more quickly. Further, Johanson and Mattsson (1985) suggest that a firm's success in entering new international markets is more dependent on its relationships within current markets, both domestic and international, than it is on the chosen market and its cultural characteristics. It shows that gaining and maintaining relationships are important aspects in acquiring information which enables firms to change the mode of entry in international markets faster. In addition, Agndal et al. (2008) show the importance of maintaining current relationships with stakeholders. Agndal et al. stress that, as firms internationalise, managers can get distracted from building Social Capital because they become trapped in day-to-day routines, so that it is very important to use existing relationships effectively. Empirical research from a study done on Australian SMEs also reveals that

exports typically are initiated on the basis of the decision maker's existing social network (Ellis & Pecotich, 2001).

However, to build and exploit relationships on an international scale is not easy. In most cases, it takes time and effort to build international networks. Psychic distance (Johanson & Vahlne, 1977), including cultural differences, has repeatedly been shown to make it more difficult to operate internationally than domestically. 'The critical issue is that building the relationship is a costly, time-consuming and uncertain process', so that it takes time to internationalise with high long-term performance (Johanson & Vahlne, 2006, p. 168), but, considering that the benefits associated with Social Capital outweigh the loss, it is a worthy goal to pursue(Prashantham & Dhanaraj, 2010).

Network relationships have triggered knowledge opportunities for business and have motivated firms to enter international markets (Ellis, 2000; Korhonen, et al., 1996). Chetty and Patterson (2002) assert that working together collectively may help firms overcome adversity and lack of motivation.

Zhao and Aram (1995) suggest that networking can be understood in terms of range (the number of different networks that owners are involved with) and intensity (the frequency with which owners access those networks). For that reason, this current research uses the measurement of range as well as intensity. However, it does not emphasise these terms separately, as has been done by Watson (2010); rather it treats them as a single term. Which strategy to choose in terms of building a network means that there are choices between broad and narrow networks. According to Watson (2010), the choices simply depend on the objective of the SME itself. If the objective is to grow rapidly, the SME owner-managers might be best advised to choose and pursue a broad range of

networks, because this is likely to result in more weak ties and therefore more important information, than have a narrow range of networks. With regard to the number of different networks, empirical research has shown that Social Capital can be used efficiently in entering several foreign markets simultaneously through single relationships (Agndal, Chetty & Wilson, 2008). Thus these arguments lead to the following hypothesis:

> Hypothesis 8: Entrepreneurial Social Capital of the owner-managers has a positive relationship to the number of international markets.

Entrepreneur Social Capital and Time

In a conceptual study by Oviatt and McDougall (2005a)on various forces influencing the speed of firms' internationalisation, the authors find that network relationships may moderate the speed of internationalisation. With regard to speed of internationalisation, Granovetter (1973, 1983)provides evidence that weak ties, in many instances, may be more beneficial than strong ties. While strong ties abroad may increase confidence of SME managers in their ability to manage their international ventures, the information accessed via weak ties is likely to be more helpful in the identification of opportunities (Floyd & Wooldridge, 1999). Musteen et al. (2010) prove this in their latest study, that networks characterised by a greater proportion of close personal ties (strong ties) do not result in faster internationalisation. Further, Musteen et al. (2010) find that networks with a large number of personal ties do not lead to favorable performance in the first international venture. In contrast, the international business literature claims that working together collectively can help firms overcome adversity and lack of motivation to internationalise (Chetty & Patterson, 2002; Coviello & Munro, 1995), thus encouraging firms to internationalise early. Further, in the entrepreneurship literature, the presence

of the entrepreneur's proprietary networks is highlighted as a differentiating attribute enabling small new ventures to internationalise rapidly (Ellis, 2000; Madsen & Servais, 1997; Oviatt & McDougall, 2005b). Moreover, in line with the Network Perspective, Lu (2001) proposes that the informational benefits from inter-organisational networks are important for internationalising firms, because such informational benefits might help firms to overcome significant limitations in local knowledge and to develop capabilities suited to new markets in an efficient manner. By networking with other firms, internationalising firms can gain access to new market information from another firm's experience in these markets. Bonaccorsi(1992) describes how small enterprises trade and acquire information from each other in their social network, which leads them to imitate one another and accelerate export entry. Indeed, the rapidly internationalising firm's growth could stem from its ability to build and leverage relationships with the main customer in the network, the partners which buy products or services (Gabrielsson & Kirpalani, 2004). These arguments lead to the following hypothesis:

Hypothesis 9: Entrepreneurial Social Capital of the owner-managers has a positive relationship to the time of starting internationalisation

2.6 Firm Performance and Internationalisation

An important subset of the SME and entrepreneurship literature is that which examines Firm Performance and the various antecedent factors and conditions thought to affect Firm Performance; it is then hoped to provide SME managers and entrepreneurs with some guidance with respect to successful venture performance(Wolff & Pett, 2006).

A review of the extant literature shows that, for the past three decades, international business scholars have sought to understand the internationalisation-performance relationship. A range of theoretical perspectives and frameworks has been advanced in the field, such as FDI theories, the theory of the multinational firm , and an organisational learning perspective (Zhou, Wu, & Luo, 2007a, p. 674). It is common in management strategic study for performance to be used as an independent variable. The empirical results from this research reveal inconsistent results: even though these results are from study of LEs, similar findings of inconclusive results are also found in SME internationalisation-performance studies(Chiao, et al., 2006; Dhanaraj & Beamish, 2003; Lu & Beamish, 2001; Watson, 2007; Zahra, 2005).

Studies of internationalisation-performance (Dhanaraj & Beamish, 2003; Qian & Li, 2003) find a positive (linear)relationship between internationalisation and performance, whereas Lu and Beamish (2001)and Qian (2002), as well as Chiao et al. (2006), assert that the relationship between internationalisation and performance can be depicted as an inverted U. In one study of Lu and Beamish (2001), export intensity was found to have a negative impact on performance, thus contradicting Qian's (2002) findings.

Many studies have assessed the antecedents of Firm Performance, such as networks (Watson, 2007);Watson found in his large longitudinal database study a significant positive relationship between networking (particularly with formal networks, such as external accountants) and both firm survival and growth of the firm, but not return on equity (ROE). In their study of Taiwanese SMEs, Chiao, Yang and Yu (2006) find that the relationship between internationalisation and performance could be graphically depicted as one of

inverted U-shaped curve linearity, which implies that a specific level of internationalisation corresponded to maximum profitability. Researchers have found solid support for the effects of market attractiveness and resource-based capabilities on performance (Chandler & Hanks, 1994).

Firm Performance

Firm performance can be observed from market and financial perspectives. Market success can be measured by variables such as inventory turnover, sales growth and percentage in market share. Measures of financial success include return on investment (ROI), increased value of assets, and increasing value of business (Yamin & Gunasekaran, 1999). Nakos et al. (1998) point out that obtaining reliable performance data has been one of the major problems for empirical studies dealing with small businesses, since these have tended to be privately owned and their owners are reluctant to disclose sensitive financial matters with strangers.

With regard to performance measurement, Capon, Farley and Hoenig (1990) assert that agreement on the appropriate measure performance of small firm does not exist. To complicate matters, performance findings cannot be compared across studies, since research is typically conducted in one country (Aaby & Slater, 1989; Cavusgil & Zou, 1994).

The scales were sourced from the literature, and in some cases were modified for the current research context. The ultimate dependent variable using separate related constructs was used. Below is the summary of how performance of SMEs is measured.

Table2-6 Summary of Measurement of Firm Performance

Firm Performance	Measurement variables	Author (s)
	sales growth profitability growth market share in foreign country overall export performance in host country strategic gains in host country from export venture	Styles et al., (2008)
	Firm competitive improvement	(2008)
	sales growth profitability growth	(Zhou, Wu, & Luo, 2007b)
	Performance related to major competitor in the area of, sales (occupancy), gross operating profit, market share	Zhou et al., 2006
	satisfaction with ROI satisfaction with business growth satisfaction business profit satisfaction business performance	(Wu & Leung, 2005)
	profitability growth market share	(Dhanaraj & Beamish, 2003)
	return on Assets (ROA)	(Lu & Beamish, 2001)
	return on Assets(ROA) market share	(Peng & Luo, 2000)
	sales growth	(Bloodgood, 2006; Bloodgood, et al., 1996)

Sources: various sources, as listed in the table

We use the Bloodgood(2006)and Zhou et al.(2007b)variable, sales growth, to measure the Firm Performance as an outcome for internationalisation (see Table 2-6). The reason for using sales growth is because information regarding Firm Performance, especially financial measurement, is not easy to obtain from Indonesian SMEs.

Table2-7 Summary of Some Empirical Results of the Relationship between Internationalisation and Firm Performance

Internationalisation Measure	Firm Performance Measure	Result	Author (s)
Export sales to total sales (Export Sales Ratio, ESR) ****manufacturing SMEs**	ROS (ratio of net income to total sales)	Internationalisation does positively affect firms' performance, whereas: Its square term has a negative impact on performance, indicating an inverted U-shaped curvilinearity relationship between internationalisation and performance.	(Chiao, Yang, & U., 2004; Chiao et al., 2006)
FDI **Export** ****SMEs**	Return on Asset (ROA) Return on Sales (ROS)	FDI has positive relationship to performance Exporting moderate FDI's relationship with performance Low FDI activity, profitability declines, but greater levels of FDI are associated with higher performance Exporting concurrent with high FDI is less profitable than one that involves lower levels of exports when FDI levels are high.	(Lu & Beamish, 2001)
Foreign revenues/total revenues. ****MNEs**	Return of Asset	The rate of return on assets declines, then increases and finally decreases slightly as the degree of internationalisation increases.	(Riahi-Belkaoui, 1998)
International diversification, Growth (in number of lawyers) and Leverage (change in the lawyers-to-partner ratio). **** Global Lawyer Company**	Partner profitability Revenue growth Profitability change	The correlations between the indicators of international diversification (percent lawyers abroad, offices in no. of countries) and the performance measures not significant Correlation coefficients with both revenue growth and profitability were not significant,	(Brock & Yaffe, 2008)
Age of company	Growth rate	The relationship between age of the company and growth rate is negative	(Singh, Reynolds, & Muhammad, 2001)

Sources: various sources as listed in the Table

Table 2-7 shows that there is inconsistency of results from past empirical studies with regard to the relationship between internationalisation and Firm Performance.

The mixed and inconclusive results of internationalisation-performance study represent a challenging and interesting issue in the literature. SME internationalisation is a complex phenomenon and the measurement of internationalisation itself has been varied (see section 2.4). The researcher believes that different measurements will result in different outcomes. With consideration of Stage Theory, which argues that those companies enter international markets incrementally, companies which have better performance are those that start later after their inception. The following subsection will present the hypotheses with regard to dimensions of internationalisation and Firm Performance.

2.6.1 International Performance and Firm Performance

Most previous studies assess internationalisation performance relationship as a single uni-dimensional construct. In the current research, however, we assess the internationalisation performance relationship by assessing the relationship for each dimension of internationalisation. To date, there are still inconclusive results found in the relationship between International Performance and Firm Performance. To complicate matters, there is also a lack of empirical evidence of the relationship between International Performance and Firm Performance. Thus we believe that there is a great deal of room for further investigation into the effects of International Performance and Firm Performance in SMEs. Based on research in manufacturing SMEs by Chiao et al. (2006), the study finds that

International Performance does not have a positive relationship with performance. In their research, export performance has inverted the curvelinearity relationship between International Performance and Firm Performance, whereas a positive relationship is revealed in the study of Zeng, Xie, Tam and Wan (2010) on Chinese manufacturing firms. In like manner, Park, Yang, Shi and Jiang's (2010) study finds that export growth leads to increases in firm productivity and other Firm Performance measures. Moreover, Park et al. (2010) suggest that the productivity impact of export growth is greater when firms export to more developed countries. Thus these arguments lead to the following hypothesis:

Hypothesis 10: International performance has a positive relationship to Firm Performance.

2.6.2 Market and Firm Performance

In international business literature, the strategy for choosing an international market can be divided into two general methods: first there is systematic, formal market selection, where a company compares markets based on certain criteria; the second is *adhoc*, informal and unplanned international market selection. The study by Brouthers and Nakos (2005) hypothesises that, on average, SMEs that use a systematic methodology in selecting foreign target markets perform better than SMEs using an *adhoc* international market selection methodology. Similar to the previous dimension of internationalisation, the empirical results of the relationship between numbers of markets where the company operates to Firm Performance also vary. Study by Brock and Yaffe (2008) in America indicates there is no significant contribution from international diversification to Firm Performance. The significant effect of expanding the overseas market on the performance offirms in

internationalisation has been extensively confirmed by Mockaitis, Vaiginiene and Giedraitis (2006). Obviously it is not easy for firms to expand their overseas markets because of the difficulty in enforcing contracts across borders, information asymmetry, geographical distance, and the difficulty in ascertaining the capabilities of a foreign distributor in international markets(Svensson, 2004). Thus these arguments lead to the following hypothesis:

Hypothesis 11: The number of international markets where the products are sold has a positive relationship to Firm Performance.

2.6.3 Time and Firm Performance

The time pattern involves a single decision as to when to start international activities. The researcher views time in a much broader context; it is seen as part of the ongoing strategy of internationalisation and also as the strategic decision of the time to enter (and to exit) each particular market. Results with regard to association of the enterprise's age with performance still vary: Singh, Reynolds and Muhammad (2001) found in their study of SMEs in Java, Indonesia, that the age of an enterprise and its growth rate are inversely related. Similarly, empirical evidence from a study of almost 450 post-Soviet companies by Kari (2001) suggests that organisational obsolescence is related to deteriorating performance. In other words, the older the age of the company, the lower its performance. Company age also has been shown to influence export performance; younger firms appear to be better exporters (Ursic & Czinkota, 1984). Contrary to previous research, Brouthers and Nakos (2005) in Greek exporting firms, found positive relationships between the age of SMEs and their performance, whereas Kundu and Katz (2003) found no relationship between the age of the company and performance. We agree with the suggestion by

Brouther and Nakos (2005) that the age of the enterprise and growth are positively related, implying that an older company appears to perform better than its younger counterparts. This is also in line with Stage Theory, that a firm enters international markets incrementally, so that to perform better overseas requires time. Hence the older the company entering the international market, the better the performance. Thus these arguments lead to the following:

Hypothesis 12: The Time to start Internationalisation has a negative relationship to Firm Performance.

2.7 Integration of the Literature Review and Model Development

Based upon the preceding literature review, one concludes that owner-managers influence the internationalisation and performance of manufacturing SMEs. Successful manufacturing international expansion relies upon: (1) the owner-managers' Human Capital in manufacturing firms, and (2) the owner-managers' Social Capital in manufacturing firms. Hence Human Capital resources and networking skills play a key role in SME internationalisation and performance outcomes. Based upon this insight, a model of manufacturing SMEs internationalisation will now be developed.

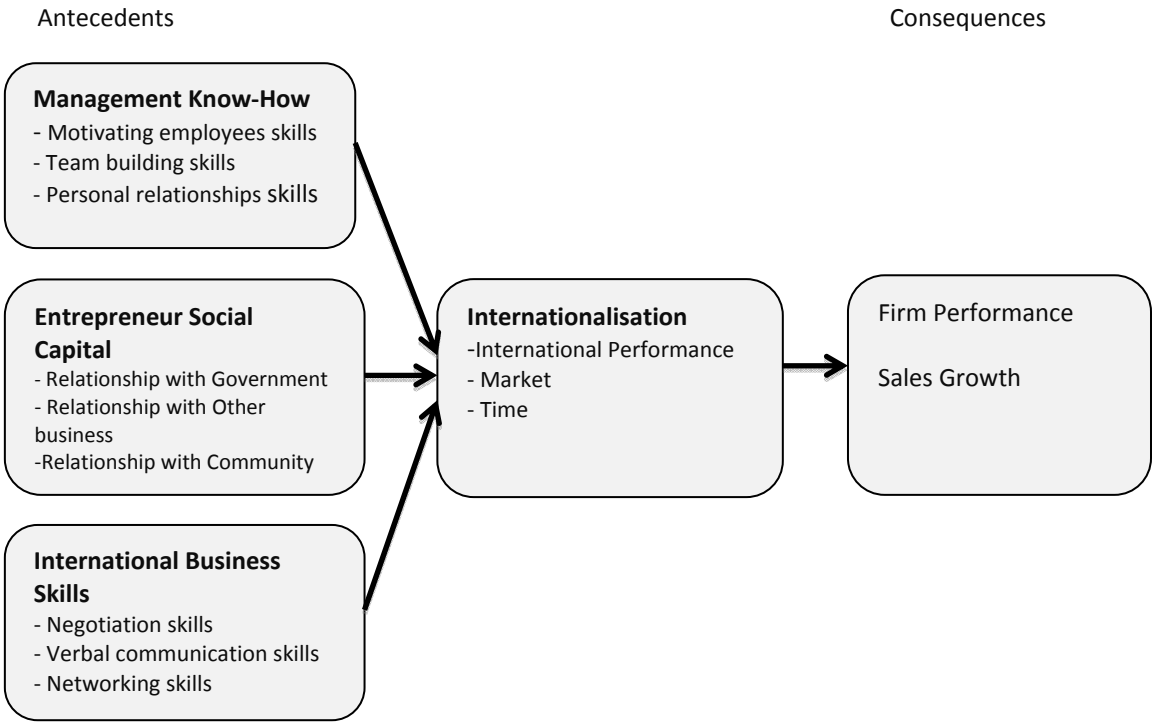


Figure 2-4 SME Internationalisation Conceptual Framework

The conceptual model presented in Figure 2-4 depicts how Management Know-How, International Business Skills and Entrepreneurial Social Capital are antecedents to Internationalisation (International Performance, Market and Time). Support for these relationships comes largely from empirical studies in the internationalisation literature (Reid, 1981a;, Cavusgil & Naor1987;Aaby & Slater, 1989;, Ruzzier et al., 2007;,Miles et al. (1978; Agndal, Chetty& Wilson, 2008), most of which has been developed from theoretical or conceptual studies (Johanson & Vahlne, 1977, 1990; Cavusgil, 1980;Granovetter, 1975; Nahapiet & Ghosal, 1988). The other set of relationships depicted in the model suggests that internationalisation (International Performance, Market and Time) are antecedents of Firm Performance. Support for this relationship comes from the

international business literature (Brock & Yaffe, 2008; Chiao, et al., 2004; Lu & Beamish, 2001; Riahi-Belkaoui, 1998).

Following is research framework of internationalisation of SMEs (Figure 2-5). As has been mentioned earlier, this current study assesses the relationship betweenManagement Know-How, International Business Skills and Entrepreneur Social Capital and the dimension of internationalisation (International Performance, Market and Time). Further it investigates the relationship between each dimension of internationalisation to Firm Performance.

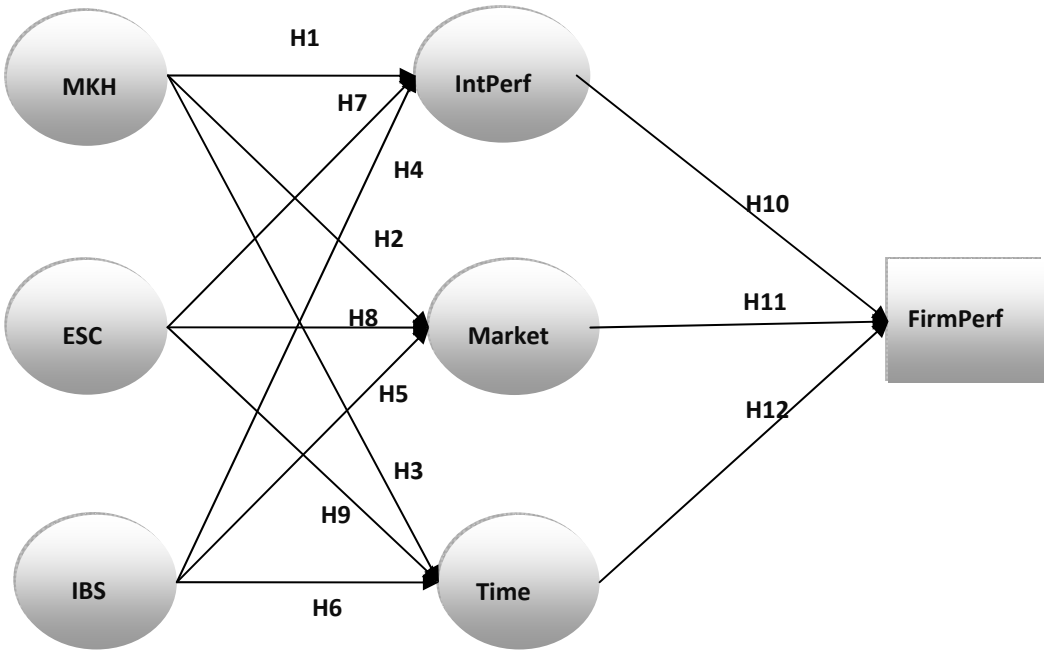


Figure 2-5 Research Framework with Hypotheses

2.8 Chapter Conclusion

Current research on internationalisation of SMEs is very diverse. The apparent contradictions in the literature may exist for several reasons: the measurements used, the method used (quantitative or qualitative) and the fact that many of the relationships are explored separately. Therefore it is important to examine internationalisation empirically and simultaneously in terms of its antecedents, strategy and performance outcomes. The multi-dimensional construct of internationalisation is used in this research. This includes International Performance, Market, and Time. Management Know-How, International Business Skills and Entrepreneur Social Capital are the antecedents and sales growth (Firm Performance) is the outcome variable.

Chapter 3 SME Development in Indonesia

3.1 Chapter Introduction

Discussion of the internationalisation of SMEs in Indonesia cannot be separated from general economic, social, and infrastructure developments in the country. Several major issues related to industrialisation in Indonesia including industry structure in the Indonesian economy and infrastructure development in general are discussed in this section. Recent economic, social and infrastructure developments in general form a background to the study as well as underpinning the policy-based justification for the topic currently being examined. The following section will then explorethe development of SMEs in Indonesia as well as policy support provided by government.

3.2 Overview of the Indonesian Economy (1969- to date)

Indonesia achieved its independence on 17 August, 1945. The 1945 State Constitution (Undang-undangDasar 1945) and the National Philosophy ofPancasila (Five Principles)[1] were inaugurated on 18 August, 1945. These documents have guidedthe country'slong-term development. After 24 years of independence on 1 April, 1969, the *New Order* era formally introduced a national program so called Repelita (*Rencana Pembangunan Lima Tahun*) or Five Year Development Plan. The government also set up the first twenty-five years or five periods of Repelita as the first long-term development plan for the

[1]**Pancasila**(The Five Principles): 1. Belief in one and only God; 2. Just and civilised humanity; 3. The unity of Indonesia; 4. Democracy guided by the wisdom of deliberations among representatives; 5. Social justice for all Indonesian people.

country (1969-94). The main target of this long-term development plan, as stated in the country's development guidelines, or the GBHN (*Garis-GarisBesarHaluan Negara*), is to create conditions and support industries to take off by upgrading manufacturing capability to process raw materials into semi-finished goods. State-owned enterprises (SOEs) played a major role in setting up the directions for the country's early industrial development, not only in building infrastructure, but also in controlling the operation of supporting industries such as financial services and general transportation.

3.2.1 The New Order (1969-1997)

During its early independence period (1945-65) Indonesia experienced a positive account of the economic development. It was indicated by GDP growth that was reasonablygood up to about 1958. Between 1949 and 1957, total GDP rose by an averageannual rate of 5.1 percent whereas per capita GDP increased at an annual averagerate of 3.2 percent(Marks, 2010).

In the early stages of the country's development (1969), Indonesia relied mostly on agricultural products and natural resources as its main sources of income. Coffee, tea, cocoa, tobacco, and pepper were amongst the commodities that Indonesia traded in export markets. In addition, high oil and gas prices in the world market from about 1973 to 1984 brought enormous benefits to the country's economic development (Wardhana, 1998). During this period, almost 60 percent of the annual income of the country came from natural resources exports (oil and gas), whilst the reminder was spread amongst manufacturing and service sectors (Hill, 1997).

Table 3-1 summarises Indonesia's economic and social indicators over the past thirty years to show the major changes that have occurred in the country.

Table 3-1Indonesia's Economic and Social Indicators, 1970-2009

	1970	1990	1997	1998	1999	2006	2007	2008	2009
Economic									
GDP Percapita (US $)	131	645	1,095	478	691	1,643	1,923	2,245	2,349
GDP growth (annual %)	-	4.3	4.7	-13.1	0.8	5.5	6.3	6.0	4.5
Agriculture, value added (% of GDP)	32.2	19	16	18	20	13	14	15	16
Industry, value added (% of GDP)	29.5	39	44	45	43	48	48	49	49
Services, value added (% of GDP)	38.3	41	40	37	37	38	38	37	35
Social									
Population(million)	119.2	179.25	199.45	201.56	203.7	222.75	225.64	228.52	231.37
Poverty (% of population)	46.1	15.17	-	24.55	23.54	17.64	16.47	15.29	14.05
Employment (% of population)	-	-	42.8	43.4	43.6	42.7	43.2	44.9	45.3

Sources: Statistic Indonesia [BPS], The World Bank, *World Development Indicators* various years

In the first half of the 1990s, Indonesia was acknowledged by the World Bank as a country achieving remarkable economic growth alongside other countries in the South East Asia region(World Bank, 1993). The annual Gross Domestic Product (GDP) of the country between 1990-97 grew at a rate of 7.5 percent, well above the average growth of other developing countries (World Bank, 1999). The country was able to increase its annual income per capita from just around US$600 in the 1970s to around US$1,100 in the mid-1990s.

Relying on sound macroeconomic policies, Indonesia's rapid economic growth up to the mid-1990s was triggered by the commitment of the government to domestic stability. The regime invited capital investment which led to value-added creation, by transforming the economy from natural resource dependence to industrial competitiveness (Wardhana, 1998). As a result, the country's income generation has shifted from the domination of oil, gas, and agriculture-related products to semi-finished and finished manufactured

products in other industries, such as heavy processing, chemicals, and metal goods. In 1990, manufacturing was the largest contributor toannual GDP,followed by agriculture(UNESCAP, 2007).

However, the level of prosperity in Indonesia has changed significantly since the economic, financial and political crises began in mid-1997. The Indonesian Central Bureau of Statistics reported in 1997 that the country's economic growth rate had dropped to 4.7percent.It plunged further, to -13.1percent, in 1998. The country is returning to poverty again, as the annual income per capita has dropped back to around US$600, which is about the same as its income per capita in the 1970s (World Bank, 2000). The financial crisis was asequence of events that began with the collapse of the Thai baht in July 1997, which ultimately cost the region tens of billions of dollars and led many observers to speculate about an impending 'lost decade' in Asia (Barton, 2008).The Philippine peso, the Malaysian ringgit, the Indonesian rupiah and the Singaporean dollar were all affected. By theend of January 1998, all these countries had devalued their currencies by more than 30 percent(Hu, 1999).

The second long-term development plan (1994-2019) began on 1 April, 1994, when new targets of achievement were established. A series of policies related to taxation, trade, foreign investment, and other macroeconomic management policies were put in place to maintain the country's economic development. The government continued to play a major role in setting the directions for industrial development at this stage, although the issue of privatisation began to arise, partly because a strong demand for commercial opportunities in areas of telecommunication, construction, real estate, banking and other financial services.

Indonesia's development policy can be broadly divided into three phases preceding the 1997 crisis, namely 1966-1974, 1975-1984, and 1985-1997 (Banerjee, 2002, cited in Kim, 2005). The first period was characterised by an open door economic strategy aimed at attracting foreign capital in order to revamp the debt-ridden and chaotic economy that the Soeharto government inherited from the previous government. This open door strategy was successful in attracting foreign investment and loans to finance imports and the rehabilitation of infrastructure. Foreign investment was, however, dominated by a number of large natural resources projects and remained low throughout the entire period, never exceeding 2 percent of GDP (Banerjee, 2002, cited in Kim, 2005). The second phase was the oil boom period.During this period an import substitution policy was pursued with the revenues from the high oil prices. The government policy was to build a national heavy industrial capacity based on particular sectors such as steel, natural gas, oil refinery, and aluminium. Those industries were protected and provided with concessionary finance through state banks. Non-tariff barriers and the channelling of oil revenues into the state-owned enterprises boosted domestic demand, with the result that during the 1970s, the annual growth rate of GDP approached 8 percent (Hill, 1996). The third phase was marked by a dramatic change in trade policy. It started by the decline in oil prices in 1982 and 1986 and the fall in the value of thedollar, following the Plaza Accord in 1985 (Kim, 2005).

3.2.2 The Reformation (1998- to date)

The end of President Soeharto's era came about in the midst of the Asian financial and economic crisis of 1997-98. The crisis led to a sharp contraction of Indonesia's GDP of almost 14 percent in 1998(Bhasin & Venkataramany, 2010). The Indonesian government was unable to respond speedily and effectively to

thecrisis. As a result, the economic crisis worsened and spiralled into a serious political crisis,which led to the fall of President Soeharto who had ruled the country for 32 years(Thee, 2006).

The National Medium Term Plan sets out three main agenda for the period2005-2009. The first agendais for the creation of a safe and peaceful Indonesia. The second is for the establishment of a just and democratic society. The third is for improving the welfare of all citizens(UNESCAP, 2007).

After a decade of reforms, Indonesia has emerged as a strong middle-income country. Despite the global financial crisis, Indonesia is one of the few countries to continue posting significant growth and the national economy is expected to grow by 5.9 percent in 2010 and by 6.2 percent in 2011. Indonesia has weathered the global financial crisis relatively smoothly because of its heavy reliance on domestic consumption as the driver of economic growth. Although the economy slowed significantly in 2009 from the 6 percent-plus growth rate recorded in 2007 and 2008, by 2010 growth returned to a 6percent rate again. For the period 1990-2009, the poverty rate declined from 15.17 percent to 14.0 percent. This is not a significant number, considering that it represents only 1.1 percent decrease in three decades.

Despite this economic progress, Indonesia could be doing far better in poverty reduction, service delivery, governance and the environment. More than 32 million people currently live below the poverty line and approximately half of all households remain clustered around the national poverty line. Employment growth has been slower than population growth. Public services remain inadequate by middle-income country standards. Indonesia is also under-performing in a number of health and infrastructure related indicators, and as a

result, may not reach several of its Millennium Development Goals (MDGs) within the current time-frame(World Bank, 2010a).

3.3 Employment Issues

In Indonesia, the industry sector employs around 19 percent of the labour force. Serviceindustries and agriculture account for around 39 percent and 42 percent, respectively. Unemployment in Indonesia rose sharply with the onset of the East Asian financial crisis in 1997 and remains a serious problem, despite the recent macroeconomic stability and decent economic growth. Overall unemployment was recorded at 9.7 million people or 8.4 percent of the workforce at the end of 2008, compared with 4.7 percent at the start of the 1997-98 financial crisis. Recent job losses have been concentrated in traditional labour-intensive industries, including timber, wood-processing, textiles and garments. These sectors are seemingly in an irreversible decline, and reforms to encourage alternative employment are urgently required, as 35 million workers are classified as underemployed and work fewer than 35 hours per week. Working overseas provides a partial solution to unemployment. In recent years, Indonesian workers have moved overseas to work in the Middle East, Taiwan, Hong Kong and Malaysia (Data Monitor: In-depth Pestle insights, 2009).

Additionally, Indonesia's unemployment rate is high when compared to other Association of South East Asian Nations (ASEAN) member countries, increasing from 9.9 percent in 2004 to 10.6 percent in 2007. During 2007, the unemployment rate of Indonesia was 10.6 percent compared to 3 percent in Malaysia, 4 percent in Myanmar, 1.7 percent in Thailand and 2.4 percent in Vietnam. Therefore Indonesia needs to improve the functioning of the

labourmarket and implement policies to decrease the unemployment rate(Data Monitor: In-depth Pestle insights, 2009).

3.4 Exports and Imports

Indonesia's trade policy has become more liberal as a result of the Association of South-East Asian Nations (ASEAN) Free Trade Agreement, known as AFTA, which took effect on 1 January, 2002. Under Indonesia's obligations to AFTA, tariffs of 0–5 percent now apply to all intra-ASEAN trade. Furthermore, ASEAN leaders agreed in January 2007 to establish a free-trade zone by 2015, ten years ahead of schedule. In December 2006, ASEAN trade ministers also signed three agreements aimed at eliminating duties on 3,523 tariff lines from 1 January, 2007, simplifying customs procedures, and eliminating all non-tariff barriers in three phases from 2008–10. Prospects for a full economic union still remain uncertain, as the member states have shied away from a regional free market, instead allowing flexibility for exporters and manufacturers in sensitive industries(Data Monitor: In-depth Pestle insights, 2009).

Indonesia's exports increased by 12 percent over the course of 2008 to reach $1274 billion.These exports were dominated by industrial products, chiefly petroleum products, rubber and electrical appliances. Indonesia's main export markets were at this time Japan, the USA, Singapore and China. The country's total imports amounted to $1101 billion, and primarily consisted of raw materials and intermediaries, capital goods, and consumer goods. Indonesia's main source markets were Singapore, China, Japan and South Korea (Data Monitor: In-depth Pestle insights, 2009). Below is a table of major export countries and the value of exports 2005-2009.

Table 3-2Value of Exports by Major Country of Destination (FOB value: million US$), 2005-2009

Country of Destination	2005	2006	2007	2008	2009
ASIA					
ASEAN	15,824	18,483	22,292	27,171	24,624
Thailand	2, 246	2,701	3,054	3, 661	3,234
Singapore	7,836	8,929	10,502	12,862	10,263
Philippines	1,419	1,405	1,854	2,054	2,406
Malaysia	3,431	4,110	5,096	6,433	6,812
Myanmar	78	138	262	251	175
Cambodia	93	104	122	174	201
Brunei Darussalam	39	38	43	60	75
Lao People's .Rep.	2	4	4	4	5
Viet Nam	678	1,052	1,355	1,673	1,454
Rest of Asia		50,774	56,801	68,734	57,211
Japan	18,049	21,732	23,633	27,744	18,575
Hongkong	1,492	1,703	1,688	1,809	2,112
Korea, Rep, of	7,085	7,693	7,583	9,117	8,145
Taiwan	2,475	2,734	2,597	3,155	3,382
China	6,662	8,343	9,676	11,637	11,499
Other		8,567	11,626	15,273	13,498
AFRICA		1,986	2,511	3,281	2,754
AUSTRALIA & OCEANIA					
Australia	2,227	2,771	3,395	4,111	3,264
New Zealand		320	362	542	350
Rest of Oceania		97	75	167	243
AMERICA					
NAFTA	10,609	12,101	12,526	14,108	11,747
The USA	9,868	11,232	11,614	13,037	10,850
Canada	464	551	551	646	513
Mexico	277	318	361	426	384
Rest of America		1405	1,623	1,972	1,717
EROPA/EUROPE					
European Union	10,243	12,030	13,345	15,455	13,568
United Kingdom	1,292	1,432	1,454	1,547	1,459
Netherlands	2,234	2,518	2,750	3,926	2,909
France	624	724	803	938	870
Germany	1,782	2,026	2,316	2,465	2,327
Belgium	997	1,136	1,332	1,351	1,048
Denmark	127	143	141	171	169
Sweden	108	135	110	134	144
Finland	183	177	121	108	61
Italy	1,007	1,213	1,380	1,901	1,651
Spain	1,205	1,641	1,906	1,665	1,831
Greece	105	126	234	214	166
Poland	115	144	191	274	260
Other UE	463	615	607	759	673
Rest of Europe	10,552	832	1,174	1,479	1033
Total	85,660	100,799	114,101	137,020	116,510

Source: Statistical Yearbook of Indonesia, BPS 2009 & 2010

3.5 Infrastructure Development

The development of physical infrastructure in Indonesia over the past three decades has followed the dynamic of general economic environment of the country. The availability and quality of infrastructure (e.g., roads, railways, electricity, internet, and water) is recognised as a key determinant for increased investment and trade (Oktaviani & Irawan, 2009). The following subsection will elaborate the infrastructure development in Indonesia in the area of transportation, telecommunications, electricity and water.

3.5.1 Transportation

3.5.1.1 Roads and Railways

The access to road transport is deteriorating due to the insufficient facilities in thebusiness districts and the lack of availability of road networks in the rural areas. At thenational level, the growth of road network has not kept pace with the growth of thenumber of motor vehicles, creating severe traffic problems. Similarly, the condition of the railway sector has also deteriorated inrecent years, with available access only in Java and limited areas in Sumatra.

3.5.1.2 Airports, Sea Ports, and Inland Waterways

Based on research by Aswicahyono and Friawan(2006), airport management in Indonesia has also remained below the required international standard of air transportation operation. In Indonesia, as required by the Indonesian Shipping Law (legislation No.21/1992), the Indonesian Port Corporations (IPCs) have been granted authority to manage the operation of commercial ports. Consequently, this environment creates a disincentive in advancing their

performance. In addition, monopoly power has aggravated the slow improvement(Oktaviani & Irawan, 2009).

3.5.2 Telecommunications

Fixed and mobile telecommunication business in Indonesia is dominated by a few large operators (PT. Telkom, PT. Satelindo and PT. Telkomsel). The high growth in wireless and fixed-wireless services has significantly increased the access to telecommunications in Indonesia. This is partly caused by the decrease in mobile telecommunication tariffs, the lower price of handsets, seemingly unceasing advances in cellular technology and major investments. The rapid expansion of Indonesia's telecommunications sector has resulted in a significant increase in the industry's revenues,albeit still lagging behind its regional neighbours. Furthermore, although telecommunication infrastructure coverage has increased, access has not been distributed equally across country (Aswicahyono & Friawan, 2006).

In the same vein, although competition among internet service providers in terms of price, quality of service and network coverage, and growth in the WiFi have increased recently, access to internet services has also still lagged behind, with dial-up being the dominant means of access and access to broadband (cable, DSL) still very small. As the cost/minute of 3G technology becomes lower and improvement in its additional broadband capabilities increases, it is estimated that the 3G services will play an important role in improving the development of the telecommunications sector in Indonesia(Aswicahyono & Friawan, 2006).

The Table below shows the comparison of Indonesian fixed broadband internet subscriber and internet users to ASEAN countries between 2005 and 2008.

Table3-3 Internet Users (per 100 people) in ASEAN Countries 2005-2008

Country	2005	2006	2007	2008
Brunei Darussalam	36.5	42.2	48.8	55.3
Cambodia	0.3	0.5	0.5	0.5
Indonesia	3.6	4.8	5.8	7.9
Laos	0.9	1.2	1.6	8.5
Malaysia	48.6	51.6	55.7	55.8
Myanmar	0.1	0.2	0.2	0.2
Philippines	5.4	5.7	6.0	6.2
Singapore	61.9	59.3	67.7	69.6
Thailand	15.0	17.2	20.0	23.9
Vietnam	12.9	17.5	21.0	24.2

Source: World Bank, 2010

Table 3-3 shows that there is an increasing trend of fixed broadband subscribers and internet users in Indonesia from 2005-2008. However, the numbers are still far behind neighbouring countries such as Singapore, Malaysia and Brunei Darussalam.

3.5.3 Electricity

The power sector in Indonesia is a monopoly market, with Perusahaan Listrik Negara (PLN—National Electricity Company) as the sole supplier of electricity to the public and business. Although some private electricity operators exist, they are only allowed to sell their electricity services to the public through PLN. The increasing demand for electricity has been responded to at a slow pace, resulting in low reserves with some power shortages across the country. This condition has created concernsabout the reliability of the power supply in the short term as load-shedding and blackouts frequently occur, particularly in the islands outside the Java-Bali system. This causes losses in many industries due to blackouts. Meanwhile, electricity access in Indonesia is still low, with wide disparities across provinces and those outside Java-Bali lagging behind (Aswicahyono & Friawan, 2006).

3.5.4 Water

In Indonesia, water utilities are managed by local governments through their public companies called Perusahaan Daerah Air Minum (PDAM). There are 307 PDAMs throughout the country. Many of these companies are still under financial loans from the central government because of the lack of investment for developing and advancing their businesses. Water services in every urban area in Indonesia are in crisis at the moment. Currently, there are about 85 million people living in the service areas of the water utilities, 35 percent of which are served. This means that government is facing a larger challenge to create better and more adequate water services in the coming years(Aswicahyono & Friawan, 2006).

To sum up, the development of Indonesian infrastructure has appeared not as expected; as has been mentioned earlier, the roads and railways are still in poor condition, and the airports and seaports remain below the required international standard. However, high growth in wireless and fixed-wireless services has significantly increased access to telecommunications in Indonesia. Competition among internet service providers in terms of price, quality of service and network coverage, and growth in Wi-Fi have increased recently. This is shown in the number of broadband internet subscribers in 2008 (18,000), which is double the number in 2006 (9,000)(World Bank, 2010b). Yet the figure is far behind the closest neighbours, Singapore, Malaysia and Brunei Darussalam. The increasing demand for electricity, especially in rural areas has been responded to slowly. Finally, infrastructure for water is in many urban areas still at a crisis point.

Conditionsare worsened due to unsatisfactory coordination between central and local governments in providing public goods and services. Often institutions or organisations disagree on who is responsible for a particular project;this will significantly slow down economic activities. In such a case, local government would gain from being more proactive(Oktaviani & Irawan, 2009).

3.6 Government Support for Economic Development

In regard to supporting a positive investment climate, the Indonesian government also continues to make efforts such as simplifying business licensing (very simple and standardised investment procedure through the Investment Coordination Agency at central to local level and improving a national single windows system for export and import purposes); developing domestic logistics systems, including development of a special economic zone (under law 39/2009, each economic activity is entitled to extensive tax and custom exemptions, as well as non-fiscal incentives) and enhanced legal certainty in supporting business activities; and tax holiday/allowance (government regulation 6/2008).

3.7 Export Promotion Centres

3.7.1 Indonesia Trade Promotion Centre (ITPC)

In addition to support, incentives and guarantees from government,the Indonesian government has also provided ITPC. ITPC is a non-profit government organisation under the supervision of the Directorate General for National Export Development (DGNED). Both institutions are parts of a global trade network abroad supervised by the Indonesian Ministry of Trade, with a

common goal of enhancing the export of Indonesian products throughout the world(DGNED, 2010). ITPC is located in major cities in 18 countries: Sydney (Australia), Sao Paulo (Brazil), Vancouver (Canada), Santiago(Chile), Lyons (France), Hamburg (Germany), Budapest (Hungary), Chennai (India), Milan (Italy), Osaka (Japan), Busan (South Korea), Mexico city (Mexico), Lagos (Nigeria), Jeddah (Saudi Arabia), Johannesburg (South Africa), Barcelona (Spain), Dubai (UAE), Los Angeles (USA), and Chicago (USA).

3.7.2 Regional Export Promotion and Training Centres (RETPC)

The establishment of RETPC is to the facilitate business community, especially Small and Medium Enterprises, to increase SME competence in international markets, by participating in training and export trade promotion. RETPC is located in Surabaya (East Java), Medan (North Sumatra), Banjarmasin (South Kalimantan), and Makassar (South Sulawesi)(DGNED, 2010).

3.8 SMEs in Indonesia

The role of SMEs in Indonesia's economy is very significant. According to the Indonesian Central Bureau of Statistics (BPS, 2009), there are 52.8 million SMEs in Indonesia and they account for 99.9percent of total business. SMEs in Indonesia employ 96.2 million people, which is equal to 97.3 percent of the total Indonesian workforce. Moreover, the contribution of SMEs to gross domestic product (GDP), excluding oil and gas, is 56.5percent(Kemenkop dan UKM, 2009). Three sectors that employ most of the workforce are the manufacturing sectors, which account for 22.43 percent of the number of establishments in all industries in 2007.In terms of priorities in infrastructure programs, SMEs are one of five main policy areas where the government focuses on issues related to empowering SMEs and cooperatives, including:

- general issues (investment services, synchronising national and local government regulations, and the requirement for conducting a proper environmental impact analysis);
- customs;
- tax reforms; investment tax incentives, consistent implementation of a self-assessment system, realigning value added tax to promote exports, and protecting the rights of tax payers as well as promoting transparency and disclosure.; and
- labour issues; creating a more conducive environment to support job creation, protecting and assisting proper job placement for overseas Indonesian labour, facilitating labour disputes, simplifying the process of permit issuance on labour/employment related matters, creating a flexible and productive labour market and developing new approach for transmigration to generate employment (UNESCAP, 2007).

With the strong forces of globalisation, it is therefore essential to build the capacities of SMEs in the region in order to ensure that they are highly competitive, innovative and are able to utilise the regional economic initiatives and incentives provided by the government(ASEAN Economic Community, 2009). ASEAN Economic Community (AEC) (2009) intends that by 2015 ASEAN SMEs will be world-class enterprises, capable of integration into regional and global supply chains, able to take advantage of the benefits of ASEAN economic community building, and operate in a policy environment that is conducive to SME development, exports and innovation.SMEs are the backbone of ASEAN and SME development is integral to achieve long-run and sustainable economic growth. To realise its vision and objective, ASEAN needs to achieve the following goals: enhancing internationalisation of SMEs and SME marketing capabilities, improving SME access to finance, strengthening SME human resource development and capacity building, incubator and local SME development, establishing an SME service centre/ASEAN SME service desk, and setting up an ASEAN SME regional development fund.

In the Asia-Pacific region, Indonesia is the biggest economy with respect to total number of SMEs. From the report of APEC and some official estimated data it is clear that about 50 percent of total non-farm SMEs in the region are in Indonesia and China (Tambunan, 2006). However, as compared to many other APEC countries, Indonesian SMEs are not yet proved to have contributed significantly to value adding to the country's economy (Tambunan, 2006).

Indonesia as a member of ASEAN has tried to incorporate policy supporting SME development in Indonesia into these goals aiming for ASEAN SMEs to become world-class enterprises in 2015.In this case The Ministry of Cooperative and Small Medium Enterprises (MCSME) and the Ministry of Trade (MoT) have taken a lead in SME development policies.

3.8.1 SME Definition

Definitions of SMEs vary amongst different Indonesian government agencies: for example, according to the Ministry of Industry, a Small Enterprise is a business establishment with assets (excluding land and building) of less than 200 million rupiah; Medium Enterprises are from 200 million up to 5 billion rupiah; and firms of more than 5 billion rupiah are considered as LEs. A different definition is given by the Central Bureau of Statistics (Biro PusatStatistik [BPS]), which classifies enterprises systematically according to the number of fulltime employees. From 0 to 4 workers is classified as Cottage or Household Enterprises (CHEs), 5 to 19 workers as Small Enterprises, and more than 19 as Medium Large Enterprises (MLEs)(Tambunan, 2006).

A different definition has also been released by government with the legislation number 2/2008 Chapter IV Article 6 about criteria for SMEs in Indonesia:

(1) Criteria for Small Business are as follows:

has a net worth of more than Rp 50,000,000 (fifty million rupiahs) up to at most Rp500,000,000 (five hundred million rupiah), excluding land and building; or b. has annual sales of more than Rp300,000,000(three hundred million rupiahs) up to at mostRp2,500,000,000 (two billion five hundred million rupiah).

(2) Criteria for Medium Enterprises are as follows:

has a net worth of more than Rp 500,000,000 (five hundred million rupiahs) up to maximum of 10,000,000,000 (ten billion rupiah), excluding land and building; or b. has annual sales of more than Rp2,500,000,000(two billion five hundred million rupiahs) up to a maximum of 50,000,000,000 (fifty billion rupiah).

This definition is used by The Ministry for Cooperative, Small and Medium Enterprises (2007). We use the definition for this research.

With regard to SME definition,Storey (1994)claims that one of the advantages of the distinction between microenterprises and small enterprises is that there is a notable shift in the formality regarding the organisation and customers and around 10 to 20 employees which makes microenterprises different from small enterprises.This study uses the definition of the MCSME in outlining the provisions relating to SMEs, which mainly relate to a quantitative definition. The rationale is that the Ministry database will be used to select the samples and collect data through a questionnaire survey.

3.8.2 SME Sector Distribution in Indonesia

As mentioned in section 3.8,according to theIndonesian Central Bureau of Statistics (BPS) distribution by sector shows that SMEs are concentrated in agriculture,the second tier are in trade, hotels and restaurants and the third

largest sector is manufacturing. The last are involved in simple traditional manufacturing activities such as wood products, including furniture, textiles garments, footwear and food and beverages. Not many SMEs engage in production of machinery, production tools and automotive components. This structure of industry reflects the current technological capability of Indonesian SMEs, as they are not as strong as their counterparts in other countries such as South Korea, Japan and Taiwan in producing sophisticated technology embodied products (Tambunan, 2006).

According to official data from the MCSME, small enterprises in 1997 accounted for more than 39.7 millionunits, or about 99.8 percent of the total number of enterprises in the country that year,and increased to more than 48.8 million units in 2006 (Table 3-5). The Table indicates thatevery year new entrepreneurs have emerged, but it does not show whether thetransformation process has changed microenterprises into small enterprises or medium to largeenterprises. This transformation process of firms by size may show a better pictureabout long-term entrepreneurship development(Tambunan, 2007b).

Table3-4 Total Unit of Enterprises by Size Category, 1997-2006 (thousands)

Size	1997	1998	1999	2000	2001	2003	2004	2005	2006
SEs	39704.7	36761.7	37804.5	39705.2	39883.1	43372.9	44684.4	47006.9	48822.9
MEs	60.5	51.9	51.8	78.8	80.97	87.4	93.04	95.9	106.7
LEs	2.1	1.8	1.8	5.7	5.9	6.5	6.7	6.8	7.2
Total	39767.3	36815.4	37858.1	39789.7	39969.9	43466.8	44784.1	47109.6	48936.8

Source: Menegkop& UKM (various issues) in Tambunan, 2007

3.8.3 SME Development Programs in Indonesia

The Indonesian government has introduced many programsto support SME development:

- subsidised credit;
- human resource development training such as in production technique, general management, management quality systems like ISO-9000 and entrepreneurship provision of total quality control and technical assistance, internet facilities, advisory extension workers, and subsidised inputs;
- marketing and promotion facilitation;
- establishment of cooperatives of small-scale industries (KOPINKRA) in clusters;
- establishment of special scale industrial estates (LIK);
- partnership programs;
- small business consultancy clinics (KKB);
- establishment of the Export Support Board of Indonesia (DPE);
- establishment of common service facilities (UPT) in clusters; and
- implementation of an incubator system for promoting the development of new entrepreneurs.

SMEs in Indonesia have historically become a concern for government since the new order era (1965-1997), as is reflected in key government documents, such as the *Five-Year Development Plan* (Repelita), the Board Outlines of Government Policy (GBHN) and many more (Hill, 2001). Successive Indonesian governments have never enunciated a coherent, clearly defined, and prioritised SME policy and strategy. There are a plethora of programs designed to assist SMEs, but these programs have achieved limited success (Hill, 2001 p. 250). Examples are the financial support program known as the KMKP (credit for working capital), which was introduced in 1973 and continued in 1980s, and the BapakAngkat (foster-father) program that linked LEs and SMEs through subcontracting programs, which did not achieve significant results (Hayashi, 2005). Thee (1994) recognised that these unsuccessful outcomes arose from inadequate institutional capability in the government sectors as well as from inadequate design of policies and programs.

Similarly, Van Diermen's (2004) study on government assistance finds that government assistance outcomes have not been satisfactory. Van Diermen concluded thatthe reason of this failure are(1) few of micro-policies (programs) implemented by the government have had a lasting impact on improving rural SMEs; (2) a significant number of macro and micro policies placed additional costs and burdens on rural SMEs' compliance and led to most operating outside of the formal economy; and (3) macropolicies that created favourable economic environment, as reflected by consistently high growth rates in GDP, and not biased in favour of LEs. This result is also in line with Sato's (2000) study of the cluster of wood furniture manufacturing in Jepara, Central Java, which concludes thatthe successful development of these clusters has been achieved without significant government support.

The development of small and medium-sized enterprises in Indonesia has become central to debate over the country's long-term economic development. Hill (1997) argues that many of the program objectives directed to SMEs in Indonesia over the years are welfare-driven rather than efficiency-oriented. The promotion of SMEs through financial assistance and compulsory programs through allocation of certain amounts of profit from state owned enterprises to small business are two examples of such programs.

Hayashi's (2002) study on development of Indonesia's SMEs found that Indonesian SMEs acting assubcontractors to the large assembling firms, indicated that *market-oriented*,*demand*and *private sector-driven* SME promotion programs have been more effective indeveloping viable SMEs, including raising their technological capabilities, than the 'subsidise and protect' SME programs motivated by 'welfare' or 'equity' considerations. The findings ofother surveys have also indicated that SMEs in general rated government assistance as

low,meaning that these programs were viewed as ineffective in raising their technological,managerial, marketing, and financial capabilities(Thee, 2006).

However, a field study conducted by SMERU (2004) on 172 respondents in six kabupaten/kota (local districts) to assess the effectiveness of assistance programs has a different result. The study concludes that a large number of microenterprises (58.6percent) and small enterprises (63percent) stated that by obtaining assistance their business had improved in terms of revenue. In the same vein, Tambunan(2008) in his study on the effect of SME development policy in Indonesia found that government expenditure in promoting SMEs in Indonesia had positive results, both directly and indirectly.

Even though study on effectiveness of SME development programs varied between negative and positive results, in 2011 the MCSME set up new programs in relation to SME development:

- improve the competencies and competitive advantages of owner-managers;
- support the SMEs with information technology so they can easily gain information with existing information technology services;
- improve the distribution of financing micro small business credit guaranteed by government through Kredit Usaha Rakyat (People Business Credit) with targets set for distributing 20 trillion rupiah every year;
- increase human resources, to have 1000 new entrepreneur degree holders every year so that the number of SME entrepreneurs increases, in order to pursue the ideal portion of 2percent of the population; and
- establish a hundred pilot regions of One Village One Product (OVOP) which is developed in each district and the city (Sidik, 2011).

The programs above show the strong will of the government in supporting SME development, as well as enhancing entrepreneur capability of SMEs in Indonesia.

3.8.4 SME Performance in Indonesia

Although SMEs are an increasing labour force, the high unemployment rate continues to be a challenge. Indonesia has a labour force of more than 107 million, and the country is now allocating 17.2percent of total public expenditure on education, on par with the OECD levels. Although the unemployment rate decreased from 10.6percent in 2007 to 8.4percent in 2008, it is considerably higher than in other ASEAN member countries. For example, in 2008, the unemployment rate of Indonesia was 8.4percent, compared to 3.3percentin Malaysia, 1.4percentin Thailand and 4.7percentin Vietnam. Indonesia needs to improve the functioning of the labour market and implement policies so as to decrease the unemployment rate(Data Monitor: In-depth Pestle insights, 2009).

A deep global recession in 2009 was expected to lead to a slowdown of the Indonesian economy. This was not only due to a fall in exports but also due to a slowdown in investments. The global recession led to a slump in Indonesia exports, which were expected to fall by 20percent in 2009. Although the country's GDP growth rate increased from 5.7percent in 2006 to reach 6.3percent in 2007, it fell in 2008 to reach 6.1percent. The global economic affected the Indonesian economy and its growth rate plunged to 2.5percent in 2009. A slump in exports was expected to lead to an economic slowdown of the Indonesian economy(Data Monitor: In-depth Pestle insights, 2009).

3.8.5 Internationalisation of SMEs in Indonesia

The key to SME growth is the domestic and foreign demand. However, upto the present time SME access in terms of penetrating a wider domestic market and foreigndemand remain very weak (APEC, 2008).

Indonesia experienced a decline in its GDP of 13percent in 1998, and a large devaluation of its currency, which soared from 2,500 rupiah to the US dollar to above 10,000 rupiah in the years after the crisis (Wengel & Rodriguez, 2006). LEs and SMEs responded differently to the Asian crisis. LEs contracted and reduced their exports; SMEs grew and expanded their exports, although many of them have been hit hard too (Berry, Rodriguez, & Sandee, 2002). In times of crisis, Indonesian SMEs have shown their ability to survive.

The crisis brought a rather unexpected windfall for SMEs. With a depressed local market and a higher local price for their products, SMEs had to find new markets and many switched to international markets (Wengel & Rodriguez, 2006). This happened to Indonesian SMEs during the crisis; they exported their products to other countries in order to gain more profit. From a study on manufacturing SMEs, Machmud and Siregar(2010)find that, on average, more than 90percent of SMEs' products are sold to the domestic market.This supports the strong domestic orientation of Indonesian manufacturing SMEs. However,in addition to the domesticmarket, there are SMEs that exported their products abroad with, on average, each firm exporting around 49percent of their production. They are from the clothing garment industry, and their main export destinations include ASEAN, Europe, the USA,Australia, and Korea(Machmud & Siregar, 2010).

Another important feature of export-oriented SMEs in Indonesia is that themajority of those that export do so indirectly through intermediaries such as traders,exporting companies or trading houses. Traders or trading companies usually collectproducts from or give orders to many producers, regularly or irregularly. For example,the share of small exporters who did direct export was only 0.19 percent, while that ofthose who did indirect exports was 99.81 percent.

In terms of export value, the respectiveshares were similar(Machmud & Siregar, 2010). In other words, most SMEs in Indonesia are not directly involved in global markets; only a small percentage exports directly while others export through intermediaries, so that their contribution has not been at the maximum, compared to LEs.

There are institutional and business constraints whichmake it difficult for SMEs to export directly, such as: (1) limited access to information onexport market opportunities and requirements; (2) inability to adjust to rapid changes in the export market; (3) high risks in payment and shipment; (4) time lags in payment; (5) high cost for direct export activity; and (6) many SME products do not meet export standard quality. Moreover, SMEs face financial problemsowing to limited investment capital and lack of support from financing and guaranteeinstitutions to SMEs(APEC, 2008; Bhasin & Venkataramany, 2010; Tambunan, 2006; Urata, 2000).

Trade liberalisation is expected to increase foreign competition in domestic markets and this will hurt some inefficient or uncompetitive SMEs, while benefiting efficient or competitive SMEs (Tambunan, 2007b). There is an ongoing debate in Indonesia on whether the participation of SMEs in the global economy leads to their sustainable growth. The wood furniture industry cluster in Jepara is a good test case, as underlined by a number of papers on this industry (Sulandjari &Rupidara, 2002; and Loebis & Schmitz, 2005). For instance, the cluster has madegains by participating in export activities; the growth in the number of enterprises and inthe number of jobs is undeniable, and the earnings of workers have also increasedsubstantially. However, the industry's prospects for further growth are questionable. On the input side, the industry is suffering from the increasing scarcity and rising costs of raw

materials. On the output side, it is suffering from intensifying competition from China, Vietnam and other countries. However, generalising these findings to otherclusters may not be valid, since different clusters may have different problems(Tambunan, 2007b).

3.8.6 Supporting Programs for SME Internationalisation

The Indonesian government divides the programs supporting SME internationalisation into two main programs, Training and Counselling and Advice. The following subsection will elaborate more on these programs.

3.8.6.1 Training

For training in exporting and importing practice the Indonesian government, especially the Ministry of Trade,has been operating the Indonesia Export Training Centre (IETC) or BalaiBesarPendidikandanPelatihan Ekspor Indonesia (PPEI) since 1990 under the supervision ofBalaiPengembanganEksporNasional/BPEN (National Agency for ExportDevelopment/NAFED, now DGNED)(Machmud & Siregar, 2010). This institution provides various kinds of training ranging from 'exporting procedural classes' to very specific classes such as 'garment merchandising'.They do apply some fees to each class but those fees are relatively affordable. This is supported byUrata's(2000)studywhich found that many entrepreneurs are willing to pay the fees, because theyfind that the benefit they receive is worth the fees.

NAFED has also built several othertraining centres known as Regional Export Training and Promotion Centres (RETPC) in major cities of Indonesia's four biggest islands. Those cities are Medan in Sumatra,Surabaya in East Java,

Banjarmasin in Kalimantan and Makassar in Sulawesi. Thesetraining and promotion centres provide training in export procedure as well as trainingin local specific needs such as entrepreneurship and product innovation. Some centresprovide training for free, while some charge fees which are relatively cheap as they are subsidised by the Ministry of Trade. These centres also provide consultationfacilities for their alumni, especially consultation on promotion and marketing. Theyalso arrange trade fairs and promotion events for SMEs in their regions. The trainingcentre in Surabaya organises buyer meetings for its participants, while the trainingcentre in Medan cooperates with Universities Sumatera Utara in offering classes onentrepreneurship for its students. However, since these centres are relatively newcompared to the IETC, they cannot hold training sessions very frequently. Some training is onlyavailable twice a year. Furthermore, unlike the IETC, these centres do not providesimulation (e.g., role play, visits to ports and customs agencies) in their training materials. Therefore this needs more attention from related government institutions to ensure the sustainability of this training.

3.8.6.2 Counselling and Advice—Follow up Program

Besides training provided by the government (MCSME and MoT), there is also counselling and advice. It is recommended that training in simple management systems and accountingsystems for SMEs, especially small-scale businesses, should be followed by counselling and advice programs(Machmud & Siregar, 2010). By integrating counselling and advice into training assistance,policy makers can ensure that the participating SMEs are able to correctly implementthe skills and knowledge they receive from the training. This kind of follow-up program of counselling and advice should be sufficient if performed on a temporarybasis, for a period of, for example, three months after the

training.The IETC provides counselling and advice assistance for its alumni. Thisconsultation assistance aims to boost IETC's alumni capacity to export faster or tostrengthen their current export activities. The IETC cooperates with Pusat-PusatPengembanganPasar Wilayah (Centres of Regional Market Development) which arealso subunits of NAFED and other relevant agencies. Consultation assistance rangesfrom export marketing, production, and finance to human resources.Similarly, RETPCs also provide consultation facilities for their alumni. However, theymostly provide consultation on promotion, marketing and export procedure(Machmud & Siregar, 2010).

Given that such assistance is already provided by the government, it still seems thatthere are many SMEs that are not exposed to such information or facilities yet. Mostinstitutions mentioned previously already have websites with relatively sufficientinformation that can be easily accessed through the Internet. Therefore one of the keysto improving SMEs' access to information, as well as capacity building, is to make itcommonplace for them to use the Internet in conducting their business. Moreover, localgovernment agencies that are responsible for SME promotion should be able to spreadthe information to SMEs in their regions(Machmud & Siregar, 2010).

3.9 Chapter Conclusion

There are still many challenges to improving the participation of Indonesian SMEs in international markets, including lack of information about overseas markets, lack of managerial time, skills, and knowledge, lack of export standard quality, and lack of overseas contact. This study investigates these challenges by researching factors that may influence SMEs in Indonesia to enter international markets. The social economy, infrastructure development, and regulations, as

well as programs that support Indonesian SMEs, will be taken into account in this study. The focus of the study on the national context also has an important role in explaining the wide variety of factors that influence the internationalisation of SMEs in developing countries, and in explaining differences between the internationalisation behaviour of SMEs compared to that of SMEs from developed countries.

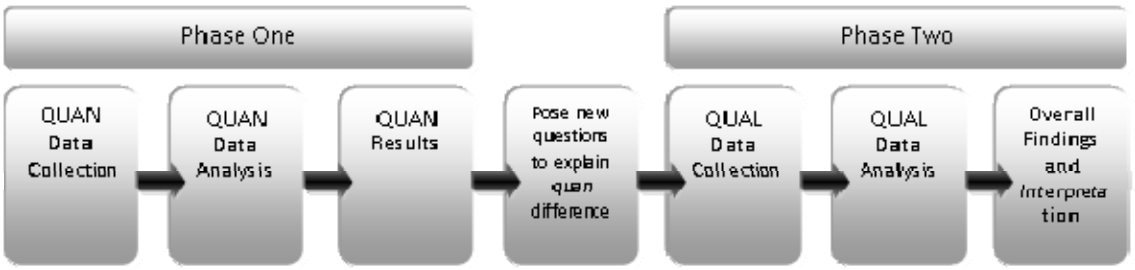
Chapter 4 Research Design and Methods

4.1 Chapter Introduction

The purpose of this Chapter is to explain the research design and method of the study. The Chapter begins by presenting a rationale for the chosen research design. The sample choice, method of data collection, and method of data analysis are then elaborated and explained. This research has used mixed method.

4.2 General Methodology

This study uses mixed method. Creswell and Clark (2007) define mixed method as a research design with philosophical assumptions and methods of inquiry. The central premise of this method is that,a combination of the use of quantitative and qualitative approaches provides a better understanding of research problems than if approach alone. It is because theory in mixed method studies may be included deductively as in quantitative theory testing and verification or inductively as in an qualitative theory or pattern (Creswell & Clark, 2009). In this study design, we use sequential explanatory design. Quantitative data are collected and analysed in the first stage. This is then followed by qualitative data collection to explain, elaborate and provide more information on data collected from the first phase (see Figure 4-1).



Source:Adopted from Creswell & Clark, 2007

Figure 4-1Sequential Procedure in a Mixed Method

The rationale for this approach is that quantitative data and their subsequent analysis provide a general understanding of the research problem. The qualitative data and their analysis refine and explain those statistical results by exploring participants' views in greater depth (Creswell & Clark, 2007).

Mixed methods are becoming more common in the business research because of a growing preparedness to think of research methods as techniques of data collection or analysis that are not encumbered by epistemological and ontological baggage as is sometimes supposed (Bryman & Bell, 2007).

There are two key reasons for conducting mixed method in this study. The first is that mixing multiple methods affords opportunities to use the strengths of some methods to counterbalance the weakness of other methods. The second is that mixing multiple methods is a valuable strategy for producing a comprehensive empirical report about the topic. Empirical documentation that combines redundant measurement using radically different approaches has special strength for reducing errors, discovering new hypotheses and testing these hypotheses (Axinn & Pearce, 2006). However, it is important to note that

mixed methods research is not intrinsically superior to mono-method or mono-strategy research(Bryman & Bell, 2007).

The methodology used in this research to test the hypotheses will encompass the sample, data collection and data analysis.

4.3 Phase One: Quantitative Study

In the quantitative study we used a questionnaire to collect data through the mail system and face-to-face. The following subsection will explain how we designed the questionnaires and undertook the data collection and data analysis.

4.3.1 Data Collection Procedure

4.3.1.1 Survey Sample and Unit of Analysis

The unit of analysis is Indonesian SMEs. There are two reasons for choosing Indonesia as the sample. First, Indonesia is an emerging economy country; most businesses are SMEs but only small percentages are involved in exports. Second, Indonesia was reported as one of ASIA's miracles (The World Bank, 2000). In this research we used simple random sampling to select 800 SMEs as our sample from the Indonesian's government database (3 million SMEs). The sample was drawn from owner-managers of manufacturing SMEs (independent, with fewer than 100 employees, and managed by owners) from selected provinces in Indonesia, based on the database. The reason for choosing owner-managers of SMEs was because it is assumed they know best about the internationalisation process in their company. Andersson (2000) asserts the entrepreneur is regarded as an important element in studying SME

internationalisation and in the central factors that explain a firm's international behaviour.

The sample covered industries such as the garment, furniture, handicraft, leather products and footwear sectors. A one-step process was used to select firms. First, exporting SMEs on the National Agency for Export Development (NAFED) and local government databases were selected randomly and then questionnaires were mailed to a manager or decision maker in the company.

4.3.1.2 Pilot Study and the Translation of the Survey

The draft of the questionnaire was piloted by 40 SMEs in order to check the readability, wording, timing and layout. The 40 pilot testers were owners or manager of SMEs in Indonesia. The pilot study was carried out at an SME trade exhibition in Jakarta, Indonesia. After the survey was administered, the results were checked and the questionnaire was refined, based on the f responses.

Most Indonesian SME owners are passive English-speakers; therefore we decided to use Bahasa Indonesia as the language in the questionnaire in order to make the questions more amenable to answering. The survey was then translated into Indonesian by the researcher, who is a native Indonesian speaker. A translation and back-translation method was utilised in this research (Brislin, 1970). An Indonesian draft was then back-translated into English by another Indonesian-English bilingual speaker who teaches English in the International Development Program (IDP) Education Indonesia. The back-translated English version and the original text were compared by both the researcher and the back-translator. Changes were then made to the Indonesian version based on discussion between the researcher and the back-translator.

4.3.1.3 Data Collection - Survey

Prior to the data collection, an application for ethics approval of a low-impact research project involving humans was submitted to the Standing Committee on Ethics in Research involving Humans (SCERH) of Monash University. The letter of approval is presented in Appendix A.

The survey was conducted through a mail survey to gather the quantitative data. A mail survey is a self-administered questionnaire sent to respondents through the mail (Zikmund, Babin, Carr, &Griffin, 2010). The owner-manager or manager in the company was chosen as the key informant, since that person is likely to be the most knowledgeable about the overall situation of the firm. The reasonsfor using this method were several: it can reach a geographically dispersed location, at relatively low cost, it can be completed at the respondent's convenience, it ensures anonymity of respondents, the absence of the interviewer reduces bias risk, and it provides standardised questions (Zikmund, et al., 2010) .

The questionnaire was sent to each respondent with a covering letter. The covering letter invited respondents to respond to the survey. It contained a statement that explained the purpose of the research. It also contained information such as how the collected mail survey would be stored and the anonymous and voluntary nature of the survey. The covering letter also suggested that respondents agree to participate in the follow-up interview phase. Two sizes of reply envelopes were prepared and sent to each respondent. Respondents were asked to return their questionnaires using the larger envelopes. Smaller envelopes were prepared for returning business cards for those who were interested in participating in the follow-up interviews. By

asking respondents to return their surveys and their cards separately, anonymity of the survey was guaranteed. The sample of the covering letter is presented in Appendix B.

In order to increase the response rate for the mail survey, we included postage-paid return envelopes and an offer to provide the survey results if the study was completed. It took three months to collect the data, but from 800 mailed surveys only 47 questionnaires were returned. In order to increase the response rate, the researcher therefore undertook a different method to collect the data, which was attending the SME trade exhibitions in Jakarta and Bandung. From the exhibitions attended, 200 responses were received, making a total of 247 collected. From the total of 247,six questionnaires were duplicates and were therefore removed. This made a total usable sample size of 241.

4.3.1.4 Non-response bias

Non-response occurs when a sample unit does not respond to the request to be surveyed or to particular survey questions (Groves, 1989). The problem has attracted attention in recent years, as response rates to certain surveys appear to have been declining and this has been of much concern to social scientists and statisticians worldwide (Dillman, Eltinge, Groves, & Little, 2002, p. 3). This is because non-response means that researchers are unable to generalise the results of their investigations to a larger population (Hoonakker & Carayon, 2009). The analysis of non-response bias was sought to demonstrate that the firms respondingto this survey were not significantly different from those which did not respond. There are strategies for addressing non-response as suggested by (Israel, 2009); these include: *throw the data away, generalise to the respondents only, assume there is no response bias generalised to the*

population(analogous to judgment sampling), call back respondents, compare data in hand on respondents and non-respondents, compare characteristics of early respondents with late respondents, increase mailings or contact efforts. The only alternatives to eliminate non-response bias, as suggested by Israel (2004), is to *compare the early respondents with late respondents*, because all other methods require distinctive information on both respondents and non-respondents which was not obtainable in this research due to the anonymous nature of the survey.

Early respondents in this research are those who returned the questionnaire within one month after the mail was sent. Late respondents consisted of those who answered the questionnaire at the SME exhibition. As mentioned in an earlier subsection, this survey used a *hybrid*(Cooper & Schindler, 2008) survey or *mixed-mode* survey (Leeuw, Hox, & Dillman, 2008). A mixed-mode survey is a survey where multiple modes are used to communicate with respondents. The modes used in this current research were the mail survey and the administered survey. Leeuw, Hox and Dillman (2008) suggest that using a mixed-mode survey has advantages: it reduces coverage, it reduces non-response error. Descriptive statistics of each group were computed and compared with each other by independent-samples t-test. The test will be reported in the next Chapter.

4.3.1.5 Common Method Variance (CMV)

Common method variance is a very important issue in assessing the construct validity of the research data (Tharenou, Donohue, & Cooper, 2007). Common method variance may occur if we collect information about most of the variables from the same respondent. It is possible that researchers using procedural remedies can minimise, if not totally eliminate, the potential effects

of common method variance on the findings of their research (Podsakoff, MacKenzie, Jeong-Yeon, & Podsakoff, 2003). There are several statistical remedies that have been used in the literature to control for common method biases as recommended by Podsakoff et.al (2003): Harman's single factor test, Partial correlation procedure, Controlling for the effects of a directly measured latent methods factor, Controlling for the effects of an unmeasured latent methods factor, Multiple method factors. We performed this using Harman's one-factor model test(McFarlin, Dean, & Sweeney, 1992; Olson, Slater, & Hult, 2005). The rationale for this analysis is that if CMV poses a serious threat to the analysis, a single latent factor would account for all manifest variables (Podsakoff & Organ, 1986). The assessment of this test will be presented in the next Chapter.

4.3.2 Measures

4.3.2.1 Questionnaire Design

Questionnaires developed in this study are based on previous research done in the area. However, we still modified the scale to match with the Indonesian context. The selected scales are obtained from empirical study in the area of management, entrepreneurship and international business. The scales are sourced from the literature, and in some cases were modified for the current research context.

A questionnaire is commonly used to collect and record primary research data in order to satisfy the objective of the research (Boyce, 2003). The questionnaire should be carefully designed in order to ensure that the data collected are both relevant and accurate (Zikmund, et al., 2010). A well-designed questionnaire is important since researchers rarely have a second chance to go to the

respondents, and data collected cannot be changed and eventually the quality of the results depends on the quality of the questionnaire (Boyce, 2003).

The general nature of a questionnaire lies between two extremes: the structured questionnaire and the unstructured questionnaire. The structured questionnaire was utilised since it is easier for respondents to complete the questionnaire and it corresponds with the causal approach followed by this thesis (Roostika, 2009). Evidence shows that long questionnaires tend to increase non-response rates, hence this current study emphasises the importance of designing a short questionnaire as suggested byDillman et al. (2002), who strongly recommend that the questionnaire should be kept short and attention should be focused on the relevance of the content. Following Zikmund's (2003) suggestions, demographic information was placed at the end of the questionnaire. After some necessary changes suggested from pilot study (see section 4.3.2.1), the final questionnaire was developed.

4.3.2.2 Human Capital Scale

International business skills are measured with three-items scale developed by Manolova (Manolova, et al., 2002), and modified by Ruzzier et al. (2007). We used the original questionnaire from these two authors for this study. The questionnaire was translated into Indonesian, and then the Indonesian version was translated back into English.

Ramaswamy (1996) states that multiple-items measure are more reliable than single-item measures, but cautions that aggregating components may veil the effect of individual components. Therefore, for the purposes of this study, we assess Entrepreneurial Human Capital by its underlying constructs, namely,

international business skills, management know-how and international orientation (Table 4-1). The questionnaire used a five-point Likert scale ranging from 1= very poor to 5= excellent, for international business skills and management know-how. The scale for international orientation ranged from 1 = 0 days to 5 = more than two months.

Table 4-1 Entrepreneurial Human Capital Scale

Construct	Dimensions / sub-constructs	Items (measure) / Indicators
Entrepreneur Human Capital (Manolova, et al., 2002; Ruzzier, et al., 2007)	International business skills	**- negotiating** **- verbal communication** **- international networking**
	International Orientation	**- days per year on business trips out of Indonesia** **- days per year on all trips out of Indonesia**
	Management Know-How	**- motivating employees** **- interpersonal skills** **- team building and management**

4.3.2.3 Social Capital Scale

The Social Capital scale was taken from Peng and Luo's (2000) and Acquaah's (2007) studies.Acquaah modifies the scale and categorises the Social Capital scale into relationship with other business, government and community leaders, and names it as the Social Capital construct. This current research follows the construct suggest by Acquaah. Details of the scale can be seen in Table 4-2 below. The scale is operationalised to indicate the extent to which the company has benefited from senior managers' personal, social and networking relationships with external entities in the form of access to information and valuable resources that could be used to the company's advantage. It measures the intensity of the relationship between SME owner-managers with other business,

government and community leaders. The scale uses a five-point Likert scale ranging from 1 = very little to 5 = excellent.

Table 4-2 Entrepreneurial Social Capital Scale

Construct	Dimensions / sub-constructs	Items (measure) / Indicators
Entrepreneurial Social Capital (Acquaah, 2007; Peng & Luo, 2000)	Strong ties and weak ties with stakeholders (structural) Connection with government officials	**-Relationship and information sharing from city council -Relationship and information sharing from regional government -Relationship and information sharing from national government -Relationship and information sharing from supporting institution -Relationship and information sharing from investment board**
	Connections with community leaders	**-Relationship and information sharing from Local Chief -Relationship and information sharing fromReligious Leader**
	Connections with senior managers of other firms	**-Relationship and information sharing from suppliers -Relationship and information sharing from customers -Relationship and information sharing from competitors**

4.3.2.4 Internationalisation

The internationalisation scale use in this current study has been used and validated by Ruzzier et. al. (2007). Ruzzier et al. developed a scale to measure internationalisation of a firm and examine internationalisation as a multi-dimensional construct, that is, International Performance, Market and Time. Detail of the scale is presented in Table 4-3. The questionnaire asked respondents the statement using a Likert scale. International performance is operationalised to measure the percentage of foreign sales, percentage of all products sold abroad and the extent of the time that employees dedicate to international operations. It uses a five-point Likert scale ranging from 1 = less

than 10 percent to 5 = more than 75 percent. In terms of Market, it measures how many countries the products are sold in and in which country group the products are sold; the scale ranges from 1 = 1-5 countries to 5 = more than 20 countries. For the question as to in which countries the products are sold, we use countries groups such as South-East Asia, East Asia, the Middle-East, Europe, Africa, America, and Other. We use a five-point Likert scale ranging from 1 = 1 country group to 5 = 5 country groups. With regard to measurement of Time, we measure Time of starting international activities, time taken in reaching 10 percent of foreign sales in total sales, and time taken in reaching 20 percent of foreign sales in total sales. A five-point Likert scale is employed ranging from 1 = more than 6 years to 5 = at inception.

Table 4-3 Internationalisation Scale

Construct	Dimensions / sub-constructs	Items (measure) / Indicators
Internationalisation (Ruzzier, Antoncic, & Hisrich, 2007)	International Performance	**-percentage of foreign sales (value); -percentage of all products sold abroad (volume); -The extend of time employees dedicate to international operations**
	Market	**-How many countries their products are sold in -In which countries their products are sold**
	Time	**-Time of starting international activities, -Time reaching 10 % of foreign sales in total sales, -Time reaching 20 % of foreign sales in total sales**

4.3.2.5 Firm Performance

We measure Firm Performancewith a single variable, sales growth, as an outcome for internationalisation. The reason for using sales growth is because information regarding Firm Performance, especially financial measurement, is not easy to obtain from Indonesian SMEs. Sales growth has been extensively used to measure SME Firm Performance by, for example, (Bloodgood, et al., 1996; Styles, et al., 2008; Zhou, et al., 2007b). On Firm Performance after becoming involved in international markets in the last three years, we asked for approximate annual sales, using a five-point Likert scale ranging from 1 = extremely decreased (more than 20 percent) to 5 = extremely increased (more than 20 percent).

In order to assess the variables and develop questionnaires, a table of constructs for operationalisation was used.

4.3.3 Quantitative Data Analysis

The aim of data analysis is to obtain results that test the study research questions or hypotheses as accurately as possible. According to Tharenou et al. (2007), quantitative analysis is more appropriate for questions that ask 'how many' or 'how much'. It is best used when the aim is to test theoretical prediction with precise measures of variables. On the other hand, qualitative analysis provides detail, process, richness and sensitivity to context.

The main tool of quantitative analysis in this research is Structural Equation Modelling (SEM), which is applied to variables and dimensions, as well as indicators. SEM is a model that aims to explain the relationship among multiple variables. This is similar to a series of multiple regression equations. The purpose of these equations is to show all of the relationships between constructs (the dependent and independent variables) involved in the analysis. The foundation of SEM is factor analysis and multiple regression analysis (Tharenou, et al., 2007). Constructs are mostly latent factors which are unobservable and they are represented by multiple variables similar to a factor in factor analysis. SEM can be thought of as a combination of interdependence and dependence techniques in multivariate analysis. In this research, the analysis will be conducted on the relationship between latent variables, not on items or at the element level. Tharenou et al. (2007) state that the strength of SEM is that measurement error is taken into account by factor models for each latent variable, which is estimated at the same time as the model is fitted to the data. There are many options for running SEM computer programs, such as AMOS, CALIS, EQS, and Mplus (Kline, 2005). In this current study AMOS 19.0 is employed. The results are the SEM reported in the next Chapter.

4.3.3.1 Data Screening

In this section, quantitative data analysis is introduced. First, data screening that examines the data before the main analysis is undertaken. Hair et al. (Hair, Black, Babin, Anderson, & L., 2006) suggest that data screening provides researchers with critical insights into the characteristics of data and, most importantly, helps ensure that the data are error-free and meet the assumptions underlying the statistical methods used to analyse data. In this study we are going to use multivariate analysis. This requires that the assumptions underlying the statistical techniques be tested twice: first for the separate variables, through univariate analysis, and second for the multivariate model, which act collectively for the variables in the analysis and thus must meet the same assumptions as individual assumptions (Hair, et al., 2006). Hair et al. suggest that there are four important statistical assumptions prior to multivariate analysis: normality, outliers, multicollinearity and homoscedasticity. These will be explained in the following subsection.

Missing Data Analysis

Missing data in an empirical study are an unavoidable problem. This is then the challenge for the researcher – to find a remedy. Missing data processes are important for several reasons (Hair et al., 2006, p.49). The practical impact is a reduction of sample size. In multivariate analysis, for example, in a survey, missing data may eliminate many observations. From a substantive perspective, any statistical results based on data with a non-random missing data process could be biased. This bias occurs if the missing data process 'causes' certain data to be missing and these missing data lead to inaccurate results.

According to Hair et al. (2006) cases with a missing value ratio of less than 20 percent can be retained in the data set since this proportion will not affect overall results. Cohen and Cohen (1983) suggest that a figure of up to 10 percent of missing data was considered not large and was unlikely to be problematic. Tabachnick and Fidell (2007), however, recommend that missing values should not be higher than 5 percent. A preliminary analysis of missing data was carried out to produce clean data.

Missing data are characterised as MCAR (Missing completely at random), MAR (missing at random) and MNAR (missing not at random). The distribution of missing data is unpredictable in MCAR, the best of all possible worlds if data must be missing. The pattern of missing data is predictable from other variables in the data set when data are MAR. In MNAR, the missing data are related to DV and therefore cannot be ignored (Tabachnick & Fidell, 2007).

There are several strategies to handle the missing data: mean substitution, regression, expectation maximisation (EM) and multiple imputation (Tabachnick & Fidell, 2007). In handling the missing data, the EM method was applied. Schafer and Graham (2002) found that EM method of data imputation was far more consistent and accurate in predicting parameter estimates than methods such as list-wise deletion. EM method offers the simplest and most reasonable approach to imputation of missing data, as long as the data are missing at random (Tabachnick & Fidell, 2007).The randomness of missing data can be found in '*Little's MCAR*' test (Missing Completely At Random) shown in the 'EM estimated statistics'. To be considered as missing completely at random, the missing data should have a χ^2 (chi-square) which is not significant at an alpha level of 0.001 (Cunningham, 2008).

Normality

Normality is assumed as the most fundamental assumption in multivariate analysis, although normality of variables is not always required for analysis (Tabachnick & Fidell, 2007). Normality can be assessed by either statistical or graphical methods. The two components are skewness and kurtosis. In large sample variables, significant skewness and deviation from zero kurtosis will not make a substantive difference in the analysis (Tabachnick & Fidell, 2007). With negative kurtosis, underestimation of the variance disappears with a sample of 200 or more (Waternaux, 1976, in Tabacknik&Fidell, 2007 p.80). To remedy variables with skewness and kurtosis that exceed the cut-off ± 2 and 5, a normality transformation procedure can be used (Tabachnick & Fidell, 2007).

Outliers

Outliers are extreme values that substantially differ from the other observations. The four reasons for the presence of outliers, according to Tabacknick and Fidell(2007) are incorrect data entry, failure to specify missing value code in computer syntax, the outliers are not members of the population from which the researcher intended to sample, and the case is from the intended population but the distribution for the variable deviated from the normal distribution. Ingeneral, outliers can be identified from a univariate, bivariate or multivariate perspective (Hair, et al., 2006, p. 75).

The detection of univariate outliers is started by establishment of the threshold for designation of outliers by converting the data values to a standard score (z-score), which has a mean of zero and a standard deviation of one. Because the values are expressed in a standardised format, comparison across variables can

be easily made. For a large sample size (above 80 observations) the guidelines suggest that the threshold value of the standard score ranges from 3 to 4 (Hair, et al., 2006). Therefore cases with a standard score of 4.0 or greater are identified as univariate outliers.

Multivariate Outliers

A multivariate outlier analysis will be performed for examining a complete variate, such as the independent variables in regression or the variables in factor analysis. Although some observations fall within the expected range on an individual basis, they may become outliers when combined with other variables. Mahalanobis distance was computed to evaluate the multivariate outliers. The Mahalanobis distance was evaluated as χ^2 with degrees of freedom equal to the number of variables at $p<.001$ (Tabachnick & Fidell, 2007).

Multicollinearity

In order to determine if multicollinearity exists among independent variables, bivariate correlations were examined to determine if any correlations exceeded a value of 0.70, indicating possible multicollinearity (Tabachnick & Fidell, 2007). Examination of the Pearson correlations (Pearson's r) indicated that there is sufficient correlation among variables for factor analysis as represented by correlations above 0.30. Another way to examine the existence of multicollinearity involves computation of the variance inflation factor (VIF), a process whereby each independent variable is modelled as a dependent variable and all remaining independent variables are regressed against the dependent variable. The variance which is not explained by the independent variables is termed the tolerance. The VIF for each variable is computed as VIF

= 1/tolerance. VIF values over 5.3, and concurrently small tolerance values of < 0.19, indicate correlations among variables over 0.90, or a high degree of multicollinearity (Hair, et al., 2006).The computed VIF and tolerance values are provided in the next Chapter.

Homoscedasticity

The assumption of homoscedasticity can be divided into two categories: ungrouped and grouped data. For ungrouped data, the score variability in scores for one continuous variable is about the same at all values of another continuous variable. For grouped data, when one variable is discrete (the grouping variable), the other is continuous (the DV); the variability in the DV is expected to be about the same at all levels of the grouping variable. Homoscedasticity is related to assumption of normality because when the assumption of normality is met, then the relationship between variables is homoscedasticity (Tabachnick & Fidell, 2007). Homoscedasticity was checked in this study by examining the scatterplots between pairs of variables and by inspecting residual plots, in which residuals are plotted against predicted values of the dependent variable (Tabachnick & Fidell, 2007). The results of these tests are presented in the following Chapter. A moderate violation of homoscedasticityis, however, not so critical to an analysis using many statistical tools, including SEM (Tabachnick & Fidell, 2007).

4.3.3.2 Procedure for Construct Validation and Reliability

Convergent Validity

Convergent validity can be assessed from the measurement model by determining whether each indicator's estimated pattern coefficient on its

posited underlying construct factor is significant, that is, greater than twice its standard error (Anderson & Gerbing, 1988). The assessment of convergent validity will be presented in the next Chapter.

Discriminant Validity

Discriminant validity is the extent to which a construct is truly distinct from other constructs. It can be assessed by comparing the variance extractedpercentages for any two constructs with the square of the correlation estimate (Fornell & Larcker, 1981) .

The variance extracted can be calculated by using standardised loadings:

$$VE = \frac{\sum_{i=\lambda i}^{n} 2}{n}$$

where λ represents the standardised factor loading and i is the number of items. In other word, it is the average squared factor loading (Hair, et al., 2006). The variance extracted should be higher than the square correlation. It means that individual measured items should represent only one latent variable.

Reliability Analysis

Reliability of measurement is important, whether the method used in the research is quantitative or qualitative. This is because studies that use measures with poor reliability and validity will lack rigorous data (Tharenou, et al., 2007). According to Tharenou et al.,reliability is *how much* random error there is in the measurement of variables. The most common reported measure of reliability is Cronbach's Alpha, which measures internal consistency reliability, the degree to which responses are consistent across the items within single measure (Kline,

2005). If internal consistency is low, it may because of the content of the items are so heterogeneous that the total score of the items is not the best possible unit of analysis to measure.

The standard as what is high or low scores varies. Kline (2005) recommends that scores around .80 are very good and values of .70 are adequate. However, based on the recommendation from Hair et al. (2006), a lower limit Cronbach's Alpha of .70 is generally agreed, although several studies have accepted reliability greater than .60 for exploratory study. Internal consistency also can be performed with reliability measures derived from confirmatory factor analysis (Hair, et al., 2006).

Construct Reliability

Construct reliability was confirmed by applying the construct reliability index of a structural equation model. Construct reliability of Management Know-How, International Business Skills, Entrepreneur Social Capital, International Performance, Market, and Time in the full model was confirmed by applying the construct reliability index which is analogous to the coefficient alpha (Fornell & Larcker, 1981; Hair, et al., 2006) as follows:

$$Contruct\ Reliability(CR) = \frac{(\sum_{i=}^{n} \lambda i)^2}{\left(\sum_{i=}^{n} \lambda i\right)^2 + (\sum_{i=}^{n} \delta i)}$$

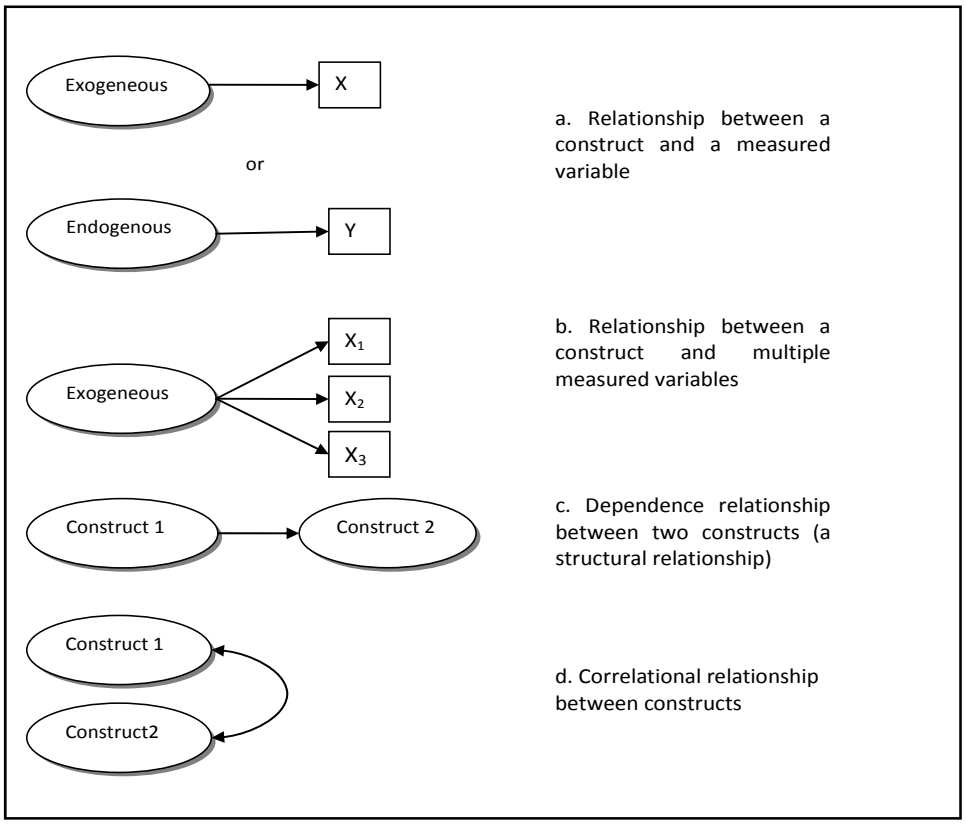
The numerator for calculating construct reliability is equal to the square of the sum of the standardised factor loadings which are represented by λi; the denominator is equal to the square of the sum of the standardised factor loading plus the sum of the variance terms for a construct (δi). The

measurement error is 1.0 minus the reliability of indicator, which is the square of the indicator's standardised loading, represented by (δi). Nunnally and Bernstein (1994) suggested some useful guidelines for interpreting the reliability index. In exploratory research, modest reliability in the range of 0.5 to 0.6 will suffice. For basic research, it is argued that reliability beyond 0.7 is necessary. In an applied setting, a reliability of 0.90 is the minimum.

4.3.3.3 Structural Equation Modelling

Structural Equation Modelling (SEM) is a family of statistical models that seek to structure the relationships among multiple variables. SEM's foundation lies in two familiar multivariate techniques: factor analysis and multiple regression analysis. The most obvious difference between SEM and other multivariate techniques is the use of separate relationships for each of a set of dependent variables (Hair, et al., 2006, p. 711). SEM has the ability to incorporate latent variables into the analysis. It is measured indirectly by examining consistency among multiple measured variables, sometimes referred to as manifest variables or indicators.

In SEM we recognise exogenous and endogenous constructs. Exogenous constructs are the latent multi-item equivalent of independent variables, while endogenous constructs are the latent, multi-item equivalent of dependent variables. These constructs are theoretically determined by the model (Hair, et al., 2006, p. 713). SEM examines a series of dependence relationships simultaneously.



Source : Hair et al., 2006, p.715

Figure 4-2 Common Types of Theoretical Relationships in a SEM Model

Straight arrows depict a dependence relationship. Specification of a dependence relationship also determines whether a construct acts like a dependent variable, and any construct with a dependence path (arrow) pointing to it is considered endogenous (Hair, et al., 2006, p. 715). In SEM a construct that acts as the independent variable in one relationship can be the dependent variable in another. SEM allows all the relationships or equations to be estimated simultaneously (Hair, et al., 2006, p. 719).

SEM is the only multivariate technique that allows the simultaneous estimation of multiple equations. These equations represent the way constructs relate to measured indicator items as well as the way the constructs are related to one

another, so it is the same as performing factor analysis and regression analysis in one step (Hair, et al., 2006, p. 719). Four types of evidence are needed to establish causality trough SEM: covariation, sequence, non-spurious covariation and theoretical support (Hair, et al., 2006, p. 721).

Developing a Modelling Strategy

There is no single correct way to apply the SEM. The objectives of the research and the appropriate methods have to be formulated by the researcher (Hair, et al., 2006, p. 732). Options include:

Confirmatory Modelling strategy: The researcher specifies a single model and SEM is used to assess how well the model fits the data; and

Competing Model Strategy: The researcher evaluates a model with an alternative model.

Hair et al. (2006) described six stages in applying Structural Equation Modelling:

1. Defining individual constructs
2. Developing the overall measurement
3. Designing a study to produce empirical results
4. Assessing the measurement model validity
5. Specifying the structural model
6. Assessing structural model validity.

This thesis follows the stages proposed by Hair et al.

Stage 1: Defining individual constructs

Prior to SEM application, good measurement theory is necessary to obtain useful results (Hair, et al., 2006). The theoretical model based on prior research has been developed in Chapter 2. The scales for Entrepreneurial Human and Social Capital Scales as well as the Internationalisation scales are taken from previous research.

Stage 2: Developing the overall measurement

In this stage, each latent construct to be included in the model is identified and the measured indicator variables are assigned to latent construct (Hair, et al., 2006, p. 736).

As has been mentioned in Chapter 2, we used the following construct in this study:

Exogenous Construct I: This latent exogenous construct was postulated as having a relationship with the internationalisation of the company (International Performance, Market and Time), comprising three latent constructs:

- International Business Skills
- Management Know-How
- International Orientation.

Exogenous Construct II: This latent exogenous construct was postulated as having a relationship with the internationalisation of the company (International Performance, Market and Time), comprising one main latent constructs:

- Entrepreneurial Social Capital

Endogenous constructs I: This latent endogenous construct was postulated as having a relationship with Firm Performance, comprising three main latent constructs as follows:

- International Performance
- Market
- Time.

Endogenous II:

- Firm Performance.

The constructs for International Performance, Market and Time are both Exogenous and Endogenous.

Stage 3: Designing a study to produce empirical results

Hair et al. (2006) proposed two core issues in designing the study: research design and model estimation. The research design includes type of data analysed, missing data and sample size, all of which have been demonstrated in the previous section in this Chapter.

In regard to model estimation issues, this relates to the model structure, estimation technique and computer program selected. The model structure is based on a theoretical structure and is then followed by specifying the model parameter to be estimated. After the model is specified, the researcher must choose how the model will be estimated. Maximum Likelihood Estimation (MLE) was performed in this study, because the estimation is unbiased and

more efficient. MLE is also the most widely used approach and the default in most SEM program, and it has proven to be fairly robust against violations of the normality assumption (Hair, et al., 2006). The researcher used AMOS 19.0 for performing SEM in the data analysis.

Stage 4: Measurement Model Validity

The validity of the measurement model depends on the goodness-of-fit and evidence of construct validity. Goodness-of-fit (GOF) indicates how well the specified model reproduces the covariance matrix among the indicator items. Hair et al. (2006) suggest a number of alternative GOF, categorised in three main measures: absolute, incremental and parsimony fit. Researchers are encouraged to conduct multiple fit indices. In this thesis only absolute and incremental indices are used. The following section will introduce all the measures used in this thesis in detail.

Absolute Fit Measures

1. **Chi-Square (χ^2) Statistics:** The most fundamental measure of overall fit is the likelihood ratio chi-square statistic as the only statistical goodness-of-fit index available in SEM. Its sensitivity to sample size becomes important when subject to samples larger than 200 and hence it should be accompanied by alternative measures (Hair et al., 2006; Tabachnick & Fidell, 2006). The model is regarded as satisfactory if the chi-square value is low, and is typically based on a cut-off of $p>0.05$ or $p>0.10$ (Hulland, Chow, & Lam, 1996). A large value of chi-square relative to the degrees of freedom signifies that the observed and estimated matrices differ considerably. This statistical significance level indicates the probability that these differences are due solely to sampling variations. Thus

the low chi-square values which result in a significance level greater than 0.05 indicate that the actual and predicted input matrices are not statistically different (Hair et al., 2006). The CMIN/*df* index, which is commonly reported by researchers as a measure of fit, is the chi-square statistic divided by degrees of freedom, or relative chi-square. Values less than 2.0 or even 3.0 are indicative of an acceptable fit between the model and the data (Arbuckle, 2007). Similarly according to Kline (2005), a model demonstrates reasonable fit if the statistic adjusted by its degrees of freedom does not exceed 3.0 : $\chi^2/df \leq 3$.

2. **The GFI – Goodness of Fit Index and AGFI – Adjusted Goodness of Fit Index**: The GFI is based on a ratio of the sum of the squared differences between the observed and reproduced matrices of the observed variances. It measures the amount of variance and covariance in the observed correlation matrix that is predicted by the model implied correlation matrix (Schumacker & Lomax, 1996 in Cunningham, 2008).

An Adjusted Goodness of Fit Index (AGFI) is the GFI adjusted for the degree of freedom of the model relative to the number of variables. Both GFI and AGFI measures calculate a weighted proportion of variance in the sample covariance matrix. Values of 0.95 or greater are regarded as conforming to a good overall model fit, and values between 0.90 and 0.95 represent an adequate fit (Hulland, et al., 1996).

3. **The RMSR and RMSEA**: The Root Mean Square Residual (RMSR) is an average of the residuals between individual observed and estimated covariance and variance terms. Another alternative statistic based on residuals is the Standardised Root Mean Square Residual (SRMR), SRMR is a standardised value of RMSR and is thus more useful for comparing fit across models (Hair, et

al., 2006). The average SRMR value is 0, which means that both positive and negative residuals can occur. Positive residuals occur when a predicted covariance larger than observed results and negative residuals occur in the opposite case. Hair et al. (2006) claim that SRMR lower than 0.04 is favourable. While Cunningham (2008) suggests that values less than 0.05 may be considered to fit the data well, Cunningham also asserts that a large value of SRMR may indicate outliers in the data. Iacobucci (2010) suggests that SRMR ranges from 0.0 to 1.0; SRMR is zero when the model predictions match the data perfectly. According to Anderson and Gerbing (1984) SRMR is lowered when the measurement model is clean (high factor loadings).

Another fit index is The Root Mean Square Error of Approximation (RMSEA), which is an index, based on non-centrality and will compensate for the chi-square statistic in large samples (Baumgartner & Homburg, 1996). Its value represents the goodness-of-fit that could be expected if the model were estimated in the population (Hair, et al., 2006). Values of the RMSEA of 0.05 or less are regarded as acceptable and indicating a close fit of the model in relation to the degrees of freedom (Browne & Cudeck, 1993). Furthermore, Browne and Cudeck (1993) wrote: 'we are also of the opinion that a value of about 0.08 or less for the RMSEA would indicate a reasonable error of approximation and would not want to employ a model with a RMSEA greater than 0.1'. MacCallum and Austin (2000) strongly encouraged researchers to use the RMSEA fit index because of the availability of the confidence interval that provides important information about the precision of estimate of fit, which cannot be found in other fit indices.

Incremental Fit Indices

1. **The CFI – Comparative Fit Index**: This index is truncated to fall in the range from 0 to 1 where the values close to 1 indicate a very good fit (Arbuckle, 2007). The advantage of this index is that it is not influenced by the sample size (Bentler, 1990) and may be more sensitive to the presence of model misspecification than other fit indices (Hutchinson & Olmos, 1998). CFI attempts to adjust for model complexity or parsimony. It does so by including the degree of freedom used in the model directly into computation (Iacobucci, 2010); thus CFI is probably the most cited fit index currently reported in the literature (Bentler, 1990; Cunningham, 2008).

2. **The TLI – Tucker Lewis Index**: The TLI is an alternative incremental fit index that compares the proposed model to the fit of a baseline model (Baumgartner & Homburg, 1996). TLI also known as Non Normed Fit Index (NNFI). A recommended value is 0.90 or greater (Hair, et al., 2006), and values close to one on the TLI indicate a very good fit (Arbuckle, 2007). In practice, the TLI and CFI generally provide very similar values. In addition, TLI and CFI were recommended because these indices are relatively insensitive to sample size, and are less affected than other goodness-of-fit measures by model complexity (Hulland, et al., 1996). It is recommended that researcher use three or four fit indices, and report at least one absolute index and one incremental index, in addition to the χ^2 value associated with degrees of freedom. The above six indices are summarised in Table 4-4.

Table 4-4 The Indices in this Study

Fit index	Cut-off Value
χ^2-Significance Probability	≥0.05
GFI and AGFI	≥0.90
SRMR	≤0.08
RMSEA	≤0.08
CMIN/DF	≤3.00
CFI	≥0.90
TLI	≥0.90

Source: Hair et al, 2006; Tabacknick & Fidell, 2006; Kline, 2006

Stage 5: Specifying the Structural Model

The critical step in developing SEM model is in Stage 2. In Stage 5 we specify the structural model by assigning a relationship from one construct to another based on proposed theoretical model.

4.4 Phase Two: Qualitative Study

The purpose of conducting a qualitative phase in this research is to explore further and understand findings from the quantitative phase. Interview can be conducted as structured, semi-structured or unstructured (Tharenou, et al., 2007). Here interviews were conducted with a semi-structured interview list. Creswell and Plano Clark (2009) suggest that researchers who utilise this type of mixed-method approach should identify specific quantitative findings that require additional explanation. Therefore a decision was made about which quantitative result to further investigate. The qualitative phase of this research was conducted mainly to provide explanation as to why some of the hypotheses were not supported. In this section, the method and procedures of data collection and analysis of the qualitative phase are presented. The results of the qualitative data analysis are presented in Chapter 6.

4.4.1 Analytical Technique

There are two strategies of analysis that are probably most cited: analytic induction and grounded theory (Bryman & Bell, 2007). Analytic induction is an approach to the analysis of data in which the researcher seeks universal explanations of phenomena by pursuing the collection of data until no cases that are inconsistent with hypothetical explanation of a phenomenon are found (Bryman & Bell, 2007). If a case that is inconsistent with the hypothesis is encountered, the analyst either redefines the hypothesis so as to exclude the deviant or negative case or reformulates the hypothesis and proceeds with further data collection (Bryman & Bell, 2007).

4.4.2 Interview Procedure

Following the survey, the interviews were conducted with 10 owner-managers of SMEs, who had agreed to be interviewed. In the cover letter, we asked the respondents to complete the 'consent letter' if they want to be interviewed following the survey. Interviews were conducted as in-depth semi-structured interviews in order to investigate internal sources of knowledge and expertise within the enterprises. The overall aim of interview was to elicit the interviewee's information (e.g., thoughts and feelings) about an issue. The interview lasted between 70 and 90 minutes and all were recorded.The interview protocol is attached in Appendix C.

4.4.3 Reliability and Validity

Reliability and validity are equally important in qualitative as they are in quantitative study. In qualitative study, reliability is related mainly to the consistency of the coding (Tharenou, et al., 2007). In qualitative study, validity

is related to the interpretation of themes that arise from the data (Tharenou, et al., 2007). There are steps suggested by Creswell and Plano Clark (2009): first, the interview data were triangulated using other forms of data such as the organisations' website information obtainable publicly and organisations' documents provided by interviewees; second, disconfirming evidence was presented to show a viewpoint that contradicted the one presented by the established evidence when that kind of evidence was available and appropriate for presentation – presentation of disconfirming evidence validates the accuracy of the data analysis because evidence for themes varies and includes more than just one type of information; third, the themes arising from data were examined by a second person who was external to this project (this method is known as inter-rating reliability; in this current study, inter-rating reliability was undertaken with a researcher in Indonesia who was familiar with the topic but external to the project).

4.4.4 Selection of interview quotes

After all the quotes had been transcribed, they were inserted in the text where appropriate. There are selection criteria for which quotes are chosen, presented and used in the analysis. These are quotes that represent the views of the majority of interviewees, and quotes that represent alternative views to the majority. The researcher sought to select not only on particular interviewees but to consider the views of all interviewees.

4.4.5 Qualitative Data Analysis

Content analysis will be used to analyse the qualitative data. Content analysis is defined as 'any technique for making inferences by objectively and systematically identifying specified characteristics of messages' (Holsti, 1969

p.14 cited in Tharenou, et al., 2007). It is necessary to develop a template approach in order to guide the coding process (King, 1998). The template is a list of structured codes that serves as a codebook according to which data are classified. Another method of creating codes is creating a provisional 'start list' of codes prior to the field work. The list comes from the conceptual framework, the list of research questions, hypotheses, problem areas, and/or key variables that the researcher brings to the study (Miles & Huberman, 1994). Further Tharenou et al. (2007) suggest that, if there are 30 interviews, a researcher might use computer analysis. If there are only ten, then the researcher would decide to conduct analysis manually. However, in this current research all coding processes are carried out using NVivo 8.0, a software package for analysis of qualitative data.

4.5 Chapter Conclusion

This Chapter discussed how the data were collected and analysed. It introduced and justified (1) the research design, (2) the methodology chosen for data collection, (3) the sample, (4) the measures used for the quantitative phase, and 5) the qualitative interview approach. Detailed discussions of the results and key findings will be described in the following Chapter.

Chapter 5 Quantitative Data Analysis

5.1 Chapter Introduction

This Chapter will present the analysis of the data as follows:

- General demographic description and descriptive analysis. This includes gender, position and age of the owner-managers, the province where the enterprise is located and the products made. The highest education achieved is also presented in the descriptive analysis.
- Data preparation and screening. This presents the methods and actions taken for multivariate data analysis, to ensure the integrity and appropriateness of the data. It includes treatment of missing data analysis, detection and treatment of outliers and a test of normality.
- Validity and Reliability Analysis of measurements. This includes the descriptive analysis, as well as the validity and reliability analysis of the measurement.

The preliminary analysis is intended to provide a broad overview of the data that has been collected, in order to explore its general characteristics and to highlight any shortcomings.

5.2 Sample Characteristics

The survey was conducted in Indonesia, using a questionnaire. Data collection was done in two steps. First was the survey and second was the face-to-face interview.

This section depicts demographic characteristics of respondents. Samples were drawn from owner-managers of manufacturing SMEs (independent, with fewer than 100 employees). The characteristics include the gender, position and age of

the owner-managers. Additionally, provinces where the SMEs are located and the type of industries are presented in Table 5-1.

Table5-1 Respondents' Characteristics

Variables		Percentages
Gender	Male	67.8
	Female	32.2
Position	Owner Manager	94.6
Age	Less than 40 years old	60.6
	More than 40 years old	39.4
Provinces	Central Java	17.0
	West Java	12.5
	East Java	11.6
	Yogyakarta	11.2
	DKI Jakarta	9.5
	Bali	5.8
	Others	32.4
Industries	Handicraft	49.1
	Batik/garment	12.4
	Furniture	7.1
	Others (silver/gold, food, leather product, cosmetics, hand woven material)	31.4

Source: primary data 2008

Respondents' characteristics shown in the Table above indicate that there are more male SME owners than female, most respondents are young at less than 40 years of age and their industries are in the handicraft sector.

In terms of position, most respondents are owner-managers of the enterprise therefore they adequately represent the firm since it is assumed that owner-managers are the most knowledgeable about internationalisation processes of their firm.

In terms of industries, the respondents range from the garment, furniture, handicraft, leather products and footwear sectors. The enterprises fall into three

main industry categories: handicrafts (49 percent), batik/garment (12.4 percent) and furniture (7.1 percent).

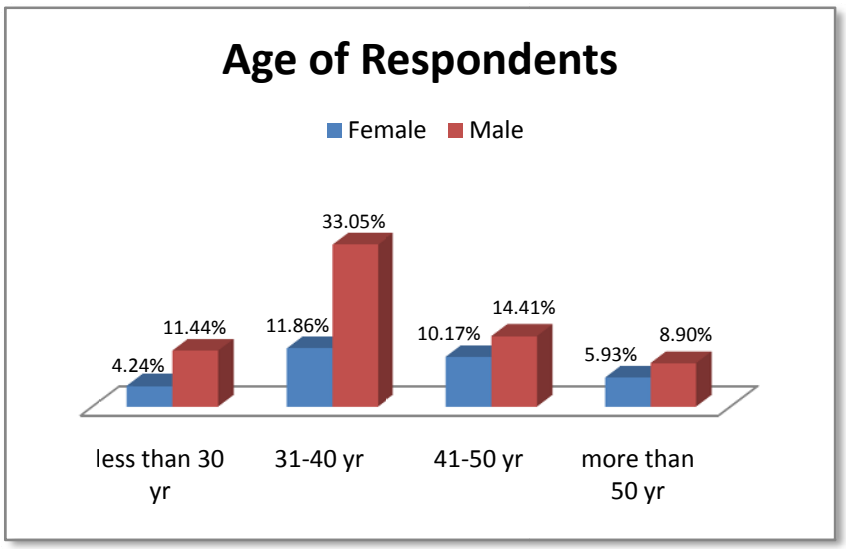


Figure 5-1The Age of Respondents

Figures 5-1 and 5-2 show that most respondents are male aged less than 40 years and most are the owner-managers of the SMEs researched. Of the participants surveyed, 70 percent were aged between 30 and 50 years, with most aged between 31 and 40; a chi-square analysis test for independence indicated no significant association between gender and age in this study (χ^2= 5.29, df= 3, p<0.15 n=236). Thus these two data sets are independent, so that the probability of both occurring was the product of the probabilities of each occurring. Hence it can be said, for example, that whether or not you are a female or male owner does not depend on whether or not you are over 50 years of age.

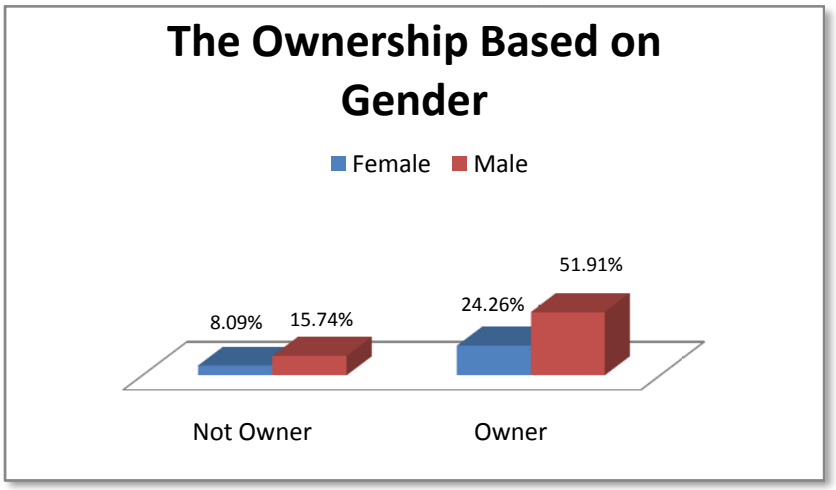


Figure 5-2 Ownership based on Gender

The ownership of SMEs in Indonesia shows that male owners are more dominant than female owners. This agrees with current research by Tambunan (2007a), which found that representation of female entrepreneurs is low compare to their male counterparts.

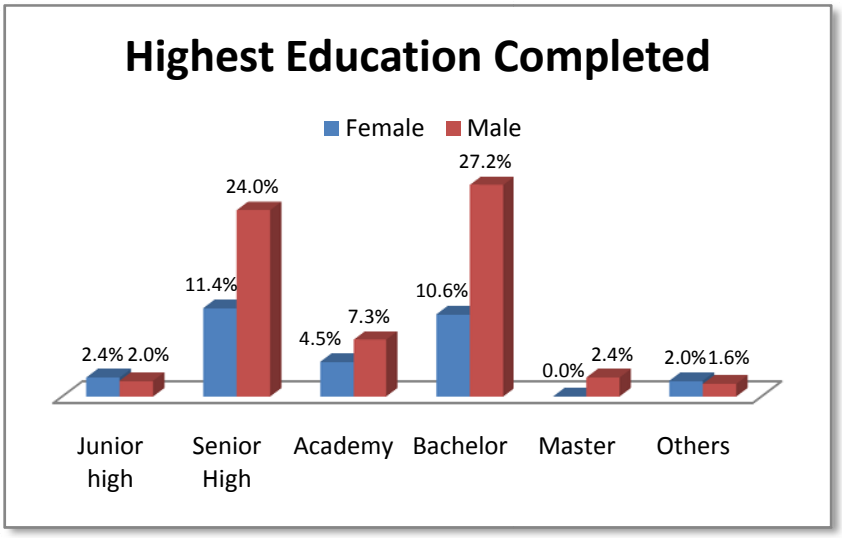


Figure 5-3The Highest Education completed by SME Owners-Managers

From Figure 5-3 our results reveal a highly educated profile of SME owners, with 39.6 percent holding an undergraduate (bachelor) degree (28.5 percent male and 11.1 percent female respondents). As predicted, the percentage of

male respondents who completed their bachelor degree is relatively higher than the percentage of males who finished senior high school. It is a different story with their female counterparts, who show a lower relative percentage of completion of their bachelor degree than of their high school qualification. In short, female owners are relatively less educated than male owners, which supports the finding of Tambunan (2007a). A chi-square independent test indicated there was no significant association between the proportion of highest education completed and gender.

5.3 Data Screening

Data examinations are an essential part of any multivariate analysis as it is applied in this section. Data should be examined and descriptive statistics should be reported so that the researcher gains a basic understanding of the data profile and the relationship between variables. This stage should receive great attention from the researcher because of the analytical sophistication needed to ensure that statistical requirements are met when applying the chosen multivariate technique (Hair, et al., 2006). The researcher should know in advance that there are differences in data screening for grouped and ungrouped data. For example, if structural equation modelling is to be applied in which subjects are not subdivided into groups, there is one procedure of screening data (Tabachnick & Fidell, 2007). Examination of data is comprised of the following analysis: accuracy of the data file, missing data analysis, detection of outliers, and testing of normality.

5.3.1 Sample Size

The first issue of random sampling and independent observation of the respondents was not a problem in this survey. In order to estimate the proposed structural model, Hair et al. (2006), Tabachnick and Fidel (2006), and Kline (2005) recommend a minimum sample size ranging from 100 to 200. Using this guideline, the sample of 241 of usable data in this thesis was therefore appropriate.

5.3.2 Accuracy of the data file

The data file was checked for accuracy by using SPSS to examine univariate descriptive statistics for each variable (Tabachnick & Fidell, 2007), that is, verifying there were no out of-range values for variables, and the means and standard deviations were plausible. SPSS frequencies operations were done to check the accuracy of the data file and all related measures were found plausible. No missing data were found in this data set. Measures of skewness and kurtosis were also examined and were as expected. Next, issues of missing data, outliers, and skewness and kurtosis were addressed.

5.3.3 Missing Data Analysis

Missing data in an empirical study are an unavoidable problem. It is then a challenge for the researcher to find a remedy. Missing data are important in multivariate analysis (Hair, et al., 2006, p. 49).

Since missing data analysis is important for further data analysis, we perform the analysis as follows.

Table 5-2 Missing Data

Variables	Cases			
	Valid		Missing	
	N	%	N	%
Company Age when exports reach 10 percent	224	92.9	17	7.1

Source: primary data 2008

The Table above shows variables with more than 5 percent missing data. There is only one variable with missing data more than 5 percent, that is 'company age when exports reach 10 percent'; this may be because some respondents did not remember the age of their company when their exports reach 10 percent of total exports. Therefore they left the question blank.

According to Hair et al. (2006) cases with a missing value ratio of less than 20 percent can be retained in the data set since this proportion does not affect the overall results. Cohen and Cohen (1983) suggest that up to 10 percent of missing data is considered not large and unlikely to be problematic. Tabachnick and Fidell (2007), however, recommend that missing values should not be more than 5 percent. A preliminary analysis of missing data was carried out to produce clean data.After rigorous consideration of the missing data we take into account Cohen and Cohen's (1983) view, and do not remove variable 'company age when export reach 10 percent', since it is part of the internationalisation construct. Further analysis was based on the input data matrix (SPSS input data), and the conceptual model contained 241 cases and 27 indicators for each respondent.

Since we decide to keep variable, a remedy must be applied before further analysis. In handling the missing data, the Expectation-Maximisation (EM) method is applied in the current study. Schafer and Graham (2002) found that

the EM method of data imputation was far more consistent and accurate in predicting parameter estimates than methods such as list-wise deletion. The EM method offers the simplest and most reasonable approach to imputation of missing data, so long as the data are missing at random (Tabachnick & Fidell, 2007). The randomness of missing data can be found in the 'Little's MCAR' test (Missing Completely At Random) shown in the 'EM estimated statistics'. To be considered as missing completely at random, the missing data should have a χ^2 (chi-square) which is not significant at an alpha level of 0.001 (Cunningham, 2008). The result of the missing data estimation process in this thesis showed a value of χ^2 of 0.021, which means that it was not significant and, therefore, the missing values in this thesis had occurred in a random manner. Therefore EM methods could be performed and now all the data had no missing value and could be used for further analysis.

5.3.4 Non-Response Bias

We follow the alternative to eliminate non-response bias as suggested by Israel (2004), that is, to *compare the early respondents with late respondents*, since all other methods require distinctive information on both respondents and non-respondents which was not obtainable in this research because of the anonymous nature of the survey. We use the independent t-test to compute and compare the two groups. The results show that the two groups are not different; they are considered the same or not significantly different. Therefore non-response bias does not exist in this study.

5.3.5 Common Method Variance (CMV)

As stated in Chapter 4, to test common method variance, Harman's single factor is used widely (Podsakoff, et al., 2003). A worse fit for the one-factor model

would suggest that CMV does not pose a serious threat (Olson, et al., 2005). The one-factor model's $\chi 2$ = 1527.915, d.f. = 104, Cmin/d.f. = 14.691; GFI = .577; NFI = .180; TLI = .057; CFI = .183; and RMSEA = .241, which show that this model does not fit the data. This suggests that CMV is not likely to be a problem that threatens the interpretation of the findings.

5.4 Evaluation of Assumptions for SEM Application

Analyses for causal relationships as described in the hypotheses were conducted using a Structural Equation Modelling (SEM) analysis. The assumptions underlying multivariate analysis are described and tested. The procedures for applying SEM using AMOS 19.0 are described in the next subsection. SEM requires certain statistical assumptions to be met: adequacy of sample size with random sampling respondents and independent observation, the linearity of all relationships and multivariate normality, and multicollinearity of covariance in the data (Arbuckle, 2007; Hair, et al., 2006; Tabachnick & Fidell, 2007)

5.4.1 Multivariate normality and linearity

5.4.1.1 Normality

Normality is assumed as the most fundamental assumption in multivariate analysis, although normality of variables is not always required for analysis (Tabachnick & Fidell, 2007). Normality can be assessed by either statistical or graphical methods. The two components are skewness and kurtosis. In large sample variables the significant skewness and the deviation from zero kurtosis will not make a substantive difference in the analysis (Tabachnick & Fidell, 2007). With negative kurtosis, underestimation of the variance disappears with

a sample of 200 or more (Waternaux, 1976 in Tabachnick & Fidell, 2007, p. 80). In multivariate analysis, not only multivariate analysis is tested but also univariate. 'If a variable is multivariate normal, it is also univariate normal. However the reverse is not necessary true' (Hair, et al., 2006, p. p.76)

As stated in the previous Chapter, one of the dependent variables of this study is Market, which is indicated by the number of countries and the country group in which the company sells its products. This dependent variable can also be constructed as a latent variable with multiple indicators. In order to construct this latent variable, Market is proposed as comprising two indicators: Market1, and Market2. As shown in Table 5-3, Market1 is not in a normal distribution. The critical ratio of skewness and kurtosis of Market1 is indicating departure from normality. To remedy variables with skewness and kurtosis that exceed the cut-off ± 2 and 5, a normality transformation procedure can be used (Tabachnick & Fidell, 2007).

To remedy variables with skewness and kurtosis that exceed the cut-off ± 2 and 5, a normality transformation procedure using logarithm transformation by computing LG10(X) using SPSS 19.0 transformation procedure is used (Tabachnick & Fidell, 2007) and the result is shown in the Table 5-3.

Table 5-3 Normality and Outliers

No	Variable	Min	Max	Skewness	Critical Ratio	Kurtosis	Critical Ratio
1	Gov1	1	5	-0.13	-0.85	-0.88	-2.79
2	Gov2	1	5	-0.08	-0.50	-0.81	-2.58
3	Gov3	1	5	0.18	1.11	-0.55	-1.76
4	Gov5	1	5	-0.21	-1.34	-0.52	-1.66
5	Gov4	1	5	-0.60	-3.80	0.09	0.28
6	Bus1	1	5	-0.17	-1.07	-0.92	-2.93
7	Bus2	1	5	-0.45	-2.85	-0.79	-2.50
8	Bus3	1	5	-0.20	-1.28	-0.87	-2.75
9	ComLead1	1	5	0.10	0.60	-1.05	-3.33
10	ComLead2	1	5	0.20	1.29	-1.10	-3.48
11	Market1	1	5	2.69	17.07	8.86	28.07
12	Market2	1	5	1.30	8.29	0.90	2.84
13	Time1	1	5	0.24	1.55	-1.15	-3.64
14	Time2	1	5	0.22	1.38	-1.16	-3.67
15	Time3	1	5	0.62	3.94	-0.68	-2.14
16	IntlPerf1	1	5	0.63	4.01	-0.41	-1.31
17	IntlPerf2	1	4	0.92	5.83	0.40	1.28
18	IntlPerf3	1	5	0.81	5.101	-0.33	-1.05
19	MKH1	2	5	-0.25	-1.59	0.39	1.24
20	MKH2	2	5	-0.29	-1.84	0.58	1.84
21	MKH3	2	5	-0.04	-0.27	-0.18	-0.58
22	IBS1	2	5	-0.79	-5.00	1.50	4.76
23	IBS2	2	5	-0.73	-4.63	0.78	2.49
24	IBS3	2	5	-0.21	-1.33	-0.14	-0.45
25	IntlOr2	1	5	1.89	11.98	4.16	13.18
26	IntlOr6	1	5	1.95	12.35	2.52	7.97
27	IntlOr7	1	3	-0.18	-1.13	-1.72	-5.45
	Multivariate					116.19	17.72

Source: Data analysis for this study

Table 5-4 Non-Normal Data before and after Transformation

		BEFORE TRANSFORMATION	AFTER TRANSFORMATION
		Market1	Market1 (Transformed)
N	Valid	241	241
	Missing	0	0
Mean		1.28	.0749
Std. Deviation		.607	.1499
Variance		.368	.022
Skewness		2.687	1.808
Std. Error of Skewness		.157	.157
Kurtosis		8.861	2.272
Std. Error of Kurtosis		.312	.312
Minimum		1	.00
Maximum		5	.70

Source: Data analysis for this study

The Table 5-4 shows that after transformation of the positive skewed variables, the related critical ratio for skewness and kurtosis becomes more normally distributed.This is indicated by the critical ratio under the threshold value of ±2.58. After transformation was conducted Market1 is normally distributed with skewness improved from 2.687 to 1.808 and kurtosis decreased from 8.861 to 2.272, which are under the acceptable value of 2.58.

5.4.1.2 Outliers

The detection of univariate outliers is commenced by establishment of the threshold for designation of outliers by converting the data values to a standard score (z-score), which has a mean of zero and a standard deviation of one. For large sample size (above 80 observations) the guideline suggests that the threshold value of a standard score range from 3 to 4 (Hair, et al., 2006).

Table 5-5Univariate Outliers

Variable	Case No.	Z-Score
Total country sales	194	6.13367
	172	4.48571
	16	4.48571
Intl experience	47	4.07844
	162	4.07844
	178	4.07844
	193	4.07844

Source: Data analysis for this study

Based on the above suggestion, univariate outliers were calculated using the standardised (z) score up to 4. Table 5-5 shows a table with a cut-off value at z-score = 4.0. The result shows that the variables *total country sales* and *international experience* have several outliers which have standardised scores more than 4.0. After screening has been undertaken of the raw data, the variables were considered representative of the target population; therefore it was decided not to remove the outliers. Remedial treatment was carried out where necessary at the analysis stage.

5.4.1.3 Multivariate Outliers

A multivariate analysis will be performed for examining a complete variate, such as the independent variables in regression or the variables in factor analysis. Although some observations fall within the expected range on an individual basis, they may become outliers when combined with other variables. Mahalanobis distance was computed to evaluate the multivariate outliers. The Mahalanobis distance wasevaluated as χ^2 with degrees of freedom equal to the number of variables at $p<.001$ (Tabachnick & Fidell, 2007). In this current study, as mentioned earlier, 27 variables are used. Cases with Mahalanobis distance

higher than χ^2 (27) = 55.476 (Tabachnick & Fidell, 2007, p. 949) are multivariate outliers.

It was identified that cases 35 (d^2= 87.767), 37(d^2=, 78.327) and 232 (d^2= 69.666) are outliers in this data set. After outliers had been identified in these ways, it was decided to retain them for data analysis as they only represented a small percentage of cases (1.24 percent). Multivariate normality of the observed variables was assessed through AMOS 19.0 normality check procedure. Details of the test are provided in a later subsection.

5.4.2 Multicollinearity

In order to determine if multicollinearity exists among variables, bivariate correlations were examined to determine if any correlations exceeded a value of 0.70, which indicates possible multicollinearity (Tabachnick & Fidell, 2007). Examination of Pearson correlation indicated that there are three correlations above 0.70, indicating there is possible multicollinearity in the variables. However, because the researcher uses the construct at a later stage, variables with correlation above 0.70 were retained for further analysis.

Another method to assess multicollinearity involves computation of the Variance Inflation Factor (VIF). The researcher used computation of the VIF, a process whereby each independent variable is modelled as a dependent variable and all remaining independent variables are regressed against the dependent variable. The variance which is not explained by the independent variables is termed the tolerance. The VIF for each variable is computed as VIF = 1/tolerance. VIF values over 5.3, and concurrently small tolerance values of < 0.19, indicate correlations among variables over 0.90, or a high degree of

multicollinearity (Hair, et al., 2006). As a rule of thumb, if tolerance is less than .20, a problem with multicollinearity is indicated. The result shows that tolerance is less than .20 indicating no multicollinearity in the data profile.

5.5 Validity and Reliability Assessment

Validation is concerned with whether a variable measures what it is supposed to measure (Bollen, 1989). Construct validity is the extent to which a set of measured items actually reflects the theoretical latent construct they are designed to measure (Hair, et al., 2006). There are four basic approaches to establishing construct validity: content or face validity, convergent validity, discriminant validity and nomological validity (Hair, et al., 2006; Nunnaly & Bernstein, 1994). In this study we use only three types of validity, since face validity was established based on the content of corresponding items.

5.5.1 Convergent Validity

Convergent validity can be assessed from the measurement model by determining whether each indicator's estimated pattern coefficient on its posited underlying construct factor is significant, that is, greater than twice its standard error (Anderson &Gerbing, 1988). As can be seen in Table 5.6 each variable has a critical ratio larger than twice its standard error, which indicates that convergent validity is not a problem.

Table 5-6 Model Parameter Estimates

			Standardised Estimate	Critical Ratio	P
IBS2	<---	IBS	0.911		
IBS3	<---	IBS	0.635	9.496	***
IBS1	<---	IBS	0.789	11.195	***
MKH3	<---	MKH	0.576		
MKH2	<---	MKH	0.851	7.445	***
MKH1	<---	MKH	0.691	7.505	***
ComLead	<---	ESC	0.962		
Bus	<---	ESC	0.616	8.612	***
GovOf	<---	ESC	0.699	9.495	***
IntlPerf1	<---	INPERF	0.922		
IntlPerf3	<---	INPERF	0.641	6.096	***
Age1	<---	TIME	0.866		
Age2	<---	TIME	0.997	24.462	***
Age3	<---	TIME	0.922	21.458	***
Market1X	<---	MARKET	0.776		
Market2	<---	MARKET	0.57	5.211	***

Source: Data analysis for this study

Factor loadings are all significant, as required for convergent validity. The lowest are .57 (Market2) and .58 (MKH3).

Further, we may check our convergent validity by looking at two additional measures (Hair, et al., 2006):

- Variance Extracted (AVE) by each construct and,
- Construct Reliabilities (CR).

Variance Extracted (AVE)

The variance extracted can be calculated by using standardised loadings:

$$VE = \frac{\sum_{i=\lambda i}^{n} 2}{n}$$

where λ represents the standardised factor loading and i is the number of items. In other words, it is the average squared factor loading (Hair, et al., 2006).

The variance extracted should be higher than the square correlation as presented in Table 5.10. It means that individual measured items should represent only one latent variable.

Table 5-7 Average Variance Extracted (AVE)

CONSTRUCTS	VARIANCE EXTRACTED THRESHOLD >.5
IBS	0.6
MKH	0.5
ESC	0.6
INPERF	0.6
MARKET	0.5
TIME	0.9

Source: Data analysis for this study

A good rule of thumb is that AVE of .5 or higher indicates adequate convergent validity. An AVE less than .5 indicates that, on average, there is more error remaining in the items, that there is variance explained by the latent factor structure that imposes on the measure (Hair, et al., 2006). None of the constructs have AVE below .5, so that this indicates adequate convergent validity in this study.

Construct Reliability

Coefficient alpha is a commonly used measure of reliability; it may, however, 'may understate reliability' (Hair, et al., 2006:777). Among other available measures, construct reliability (CR), similar to the coefficient alpha, is frequently used in conjunction with SEM (Hair, et al., 2006). Consequently, in

this study, which uses SEM, construct reliability is used instead of coefficient alpha.

Construct reliability was confirmed by applying the construct reliability index of a structural equation model. Construct reliability of Management Know-How, International Business Skills, Entrepreneur Social Capital, International Performance, Market, and Time in the full model was confirmed by applying construct reliability index which is analogous to the coefficient alpha (Fornell & Larcker, 1981; Hair, et al., 2006) as follows:

$$ContructReliability = \frac{(\sum_{i=}^{n} \lambda i)^2}{(\sum_{i=}^{n} \lambda i)^2 + (\sum_{i=}^{n} \delta i)}$$

The numerator for calculating construct reliability is equal to the square of the sum of the standardised factor loadings which are represented by λi, the denominator is equal to the square of the sum of the standardised factor loading plus the sum of the variance terms for a construct (δi). The measurement error is 1.0 minus the reliability of indicator, which is the square of the indicator's standardised loading, represented by (δi). The reliability indicator for each construct is presented in Table 5-12.

Table 5-8Construct Reliability Index

Factors	IBS	MKH	ESC	INPERF	MARKET	TIME	Item Reliabilities	Error
Variables								
IBS2	0.91						0.83	0.17
IBS3	0.64						0.40	0.60
IBS1	0.79						0.62	0.38
MKH3		0.58					0.33	0.67
MKH2		0.85					0.72	0.28
MKH1		0.69					0.48	0.52
ComLead			0.96				0.93	0.07
Bus			0.62				0.38	0.62
GovOf			0.70				0.49	0.51
IntlPerf1				0.92			0.85	0.15
IntlPerf3				0.64			0.41	0.59
Market1X					0.78		0.60	0.40
Market2					0.57		0.32	0.68
Age1						0.87	0.75	0.25
Age2						1.00	0.99	0.01
Age3						0.92	0.85	0.15
Average Variance Extracted (AVE)	62 %	51%	60 %	63%	50 %	87%		
Construct Reliability	0.83	0.75	0.81	0.77	0.63	0.95		

Source: Data analysis for this study

Nunnally and Bernstein (1994) suggest some useful guidelines for interpreting the reliability index. In exploratory research, modest reliability in the range of 0.5 to 0.6 will suffice. For basic research, it is argued that reliability beyond 0.7 is necessary. In an applied setting, a reliability of 0.90 is the minimum. The high reliability values of all measurement scales for this research, 0.83, 0.75, 0.81, 0.77, 0.63 and 0.95 respectively for International Business Skills, Management Know-How, Entrepreneur Social Capital, International Performance, Market and Time, suggest that all scales except for the Market construct (0.63), have achieved a satisfactory level, indicating an excellent acceptable fit of reliability of the study. However, we retained Market in the model, since 0.63 is not far from the cut-off

point of 0.70. Therefore no modification is necessary for the construct. Moreover Hair et al. (2006) suggest that reliability of 0.60 may be acceptable, provided that other indicators of a model's constructs validity are good.

In sum, the AVE estimates all exceed .5 and the Construct Reliability estimates all exceed .7, except for Market (.63). In addition, the model fits relatively well, based on GOF measures. Therefore all the indicator items are retained at this point and adequate evidence of convergent validity is provided

5.5.2 Discriminant Validity

Since discriminant validity is considered a necessary test of construct validity, perhaps an even stronger test than convergent validity (Wainer & Braun, 1988), it was applied for the investigation of the distinctiveness of some constructs: international business skills, entrepreneurial Social Capital, management know-how, International Performance, Market, and Time. The Fornell and Larcker (1981) method was used to assess discriminant validity of the constructs. In order to test the discriminant validity, two methods will be discussed in detail as follows:

- Examining the correlation between item loadings and construct; and
- Examining the correlation among construct scores and square root of the AVE.

Correlation between Item Loadings and Construct

Following the correlation analysis between item loadings and their respective constructs, the correlation analysis between constructs is further conducted to provide evidence as to whether the first-order constructs measure their respective second-order construct.

Table 5-9 Correlation between item loadings and constructs

			Standardised Estimate	Critical Ratio	P
IBS3	<---	IBS	0.64	9.496	***
IBS1	<---	IBS	0.79	11.195	***
IBS2	<---	IBS	0.79		
MKH3	<---	MKH	0.58		
MKH2	<---	MKH	0.85	7.445	***
MKH1	<---	MKH	0.69	7.505	***
ComLead	<---	ESC	0.96		
Bus	<---	ESC	0.62	8.612	***
Gov	<---	ESC	0.70	9.495	***
IntlPerf1	<---	INPERF	0.92		
IntlPerf3	<---	INPERF	0.64	6.096	***
Age1	<---	TIME	0.87		
Age2	<---	TIME	0.99	24.462	***
Age3	<---	TIME	0.92	21.458	***
Market1X	<---	MARKT	0.78		
Market2	<---	MARKT	0.57	5.211	***

Source: Data analysis for this study

As a rule of thumb, all items are loading in their construct and there is no indication of cross loadings.

Comparing the square root of AVE with squared inter-construct correlation (SIC)

The last procedure in testing discriminant validity is checking the square root of the AVE. This can be demonstrated by comparing the square root of the AVE for each construct/dimension with the correlations between the construct and other constructs in the model. It can be assessed by comparing the variance extracted percentages for any two constructs with the square of the correlation estimate (Fornell & Larcker, 1981). The evidence of discriminant validity is shown when the square root of the AVE of each construct is larger than the

correlations between the construct and any other constructs (Staples, et al. 1999). The rule of thumb states that the square root of the AVE of each construct should be larger than the correlations of the specific construct with any other constructs (Chin 1998a). Unfortunately, the guidelines regarding how much larger the AVE should be as compared to the correlations among constructs are not available (Gefen& Straub, 2005).

Table 5-10 Discriminant Validity

Constructs	IBS	MKH	ESC	INPERF	MARKET	TIME
IBS	1.00					
	0.6					
MKH		1.00				
	0.04	0.5				
ESC			1.00			
	0.01	0.03	0.6			
INPERF				1.00		
	0.03	0.00	0.04	0.6		
MARKET					1.00	
	0.04	0.00	0.07	0.05	0.5	
TIME						1.00
	0.01	0.01	0.00	0.10	0.02	0.9

Source: Data analysis for this study

Note: the diagonal highlighted values are the AVE

The assessment was conducted and it is shown on the table that all corresponding squared inter-construct correlation estimates (SIC) are lower than AVE. This means the indicators have more in common with the construct they are associated with than they do with other constructs. Therefore the constructs in the model demonstrate discriminant validity.

5.5.3 Residual distribution

After model estimation, significant residuals were investigated. Significant residuals indicate a substantial prediction error for a pair of indicators. The residuals should be small and centred around zero. A significant residual value greater than ±2.58 is considered statistically significant at the 0.05 level (Hair, et al., 2006; Tabachnick & Fidell, 2007). The data examination revealed two residual values exceed 2.58. However, Hair et al. (2006) state that residuals in the range of 5 percent of the total samples are strictly by chance, so that two residuals (0.8 percent) in the model are considered not harmful to the analysis.

5.6 Test of the Model

Evaluation of the assumptions for structural equation modelling application, statistical technique, measurement model development, full structural equation model construction and testing the proposed hypotheses 1 to 12 are explained in this section. Following Arbuckle's recommendation to undertake two steps of SEM, the researcher performed (1) the Measurement Model and (2) the Structural Model.

5.6.1 Scale Validity and Reliability

The measurement model was conducted using Confirmatory Factor Analysis (CFA).

As has been mentioned in the previous section, the researcher proposed three groups of latent constructs:

- Exogenous Contruct I as a construct of the Entrepreneurial Human Capital, which consists of International Business Skills, Management Know-How and International Orientation,
- Exogenous Construct II as a construct of the Entrepreneurial Social Capital, which consists of Relationship with Business people, Government, and Community Leaders, and
- Endogenous Construct for internationalisation, which consists of International Performance, Market and Time.

Each variable in this study acts as an indicator for each factor. Therefore a confirmatory factor analysis was performed to measure the validity of each construct.

5.6.1.1 CFA Exogenous Construct I: Entrepreneurial Human Capital

The relative importance of the various dimensions of Human Capital embodied in the entrepreneur, as these relate to internationalisation of SMEs, has been extensively researched by scholars (Bijmolt & Zwart, 1994; Cavusgil & Naor, 1987; Manolova, et al., 2002; Miller, 1993; 1997; Ruzzier, et al., 2007). They identified several dimensions of Human Capital that had a positive relationship with internationalisation, for example:

- International orientation (the extent of travel, time lived, studies and employment abroad);
- International business skills (international work experience, international business education foreign languages, expertise in technology and communication, personal networks);
- Management know-how (motivating employees, negotiating team building and management and verbal communication); and

We measure our Entrepreneurial Human Capital construct with three dimensions. The first is Management Know-How: motivating employees, developing personal business relationships and team building management.

The second dimension is personal networks and relationships abroad, verbal communication, and negotiation skills, as International Business Skills. The last is International orientation (IOR) (the extent of travel, foreign language, and studies and employment abroad). Our focus in this study is to investigate these individual dimensions' relationship to internationalisation's dimensions.

The reliabilities of factors in Entrepreneurial Human Capital (EHC) were assessed with Cronbach's Alpha. From 241 effective samples, the reliability estimate for each construct is as follows. The reliability for International Business Skills is 0.81, and for Management Know-How is 0.73. Therefore all scales of Entrepreneur Human Capital show acceptable Cronbach Reliabilities, except for 'International Orientation' (IntOr), which is 0.58.The low reliability of international orientation might be due to low factor loadings that are .40-.58. Cronbach's Alpha increases as the number of items in the scale increases This reflects the assumption that scales and instruments with a greater number of items are more reliable (Garson, 2010). Therefore IOR will be removed from further analysis.

The first factor for Entrepreneur Human Capital is International Business Skills which is postulated as indicated by three skills related measures (IBS1, IBS2, and IBS3). The second factor of Human Capital is Management Know-How which is postulated as reflected by MKH1, MKH2, and MKH3. These two factors are combined to form a single measurement model as presented in Figure 5-4. All regression coefficients are statistically significant (Table 5-11).

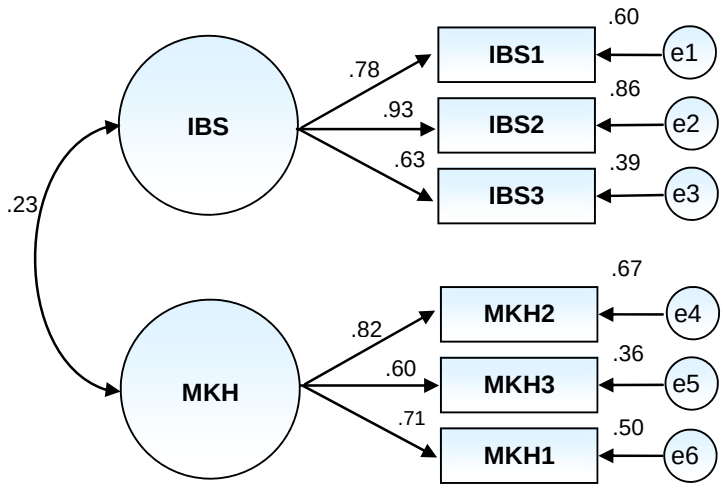


Figure 5-4International Business Skills and Management Know-How Measurement Model Standardised Estimates

This model shows that the three constructs are fit. It shows a good fit on all indices: χ^2 = 20.956, CMIN/*df* = 2.60, RMSEA = 0.083, SRMR = 0.049, GFI = .973, TLI = .947, CFI = .972.

Table5-11Entrepreneurial Human Capital Measurement Model Parameter Estimates

Item Code	Item Description	Mean	Std. Dev.	Standardised Estimate
IBS1	Networking skills	3.86	0.63	0.78
IBS2	Negotiating skills	3.73	0.62	0.93
IBS3	Communication skills	3.59	0.64	0.63
MKH1	Team Building Management skills	3.89	0.59	0.71
MKH2	Motivating Employees skills	3.93	0.61	0.82
MKH3	Personal Relation skills	3.74	0.63	0.60

Source: Data analysis for this study

Table 5-11 depicts the mean and standard deviation of the international business skills that belong to SME owner-managers. The data show that most SME owner-managers have good networking skills and negotiating (means 3.86

and 3.73 respectively). For Management Know-How, the data show that most SME owner-managers have good competency in motivating employees (mean 3.93) and team building management skills (mean 3.89).

5.6.1.2 CFA Exogenous Construct II: Entrepreneurial Social Capital

In addition to the entrepreneur's Human Capital, Social Capital also affects a firm's internationalisation process (Chetty & Agndal, 2007).

This current study is using the scale developed by Acquaah (2007), which is modified from study done by Peng and Luo (2000). Three factors designated as latent variables are proposed in this study as Entrepreneur Social Capital. As stated in the previous section, the three variables are relationship and information with other business, such as the relationship with suppliers, competitors and customers (Bus), information and relationship with community leaders (ComLead), with items such as relationship and information from local chiefs and religious leaders (Imam, priest etc.), and also from Government (Gov), that is relationship and information from City Councils,regional national Government, supporting institutions and investment board. However, due to low loading in supporting institutions (Gov4) and investment board (Gov5), these two items are exempted from the Gov construct.

The final model consists of Gov with underlying constructs of Gov1, Gov 2 and Gov 3. The proposed model confirmed the three constructs proposed in this research and achieved a good fit overall on any index: chi-square(χ^2) = 37.350, df = 15, CMIN/df = 2.5, GFI = 0.963, TLI = 0.971 and CFI = 0.984, while the regression weights indicated a significant level for all coefficients as shown in Table 5.12.

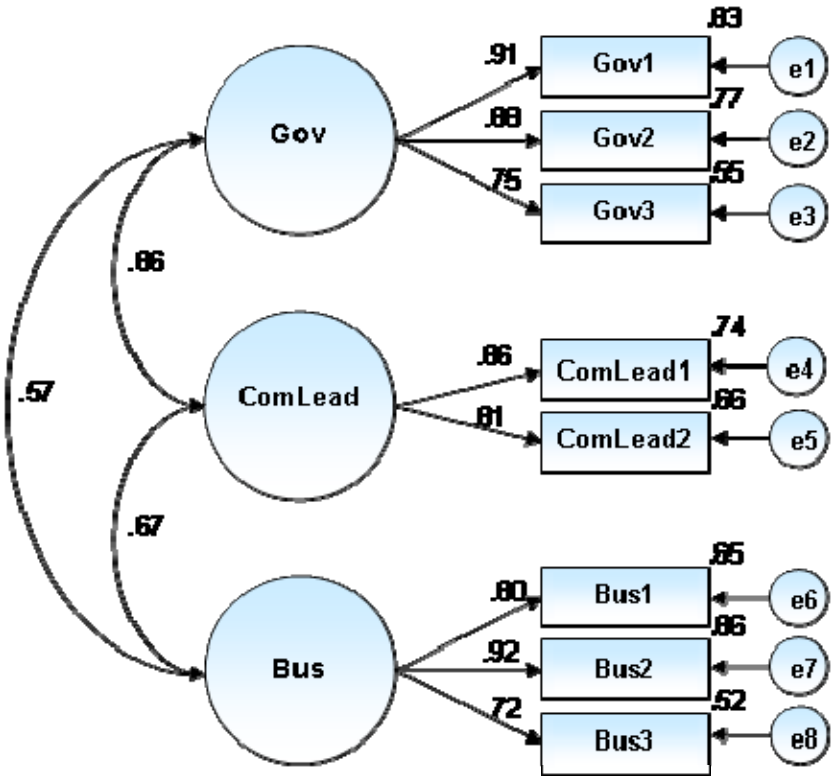


Figure 5-5 Entrepreneurial Social Capital

Table 5-12 Entrepreneurial Social Capital Parameter Estimates

Item Code	Item Description	Mean	Std. Dev.	Standardised Estimate
Gov1	Relationship and info City Council	2.80	1.109	0.91
Gov2	Relationship and info Regional Government	2.65	1.030	0.88
Gov3	Relationship and info National Government	2.43	.987	0.75
ComLead1	Relationship and info Local Chief	2.60	1.173	0.86
ComLead2	Relationship and info Religious Leader	2.38	1.104	0.81
Bus1	Relationship and Info Suppliers	3.16	1.068	0.80
Bus2	Relationship and info Customers	3.25	1.082	0.92
Bus3	Relationship and info Competitors	3.06	1.150	0.72

Source: Data analysis for this study

Table 5-12 presents the items in relation to Entrepreneur Social Capital, which measure how strong or weak is the relationship between SME owner-managers

with their stakeholders (government, community leader and business); and also how much information is gained from that relationship. The highest score for Government is relationship and information gained by SMEs from city councils (mean 2.80); for the Community Leader constructs the highest score is the relationship with the local chief such as the tribes leader. Surprisingly, the relationship between owner-managers and religious leaders is below average (mean 2.38), indicating that the relationship and information shared with religious leaders is not intensive. It is a different story with relationship and information sharing with business, operationalised as relationship with suppliers, customers and competitors. The data indicate that the owner-managers have good relationship and information sharing pertaining to internationalisation with suppliers, customers and competitors (means 3.16, 3.25, and 3.06 respectively).

In line with the purposes of this current study, as mentioned in Chapter 2, entrepreneurial Human Capital is used at construct level and not at items level; therefore the composite score for each measure is calculated. There are two general methods to aggregate variables into a composite score: unit weights and differential weights (Tharenou, et al., 2007). The unit weights method gives equal weight to all items in a scale (Bobko,Roth,Buster, 2007). Bobko, et al. (2007) state that unit weights have a solid record for predictive validity and are highly appropriate approaches under many circumstances. The current study use unit weight measurement, which computed all items and then summed or averaged them. The average score was utilised, due to its simplicity, without losing its accuracy (Hair, et al., 2006). Further, the CFA for Entrepreneur Social Capital construct is performed.

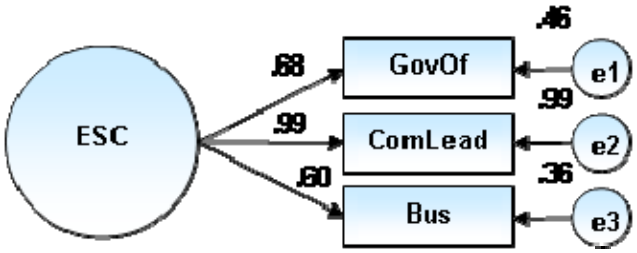


Figure 5-6 Entrepreneurial Social Capital

Table 5-13 Composite Score Entrepreneurial Social Capital

Item Code	Number of items	Standardised Estimate
Gov	2	0.68
ComLead	2	0.99
Bus	3	0.60

Source: Data analysis for this study

However, with only three variables, the GFI value for the final model of the Entrepreneur Social Capital construct cannot be estimated, as the model results in a zero degree of freedom. Entrepreneur Social Capital's distinct sample moments are 6, and number of distinct parameters to be estimated also 6, which makes df (6-6) zero. AMOS 19.0 nevertheless still estimates the parameters of the scale in which the result supports robustness of the construct (Figure 5-6 and Table 5-13). The path coefficient of each item in the differentiation scale is significant ($p< 0.05$) and reasonably high (0.60-0.99), hence establishing the convergent validity of the scale.

5.6.1.3 CFA Endogenous Construct for Internationalisation

Rialp and Rialp (2001) define internationalisation as 'a set of operations that facilitate the establishment of more stable relationships between a firm and the international markets throughout a learning process of growing international involvement and patterns of development that may be simultaneously inward and outward'. The definition mainly uses the Stage Model in explaining internationalisation, and incorporates Network Perspective and RBV. In the research by Ruzzier et al. (2007) it was found that, in order to measure the degree of internationalisation of firms, the main dimensions of International Performance, Market, and Time can be used.

Dimensions of Internationalisation

International performance was measured with 1) ratio of export sales to total sales (ESTS) and 2) ratio of foreign sales to total sales (Aaby & Slater, 1989; Cavusgil & Kirpalani, 1993; Gankema, et al., 2000; Reid, 1981a).

The ***Time*** dimension will be measured using three variables:

- Time or the age of company when starting international activities;
- Time or the age of company in reaching 10 percent of foreign sales in total sales; and
- Time or the age of company in reaching 20 percent of foreign sales in total sales.

The ***Market*** of entry is adopted from Manolova et al. (2002). ***Market*** is measured by:

- how many foreign markets there are in which the firm's products are sold, and

- in which country group are these products sold.

Here we try to assess 'businesses or 'psychic' distance or the location of the market, which is based on cultural and geographical distance. Next is CFA of the internationalisation measurement model.

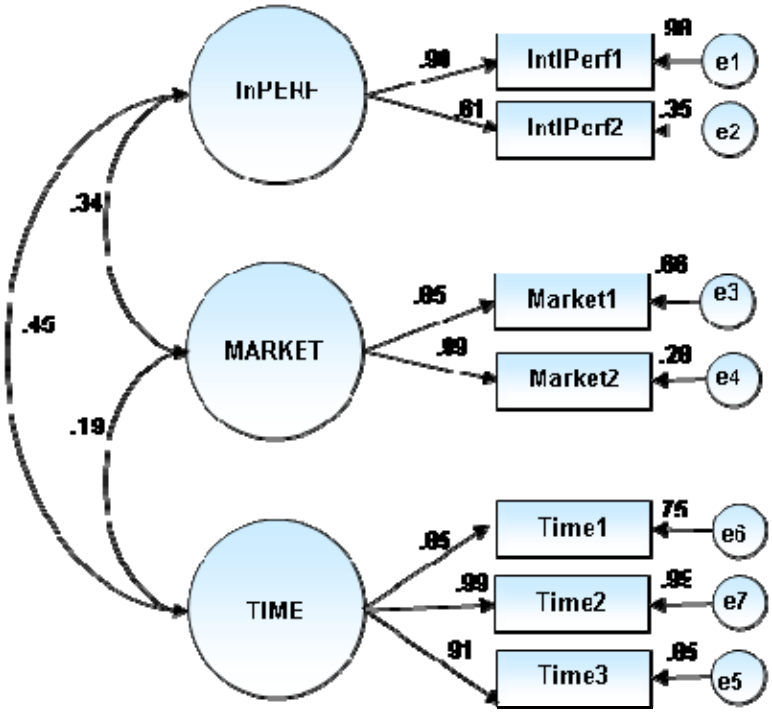


Figure 5-7 Internationalisation Measurement Model

The proposed model of internationalisation confirmed the three constructs proposed in this research. The model of International Performance, Time, and Market achieved a good fit on overall indices: χ^2 = 34.281, CMIN/*df* = 3.1, RMSEA = 0.095, SRMR = 0.032, GFI = .962, TLI = .955, CFI = .976. Except for value of RMSEA which have slightly above the recommended value of 0.08, all the regression weights indicated a significant level for all coefficients (see Table 5-14).

Table 5-14 indicates that internationalisation performed potentially well in the export market, with means total export is 2.72. In terms of number of markets, on average SMEs enter 1-5 countries and enter two country groups on average. SME internationalisation is characterised by later internationalisation. SMEs tend to delay their involvement in overseas markets.

Table 5-14 Parameter Estimates

Item Code	Item Description	Mean	Std. Dev.	Standardised Estimate
IntlPerf1	Total export	2.72	1.157	0.98
IntlPerf3	Employees' time in export activities	2.32	1.258	0.61
Market1	Total country of sales	1.25	.532	0.82
Market2	No. of country groups	1.78	1.067	0.53
Age1	Company age when 1st export or import	2.66	1.379	0.85
Age2	Company age when export reach 10%	2.64	1.370	0.99
Age3	Company age when export reach 20%	2.33	1.293	0.91

Source: Data analysis for this study

5.6.2 Composite Variable

As mentioned previously, the analysis of the structural model and the testing of hypotheses are carried out at construct level and not at items level. Composite scores are calculated using unit weights, where all items comprising the scale are summed or averaged. Average score is then selected due to the simplicity of method without forfeiting accuracy (Hair, et al., 2006).

All measurement items of Management Know-How, International Business Skills, Entrepreneur Social Capital, International Performance, Market, Time are aggregated into composite variables. The descriptive data are shown in Table 5-15.

Table 5-15 Composite Variables

Variables	No. of items	Mean	Std Dev	Skewness	Kurtosis	Construct reliability
MKH	3	2.54	1.28	0.38	-0.92	0.75
IBS	3	0.93	0.57	1.35	1.20	0.83
ESC	3	3.86	0.50	-0.07	0.43	0.81
IP	2	3.73	0.54	-0.69	1.43	0.77
Market	2	2.46	0.77	0.94	0.40	0.63
Time	3	2.79	0.84	-0.27	-0.89	0.95

Source: Data analysis for this study

5.6.3 Missing values

Since we use EM to handle missing values, after aggregating the items into composite variables, missing values do not exist.

5.6.4 Normality, Outliers, Linearity and Homoscedasticity

Continuous variables with absolute values of skewness less than 2 and absolute values of kurtosis not greater than 5 (Kendal & Stuart, 1958, cited in Tharenou, et al., 2007, p. 201) are considered normal. Table 5-15 shows that skewness and kurtosis of the composite variables are within the acceptable range, therefore non-normality is not a threat in this current study.

Mahalanobis distance was computed to evaluate the multivariate outliers. The Mahalanobis distance was evaluated as χ^2 with degrees of freedom equal to the number of variables at $p<.001$ (Tabachnick & Fidell, 2007). In this current study, six composite variables are used. Cases with Mahalanobis distance higher than χ^2 (6) = 22.458 (Tabachnick & Fidell, 2007, p. 949) are multivariate outliers. The highest Mahalobis distance is 20.538 (case number 153), therefore multivariate outliers do not exist.

Linearity among composite variables is checked using a scatter plot as suggested by Tabacknik and Fidell (2007). The scatter plot matrix containing the scatter plots amongst all pairs of composite variables are tested and, in general, there is no evidence of a nonlinearity relationship among composite variables.

5.6.5 Specifying the Structural Model

The critical step in developing the SEM model is in Stage 2. In Stage 5 we specify the structural model by assigning the relationship from one construct to another based on the proposed theoretical model. The full model specification is displayed in Figure 5-8.

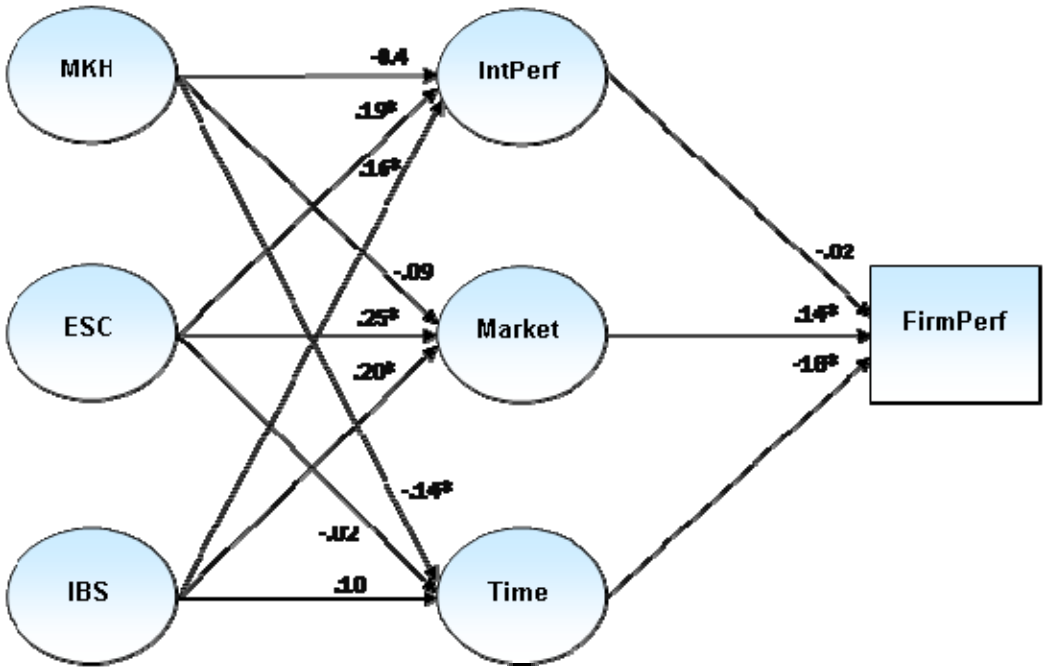


Figure 5-8 Full Model Specification with Standardised Loadings

The structural model analysed and presented in Figures 5-18 to 5-20 provide the results necessary for the test of the 12 hypotheses. The overall model fit was

acceptable (χ^2 = 6.788, df = 3, p = 0.079; normed χ^2 = 2.26; GFI = 0.992; RMSEA = 0.073 IFI = 0.967; CFI = 0.961).

Table 5-16 indicates the statistically significant relationship as follows: Entrepreneur Social Capital and International Performance, Management Know-How and Time, International Business Skills and Time, International Business Skills and International Performance, Entrepreneur Social Capital and Market, Time and Firm Performance, Market and Firm Performance. There are seven out of 12 statistically significant relationships; however, because Hypothesis 3proposed that Management Know-How has a positive relationship with Time, while the result indicates there is a negative statistically significant relationship, this leaves six out of 12 hypotheses as supported as, can be seen in Table 5-18, 5-19, and 5-20.

Table 5-16 Standardised Estimate Complete Path Diagram

			Standardised Estimate	Critical Residual	P
IntPerf	<---	ESC	0.19	2.967	0.003
Time	<---	MKH	-0.137	-2.06	0.039
IntPerf	<---	MKH	-0.043	-0.651	0.515
Time	<---	IBS	0.101	1.534	0.125
Market	<---	IBS	0.202	3.206	0.001
IntPerf	<---	IBS	0.157	2.428	0.015
Time	<---	ESC	-0.016	-0.237	0.812
Market	<---	ESC	0.255	4.073	***
Market	<---	MKH	-0.086	-1.344	0.179
FirmPerf	<---	Time	-0.178	-2.667	0.008
FirmPerf	<---	Market	0.164	2.489	0.013
FirmPerf	<---	IBS	-0.152	-2.351	0.019
FirmPerf	<---	IntPerf	-0.005	-0.073	0.942

Source: Data analysis for this study

Table 5-17 contains the standardised residual of the final model examined by AMOS 19.0 software. The threshold value for this residual is ±2.58 (Hair, et al., 2006). The data examination revealed no residual exceeding this threshold, therefore no modification of the model was necessary.

Table5-17 Standardised Residual

	IBS	MKH	ESC	Market	Time	IntPerf	FirmPerf
IBS	0						
MKH	0	0					
ESC	0	0	0				
Market	0	0	0	0			
Time	0	0	0	0	0		
IntPerf	0	0	0	0	0	0	
FirmPerf	-2.205	-1.37	-0.761	0	0	0	0

Source: Data analysis for this study

5.7 Results of Hypothesis Testing

The hypotheses proposed a relationship between the two Entrepreneurial Human Capital constructs (Management Know-How and International Business Skills) and internationalisation constructs (International Performance, Market, Time). Table 5-18 depicts the results for the hypotheses.

Table5-18 Summary of Results of Hypothesis Testing (H1-H6)

Hypothesis		Result
H1	Management Know-Howof the owner-managers has a positive relationship to International Performance	Not supported
H2	Management Know-How of the owner-managers has a positive relationship to the number of International Markets	Not supported
H3	Management Know-How of the owner-managers has a positive relationship to time of starting internalisation	Not supported
H4	International Business Skills of the owner-managers has a positive relationship to International Performance	Supported
H5	International Business Skills of the owner-managers has a positive relationship to the number of international markets	Supported
H6	International Business Skills of the owner-managers has a positive relationship to time of starting internationalisation	Not Supported

Source: Data analysis for this study

The relationship between Management Know-How and International Performance, Management Know-How and Market and Management Know-

How and Time all are not supported. The relationship between International Business Skills and International Performance, International Business Skills and Market are found positive and statistically significant, thus supporting Hypotheses 4 and 5. The relationship between International Business Skills and Time is found not to be positive or statistically significant.

Hypotheses 7-9 proposed relationships between Entrepreneurial Social Capital (Gov, ComLead and Bus) and Internationalisation (International Performance, Market and Time). Table 5-19 summarises the results of these analyses.

Table5-19 Summary of Results of Hypothesis Testing (H7-H9)

Hypothesis		Result
H7	Entrepreneurial Social Capital of the owner-managers has a positive relationship to International Performance	Supported
H8	Entrepreneurial Social Capital of the owner-managers has a positive relationship to the number of markets	Supported
H9	Entrepreneurial Social Capital of the owner-managers has a positive relationship to time of starting internationalisation	Not Supported

Source: Data analysis for this study

There is a positive and statistically significant relationship between Entrepreneur Social Capital and International Performance; a similar result also occurred in the relationship between Entrepreneur Social Capital and Market, thus support Hypotheses 7 and 8. There is no relationship between Entrepreneur Social Capital and Time.

Hypotheses 10-12 proposed an association between the Internationalisation construct (International Performance, Market and Time) and Firm Performance, as illustrated in Table 5-20.

Table 5-20 Summary of Results of Hypothesis Testing (H10-H12)

Hypothesis		Result
H10	International Performance has a positive relationship to Firm Performance	not supported
H11	Number of International Markets has a positive relationship to Firm Performance	Supported
H12	Time of starting internationalisation has a negative relationship to Firm Performance	Supported

Source: Data analysis for this study

Only two of three relationships between internationalisation constructs and Firm Performance are supported, namely the relationship between Market and Firm Performance and Time and Firm Performance. There is no relationship found between International Performance and Firm Performance.

5.8 Chapter Conclusion

The Chapter highlighted the quantitative analysis. It began with descriptive analysis, which presented the demographic analysis and followed this with the main data analysis using Structural Equation Modelling (SEM). The two steps of SEM began with the measurement model, after which the structural model was conducted. Finally the 12 proposed hypotheses in this study were presented, with sixout of the 12 hypotheses supported. A discussion of the findings is presented in Chapter 7.

Chapter 6 Qualitative Data Analysis

6.1 Chapter Introduction

This Chapter presents the findings of the interviews conducted with the owner-managers of SMEs in Indonesia. As discussed earlier in Chapter 4, the purpose of conducting semi-structured interviews was to explore and explain why some hypotheses were not supported. First, this Chapter presents information on the SMEs included in the qualitative phase. Second, the findings of the interviews are presented in relation to the association between the key constructs of this research, i.e., Management Know-How, International Business Skills, Entrepreneur Social Capital, internationalisation and Firm Performance.

6.2 Method

All the interviewees are the owners of SMEs; it is assumed they have good knowledge of issues related to the Human Capital and Social Capital in relation to its internationalisation particularly on factors such as Management Know-How,International Business Skillsand Entrepreneur Social Capital. As stated by Andersson (2000) that the entrepreneur is regarded as an important element in studying SME internationalisation and in the central factors that explain a firm's international behaviour. This gives some assurance that information obtained from the interviews is valid and reliable. Each interview lasted approximately 60-90 minutes, and was held at their own company a convenient time. The interviews were audio recorded with the interviewees' consent and subsequently transcribed. This was done to minimise researcher bias and provide good data quality. Using content analysis (Kolbe & Burnett, 1991), the transcribed texts were analysed. The themes that emerged from the interview

data were coded using the template approach (King, 1998) in which anticipated themes were identified and developed consistent with the research framework of this study. All coding was conducted using NVivo software.

All interviews were conducted in Indonesian by the researcher, because all the interviewees are Indonesian and the researcher's first language is Indonesian. The quotes presented in this thesis were translated into English using translation and back translation as recommended by Brislin (1970).

6.3 Characteristics of the SMEs Interviewed

Ten interviews were conducted face-to-face between 25 August and 15 September 2008. As explained in Chapter 4, interviewees were selected from survey respondents who agreed to a further interview. The cover letter of the questionnaire invited respondents in the quantitative phase to participate in the follow-up interview. From 246 respondents, 15 expressed their interest in participating in the next phase. After considering the type of industry and the geographic location of the SMEs, 10 SMEs were chosen for qualitative phases of the research. Table 6-1 summarises the information on SMEs interviewed.

The classifications of industry are based on the Ministry of Trade's classifications. There are two SMEs that produce toys from wood and soft material. Two SMEs produce silver accessories; one SME produces teak furniture. Two SMEs produce garment products, two SMEs leather products, and two cosmetic and natural healing products. The 10 SMEs differed in the number of employees, ranging from 15 to 70 at the time of the interviews. They also varied in the number of years since their establishment, ranging from a year to almost 40 years.

Table 6-1Summary of SMEs' Characteristics

SME	Product	Province	Approx.no.of employees	Interviewees		
				Position	Gender	Age
A	Leather Jacket and shoes	West Java	25	Owner	Male	41-50
B	Leather Jacket and shoes	West Java	20-70	Owner	Male	41-50
C	Cosmetics, body treatment	DKI Jakarta	30	Owner	Female	>50
D	Cosmetics, natural Healing, body treatment	Bali	15	Owner	Male	>50
E	Garment	Bali	40	Owner	Female	>50
F	Garment	Yogyakarta	40	Owner	Male	31-40
G	Toys	West Java	50	Owner	Male	>50
H	Toys	West Java	15	Owner	Male	31-40
I	Furniture	Yogyakarta	20	Owner	Male	31-40
J	Silver	Bali	45	Owner	Male	<30

Source: primary data, 2008

SMEs A and B produce leather products such as shoes, jacket, hat and bags. They are located in the same town where many SMEs specialise in leather products. SMEs C and D focus their business on cosmetics and natural healing, using natural herbs, mainly from Indonesia. SME C uses as entry mode a wholly owned branch overseas, while SME D uses the mode of entry of the sole distributor. SMEs E and F are garment manufacturers including batik Bali and batik Yogya, sarongs, shirts and skirts; they use direct exporting to sell their products overseas. SMEs G and H produce toys from woods and soft materials. SME G produces toys from wood and bamboo, such as Japanese-style dolls; SME H produces soft toys like teddy bears, koalas, dolphins and other popular animals. SME I produces carved furniture, such as cupboards, chairs and sofas. SME J makes silver jewellery ranging from small pendants to brooches, bracelets and so on.

The summary of interview is presented in Table 6-2. It covers topics pertaining to the International Business Skills, Management Know-How, Entrepreneur Social Capital, internationalisation and Firm Performance.

Table 6-2 Summary of Cases Related to Topics of the Current Research

SME	Products	MKH	IBS	ESC	Financial Resources
A	Leather Jacket and shoes	Claims he has ordinary skills in team building, but good at motivating employee and interpersonal skills	Claims he is good at networking, negotiation and verbal communication	Has ordinary relationship with suppliers, customers, competitors, government and local leaders	Own capital, borrowed from friends
B	Leather Jacket and shoes	Claims he is not very good at team building, motivation and interpersonal skills	Claims good at networking, negotiation and verbal communication	Has ordinary relationship with suppliers, customers, competitor, government, and local leaders	Borrowed from friends and associations
C	Cosmetics, natural healing	Claims she is good at motivating employee and interpersonal skills	Claims she has ordinary skills of networking, negotiating and presentation.	Has good relationship with suppliers, customers and competitors	Own capital
D	Cosmetics, natural healing	Claims he is good at motivating employee and team building skills.	Claims he has ordinary skills of networking, negotiating and presentation.	Has good relationship with suppliers, customers, competitors, government and local leaders.	Own capital, borrowed from family, from bank
E	Garment	Claims she is good at motivating employee and interpersonal skills.	Claims she has very good networking skills and good at negotiation and presentation	Has very good relationship with suppliers, customers and good relationship with competitors	Own capital
F	Garment	Claims he is very good at teambuilding, motivating employee andinterpersonal skills	Claims he is good at networking, negotiation and verbal communication skills	Has good relationship with suppliers, customers and government.	Own capital
G	Toys	Claims he is very good at motivating employee and good at team building and interpersonal skills.	Claims he is good at networking, and very good at negotiation and verbal communication skills	Has good relationship with suppliers, customers, competitor, government, and local leaders	Own capital

SME	Products	MKH	IBS	ESC	Financial Resources
H	Toys	Claims he is good at teambuilding, motivating employee andinterpersonal skills	Claims he is good at networking,, negotiation and verbal communication skills	Has good relationship with suppliers, customers, competitor, government, and local leaders	Own capital, borrowed from friend
I	Furniture	Claims he is good at teambuilding and interpersonal skills but poor at motivating employee skills.	Claims he is good at networking, negotiating and very good at verbal communication skills	Has good relationship with suppliers and customers	Own capital
J	Silver jewellery	Claims he is good at teambuilding, motivating employee and interpersonal skills.	Claims he is very good at networking and negotiating skills and good at verbal communication skills	Has good relationship with suppliers, customers, competitor, and local leadersand very good relationship with government	Own capital, borrowed from family

Source: primary data, 2008

6.4 Management Know-How, International Business Skills and Entrepreneur Social Capital

As part of human resources capital, managers or entrepreneurs become essential factors in internationalisation of SMEs. Many empirical researchers have shown that there are an array of factors influencing internationalisation of firms, including the manager or entrepreneur in the company, the characteristics of the organisation or company and environmental characteristics (Antoncic & Hisrich, 2000). Shepherd and Wiklund (2005) show the importance of managers of small business in exerting substantial influence on small business growth and performance. Based on interview with 10 SMEs most of the SME owner-managers claim that they have a good level of Management Know-How which is operationalised as motivating employees, team building and interpersonal skills. No matter what industry they are in, be

it handcrafts, cosmetics or others, the owner-managers claim that they themselves have a good level of Management Know-How. With regards to International Business Skills, the answer varies; most owner-managers say that they are good at networking, negotiation and verbal communication; two claim that they are very good at those three variables. Two mention that they just have ordinary skills of networking, negotiation and verbal communication. Sometimes SMEs owner-managers are reluctant to claim they are very good at certain skills. It is common in Asian countries for people try to appear humble about what they have and tend not to show off their capability or competency, especially to someone they have just met (the interviewer).

This can be seen in the case of two owner-managers:

> *I always have a lot of friends and colleagues not only relating to my business. We are very close to each other; sometimes we have a gathering with friends who have the same business and talk about collaboration between our businesses.* (Company A)

> *I have experience as a marketing manager in my previous job; therefore I know how to deal with people.* (Company D)

From these quotes, it is clear that these owners are in practice very good at International Business Skills, but in the survey they answer that they have only an ordinary level of International Business Skills. Thus this inconsistency between what someone says and what someone writes in the questionnaire may lead to bias in interpretation about the competency of SME owner-managers.

6.4.1 Competition

SMEs often lack knowledge about foreign markets and have few international contacts. As a result, SMEs may have to enter foreign markets consecutively rather than simultaneously, and may have to limit the number of foreign markets in which they operate (Agndal, et al., 2008). For this reason, in order to overcome the limitations they have for internationalising, SMEs use their relationships with other firms (Chetty & Wilson, 2003). Based on interview, most owner-managers assert that they have good relationships with their suppliers and customers. Some even claim that they have a good relationship with their local competitors, two owners' of SME say:

> *There is no competition here, because we believe that our products are different, our product is unique. We consider our competitors as a partner. We informally meet during the weekend. We are like brothers. For example, if we need materials in the middle of the night [markets are closed] we just go to his house and ask for the materials that we need easily. It would not happen if we did not have a good relationship.* (Company B)

> *For example, one rattan furniture company has an order from France, and he needs leather. I supply leather for them. The rattan furniture offers their customers leather product that they want. Then my friend offers us as to whether we can supply leather products for their buyer. That's because of a good relationship*.(Company A)

> *Another example was when my friend wants to send their products, handicrafts made from fragrant roots (akarwangi), she asked me to join the shipping because she cannot load their product to one shipping container. So I and other friends load our products into her shipping container. It saves us money.* (Company A)

This collaboration in line with Chetty and Patterson (2002)opinion that working together collectively may help firms overcome adversity and lack of motivation. From the interview also reveal how networks between businesses can open up

opportunities in overseas markets for other business. One owner-managers stated:

> *In my opinion, that's the art of small business; we become brothers we help each other to grow.* (Company A)

As has been discussed earlier, some enterprises do not think that their local competitors are competitors, because some believe that everything that they have received has been determined by God.It is a different matter when it comes to overseas competitors in the local market. As Indonesia opens up its markets, many products freely enter the Indonesian market. Chinese products, as in other countries, are among the highest number of imports: for example,

> *We attended a trade exhibition and the price of our leather jackets ranges from 750 thousand to 850 thousand rupiah (approx $80-$100). But the price of the Chinese leather (like) jackets, were only around 175 thousand rupiah. That really stunned us. But sometimes customers do not care whether or not it is a real jacket or only leatherette, as long as the price is low. For the customer who looks for price, this sometimes hurts our sales.* (Company A).

This is not the case in Bali. Of three SMEs interviewed all said that they did not have a close relationship with their competitors: for example,

> *We often meet in the market, face-to-face but we never talk about our overseas customers. The competition in this industry is quite intense.* (Company J)

> *We never talk about our customers. Even though they are nice but in conversation we should aware which information we can share, which we cannot.* (Company E)

> *I am really selective in terms of people who could come to my company. This is to ensure that we keep our ingredients secret from other companies.* (Company D)

6.4.2 Financial Resources

SMEs often have limited financial and managerial resources available for international expansion (Chetty & Campbell-Hunt, 2003b). Because of good relationships, some SME owner-managers use this as a means to help them acquire their working capital. Few entrepreneurs are able to borrow from banks or other institutional sources and hence depend to a large extent on more informal channels, including family and friends. In terms of capital the owner-manager prefers a loan from such a source, rather than through formal channels, such as a bank, as described by SME owner-managers:

> *…too many rules and requirements that must be met. If I have to go to the bank, I have to take all my certificates and it takes too long.*(Companies A, C, G, H)

> *They [the bank] give only small amounts of money, 50 million rupiah. That is not enough; I would rather borrow from my friends.* (Company A)

Friendship linkages were another form of informal support. The loans and general support that entrepreneurs gained from family and friends pointed towards a flexible interdependent and interactive system, which could operate only in a cultural environment of high trust and cooperation such as Indonesia.

6.4.3 Enterprise Subcontractor Networks

In order to fulfil orders from overseas buyers, an enterprise such as leather products, silver-smithing and toys subcontract the production to small enterprises around their villages or areas where they produce. The production of leather products in Garut (Companies A and B) have complex interactive processes. These involved a number of smaller enterprises carrying out different parts of the production process, involving a trust relationship that had not always been established rapidly. The general pattern was that the smaller

enterprises have to complete specific parts of the product. For example, for leather jackets, one smaller enterprise completes the collars and another is responsible for the sleeve. The parts of the jacket then return to the retailer (SMEs A and B) that in turn makes the finished goods. Such specialisation among subcontracted companies is done to control against products being imitated by other enterprises, and also in order to maintain good quality control. As they know, products of export quality require a higher standard of quality.

The soft toys enterprise (Company H) has a similar pattern in subcontracting their order to smaller enterprises. However, unlike the leather industry, the toys enterprise appeared to have a concentrated area around their enterprise. This enterprise develops the people in the area (Sukamulya, Bandung) where they have their business, so as to be able to undertake the production process of their toys. Then, it is easier to keep control of their production and incur less cost for travelling. Occasionally the company visited the smaller enterprise premises to check whether the production met their needs and meet the required standard.

Similar arrangements also happen in the silversmith enterprise in Ubud Bali; however, instead of subcontracting their product to other smaller enterprises in their area, the owner uses his own sister's enterprise to make some of his product. At times when orders increased more than usual he would recruit additional workers for his workshop in Ubud, and such workers came not from Bali but from Java:

> *Silver-smithing is a very delicate job, it needs high attention, patience and control during the process, therefore I am very careful to select the workers (silver artisans) as well as my subcontracting enterprise, and prefer they made it in my own workshop.*(Company J)

This implies that this silversmith enterprise tries to keep the design or product from others' knowledge. By subcontracting the product to his own sister's operations and sharing the machine to produce the product, the owner-manager keeps the product secret from competitors.

There is strong evidence, then, among the leather product, toys and silversmith enterprises that, subcontracting arrangements are very critical for the continuing existence of many enterprises.

6.4.4 Standard Products and Capital Supports

Export quality products normally have to meet certain standards requested by foreign buyers, so that it is important to have quality assurance in the enterprise. SMEs provide details about the design and ensure that the subcontracting firm is able to follow particular methods in production. The decision to pursue such arrangements by the SMEs is because they want to maintain certain standards for their products and meet specific requirements of overseas buyers. In terms of the order itself, most companies (leather product, garment, toys, furniture and silver-smithing) made their product to order. However, even though most of their products were based on orders, there was still room to introduce innovative ideas into the enterprises. Usually they make new innovative products as a sample and show it these to the buyer and normally the buyer make some changes to the design or take the new design as is. The details are shown in Table 6-3 below.

Table 6-3 Standard Product and Entry Mode

SME	Products	Standard Product or based on order	Entry Mode
A	Leather jacket and shoes	Mostly made by order	Direct export
B	Leather jacket and shoes	All made by order	Direct and indirect export
C	Cosmetics, natural healing	Mostly standard	Sole venture direct investment
D	Cosmetics, natural healing	Mostly standard	Sales representative
E	Garment	Mostly made by order	Direct export
F	Garment	Mostly standard	Direct export
G	Toys	Mostly made by order	Indirect export
H	Toys	All made by order	Indirect export
I	Furniture	All made by order	Indirect export
J	Silver	Mostly made by order	Direct and Indirect export

Source: Primary data, 2008

It was a different story for the cosmetics and natural healing companies (Companies C and D), who based their production on certified standards from the Indonesian government (Cara Pembuatan Kosmetik yang Baik, [CPKB] and Cara Pembuatan Obat yang Baik [CPOB]). Thus they must meet this standard to be able to sell their products. All the products that they have are standardised and one company, Company C, has indeed patented their product. The cosmetics company is able to make innovative products but still within the standard requirement. The different characteristics between handicraft products and cosmetics reflective the way they are marketed overseas: the former enterprise approaches this through direct or indirect export, while the latter uses sole venture direct investment or has a sales representative overseas.

6.4.5 First Country Destination, Reason for Choosing Country, Market Information and International Experience in Previous Jobs

In this section factors pertaining to the first country or overseas market destination, the reason for choosing a particular country, where SMEs gain

information from regarding markets abroad and whether or not SMEs have international experience in previous jobs are presented in Table 6-4.

Table 6-4 Summary of Cases related to topics of the current research

SME	Products	First country destination	Reason to choosethat country	Market information	International experience in previous jobs
A	Leather jacket and shoes	Middle East and South Africa	The competition is not intense and the standard quality is not very high	Competitors	Yes
B	Leather jacket and shoes	Australia	Meet at trade Exhibition in Jakarta	Friends, suppliers, local leaders, government (Ministry of Trade)	No
C	Cosmetics, natural healing	Malaysia	Geographical proximity, many colleagues	Very little information about overseas markets	Yes
D	Cosmetics, natural healing	Singapore	Big market for cosmetics with natural ingredients	Customers, local leader and government	No
E	Garment	The USA	Unsolicited order, buyer come	Suppliers and customers	Yes
F	Garment	The Nederland	Had cultural exhibitions in the Nederland	Government (Ministry of Cooperative and SMEs)	No
G	Toys	Japan	Unsolicited order, buyers come	Customers, suppliers, competitors, government.	No
H	Toys	Singapore, Australia	Direct from buyer	Customers, competitors, government (Chamber of Commerce)	No
I	Furniture	Australia	Suggested by his friend to export to Australia	Customers and competitors	No
J	Silver	The USA	Market interest	Customers, suppliers, government (NAFED), local leader	

Source: Primary data, 2008

Another issue arising from the in-depth interview is the first country destination for export products.The concept of psychic distance helps us to understand why owner-managers of the firm are sometimes reluctant to expand their market abroad. Johanson and Wiedersheim-Paul (1975) define psychic distance as the factor preventing or disturbing the flow in information between potential or actual suppliers and customers. Further, Nordstrom and Vahlne (1994, p. 42) redefined psychic distance as 'factors preventing or disturbing firm's learning about and understanding a foreign environment'. Consistent with the Stage Model, as has been mentioned earlier, the model is related to physical distance. Evans and Mavondo(2002) define psychic distance as 'the distance between the home market and the foreign market, resulting from perception of both cultural and business differences'. The main assumption is that firms are less likely to take up and/or continue business relations with countries that are perceived to be dissimilar to their country of origin (high psychic distance). Moreover, it is perceived that a sense of cultural proximity towards a foreign market (low psychic distance) will encourage business with the country (Moen & Servais, 2002; Stottinger & Schlegelmilch, 1998). Moreover, Anderson and Gatignon (1986) state that, because cultures differ at a fundamental level, geographical expansion into new markets tends to start in countries which are perceived to be culturally similar, i.e., those which show small psychological distance.

Most SME owner-managers in Indonesia have as their highest education level only up to college (SMU) and therefore the limitations of foreign languages spoken are large. These difficulties may relate to direct communication with existing and potential customers or a lack of access to general market information. Differences in language, education, business practices, culture,

religion, political systems and industrial development are the most commonly cited of the factors (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). It is revealed by the data that most Indonesian SMEs initiate their overseas market engagement through indirect export. Aligned with Stage Theory, as noted by Johanson and Vahlne (1977, p. 27), 'There is a direct relationship between market knowledge and market commitment … the higher the firm's experiential knowledge about a market, the stronger its commitment to [it]'. This is reflected by the greater the number of years the enterprise is in overseas markets, the more likely they are to change their entry mode to a more committed one, e.g., direct export and a sales subsidiary.

The choice of first country destination does not mainly reflect the concept of physic distance. From the 10 SMEs interviewed, three aimed Australia, two aimedthe USA, two aimed Singapore, one aimed Malaysia, one aimed Middle East and South Africa, one aimed Japan, and one aimed Netherlands for their initial export destination. Geographically, Malaysia, Singapore and Australia are close to Indonesia. Further, Malaysia and Singapore can be considered to have similar cultures to Indonesia, thus supporting the psychic distance concept. However, country destinations such as the Middle East, South Africa, Japan, the Netherlands and the USA are geographically distant from Indonesia as well as culturally dissimilar. From the interviews it was revealed that the principal reason why the first destination country is geographically distant is, unsolicited orders from buyers, or firms gain their first buyer when they attend an international trade exhibition. However, among the 10 enterprises, there are three companies which seem to have a more strategic reason in choosing their first destination country:

> *Certain markets have no intensive competition for a particular product (leather products) and the standard quality is not very high—country (s): the Middle East and South Africa.* (Company A)

> *Geographical proximity and similar culture and also have many colleagues.– country: Malaysia.* (Company C)

> *It is a big market for traditional and natural cosmetics – country: Singapore.* (Company D)

This results are similar to those of a study on to SMEs in Australia which confirm that international opportunity discovery did not occur simply through serendipitous encounters with new information from networks or referrals but involved interpreting possible matches between pre-existing means (resources, skills, new technologies) and new ends (international markets) in a problem solving process. (Chandra, Styles, & Wilkinson, 2009).

It is important to note that the choice of entry mode is strongly related to the type of product. It is discovered from the data that the cosmetics and natural healing enterprise bypassed the indirect and direct export mode and became involve in a more committed entry mode in the overseas market, i.e., through a sales representative and sole venture direct investment, even though they were still new in the market. This was due to the nature of the product which was less likely to be marketed indirectly or directly. The nature of cosmetics and natural healing needed to be explained to customers: how to use them, how they benefitted customers, what were the side-effects and so forth. In short, different types of products need different modes of entry and marketing program.

Consistent with the Network Perspective, Lu (2001) proposes that the informational benefits from inter-organisational networks are important for

internationalising firms, because such informational benefits might help firms overcome significant limitations in local knowledge and develop capabilities suited to new markets in an efficient manner. By networking with other firms, internationalising firms can gain access to new market information from another firm's experience in these markets. From interview it is revealed that SMEs gain their international market from various government institutions (Chamber of Commerce, Ministry of Trade, a state-owned company, Ministry of Cooperative and Small Medium Enterprise, etc.). In addition to information from formal institutions, SMEs often acquire information about new opportunities in markets abroad from customers and suppliers as well as competitors. This result supports the study by Tesfom, Lutz and Ghauri (2006) about SMEs in developing countries, which claims that market information is among the most important problems for SMEs. Their study concludes that export market entry by SMEs in developing countries will not be successful if no horizontal and vertical business networks are established.

6.4.6 International Experience

The information from government bodies mainly concerns the training that is available, access to capital and information about international trade exhibitions for SMEs.With regards to international trade exhibitions, it has been shown that international trade exhibitions are one of the more important media for promoting SME product as well as for providing meeting arrangements between SMEs and overseas customers. The survey results proved that most SMEs find their first overseas customers from international trade exhibitions. However, one interviewee stated that usually the government institution chooses the enterprise that will attend an international trade exhibition, based on the relationship with the SME:

> *Nowadays we rarely seek information about international trade exhibitions; the government institutions or government bureau will contact us. So that's the benefit of being known by the institutions, no need to say much, they will invite us to join. As long as we are reliable and our product is good, they will always invite us.* (Company D)

Among the drivers of early internationalisation the role of the previous experience of the entrepreneur, and especially of their international experience, was found significant (Zucchella, Palamara, & Denicolai, 2007). The recent study done by Chandra et al. (2009) finds that firms with little or no prior international knowledge tend to make use of opportunity discovery rather than deliberate or systematic search. In contrast, firms with extensive prior international experience and knowledge were found to deliberately search and discover their first international opportunity. These two studies prove that international experience is playing an important role for firm internationalisation. From the data, it can be seen that most Indonesian SMEs lack international experience. Most have no international experience in their previous work or no international schooling and only limited time spent abroad or even having never previously travelled overseas.

Given the lack of international experience among new ventures, empirical studies suggest that social networks are vital to the discovery of new opportunities, to gaining access to local markets and to developing specific competitive advantages (Coviello & Munro, 1997; Ellis & Pecotich, 2001). Further, exporting to other markets on a regular basis over time increases general knowledge about how to do business abroad (Spector, 2006), and so does managing a variety of situations, operations, and market conditions in different countries (Spector & Brannick, 2010). In other words, both time and/or variety of activities and operations in different markets can lead to gains in

international business know-how (Brouthers & Nakos, 2005). However, this is not the case for SMEs in Indonesia.

6.5 Chapter Conclusion

The major points identified from the 10 interviews have been highlighted in the multiple cross-case analyses above. This section summarises these findings and arranges them by following the themes of the research questions addressed in this study.

In relation to relationship between SMEs and internationalisation, the following key findings have been identified.

SME owner-managers have a good level of Management Know-How and International Business Skills. The level of Entrepreneur Social Capital is also good, which indicates that most SMEs have good relationships with customers, suppliers, competitors, government and local leader. However, in terms of information gained from networks, most SMEs find their information from customers, suppliers, competitors and government. Local leaders, who consist of religious leaders and local kings, do not provide much information in relation to business and overseas markets information. However this does not mean that SME owner-managers do not have good relationships with community leader or religious leaders; rather their relationship is social and so aligned to business.

Interestingly some SMEs do not consider their competitors as rivals, but rather as partners. Most SMEs prefer to secure financial resources by borrowing from their extended family or friends rather than borrowing from financial

institutions, due to the latter's complicated procedure. It is common that SMEs subcontract their orders to smaller enterprises in their area.From the interview also reveal how networks between businesses can open up opportunities in overseas markets for other business.

Most products of SMEs are made to order; only the cosmetics company was found to have standardised products, due to the requirements of the Indonesian government. As mentioned often in the literature, international experience is recognised as an important factor for internationalisation of the firm.

Chapter 7 Discussion

7.1 Chapter Introduction

The primary purpose of this study is to gain knowledge of factors that influence manufacturing SMEs in Indonesia to enter international markets and the association of these to their firm's performance. The study emphasises the importance of SME owner-managers' Human and Social Capital in relation to internationalisation and the impact on Firm Performance. In order to achieve the purpose of this research, a research framework and three research questions were developed in Chapter 1.

The research design and methodology involved two phases. In the first phase, a quantitative method using a mail survey was employed to canvas 241 SME owner-managers in Indonesia, randomly selected from a government database. The quantitative data analysis, primarily using the structural equation modelling (SEM) method, and the results are reported in Chapter 5. The second phase was qualitative data analysis, using face-to–face, in-depth interviews with ten SME owner-managers in selected provinces in Indonesia (the four from which most exports originated – Jakarta, West Java, Yogyakarta and Bali. The findings from the ten case studies were reported in Chapter 6.

The structure of this Chapter is as follows. It begins by discussing the findings from descriptive statistics, then the quantitative analysis (Chapter 5), followed by the findings from the qualitative analysis (Chapter 6). As revealed in Chapter 5, six out of twelve hypotheses are supported. Through the qualitative analysis in Chapter 6, the researcher discovered interesting and valuable findings as to why some of these hypotheses were unsupported.

7.2 Descriptive Analysis

Examination of 241 Indonesian SMEs reveals that internationalisation in Indonesia is profitable under certain conditions, namely, if the number of markets is large and the time to enter internationalisation is at a later stage, since most Indonesian SMEs indirectly enter the international market with the assistance of intermediaries. This is evidenced by the following current status of SMEs internationalisation in Indonesia:

- Indonesian SMEs use a combination of modes of entry, for example, direct and indirect export. In addition, some SMEs combine their mode of entry, e.g., through indirect export, direct export and foreign subsidiaries. Even if the textbook case follows the sequence 'indirect export – direct export – agent – own sales subsidiary – own manufacturing subsidiary', there are in reality many combinations and sequences possible. Internationalisation, in which distribution activities play a major role, can be seen as an on-going, never-ending reorganisation processes within dynamic network contexts (Mattsson, 2003). The firm tends to choose indirect modes of entry if the market is less well-known and familiar to them and to use the direct mode if it is considered close culturally and geographically. For example, to countries such as Malaysia, Singapore and Japan most SMEs use direct export as their entry mode.

- 53 percent of firms report they have more than three international markets (countries). This implies that most SMEs researched in this study implemented a market spreading strategy (Andersen, 1996; Ayal & Zif, 1979).

- Around 58 percent of SMEs achieve more than 25 percent of their export revenue in more than three years of establishment. This result aligns with research by Leonidou, Kaminarides and Hadjimarcou (2004), which finds that manufacturing SMEs typically first establish a domestic presence, then gradually expand their firm across their national border. Therefore it supports Stage Theory, as the internationalisation process is depicted as an incremental development which occurs in discrete stages (Gankema, et al., 2000). Further, this figure implies that, at the time when the research was

conducted, Indonesian manufacturing SMEs were undertaking conventional ways of internationalisation. However, if we consider that 42 percent are International New Ventures (INV), it seems that the number of INVs will increase in the future, considering that fast changing modes of communication using information communication technology drive SMEs to pursue international markets faster by way of telephone, facsimile and the internet.

- The results of the descriptive analysis have also shown that 67 percent of INVs are young companies. Young companies are defined as companies that were established after the financial crisis of 1997. Therefore it is predicted that, in the future, SMEs manufacturing in Indonesia will follow the INV phase of internationalisation, and start their involvement in the international market immediately after their inception.

- With regard to orders that the company has, 51 percent of firms receive their first order from a local or international trade exhibition. This finding is supported by Cavusgil(1982), Gankema et al. (2000), and Fernandes and Nieto (2005), who claim that most of the firm's initial participation in international business is likely to be the result of accidental involvement (e.g., responding to unsolicited orders) and not from clear, decisive readiness to export. Additionally research findings in a study on New Zealand and Irish-based export-intensive seafood firms finds that trade shows go well beyond being a marketing and information platform and make an important contribution to establishment and enhancement of a network infrastructure for enabling such firms to grow and expand internationally(Natasha & John, 2008).

- The five biggest country destinations are Malaysia, Japan, Australia, Singapore and the United States, with 18 percent, 14 percent, 11 percent, 10 percent, and 10 percent respectively. This can be analysed according to psychic distance (geographical and cultural), market size and regional and bilateral agreements.

  Psychic distance. The main assumption for psychic distance is that firms are less likely to take up and/or continue business relations with countries that are perceived to be dissimilar to their country of origin (high psychic distance) (Evans & Mavondo, 2002). Moreover, it is perceived that a sense of cultural proximity towards a foreign market (low psychic distance) will

encourage business with the country (Moen & Servais, 2002; Stottinger & Schlegelmilch, 1998). In relation to psychic distance, Malaysia, Japan and Singapore can be considered as countries that have similarities in terms of culture with Indonesia, as Asian cultures. Even though different, similarities between the cultures exist, so that Indonesian SMEs consider markets in Malaysia, Japan and Singapore are similar to Indonesian markets. Moreover Malaysia, Japan and Singapore are also geographically proximate to Indonesia. The third most popular export destination is Australia, due to geographical proximity between the two countries. Equally, as a multicultural country, Australia appears to welcome a greater variety of products from other countries as well as being willing to try new things.

Market size. The fifth most popular export destination among manufacturing SMEs in Indonesia is the United States. This is interesting because this country is considered distant in terms of culture and geography, but the underlying factor might be due to a large market size offered by the United States. Furthermore, it is in line with data from BPS which state that the United States is among the major countries of Indonesia's export destination (see Table 2-3). This fact is also supported by Ellis (2007) in his study on Chinese exporters; he finds that distance does not affect firm internationalisation. Further, Ellis asserts that whatever the reason in selecting new foreign markets to enter, the exporters in his study were not significantly impelled by cost considerations arising from minimising the geographic or cultural/psychic distance from home. An additional explanation is that distance effects are context-dependent, with some locations being more susceptible than others.

Government support. Another explanation of the fact that Australia, Japan and the USA become major export destination of Indonesia SMEs might be due to the existence of a promotion centre called ITPC (see section 3.7.1) supervised by the Indonesian Ministry of Trade. The main goal of this centre is to enhance the export of Indonesian products in the countries they operate (DGNED, 2010). Therefore it can be said that the presence of ITPC in Sydney, Osaka, Los Angeles, and Chicago have stimulated SMEs to export their product to those countries.

- ***Regional and bilateral agreement***. Presidential Decree No. 36/ 2008 on agreement between the Republic of Indonesia and Japan for an economic partnership may have an impact on Indonesian export-oriented SMEs in sending their products to Japan. Another agreement is the regional Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area, which requires that tariff rates levied on a wide range of products traded within the region be reduced to no more than

5percent(ASEAN Secretariat, 2002). These regional and bilateral agreements might one be a factor that encourages export-oriented SMEs to enter overseas markets as the tariff barrier is reduced.

This study also shows that SMEs owner-managers' Human and Social Capital relate to internationalisation of the enterprise. Detailed discussion about the antecedents of internationalisation and performance will be presented in the following subsection.

7.3 Quantitative and Qualitative Analysis

The current study applies Stage Theory in an organisation and Network Perspective, as well as RBV in SME owners, in order to highlight the underlying argument of this research: the first argument is that international business skills and Management Know-How (i.e., Human Capital) and their networks of relationships with their stakeholders (i.e., Social Capital) are drivers of the internationalisation process; the second argument is that SMEs need to develop networking with stakeholders, in order to overcome the liabilities of newness and smallness; third, internationalisation has a positive relationship to Firm Performance. Based on these propositions, the following research problem was identified:

In order to investigate the proposed research problem, the literature review was undertaken in Chapter 2. The current research contributes to knowledge in this field by offering empirical investigation into the relationship between the following constructs:, Management Know-How, International Business Skills, which is postulated as part of Human Capital, Social Capital, internationalisation and Firm Performance of SMEs. These key constructs are based in part on the model proposed by Antoncic and Hisrich(2000) which

integrates international business and international entrepreneurship research. This research also refers to Ruzzier et al. (2007), who propose the multi-dimensionality of internationalisation. Unlike the Antoncic and Hisrich model, which argues that the antecedents of internationalisation of the firm are assessed at an individual, organisational and environmental level, the current study focuses only on the individual level, specifically on the importance of Human and Social Capital as the antecedent of internationalisation. The Human Capital construct particularly is examined as an individual construct of Human Capital, namely, Management Know-Howand International Business Skills. Based in part on these models, the current research offers a theoretical model that links Management Know-How, International Business Skills(Human Capital), Social Capital, International Performance, Market, Time and Firm Performance.

To assess the relationship between Human and Social Capital, internationalisation dimensions and Firm Performance, a multi-theoretical approach was adopted. It is perceived necessary for the current research to implement multi-theoretical research because constructs which are used in this study are developed through multiple theories. This approach is taken because this phenomenon is unable to be explained by any single theory.

On the strength of the literature review, first the current research applies RBV to test the relationship between Human Capital (operationalised as Management Know-Howand International Business Skills), Social Capital and internationalisation (operationalised as International Performance, Market and Time); second, the Network Perspective is utilised to develop and understand the importance of network relationships with stakeholders (customers, competitors, local leaders, governments etc.) in entering the international

market; third, this research adopts the view that the internationalisation dimension consisting of International Performance, Market and Time has a relationship with Firm Performance; and fourth, this research applies Stage and Born Global Theory to assess whether Stage Theory is still applicable in the current situation.

This Chapter discusses the findings of the current research by bringing together the survey and interview findings and it presents the key contributions of the research conducted. Implications for research and practice are drawn from these findings and are discussed, and the limitations of the research and recommendations for future research are also provided.

7.3.1 Relationship between Human Capital, Social Capital and Internationalisation

The first part of the analysis is focused on the core topic of this study, that is, the antecedents of internationalisation, and it addresses one research question:

RQ1: "To what extent are Human Capital and Social Capital associated with the internationalisation process of manufacturing exporting SMEs in Indonesia?"

Based on the Resource Based View (RBV) and Network Perspective, and the assumption that Human and Social Capital of owner-managers acts as a resource that helps to organise and manage a business more successfully, this research examined the relationship between Human and Social Capital of SME owner-managers and internationalisation. This is also supported by Shepherd and Wiklund (2005), who argue that the destiny of small business is not completely determined by the characteristics of the environment and other factors outside the control of the small business; rather it is highly dependent

upon the decisions its management makes. Therefore, as has been stated in Chapter 2, for the purpose of this study, this research focuses on the specifics of the Human Capital dimension, operationalised as the International Business Skills and Management Know-How(Manolova, et al., 2002), as well as the Social Capital(Adler & Kwon, 2002; Nahapiet & Ghoshal, 1998), of SME owner-managers.

In order to answer RQ1, we empirically test the Antoncic and Hisrich model (2000), modified by Ruzzier (2006), which links the relationship between dimensions of Human Capital and Social Capital to three dimensions of internationalisation simultaneously. Statistical results from SEM used in this study provide empirical evidence of the relationships between Management Know-How, International Business Skills, Social Capital and internationalisation dimensions (operationalised as International Performance, Market, and Time) and Firm Performance. The first research question was developed into the nine hypotheses presented in Tables 7-1, 7-2 and 7-3, which are represented from Table 5-15. The next section will discuss these findings in detail.

7.3.1.1 Management Know-Howand Internationalisation (International Performance, Market and Time)

Management Know-How is operationalised as motivating employees, developing personal business relationships and team building management. As presented in Chapter 5 and re-presented in Table 7-2 there is no evidence of a statistically significant relationship between Management Know-How and International Performance or between Management Know-How and Market.

Table7-1 Hypotheses H1-H3

Hypothesis		Result
H1	Management Know-How of the owner-managers has a positive relationship to International Performance	Not supported
H2	Management Know-How of the owner-managers has a positive relationship to the number of international markets	Not supported
H3	Management Know-How of the owner-managers has a positive relationship to time of starting internationalisation	Not supported

First, this result dissents from Westhead et al.'s (2001) research which found a positive relationship between Management Know-How and International Performance. This contrasting result from current study may be due to the SME owner-managers' Management Know-How in this research is more related to internal firm know-how, which in this study is operationalised as motivating employee skills, team building skills and interpersonal skills. These are related to strengthening the internal company. Despite this contrasting result, the researcher is nonetheless reluctant to view this as evidence against Westhead et al.'s hypothesis. Rather, the empirical and conceptual problems mentioned above suggest that the use of different measurements as a proxy for Management Know-How might not be an adequate means for generalising this finding. Additionally, recent study done on Chinese exporters finds interplay between Management Know-How and SC (Goxe, 2010). Goxe reveals that Management Know-How indirectly influences Social Capital through entrepreneur environmental risk perception and hence leverage for internationalisation. Therefore this current study confirms that the Management Know-How of SME owner-managers is not a significant resource for International Performance of manufacturing SMEs in Indonesia.

Second, with regard to the unsupported hypothesis for a relationship between Management Know-How and Market, the explanation of this might be because the SME owner-managers in Indonesia give more attention to internal firm

relationships and less attention to their export intensity. They want to strengthen their employee relationships first, and then think about expanding abroad, because most Indonesian SMEs obtain their employees from the villages or areas where the enterprises are located. Some employees are part-time and some are full-time. From interviews we learn that employee turnover is quite high in particular industries. The owner-managers must train new employees to ensure that the latter reach a certain standard required to do the job.

In this kind of situation, SME owner-managers are more focussed on strengthening their internal company relationships before they decide to enter the international market. As entering international markets means more commitment and risks, strengthening the internal company is considered important before starting internationalisation, which thus confirms Hypothesis 1 as being unsupported. This is in line with Westhead et al.'s (Westhead, Binks, Ucbasaran, & Wright, 2002; 2004) study on UK SMEs, which finds that only a minority of all SMEs are exporters, and that, among those that do export, the proportion of their sales derived from foreign markets is rather small. This pattern is not restricted to the UK; empirical evidence suggests a similar pattern in the European Union, where only 18 percent of SMEs were found to be exporters(EIM, 2005 cited in Ucbasaran, Westhead, Wright, & Flores, 2010).

Third, lack of information about overseas markets also hinders SMEs in entering international markets early. In addition, the ability to speak a foreign language, especially English, is very important in the internationalisation process. Sometimes a company has to deal with overseas merchants, requiring them to understand foreign languages, and, at a minimum, English. Thus if

SME owner-managers are unsure and unconfident about starting internationalisation, they undertake internationalisation later.

The previous finding with regard to the relationship between Management Know-How and International Performance as well as Market is consistent with the SEM result, which reveals that Management Know-How has a significant negative association with Time, which implies that SMEs with high Management Know-How tend to start their internationalisation later. Empirical studies on Human Capital, unfortunately, have seldom analysed the mechanisms through which Human Capital leads to business success(Rauch, Frese, & Utsch, 2005). This result is consistent with the notion that early internationalisation of SMEs (i.e., one that occurs soon after the founding of a firm) can pose significant risks for a firm that has yet to develop capabilities and legitimacy even in its domestic market (Zucchella, et al., 2007). SME owner-managers' limited knowledge of foreign markets poses additional challenges in the context of international expansion. Some firms are willing to take the risk and enter foreign markets soon after or at inception (Musteen, et al., 2010). However, the SEM result indicates that SME owner-managers with better Management Know-How are more likely to start their internationalisation later. With a statistically negative relationship between Management Know-How and Time, Hypothesis 3 is therefore unsupported.

Thus these findings broaden the view in the stream of international business and strategic management that Human Capital dimensions are beneficial foranalysing internationalisation (International Performance, Market and Time)as we assess the Human Capital construct not as a uni-dimensional construct, but rather from Management Know-How and International Business Skills constructs.

In sum, from three hypotheses of Management Know-How, none is positively and significant related to the three internationalisation dimensions, namely, International Performance, Market and Time.

7.3.1.2 International Business Skills and Internationalisation (International Performance, Market and Time)

Based on RBV and utilising Antoncic and Hirsch's (2000) conceptual framework, it is hypothesised that International Business Skills and internationalisation are more likely to have a positive relationship. International Business Skills is defined as negotiating skills, networking skills and verbal communication skills. As presented in Chapter 5 and re-presented in Table 7-2, there is evidence of a positive and statistically significant relationship between International Business Skills and International Performance and between International Business Skills and the Market.

Table7-2 Hypotheses H4 – H5

	Hypothesis	Result
H4	International Business Skills of the owner-managers has a positive relationship to International Performance	Supported
H5	International Business Skills of the owner-managers has a positive relationship to the number of international markets	Supported
H6	International Business Skills of the owner-managers has a positive relationship to time of starting internationalisation	Not Supported

First, this finding is supported by Manolova et al. (2002),who studied the impact of international business skills, international orientation, environmental perceptions and demographics of firm managers and found that skills and environmental perceptions were among the most important criteria for successful internationalisation. Unlike that earlier study, this current study offers more details about the effect of International Business Skills on internalisation, because this research sees internationalisation as a multi-

dimensional construct (Ruzzier, Antoncic, & Hisrich, 2007) and thus it has assessed the impact of International Business Skills on internationalisation dimensions separately. Based on the SEM result, International Business Skills has a positive and statistically significant relationship with International Performance. This outcome indicates that a company whose owner-managers have better International Business Skills tend to have better International Performance. The better the skills of verbal communication, negotiation and relationships abroad, the more likely it is that the International Performance of the company will be better. SMEs in Indonesia undertake their internationalisation by way of indirect export, direct export and other entry modes, including,sole venture direct investment and joint venture direct investment. Therefore International Business Skills, especially skills in having relationships abroad, do indeed play an important role in increasing International Performance. Further, Lu and Beamish (2001) argue that alliances with partners with local knowledge can be an effective strategy for overcoming the deficiencies SMEs face in resources and capabilities when they expand into international markets. As has been presented in the section on descriptive analysis (7.2.), 51 percent of SMEs' first orders happen when they participate in trade exhibitions overseas, and from this first order onwards, SME owner-managers maintain the relationship, so that the skill in maintaining relationships abroad is an important variable for success in international markets.

Second, the SEM result also shows that International Business Skills has a positive and statistically significant association with Market. This suggests that the SME with high International Business Skills (skills of negotiating, networking and verbal communication) will be likely to have a higher number

of markets where the products are sold. It is noteworthy that the combination of the skills of negotiation, networking and verbal communication belong to SMEs owner manager are important for SMEs to enter international markets.

Third, while International Business Skills has a positive and statistically significant relationship with International Performance and Market, the relationship between International Business Skills and Time is not significant; thus Hypothesis 6 is not supported. This finding seems similar to the study done by Ruzzier et al. (2007), which finds that International Business Skills has no significant relationship with internationalisation. This outcome indicates that International Business Skills of SME owner-managers do not affect the decision of owner-managers to enter the international market, or, in other words, International Business Skills are not considered a determinant factor for speed of SME internationalisation. The consistency of the two studies do not directly connote that International Business Skills in fact has no relationship with internationalisation; rather, the Ruzzier et al. finding does not link International Business Skills with the internationalisation dimension (in this case, Time), because the measurement that Ruzzier et al. (2000) use and the one use in this study are different. As has been discussed earlier, International Business Skills has a positive and statistically significant relationship with International Performance and Market, but not with Time. Consequently the result from Ruzzier et al. (2000) has to be interpreted with caution. With regard to RBV of the firm, Penrose (1959) suggests, that resources or the inputs to the productive process, are unique, inimitable, and specific to each organisation. This finding advance the RBV view, that firm with high International Business Skills unique to the firms will have better International Performance and Market, then in turn better Firm Performance.

There is a lack of empirical study examining the relationship between Human Capital dimensions and internationalisation dimensions. Most studies assess the relationship between the two constructs as a bundle or composite variables. Thus this corroborates that the findings of this study have given more insight and practical contribution into the relationship between International Business Skills and internationalisation dimensions, and it finds that International Business Skills is not a determinant of the speed of internationalisation.

7.3.1.3 Social Capital (SC) and Internationalisation (International Performance, Market and Time)

This study has investigated the relationship between owner-managers' Social Capital and internationalisation dimensions. Social capital is defined in this study as relationship strength and information sharing with three constructs, namely, business (Buss), community leaders (ComLead) and government (Gov). We use aggregate value for the first construct, Buss, which calculates the relationship and information gained from competitors, customers and suppliers. The second construct is ComLead, which is a composite value of two variables, namely, relationships with and information from local chiefs and religious leaders (Imam, priest, etc.). The third construct is Gov, which is operationalised as a relationship with and information from city councils and regional and national government. The current research reveals that SME owner-managers' Social Capital has a positive and statistically significant relationship with International Performance and Market.

Table7-3 Hypotheses H7 – H9

	Hypothesis	Result
H7	Entrepreneurial Social Capital of the owner-managers has a positive relationship to International Performance	Supported
H8	Entrepreneurial Social Capital of the owner-managers has a positive relationship to the number of markets	Supported

H9	Entrepreneurial Social Capital of the owner-managers has a positive relationship to time of starting internationalisation	Not Supported

The result from SEM indicates that there are positive and statistically significant relationships between Entrepreneur Social Capital and International Performance (International Performance), as well as the relationship between Entrepreneur Social Capital and Market, thus supporting H7 and H8. However, there is no relationship found between Entrepreneur Social Capital and Time, so that H9 is unsupported.

The positive and significant relationship between Entrepreneur Social Capital and International Performance implies that the more intense and strong the relationship and information sharing between SME owner-managers and business, community leaders and government, the more likely is the firm's better export performance. Relationship strength is one characteristic of inter-firm relationships and central to the relationship study (Cavusgil, Calantone, & Zhao, 2003). In relationship research, Morgan and Hunt (1994) emphasise that the nature of a close relationship lies in its mutual trust, commitment, high quality and frequent communication. In this study, business includes competitors, customers and suppliers. Further, recent inter-firm dynamic study between competition and cooperation,in the form ofcoopetition in Sweden and Kosovo, demonstrates that inter-firm coopetition as an organisational strategy can bring benefits such as reduced costs, tolerance of risk-taking and being pro-active in product development and anticipation of healthy competition. Thus a coopetitive relationship offers the advantage of a combination of the need to innovate in new areas as a result of competition while accessing new resources as a consequence of cooperation (Osarenkhoe, 2010, p. 217).

This finding is in line with interview results, which also reveal that some SMEs do not consider their competitors as rivals but as partners in the network, as has been stated in chapter 6:

> *There is no competition here, because we believe that our products are different, our product is unique. We consider our competitors as a partner. We are informally meet during weekend. We are like brothers, for example if we need materials in the middle of the night [markets are closed] we just go to his house and ask for the materials that we need easily. It would not happen if we did not have a good relationship*.(Company B)

> *If we have close relationships with competitors we can gain knowledge and information from them. We have limitations and superiority; therefore we can help each other*.(Company B)

Similarly, the significant association of Entrepreneur Social Capital and market suggests that the better the relationship and information sharing between owner-managers of SMEs, the higher the number of markets the company operates. As suggested by Agndal et al. (2008)inregarding to the number of different networks, empirical research has shown that Social Capital can be used efficiently in entering several foreign markets simultaneously through single relationships.However, care must be taken in having a number of markets higher than it should be, since Yeoh(2004)finds that greater diversity of markets leads to a decline in technological learning among new ventures for two reasons: first, exporting as a mode of entry may be less effective as a source of technological learning, suggesting that new ventures may benefit from using a higher control entry mode (such as export) to deepen and broaden their technological knowledge; second, compared to other types of learning, technological knowledge is often tacit in nature, often difficult to codify, and less comprehensible. Therefore it is good to have a greater number of markets overseas but not above the limit that a company should have.

The non-significant relationship between Entrepreneur Social Capital and Time is worthy of review. This is because the literatures in international business argue for a statistically significant positive relationship of Entrepreneur Social Capital to the internationalisation process (Musteen, et al., 2010). This implies that the more intense the relationship and sharing of information that a company has with business, government and local leaders, the more likely it is to start internationalisation early. In their study, Musteen et al. (2010) find that a greater proportion of close personal ties does not result in faster internationalisation, and in this current study we do not assess the close personal ties (strong ties). Rather we investigate the relationship that owner-managers have with business, government and local leaders (weak ties). Further, Granovetter (1973, 1983)provides evidence that weak ties, in many instances, may be more beneficial than strong ties. While strong personal ties abroad may increase the confidence of SME managers in their ability to manage their international ventures, the information accessed via weak ties is likely to be more helpful in the identification of opportunities(Floyd & Wooldridge, 1999), including opportunities in the international market. Further, Musteen et al. (2010) also find in their studies that networks with a large number of personal ties do not lead to favourable performance in the first international venture.

Another possible explanation is that the personal relationships of SME managers do not necessarily translate into meaningful support in the early internationalisation phase. Peng (2005) points out that the difficulty in turnaround after the Asian financial crisis to a certain extent indicates the problems of over-embeddedness of strong personal ties for many Asian companies. In the case of Chinese entrepreneurs, they are self-made business

people who do not have much formal schooling, a strong family background, prior business expertise or other privileges (Li, 2000). Similarly, Indonesian SME owner-managers mostly have formal schooling only up to high school and lack international experience. Only 10 percent of SMEs surveyed in this current study have been working overseas or working in export companies. Because of this, the personal network of this type of owner-manager is often locally concentrated with limited global exposure, and so they are not effective in supplying the requisite resources for foreign development (Krug, 2003; Krug & Polos, 2004).

Indeed, our findings are consistent with Uzzi (1996b, 1997) observation that, while personal relationships help small firms economise on time and can result in improving allocative efficiency, such relationships may also become a liability by inhibiting the flow of new and diverse information and/or blocking links to new contacts (Musteen, et al., 2010). However, Tang (2009) suggests that reliance on personal networks in business dealings is perceived as showing a lack of professionalism and formalism, the two practices that are essential to gaining recognition as a global market player. The current finding supports Johanson and Vahlne's (2009) argument that it is the liability of outsidership rather than the liability of foreignness that gives rise to internationalisation difficulties. Outsidership implies that the firm is not a member of relevant networks. Additionally, this study suggests it takes time to become a member in a relevant network in a foreign market, especially for SMEs. Thus Johanson and Vahlne (2009) have moved towards seeing internationalisation as a by-product of efforts to establish or improve on a position in a foreign network(Schweizer, Vahlne, & Johanson, 2010).

7.3.2 Relationship between Internationalisation and Firm Performance

The next question attempts to measure the multi-dimensionality of SME internationalisation, which has not been addressed in past studies. It therefore remedies the gap in the literature on the antecedents of internationalisation and their impact on Firm Performance.

RQ2: "To what extent are the dimensions of internationalisation (International Performance, Market, Time,) associated with Firm Performance of SMEs?"

As discussed in Chapter 2, three dimensions are used to measure internationalisation of the firm: International Performance, Market and Time. Therefore the extent of internationalisation dimensions was investigated by identifying to what extent the three internationalisation dimensions are associated with Firm Performance.

The second research question was developed into three hypotheses presented in Table 7-4 which are re-presented from Table 5-15. The next section will discuss these findings in detail.

Table7-4 Hypotheses H10-H12

Hypothesis		Result
H10	International Performance has a positive relationship to Firm Performance	Not supported
H11	Number of International Markets has a positive relationship to Firm Performance	Supported
H12	Time of starting internationalisation has a negative relationship to Firm Performance	Supported

Empirical study done on Slovenian's SMEs by Ruzzier et al. (2007)found that the degree of internationalisation of firms can be measured through International Performance, Market, and Time. Ruzzier et al. look at

internationalisation as multi-dimensional and claim that their findings can be generalised to some degree, not only for Slovenian entrepreneurs and firms, but also to other countries.

7.3.2.1 International Performance

Two of the most frequently used export performance criteria are export intensity (percentage of sales accounted for by exports and export sales growth)(Aaby & Slater, 1989). This research uses two items to measure International Performance: the firstis the ratio of export sales to total sales (ESTS), which is widely used within internationalisation research (Aaby & Slater, 1989; Cavusgil, 1984; Gankema, et al., 2000; Reid, 1981b);the second is the ratio of foreign sales to total sales (FSTS), taken from Cavusgil and Kirpalani(1993).

As presented in Chapter 5 and summarised in Table 7-4, the result from the sample of Indonesian SMEs is that there is no evidence of a statistically significant relationship between International Performance and Firm Performance. Thus hypothesis 10 is unsupported.

First, this result is in contrast to Zeng, Xie, Tam and Wan (2010)and Park, Yang, Shi and Jiang (2010) who find a positive relationship between International Performance and Firm Performance. The different result may originate from the sample differences between the two studies. The Zeng et al. (2010) and Park et al. (2010) samples are Chinese manufacturing exporters in medium- and large-sized enterprises, whereas this current study consisted of manufacturing exporter SMEs, defined as enterprises with fewer than 100 employees, so that it is difficult to compare the studies. Medium- to large-sized enterprises generally

have a higher percentage of products sold domestically and internationally, so that there is a positive relationship between their International Performance and Firm Performance, whereas most of Indonesian SMEs still put more emphasis on the domestic market.

Second, another explanation could be the invertedcurvelinearity relationship between International Performance and Firm Performance (Chiao, et al., 2006). Chiao et al.'s study of Taiwanese SMEs implies that an increase in export intensity of an SME will lead to better performance up to a certain point, after which the costs of exporting will begin to outweigh benefits. Therefore, since our model sees a linear relationship between International Performance and Firm Performance, the result shows no significant relationship between these two constructs. It is open for further investigation whether there is non-linear relationship between International Performance and Firm Performance.

Third, the interview data of the current research confirm that the domestic market remains the priority for company growth. Selling products internationally involves high risk and uncertainty; hence, if SMEs have to choose which market should first be served, they choose the domestic market. Occasionally, too, the company does not have a good relationship with their intermediaries.

Fourth, this unsupported hypothesis partly related to Stage Theory. According to Cavusgil (1980), the firm at Stage 3 (exporting only 10percent of output) perceives greater risk and lesser profit in exporting than the firms at Stage 2 (non-exporting firms). Andersen (1993) suggests that a possible explanation is that 'these firms are relatively new on exporting, finding themselves confronted with a number of unexpected hurdles'. Andersen also provides an alternative

explanation: the firms at Stage 3 may have lower profits because of export involvement; therefore they may perceive the risk to be higher. When we observe the descriptive data of SMEs researched, more than 50 percent are companies at Stage 3.

Fifth, a cost-related explanation of the unsupported hypothesis is as follows. When exporting, the firm's fixed production cost is negligible so long as the exports are produced by increasing the utilisation of existing plant in the source country. On the other hand, some fixed costs will be incurred in establishing a distribution network in the host country. Variable costs are almost certain to be high under exporting, since they include not only variable production costs but international transport costs and tariff payments(Buckley & Casson, 2010, p. 30).

7.3.2.2 Market

As mentioned in Chapter 2, two types of generic internationalisation strategy commonly discussed in the literature are a market concentration strategy (few key markets), with gradual expansion into new markets over time, and a rapid market diversification strategy (large number of markets) (Ayal & Zif, 1979).Market spreading (diversification) is an important indicator of degree of internationalisation, as companies trading in a wider variety of markets are less likely to be concerned about psychic distance as an important barrier to the internationalisation process (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975).

Based on previous empirical investigation of the relationship between number of markets and firm internationalisation, the significant effect of expanding the overseas market on the performance of firms in internationalisation has been

extensively confirmed by (i.e. Mockaitis, et al., 2006)). However, obviously it is not easy for firms to expand their overseas markets because of the difficulty in enforcing contracts across borders, information asymmetry, geographical distance, and the difficulty in ascertaining the capabilities of a foreign distributor in international markets (Svensson, 2004).

As presented in Chapter 5 and summarised in Table 7-4, there are positive significant associations between Market and Firm Performance. Thus Hypothesis 11 is supported by survey data. This result implies that the greater number of markets where a company sells products, the greater the Firm Performance. There are several explanations for this Hypothesis.

First, this finding is consistent with previous study in this area (Mockaitis, et al., 2006), which also finds a positive association between Market and Firm Performance. The consistency between the two studies, despite the difference in samples, may indicate that the number of markets is applicable to wider range of countries, not only in Lithuania, but also across countries. Another study that supports this finding is Burt (1992a), who argues that geographically dispersed networks are helpful when it comes to exploitation of early international opportunities. Diverse networks appear to provide firms with non-redundant information and access to a larger pool of potential opportunities, thus enabling firms to pursue those that best complement their capabilities (Musteen, et al., 2010).

Second, the relationship between Market and Firm Performance was supported by descriptive data that most SMEs in Indonesia find their potential international buyer from international trade exhibitions. SMEs can meet buyers from various countries at single exhibition, and usually they will receive orders

soon after. Therefore it is possible for them to enter more than one foreign market simultaneously. The greater the number of markets where the company is selling products, the greater the Firm Performance. The greater the number of markets, the greater the volume of products sold in particular countries, thus the greater sales.

Third, export oriented SMEs from the data collected show their interest in promote and sell their products via the internet.The high growth in wireless and fixed-wireless services has significantly increased the access to telecommunication in Indonesia (Aswicahyono & Friawan, 2006). With respect to the market diversification strategy, the objective is to achieve a high return from a low commitment of resources to many markets. The strengths of market diversification include greater flexibility, less dependence on particular markets, and lower perception of risk (Yeoh, 2004). Most SMEs sampled in this research are SMEs with fewer than 50 employees and limited in their financial capital. Therefore selling products overseas with the utilisation of internet, may allow SMEs to sell their products simultaneously to different markets overseas. This saves time and cost for SMEs, thus increasing their total sales.

7.3.2.3 Time

The Time dimension of internationalisation is crucial as it represents a bridge between incremental internationalisation and internationalisation at the inception and the strategic decision to enter and exit specific markets (Antoncic & Hisrich, 2000). The definition of the age of the firm when it begins internationalisation has become an issue for scholarly attention. According to McDougall et al. (1994)a start-up entrepreneur is one in the first six years of the venture.

As presented in Chapter 5 and summarised in Table 7-4, there was evidence of a statistically significant relationship between Time and Firm Performance. This result is consistent with Brouther and Nakos's (2005) conclusion that the age of an enterprise and its growth is positively related, implying that an older company appears to perform better than its younger counterpart. The finding in this study supports this hypothesis.

This finding supports Stage Theory and suggests that a mature company will perform better in the international market. An underlying assumption of this model is that firms are well-established in the domestic market before venturing abroad (Bell, et al., 2003). Two principal Stage Models are widely used to examine the process by which firms internationalise (Andersen, 1993; Barkema, et al., 1996). These are: 1. the Uppsala internationalisation model (U-model); and 2. The Innovation-related internationalisation model (I-model). Both the Uppsala Model (U-model) and the Innovation-Related Model (I-model) are based on a behavioural approach that regards internationalisation as a process. Most SMEs in Indonesia commence their internationalisation process, as Cavusgil (1980) suggests, without interest in gathering export-related information (non-exporting firms), then gain interest in gathering export-related information (non-exporting firms), further shifting to exports with less than 10 percent of their output (exporting firms), and finally exporting more than 10 percent of their output (exporting firms). These incremental steps demonstrate that exporting firms are older firms, because it takes time to commit to the international market. Thus it supports the contention that older firms perform better.

7.4 Chapter Conclusion

This chapter brings together discussion of quantitative and qualitative findings obtained in this study. This current study tries to answer two research questions as follows. RQ1: To what extent are Human Capital and Social Capital associated with the internationalisation process of manufacturing exporting SMEs in Indonesia? and RQ2: To what extent are the dimensions of internationalisation (International Performance, Market, and Time) associated with Firm Performance of SMEs?

The findings indicate that Management Know-How has no positive and statistically significant association with International Performance, Market and Time. Interesting finding is Management Know-How has negative and statistically significant association with Time, implying that the better Management Know-How of owner manager of SMEs the most likely they will delay their internationalisation. The qualitative findings reveals that most of interviewees claim themselves have good skills of motivating employee, team building and interpersonal relationship.

The findings of International Business Skills support 2 out of 3 hypotheses proposed. International Business Skills is found to have positive and significant relationship with International Performance and Market, indicate that owner-managers of SMEs with high International Business Skills, is likely to export more to overseas markets.

Chapter 8 Conclusions, Implications, Limitations and Directions for Future Research

8.1 Chapter Introduction

Following the quantitative analysis (Chapter 5), the qualitative analysis (Chapter 6) and discussion (Chapter 7), this Chapter presents conclusions of the study, its implications, its limitations and directions for future research. It begins with the overall conclusion from the quantitative and qualitative findings of the current research, followed by a section on the implications for theory and practice, and finally limitations are discussed, alongwithdirections for future research.

8.2 KeyFindings

This thesis contributes to research and practice by offering one of the first empirical investigations to bring together research on Management Know-How, International Business Skills and Entrepreneur Social Capital in relation tothe internationalisation dimensions of SMEs (International Performance, Market, Time) and itexaminestheir relationship to firm financial performance simultaneously. It is argued that Management Know-How, International Business Skills and Entrepreneur Social Capital are some of the antecedents of SME internationalisation.The use of multi-dimensionalconstructsof internationalisation made it possible to examine the relationshipsof the antecedents and internationalisation separately and in more detail.

This research suggests that Management Know-Howhas importance for SME internationalisation. Even though the results regarding the relationship between Management Know-How and International Performance, and

Management Know-How and Market are not positive or statistically significant, the relationship with Timeisnegative andstatistically significant. This result constitutes the important substantive finding of this study. The outcome does not support the findingsof previous studiessuch as Carter et al. (1997) and Westhead et al. (2001), althoughit proves that by postponing the time to internationalise SMEs will enjoy better performance. In other words, in Indonesian cases, SMEs that start internationalisation laterare more likely to perform better than their counterparts who start their internationalisation early.Thisoutcome supports the traditional view of incremental internationalisation advanced by Stage Theory. This study confirms the view of McDougall et al.(1994),that Stage Theory remain applicable for some firms and industries despite the advancesin communication and transportation technology.In developing economies access to these technologies is not assured.Most SMEs in Indonesia have limited access to information onexport market opportunities and requirements and are unable to adjust to rapid changes in the export market. Therefore SMEs in Indonesia tend to focus on and strengthen their position in the domestic market before they decide to enter the international market. This result aligns with research by Leonidou, Kaminarides and Hadjimarcou (2004), which finds that manufacturing SMEs typically first establish a domestic presence, then gradually expand their firm across their national border.Further to this argument, Stage Theory still accounts forthe Indonesian situation.

The INV perspective is not likely to be an appropriate theory for elucidating SME internationalisation in Indonesia. Most Indonesian SMEs do not enter the international market from or near their inception. It is also confirmed by this

finding that delay in entry to international markets result in better firm performance.

The current study also shows thatInternational Business Skills has a positive and statistically significant relationship with International Performance and market.This result supports theRBV of the firm, which statesthat resources or the inputs to the productive process are unique, inimitable, and distinctive to every organisation(Penrose, 1959). The outcome suggests that SME owner-managers with high International Business Skillsunique and inimitable to the enterprise will have better International Performance and Market, and, in turn, better Firm Performance. The result also gives clear guidance on how specific skills (negotiating, networking and verbal communication skills) influence internationalisation outcomes.The relationship of International Business Skills is not statistically significant to Time; again this finding confirms a gradual process of internationalisation, which indicatesthat Indonesian SMEs tend to postpone their entry into international markets.

This study provides a contribution to the Network Perspective becauseEntrepreneur Social Capitalis found to be a driverof export intensity and of the number of markets where a company sellsits products (International Performance and Market), supporting the Network Perspective. Network Perspective focuses on the personal and extended networks of the entrepreneur and his/her management team.Ruzzier et al. (2006)further suggest that internationalisation of the firm means that the firm sets up and expands positions in relation to other partners in a foreign network. The results which show that Entrepreneur Social Capital has a positive relationship with International Performance and Marketalso support previous empirical research which found that, compared to larger multinationals, SMEs typically rely more

extensively on network relationships as they pursue international opportunities (Coviello, 2006; Zahra, 2005). Interfirm relationships (with other business, community leaders, and government) appear influential in both International Performance and Market. The interviews also suggest that having good networks with competitors, suppliers and government will help a firm service the international market successfully. While Entrepreneur Social CapitalinfluencesInternational Performance and Market, no relationship was found between Entrepreneur Social Capital and Time, a finding which is consistent with Stage Theory.

This research is also one of the first studies to incorporate the three internationalisation dimensions in relation to Firm Performance. This study suggests that the number of markets where a company sellsits products has an important role in increasing the firm's performance. As has been mentioned before, Time has a negative relationship withFirm Performance, derived from the negative relationship from Management Know-How, which implies that Indonesian SMEs are more likely to achieve better performance if they delay their time to start internationalisation. However, the finding reveals that export intensity has no association with Firm Performance. Therefore it confirms that there is no direct relationship betweeninternationalisation in regardto export intensity and Firm Performance.

8.3 Research Implications

This research is advanced in modelling and testing the antecedents of internationalisation and the relationship of internationalisation with Firm Performance simultaneously. International Business Skills, Management Know-How and Social Capital are the antecedents of internationalisation. The use of

internationalisation dimensions (International Performance, Market and Time) to examine the relationship between antecedents and internationalisation is also new in the area.

8.3.1 Theoretical Implications

This research is underpinned by multiple theories and in so doing it brings together the literatures on international business and international entrepreneurship. The current study refers to the RBV and Network Perspective of firms, which are looked at the individual level, that is, the owner-managers. Stage Theory and INV are also used as analytical lenses to assess the incremental nature of SMEs in Indonesia in approaching international markets. The theoretical concepts directly tested in this research include RBV, Network Perspective, Stage Theory, and INV. These theoretical perspectives were used indevising a configurational approach to examine relationship between International Business Skills, Management Know-How, Entrepreneur Social Capital and internationalisation, operationalised as International Performance, Market and Time. Finally, this study also investigates the relationship between internationalisation's dimensions (International Performance, Market and Time) and Firm Performance.

The relationships between International Business Skills, Management Know-How, and Entrepreneur Social Capital are investigated, based on the theoretical discussions that treat International Business Skills, Management Know-How and Entrepreneur Social Capital as antecedents of internationalisation dimensions (International Performance, Market, and Time) and Firm Performance as a consequence or outcome of internationalisation.

This research has made an important contribution to the literature on international business in assessing internationalisation of SMEs, because this research measures internationalisation as multi-dimensional constructs (Ruzzier, Antoncic, & Hisrich, 2007). The multi-dimensionality of internationalisation is built on Stage Theory and INV. It has been stated in Chapter 2 that our focus is on Human Capital resources or decision maker characteristics since these may influence the export activity of the firm (Cavusgil & Naor, 1987). This research proposes that the antecedents of internationalisation are Management Know-How, International Business Skills, and Entrepreneur Social Capital – which are based on RBV and Network Perspective.

Three constructs are assumed to improve the level of internationalisation: International Performance, Market and Time. There are no statistically significant relationships between Management Know-How and International Performance or Market. It is supported by a negative relationship between Management Know-How and Time, which implies that the company with high Management Know-How will start its internationalisation later. The relationship between International Business Skills and Time is also not significant; this outcome indicates that International Business Skills of SME owner-managers does not affect the decision of owner-managers to enter the international market, or, in other words, International Business Skills is not considered a determinant factor of SMEs' internationalisation speed.

The RBV of the firm is a theoretical framework for understanding the source of a firm's competitive advantage and how it can be sustained overtime (Barney, 1991; Eisenhardt & Martin, 2000). Barney (1991) classifies resources as physical, Human and Organisational Capital. Consistent with this, the RBV of the firm,

Penrose (1959) posits that resources, or the inputs to the productive process, are unique, inimitable, and specific to each organisation. Loane and Bell (2006a) acknowledge that the RBV has applicability for the growth of small firms and also for their internationalisation activities. However, the Management Know-How construct in this study is likely to be an appropriate construct for SMEs involved in the international market later in their stage. Management Know-How is more appropriate for SMEs that focus on the domestic market at the beginning and therefore delay their internationalisation. The International Business Skills of entrepreneur managers comprises resources that provide owner-managers of an SME with verbal communication skills, negotiation skills and skills in acquiring relationships abroad. International Business Skillsis shown to be an important factor for firm internationalisation, particularly in influencing the level of International Performance and number of markets where SMEs sell their products. This current research contributes to the body of literature by identifying the relationship of Management Know-How and International Business Skills to dimensions of internationalisation, namely, International Performance, Market and Time. With a different emphasis on the effect of Management Know-How and International Business Skills, Management Know-How is the skills that are more suitable for the firm which wants to involve itself in internationalisation at a later stage, while International Business Skills are more appropriate for firms that want to accelerate their involvement in international markets. Thus it contributes to RBV—emphasising that entrepreneurs should have tacit knowledge, the ability to utilise social network and harness Social Capital to internationalise their operation.

In relation to Network Perspective, the research finds a statistically significant relationship between Social Capital, International Performance and Market. As

has been said in Chapter 2, we built the Social Capital construct based on Network Theory and the assumption that the informational benefits from inter-organisational networks are important for internationalising firms, because such informational benefits might help firms to overcome significant limitations in local knowledge and develop capabilities suited to the new markets in an efficient manner (Lu, 2001). This current research focuses on the structural dimension of Social Capital, because this dimension influences the development of the relational and cognitive dimensions of Social Capital(Nahapiet & Ghoshal, 1998). The significant relationship between Social Capital and International Performance and Market was supported by this study.Prashantham and Dhanaraj (2010) also conducted a similar study on contribution of Social Capital to international growth. The finding of each of these studies suggeststhat networking is critical for realising the potential benefits of Social Capital for SMEs' international growth. The effectiveness of networking has been proved in Finland, Ireland, and Norway in a study by Bell (1995), in New Zealand (Chetty & Agndal, 2007) and in Australia (Freeman, et al., 2006),which suggests that SMEs can overcome their lack of economy of scale by using informal and formal alliances developed through networks. Thus the finding in this study can be generalised and the constructs used can be applied in investigating the process of internationalisation of SMEs in developing countries.

Moreover, this study finds that only two internationalisation dimensions are related to Firm Performance, namely, Market and Time. The significant effect of expanding the overseas market on the performance of firms in internationalisation has been confirmed by Mockaitis et al. (2006). This suggests that the more the markets in which a company sells its products, the higher the

Firm Performance is likely to be. This finding is unique, providing other study findings that the higher the number of markets means more variable costs to set up the market. However, as some Indonesian SMEs are characterised as indirect exporters with the assistance of intermediaries, more markets do not mean more costs incurred in setting up new markets. The evidence that Time is negatively related to Firm Performance confirms Stage Theory which assumes that the internationalisation process is depicted as an incremental development which occurs in discrete stages (Gankema, et al., 2000). Because the firm enters an international market incrementally, starting from a less risky mode (indirect export) to a high risk mode (FDI), it therefore takes time to acquire a position in the market abroad. This key element of Stage Theory may suggest that, even though there are firms that internationalise from their inception (INV/Born Global), Indonesian SMEs in general still follow an incremental mode of internationalisation. Hence SMEs will perform better if they enter international markets later.

The overall conclusion of the findings is that Human Capital (International Business Skills and Management Know-How) and Social Capital are two necessary constructs that influence the internationalisation of the firm, where Social Capital is the key construct for internationalisation. The findings, however, also show that Human and Social Capital need to be complemented by other factors such as the external environment (domestic and international). In addition, the current study concludes that the more markets abroad where a company sold its products, the better Firm Performance and the company that has the better performance is characterised as an old company.

8.3.2 Practical Implications

The conceptual framework of the internationalisation process of SMEs in Indonesia use in this study suggests that Human and Social Capital may influence SMEs towards internationalising. The framework offers some implications for policy makers and SME owner-managers.

8.3.2.1 Human Capital and Internationalisation

There are four major practical implications for Human Capital and internationalisation drawn from these research findings.

First, the results of this research indicate that Human Capital is hypothesised as a predictor of internationalisation. It assumes that for success in international markets it is necessary for SME owner-managers to have a good level of International Business Skills and Management Know-How. Notably, as the research shows, International Business Skills predict better than Management Know-How in terms of International Performance and the number of markets where the company sells its products. In order to build up their skills in verbal communication, negotiation and building relationships abroad, owner-managers may undertake particular training.

Second, with regard to training in export and import practice, as has been indicated in Chapter 3, the Indonesian government, especially the Ministry of Trade, has been operating the Indonesia Export Training Centre (IETC) or Balai Besar Pendidikan dan Pelatihan Ekspor Indonesia (PPEI) since 1990, under the supervision of Balai Pengembangan Ekspor Nasional/BPEN (National Agency for Export Development/NAFED) (Machmud & Siregar, 2010). The current research result suggests how important it is to incorporate international

business skills such as verbal communication, negotiating and building relationships abroad into the training program so that SME owner-managers are able to increase their skills, particularly international business skills.

Third, many young and small SMEs need to address liabilities relating to newness, smallness and inexperience. Theoretical evidence shows there is a need for a policy to focus on entrepreneurs (not only SMEs) with regard to the design of policies to support internationalisation (Westhead, et al., 2001). Several aspects have to be taken into account, since most Indonesian government support has mainly focused on access to capital and international promotion. However, to develop effective and efficient policies and programs, policy-makers must have a good understanding of factors that influence the internationalisation of SMEs and then prioritise which area has to be concentrated on in the first place. Policy makers may target their support at a group of entrepreneurswho offer greater 'internationalisation potential'.

Fourth, our finding is consistent with ASEANfuture policies and programs of the SMEWG which consider the specific needs and objectives of ASEAN SMEs, for example: (a) SME entrepreneurship and human resource development; (b) SME capacity building in management, marketing, networking and supply chain formation, technology and financing; (c) a level playing field policy for SMEs, including information dissemination and inter-agency coordination to enable SMEs to take advantage of AFTA, AIA, PISs, AEC, etc.; and (d) public-private sector partnerships for SME development and networking, etc.(ASEAN Economic Community, 2009).

8.3.2.2 Social Capital and Internationalisation

Results of this study propose Social Capital as a key predictor of internationalisation. The survey data indicate that Social Capital includes (1) relationship and information sharing with business, (2) relationship and information sharing with government, and (3) relationship and information sharing with local government, in particular, the relationships between Entrepreneur Social Capital and International Performance and Market. The more intense the relationship and information sharing with business, government and local leaders, the better the export intensity and the higher the number of markets in which a company sells its products. Therefore two key implications are drawn from this research.

First, collective social interaction in Indonesian society is an important dimension of the social network within which businesses operate. This social interaction is the depiction of skills in collaborating with others. The relationships formed with business, such as customers, suppliers and competitors, are important factors in internationalisation, notably in export intensity and numbers of markets. Sometimes current customers have other suppliers or customers that can become new customers of SMEs, thus forming networks and enabling the identification and exploitation of market opportunities, and also facilitating the development of knowledge in overseas markets.

Second, the relationship and information sharing with government is an important factor that needs to be emphasised, because it is worthy of recognition by government, whether local or national. Generally government institutions select SMEs to join international trade exhibitions based on their

relationship with particular SMEs. Many SMEs begin internationalisation after they join such international trade exhibitions. They usually find their potential overseas customers or receive orders from overseas customers during the trade exhibition or not long after. It is therefore important for SMEs to maintain a relationship with government in order to have information about international market opportunities.

8.3.2.3 Internationalisation and Firm Performance

The findings of this research offer several implications with regard to the relationship between internationalisation and Firm Performance. Internationalisation's dimensions, i.e., International Performance, Market and Time, do not all relate to Firm Performance. International performance is found not to have a positive significant relationship with Firm Performance.

First, it is important to note that International Performance is not a determinant of Firm Performance. Therefore, if SMEs do not reach a certain level of export sales, it is unlikely that exporting benefits SMEs. In order to achieve a significant increase in Firm Performance, as indirect exporters, SMEs have to sell their products in as many markets as possible.

Second, the findings of this research show that the later a company starts its internationalisation and becomes active in the international market, the more likely it is that that company's Firm Performance will improve. Those SMEs that lack international experience and financial capital are likely to be better off focussing first on the domestic market first and then moving to international markets later.

8.4 Limitations and Directions for Future Research

It is acknowledged that there are limitations in this research. This section presents some limitations and also suggests some directions for future research. This research has opened a number of possible avenues for future research.

- First, the current research is based partly on the integrative conceptual model proposed by Antoncic and Hisrich(2000); however, as Indonesia has some contextual differences in terms of economic development, geographic location and Human Capital, this current research does not utilise nor does it examine all the constructs incorporated in the model. Antoncic and Hisrich's model incorporates organisational characteristics and environmental characteristics. In their model, Antoncic and Hisrich also incorporate firm age, firm size, strategy, international orientation, networking, founders/managers, and firm characteristics as organisational characteristics. For environmental characteristics the model incorporates the domestic environment, the international environment, market internationalisation and the industry itself. In relation to this conceptual framework, it is to be notedthat this current research specifically addresses the factor of Human and Social Capital of the firm. Therefore only part of the model is taken into account. This study mainly addressed organisational characteristics. Another international business study by Ruzzier et al. (2006) has incorporated both Human and Social Capital, based on the Antoncic and Hisrich model. Due to time and financial limitations of this research, it wasnot possible to incorporate all the factors or constructs that are suggested by Ruzzier et al. However, future research may incorporate constructs that have been omitted from the current research.

- A second limitation is an issue of measurement for some of the variables. Variables used for International Orientation Research, for example, are difficult to measure. Many of the measures used are relatively new and used in SMEs in developed countries. It is possible that managers of small firms in developing economies view these issues differently than managers in developed countries do. A high percentage of respondents were unable to answer the questions regarding the time they spend overseas, frequency of overseas travel, and overseas schooling,which lowered the number of fully completed questionnaires for analysis. Thuseventually we had to drop the construct of International Orientationfrom our analysis. The Human Capital construct utilised in this study, therefore, only focuses on Management Know-How and International Business Skills, unlike the Human Capital construct suggested by Manolova et al. (2002), which includes Management Know-How, international business skills, international orientation and environmental risk perception. However, even though we only use two constructs for measuring Human Capital, we believe that this represents faithfully the characteristics of Indonesian SMEs.

Future research may categorise SMEs into small and medium enterprises. We find that there are large gaps between small and medium enterprises. Future research should focus on this in examining the internationalisation of these two groups separately. For example, comparisons can be made by focusing on small and medium-sized enterprises in their behaviour in pursuing international markets. Another comparison between groups that is also important is comparison between exporters and non-exporters, in order to seek out potential exporters among SMEs.

There are four main methodological issuesthat influenced the findings:

- First, causal implications concerning the relationship between Management Know-How, International Business Skills and Entrepreneur Social Capital to internationalisation dimensions must be suggested with caution, since the survey is designed as a cross-sectional study. Cause and effect between constructs in the current research framework cannot be established. A cross-sectional method has difficulty capturing cause and effect. Thus cause and effect of the current research's conceptual framework are not proven. Although Human and Social Capital were treated as antecedents of the internationalisation dimension, it is not clear whether Human and Social Capital are indeed such antecedents. Therefore an important avenue for future research is a longitudinal study aiming at determining the causality of the variable.

- Second, whilst the findings are important, timely and relevant to the SME internationalisation process, there is, however, a need to be cautious in interpreting them. This is due to the timing of data collection. In July-September 2007, when the fieldwork was conducted, the global financial crisis wasjust commencing. Following the outbreak of the USA subprime crisis in August 2007, the global economy bent but did not buckle(EIU, 2011). Activity slowed in the face of tightening credit conditions, with advanced economies falling into mild recessions by the middle quarters of 2008. Activity in East Asian economies with heavy reliance on manufacturing exports has fallen sharply. All economies around the world have been seriously affected, although the impact of the blows has varied. This recession also hit some Indonesian SMEs, which affected the export demand of those companies (EIU, 2011). This may have led to changes in the perceptions and opinions of respondents. For this reason, future study should be conducted with care, for example, with a questionnaire that

addresses any current situation that might affect the respondent's perceptions. Another possibility, as suggested by Spector (2006), is the use of longitudinal design data collection where data are collected before and after a meaningful event of interest (Brannick, Chan, Conway, Lance, & Spector, 2010).

- Third, in quantitative data collection, self-reporting measures were used to assess Human Capital, Social Capital and performance. Informants respond to questions based on their perceptions about particular issues. The responses may incorporate social desirability, negative affectivity or mood bias, which is the tendency of informants to answer the questionnaire in a favourable light (Podsakoff, et al., 2003). This particularly applies to organisational performance measures which might have been better measured using objective measures (hard data), even though it is noted that acquiring financial data is not easy especially in SME study.

- Fourth, another issue that requires attention is related to samples. Even though the usable sample in this research is 241, the numbers are gained from two methods of data collection. The first data collection is by way of the mail survey method, which only had a 5.7 percentresponse rate, despite the letter from the secretary of the National Agency for Export Development (now DGNED). Therefore another method was employed to gain a larger sample in the study, due to time and cost limitations. The questionnaire was administered at SME export trade exhibitions in Jakarta and Bandung, namely, the Jakarta Fair and Resources of Indonesian Craft Expo (RICE) in Jakarta and SMESCo Fair in Bandung. It may be suggested that the use of two differentsurvey methods may introducebias into the data. However, this mixed survey mode data collection is recommended by De Leeuw et al.

(2008), since the mixed-mode approach provides an opportunity to take advantage of the strengths and compensate for the weakness of each individual mode at affordable cost; in this current study the reason for using this method is to increase the response rate. Therefore it is suggested thatany future study might consider mixed-mode in the research design before the research is conducted, not in the middle of the study. Furthermore, since we administered face-to face surveys, anonymity could be a problem, although respondents did not put their name in the questionnaire and hence retaining of anonymity is likely.

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APPENDIX A: Approval Letter from SCERH

[redacted]

MONASH University

Standing Committee on Ethics in Research Involving Humans (SCERH)
Research Office

[redacted]

Human Ethics Certificate of Approval

[redacted]

Date:	**28-May-2008**
Project Number:	**CF08/1429 - 2008000708**
Project Title:	**The Internationalisation of Manufacturing SMEs: Evidence From Indonesia**
Chief Investigator:	**Dr Quamrul Alam**
Approved:	**From: 28-May-2008 To: 28-May-2013**

Terms of approval

1. The Chief Investigator is responsible for ensuring that permission letters are obtained and a copy forwarded to SCERH before any data collection can occur at the specified organisation. **Failure to provide permission letters to SCERH before data collection commences is in breach of the National Statement on Ethical Conduct in Human Research and the Australian Code for the Responsible Conduct of Research.**
2. Approval is only valid whilst you hold a position at Monash University.
3. It is the responsibility of the Chief Investigator to ensure that all investigators are aware of the terms of approval and to ensure the project is conducted as approved by SCERH.
4. You should notify SCERH immediately of any serious or unexpected adverse effects on participants or unforeseen events affecting the ethical acceptability of the project.
5. The Explanatory Statement must be on Monash University letterhead and the Monash University complaints clause must contain your project number.
6. **Amendments to the approved project:** Requires the submission of a Request for Amendment form to SCERH and must not begin without written approval from SCERH. Substantial variations may require a new application.
7. **Future correspondence:** Please quote the project number and project title above in any further correspondence.
8. **Annual reports:** Continued approval of this project is dependent on the submission of an Annual Report. This is determined by the date of your letter of approval.
9. **Final report:** A Final Report should be provided at the conclusion of the project. SCERH should be notified if the project is discontinued before the expected date of completion.
10. **Monitoring:** Projects may be subject to an audit or any other form of monitoring by SCERH at any time.
11. **Retention and storage of data:** The Chief Investigator is responsible for the storage and retention of original data pertaining to a project for a minimum period of five years.

[redacted]

Professor Ben Canny
Chair, SCERH

Cc: Dr Nicholas Boisleaux Beaumont; Ms Diana Sari

[redacted]

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[redacted]

APPENDIX B: Explanatory Statement of Questionnaire

[redacted] MONASH University

Department of Management
Faculty of Business and Economics

Explanatory Statement

Title: Internationalisation of Manufacturing SMEs: Evidence from Indonesia

July, 2008

Dear _____,

[redacted]

My name is Diana Sari, a doctoral student at Monash University, Australia and I am requesting your assistance in research I am conducting. The aim of the research is to identify the factors that affect the internationalisation of Indonesian Manufacturing Small and Medium Enterprises (SMEs) and find out whether internationalisation affects performance. My supervisors are Dr. Quamrul Alam and Dr. Nicholas Beaumont of Management Department at Monash University Australia.

[redacted]

Although there has been lots of research on the internationalisation of developed countries' SMEs, next to no research has been done in developing countries.

Since SMEs like yours are very important contributors to the Indonesian economy, it is important that we understand how they move into international markets and the effect on their profits. You are part of a small sample of Indonesian manufacturing SMEs and we would greatly appreciate your cooperation, we ask you to participate in our research by taking about 20-25 minutes to complete and return the attached questionnaire in the envelope provided.

[redacted]

Your anonymity is guaranteed. As soon as we receive your response, we will separate and store separately any information identifying either you or your organisation. The information you provide will be treated as **strictly confidential. Nothing in any reports we write, will identify individuals or organisations.** Only the researchers will have access to the data. All data collected will be stored securely for five years, according to Monash University regulation and then destroyed. After we have analysed the results from the survey, we would very much like to interview a sample of managers and/or owners of manufacturing SMEs. If you're willing to be interviewed, please complete the consent form attached.

[redacted]

If you would like a copy of the aggregate research finding, please return the enclosed card with your name and address and a copy of our results will be forwarded to you alternatively, please contact **Diana Sari e-mail: diana.sari@buseco.monash.edu.au**.

Thank you in advance for your participation in this important study. Please complete and return the questionnaire in your earliest possible.

Sincerely yours,

[redacted]

Diana Sari

If you would like to contact the researchers about any aspect of this study, please contact the chief investigator :	Should you have any queries with regards to the manner in this study, please do not hesitate to contact:
Dr. Quamrul Alam Monash University. PO. Box 197 Caulfield East Vic 3145 Australia Phone: +61 3 9903 2331 E-mail: quamrul.alam@buseco.monash.edu.au	**Human Ethic Officer** The Standing Committee on Ethics in Research Involving Humans(SCERH) Bldg 3D, Research Grants and Ethics Branch, Monash University VIC 3800 Phone: +61 3 9905 2052 Fax: +61 3 9905 1420 E mail: scerh@adm.monash.edu.au

[redacted]

CONSENT FORM FOR PARTICIPANTS

For the research project titled:

Internationalisation of Manufacturing SMEs: Evidence from Indonesia

I agree to take part in the above Monash University research project. I have had the project explained to me and I have read the explanatory statement which I keep for my records. I understand that agreeing to participate means that I am willing to **(please tick the box provided for each item to which you give consent):**

☐ Be interviewed by the researcher for 45 minutes at a time and place of mutual convenience

☐ Allow the interviewed to be audio taped

Please tick the appropriate box:

☐ I understand that any papers or publications from the research will use false name or pseudonyms and minimize the use of information that could reveal my identity to public.

☐ I understand that on my request, I will be given a transcript of data concerning me for my approval before it is included in the writing of this research

☐ I understand that my participation in this research is voluntary, that I can freely withdraw at any stage of the project without any disadvantages.

☐ I understand that all information I provide can not be used except for the purpose of this research

Date :

Name :

Signature :

EXPLANATORY STATEMENT (BAHASA INDONESIA)

MONASH University

Department of Management
Faculty of Business and Economics

Surat Keterangan

Judul: Internasionalisasi UKM Manufaktur: studi kasus Indonesia

Juli, 2008

Yang terhormat bapak/ ibu_____,

Nama saya Diana Sari, mahasiswi tingkat doktoral dari Monash University, Australia dan saya bermaksud untuk meminta partisipasi Anda dalam riset yang sedang saya lakukan untuk memenuhi syarat pendidikan doktoral. Maksud dan tujuan dari riset ini adalah untuk mengetahui faktor-faktor yang mempengaruhi kegiatan internasionalisasi dari Usaha Kecil Menengah (UKM) manufaktur dan untuk mengetahui apakah dengan melakukan internasionalisasi dapat mempengaruhi kinerja suatu UKM. Pembimbing saya adalah Dr. Quamrul Alam dan Dr. Nicholas Beaumont dari Departemen Manajemen di Monash University Australia.

Saat ini beberapa riset telah dilakukan untuk mengetahui efektivitas internasionalisasi UKM di negara maju, tetapi belum ada riset yang dilakukan di negara berkembang.

Sebagaimana kita ketahui UKM seperti perusahaan Anda mempunyai peran penting dalam perekonomian di Indonesia, sangat penting bagi kami untuk mengetahui bagaimana usaha mereka untuk masuk ke pasar internasional dan bagaimana pengaruhnya terhadap kinerja perusahaan. Anda terpilih sebagai sampel yang akan diambil dari UKM manufaktur di Indonesia dan kami akan sangat menghargai kerjasama Anda, kami meminta Anda untuk berpartisipasi dalam riset ini dengan meluangkan waktu 20 – 25 menit untuk mengisi kuesioner berikut dan mengirimnya kembali menggunakan amplop yang telah kami sediakan.

Kerahasiaan Anda akan kami jamin. Segera setelah mendapatkan kuesioner Anda, kami akan memisahkan dan menyimpan segala bentuk informasi yang berhubungan dengan Anda dan perusahaan Anda. Informasi yang Anda berikan akan kami jaga kerahasiaannya. Kami tidak akan mencantumkan identitas pribadi ataupun perusahaan dalam laporan akhir kami. Hanya orang-orang yang terlibat dalam riset yang akan memiliki akses terhadap data. Semua data yang terkumpul akan disimpan secara aman selama lima tahun untuk kemudian dihancurkan, sesuai dengan peraturan yang ada di Monash University. Setelah menganalisa hasil dari survey, proses selanjutnya kami akan menginterview beberapa sampel yaitu manajer dan atau pemilik UKM manufaktur. Jika Anda bersedia untuk diinterview tolong Anda mengisi formulir kesediaan berpartisipasi terlampir.

Jika Anda menginginkan salinan dari rangkuman hasil akhir temuan riset ini, silakan Anda melampirkan kartu nama dan alamat Anda dan kami akan mengirimkan hasil akhir tersebut, atau Anda dapat menghubungi **Diana Sari** di **e-mail: diana.sari@buseco.monash.edu.au**.

Terima kasih sebelumnya atas partisipasi Anda pada riset ini. Kami mohon Anda untuk mengisi dan mengirimkan kembali kuesioner ini secepat yang Anda dapat lakukan.

Hormat kami,

[redacted]

Diana Sari

Jika Anda ingin melakukan kontak kepada periset mengenai segala aspek dalam studi ini, silakan Anda menghubunig kepala investigasi: **Dr. Quamrul Alam** Monash University. PO. Box 197 Caulfield East Vic 3145 Australia Phone: +61 3 9903 2331 E-mail: quamrul.alam@buseco.monash.edu.au	Jika Anda mempunyai pertanyaan mengenai kode etik dari studi ini, silakan Anda menghubungi: **Human Ethic Officer** The Standing Committee on Ethics in Research Involving Humans(SCERH) Bldg 3D, Research Grants and Ethics Branch, Monash University VIC 3800 Phone: +61 3 9905 2052 Fax: +61 3 9905 1420 E-mail: scerh@adm.monash.edu.au

CONSENT FORM (BAHASA INDONESIA)

FORMULIR KESEDIAAN BERPARTISIPASI

Untuk proyek riset berjudul:

Internasionalisasi UKM Manufaktur: studi kasus Indonesia

Saya bersedia untuk berpartisipasi pada proyek riset yang dilakukan Monash University di atas. Saya sudah mendapatkan kejelasan mengenai proyek ini dan sudah membaca surat keterangan mengenai kerahasiaan data saya. Saya memahami bahwa dengan menyetujui untuk ikut berpartisipasi berarti saya akan **(silakan beri tanda centang pada kotak yang tersedia untuk menunjukkan bahwa Anda bersedia):**

☐ Untuk diinterview oleh periset selama 45 menit pada waktu dan tempat yang disepakati bersama

☐ Mengijinkan untuk merekam interview dalam bentuk kaset

Tolong beri tanda centang pada kotak berikut:

☐ Saya mengerti bahwa segala bentuk temuan atau artikel dari riset ini akan menggunakan nama samaran untuk meminimkan informasi yang berhubungan dengan identitas saya kepada khalayak umum.

☐ Saya mengerti bahwa sesuai permintaan saya, saya akan diberikan data yang membutuhkan persetujuan saya sebelum dimasukkan di laporan riset ini.

☐ Saya mengerti bahwa partisipasi saya pada riset ini adalah sebagai relawan, saya boleh menghentikan partisipasi saya kapan saja tanpa mendapatkan hambatan.

☐ Saya mengerti bahwa segala informasi yang saya dapatkan tidak dapat digunakan untuk keperluan lain selain daripada riset ini sendiri

Tanggal :

Nama :

Tanda Tangan :

APPENDIX C: Questionnaire

QUESTIONNAIRE

Products	
Province	

The following question relate specifically to the company named in the covering letter. Do not include data from other sites.

Please circle in the most appropriate response or writing a few words where required

INTERNATIONALISATION

1. What was your company original means of entry into international markets (*please circle one number only*)
    1. import
    2. direct export
    3. export through intermediaries
    4. sole venture direct investment
    5. join venture direct investment
    6. license product/ service
    7. Contract
    8. Franchise
    9. Others, specify _____

2. In what year was your company establish? _____

3. How old was your company when it first started with international activities?
    1. More than 6 years
    2. 4 or 5 year
    3. 2 - 3 years
    4. 1 year
    5. at inception

4. How old was your company when it reached 10% of sales from international activities?
    1. More than 6 years
    2. 4 or 5 year
    3. 2 - 3 years
    4. 1 year
    5. at inception

5. How old was your company when it reached 20% of sales from international activities?
    1. More than 6 years
    2. 4 or 5 year
    3. 2 - 3 years
    4. 1 year
    5. at inception

6. What was the first country your business entered/imported from?

    _____

7. Why did your company select this country?

8. How many overseas countries does your company sell in?
   1. 1 – 5 countries
   2. 6 – 10 countries
   3. 11 – 20 countries
   4. 20-30 countries
   5. More than 30 countries

9. In what group of countries does your company performs its main international activities in?
   1. South East Asia
   2. East Asia
   3. Middle-east
   4. Europe
   5. Africa
   6. America
   7. Other please specify _____

10. What percentage of your total products are sold abroad?
   1. less than 10%
   2. 11- 25%
   3. 26-50%
   4. 51-75%
   5. more than 76%

11. What percentage of your total production materials are imported?
   1. less than 10%
   2. 11- 25%
   3. 26-50%
   4. 51-75%
   5. more than 76%

12. What percentage of time are your employees involved in international activities?
   1. less than 10%
   2. 11-25%
   3. 26-50%
   4. 51-75%
   5. more than 76%

PERCEPTION OF THE COMPANY AND MANAGERIAL COMPETENCIES

This question asks for an evaluation of your company's ability to succeed in the global marketplace. Please rate the favourability or unfavourably of these dimensions as they relate to your company.
Please circle one response for each item

13. **COMPANY FACTORS**

Please circle the appropriate responses

		Highly Unfavourable	Unfavou-rable	Neither	Favourable	Highly Favourable
a	the use of internet	1	2	3	4	5
b	the use of facsimile and phone	1	2	3	4	5
c	size of employees	1	2	3	4	5
d	multilingual staff	1	2	3	4	5
e	employees with international experience	1	2	3	4	5

		Highly Unfavourable	Unfavou-rable	Neither	Favourable	Highly Favourable
f	unique products/service	1	2	3	4	5

14. **MANAGERIAL COMPETENCIES**

		Very poor	Poor	Neither	Good	Excellent
a	Networking	1	2	3	4	5
b	Negotiating	1	2	3	4	5
c	Oral presentation	1	2	3	4	5
d	Team building and management	1	2	3	4	5
e	Motivating employees	1	2	3	4	5
f	Developing personal business relationship	1	2	3	4	5

INTERNATIONAL BUSINESS SKILLS

15. How long have you worked in your present company? _____ year/s (if less than 12 months, write 1 year)
16. Have you been engaged in international activities in your previous job?
    1. Yes
    2. No.

17. Do you speak any foreign languages
    1. Yes
    2. No. **Please go to question 19**

18. Which?
    1. English
    2. Mandarin
    3. Japanesse
    4. Others, specify _____

19. Please indicate if you have **studied** outside **Indonesia**
    1. Yes
    2. No. **Please go to question 22**

20. If yes, how long have you studied outside Indonesia?
    1. Less than 6 months
    2. 7 – 12 months
    3. 1 – 5 years
    4. 6 – 10 years
    5. More than 10 years

INTERNATIONAL ORIENTATION

21. How many days have you on average per year spent on all **business trips in last two years**? (both within and outside Indonesia)
    1. 0 days
    2. 1 – 10 days
    3. 11 – 20 days
    4. 1 2 months
    5. More than 2 months

22. How many of those days have been outside of Indonesia?
    1. 0 days
    2. 1 – 10 days
    3. 11 – 20 days
    4. 1 – 2 months
    5. More than 2 months

23. What was the main purpose of your foreign business trips? *(you may circle more than one)*
    1. acquiring new customers
    2. new suppliers
    3. new business opportunities
    4. new employees with international experience
    5. acquiring financial sources
    6. new business contacts
    7. acquiring other resources
    8. Others, specify : _____

PERSONAL AND BUSINESS NETWORKS

The following statements relate to the extent to which top managers in your company have used personal, social and **networking relationships** during the past three years.
Please circle the number that is most appropriate as it pertains to your company.

		Very little	A little	Neither nor	Extensive	Very Extensive
24	Companies who supply the raw materials your company uses for production or the goods and services your company sell.	1	2	3	4	5
25	Companies who buy the products your company produces or the goods and services your company offers for sale.	1	2	3	4	5
26	Companies who produce the same products your company produces or sell the same goods and service your company sell.	1	2	3	4	5
27	Leaders of your company's employees or workers unions.	1	2	3	4	5
28	Local Chiefs and/or their representatives in the area your company is located.	1	2	3	4	5
29	Leaders of religious organizations (Imams, Pastors, Priests, Traditional religious priests, etc.)	1	2	3	4	5
30	Executives of the city councils.	1	2	3	4	5
31	Executives of the regional government.	1	2	3	4	5
32	Executives of the national government.	1	2	3	4	5
33	Officials in regulatory and supporting institutions (e.g., Ministry of Cooperation and SMEs, Bank of Indonesia, Ministry of Finance, etc.)	1	2	3	4	5
34	Officials in investment and industrial institutions (e.g., Indonesian Investment Board, National Agency for Export	1	2	3	4	5

		Very little	A little	Neither nor	Extensive	Very Extensive
	development, Jakarta Stock Exchange, etc.).					
35	The Armed Forces (Army, Air Force, Navy)	1	2	3	4	5
36	The Police Service.	1	2	3	4	5

Please indicate the extent to which your company has benefited from top managers' personal, social and networking relationships with the external entities in the form of **access to information** and **valuable resources** that could be used to the company's advantage. Please **circle the number** that is most appropriate for each of the items.

		Very little	A little	Neither nor	Extensive	Very Extensive
37	Companies who supply the raw materials your company uses for production or the goods and services your company sell.	1	2	3	4	5
38	Companies who buy the products your company produces or the goods and services your company offers for sale.	1	2	3	4	5
39	Companies who produce the same products your company produces or sell the same goods and service your company sell.	1	2	3	4	5
40	Leaders of your company's employees or workers unions.	1	2	3	4	5
41	Local Chiefs and/or their representatives in the area your company is located.	1	2	3	4	5
42	Leaders of religious organizations (, Imams, Pastors, Priests, Traditional religious priests, etc.)	1	2	3	4	5
43	Executives of the city councils.	1	2	3	4	5
44	Executives of the regional government.	1	2	3	4	5
45	Executives of the national government.	1	2	3	4	5
46	Officials in regulatory and supporting institutions (e.g., Ministry of Cooperation and SMEs, Bank of Indonesia, Ministry of Finance, etc.)	1	2	3	4	5
47	Officials in investment and industrial institutions (e.g., Indonesian Investment Board, National Agency for Export development, Jakarta Stock Exchange, etc.).	1	2	3	4	5
48	The Armed Forces (Army, Air Force, Navy)	1	2	3	4	5
49	The Police Service.	1	2	3	4	5

FIRM PERFORMANCE

50. Please evaluate your firm performance after involve in international market, in the last three years

		Extremely decreased (more than 20%)	Decreased (by 20%)	No changed	Increased (by 20%)	Extremely increased (more than 20%)
1	The approximate **annual sales** for your business	1	2	3	4	5

DEMOGRAPHY

51. *Please circle the number that is most appropriate to your company.*

1. What is your main role in the company?
   1. Founder
   2. Owner
   3. Manager

2. Gender
   1. Female
   2. Male

3. What is your age?
   1. Less than 30 yo
   2. 31 – 40 yo
   3. 41 – 50 yo
   4. More than 50 yo

4. Marital status?
   1. Single
   2. Married
   3. Widow

5. Are you Indonesian citizen?
   1. Yes
   2. No

6. What is your highest level of education
   1. High school graduate
   2. Some college/ technical school
   3. College degree
   4. Graduate degree
   5. Doctorate
   6. Other

7. Are you still in process of acquiring formal education?
   1. Yes
   2. No

8. If, Yes which level?
   1. Some college or technical school
   2. University
   3. Specialisation/ MBA/ Magister
   4. Doctorate
   5. Other, please specify_____

Thank you very much for your time

KUESIONER

Produk	
Propinsi	

Pertanyaan-pertanyaan berikut ini merupakan pertanyaan yang berhubungan dengan perusahaan yang terdapat di surat pengantar. Jangan memberikan data dari perusahaan lain.

Mohon lingkari jawaban yang sesuai atau tulis beberapa kata di tempat yang telah disediakan

INTERNATIONALISATION

1. Kegiatan internasional apa yang perusahaan Anda pilih pada saat pertama kali melakukan kegiatan internasional?
    1. impor
    2. ekspor secara langsung
    3. ekspor melalui perantara
    4 investasi (sole venture direct investment)
    5. investasi kerjasama (joint venture direct investment)
    6. produk atau jasa berlisensi (license product/ service)
    7. kontrak kerjasama (contract)
    8. waralaba
    9. Lainnya, tuliskan_____

2. Kapankah perusahaan anda didirikan? _____

3. Berapa tahun usia perusahaan Anda ketika pertama kali melakukan ekspor atau impor?
    1 Lebih dari 6 tahun
    2. 4 atau 5 tahun
    3. 2 - 3 tahun
    4. 1 tahun
    5. Pada saat berdiri

4. Berapa tahun usia perusahaan Anda ketika penjualan internasional mencapai 10% dari total penjualan perusahaan?
    1. Lebih dari 6 tahun
    2. 4 atau 5 tahun
    3 2-3 tahun
    4. 1 tahun
    5. Pada saat berdiri

5. Berapa tahun usia perusahaan Anda ketika penjualan internasional mencapai 20% dari total penjualan perusahaan?
    1. Lebih dari 6 tahun
    2. 4 atau 5 tahun
    3. 2-3 tahun
    4. 1 tahun
    5 Pada saat berdiri

6. Dengan negara apakah pertama kali Anda melakukan export /impor?

    _____

7. Apa alasan Anda memilih Negara tersebut?

8. Berapa total jumlah negara dimana perusahaan Anda menjual produknya?
    1. 1 – 5 negara
    2. 6 – 10 negara
    3. 11 – 20 negara
    4. 20 30 negara
    5. Lebih dari 30 countries

9. Berasal dari kelompok negara manakah perusahaan Anda melakukan kegiatan internasional (menjual produknya)
    1. Asia Tenggara
    2. Asia Timur
    3. Timur Tengah
    4. Eropa
    5. Afrika
    6. Amerika
    7. Lainnya, tuliskan: _____

10. Berapa persenkah dari total produksi perusahaan Anda yang diekspor?
    1. Kurang dari 10%
    2. 11-25%
    3. 26-50%
    4. 51-75%
    5. Lebih dari 76%

11. Berapa persenkah dari material produksi perusahaan Anda merupakan material impor?
    1. kurang dari 10%
    2. 11-25%
    3. 26-50%
    4. 51-75%
    5. lebih dari 76%

12. Berapa persenkah dari waktu karyawan di perusahaan Anda yang digunakan untuk melakukan kegiatan ekspor/impor?
    1. Kurang dari 10%
    2. 11-25%
    3. 26-50%
    4. 51-75%
    5. Lebih dari 76%

PERSEPSI MENGENAI LINGKUNGAN USAHA

Pertanyaan-pertanyaan berikut bertujuan untuk mengetahui kemampuan perusahaan Anda dalam mencapai sukses pada pasar internasional. Mohon Anda memberikan jawaban mengenai faktor-faktor yang mempengaruhi kinerja kegiatan ekspor/impor perusahaan Anda.

13. FAKTOR-FAKTOR PERUSAHAAN

Mohon melingkari jawaban yang sesuai.

		Sangat tidak baik	Tidak baik	Biasa saja	Baik	Sangat baik
1	Perlengkapan dan teknologi computer terkini (up to date)	1	2	3	4	5
2	Penggunaan internet	1	2	3	4	5
3	Kemudahan untuk memperoleh pinjaman	1	2	3	4	5
4	Kemudahan untuk mendapatkan modal	1	2	3	4	5
5	Karyawan yang mampu berbahasa asing	1	2	3	4	5
6	Karyawan dengan pengalaman kerja internasional	1	2	3	4	5
7	Produk atau jasa yang unik	1	2	3	4	5

14. KEMAMPUAN MANAJERIAL

Mohon nilai kemampuan bisnis Anda dalam hal-hal berikut

		Sangat buruk	Buruk	Biasa saja	Baik	Sangat baik
1	Networking (jaringan kenalan)	1	2	3	4	5
2	Negosiasi	1	2	3	4	5
3	Presentasi	1	2	3	4	5
4	Kerjasama tim dan manajemen	1	2	3	4	5
5	Memotifasi pegawai	1	2	3	4	5
6	Mengembangkan hubungan bisnis interpersonal	1	2	3	4	5

KECAKAPAN BISNIS INTERNASIONAL

15. Sudah berapa lama Anda bekerja di perusahaan ini? ____ tahun

16. Apakah Anda pernah terlibat dalam kegiatan Internasional di pekerjaan Anda sebelumnya?
    1. Ya
    2. Tidak

17. Apakah Anda memiliki kemampuan berbahasa asing?
    1. Ya
    2. Tidak. **Lanjutkan ke pertanyaan no. 19.**

18. Bahasa apa?
    1. Bahasa Inggris
    2. Bahasa Mandarin
    3. Bahasa Jepang
    4. Lainnya, jelaskan _____

19. Apakah Anda pernah belajar di luar negeri?
    1. Ya
    2. Tidak. Lanjutkan ke pertanyaan no. 28

20. Jika ya, berapa lama?
    1. Kurang dari 6 bulan
    2. 7 – 12 bulan
    3. 1 – 5 tahun
    4. 6 – 10 tahun
    5. Lebih dari 10 tahun

ORIENTASI INTERNASIONAL

21. Berapa hari rata-rata pertahun Anda melakukan perjalanan bisnis dalam 2 tahun terakhir?
    1. 0 hari
    2. 1 – 10 hari
    3. 11 – 20 hari
    4. 1 – 2 bulan
    5. Lebih dari 2 bulan

22. Berapa hari dari hari-hari tersebut merupakan perjalanan bisnis keluar negeri?
    1. 0 hari
    2. 1 – 10 hari
    3. 11 – 20 hari
    4. 1 – 2 bulan
    5. Lebih dari 2 bulan

23. Apa tujuan utama dari perjalanan bisnis Anda ke luar negeri?
    1. Mencari pelanggan baru
    2. Mencari supplier baru
    3. Peluang bisnis baru
    4. Pegawai baru dengan pengalaman internasional
    5. Mencari sumber pendanaan
    6. Kontak bisnis baru
    7. Mencari sumber daya lain
    8. Lainnya, tuliskan :

JARINGAN ANTAR PERSONAL DAN ANTAR INSTITUSI

Pernyataan-pernyataan berikut ini berhubungan dengan kegiatan manajemen atas perusahaan Anda dalam hal personal, sosial, jejaring/ hubungan yang luas dalam 3 tahun terakhir.
Tolong lingkari jawaban yang sesuai dengan perusahaan Anda.

		Sangat jarang	Jarang	Biasa saja	Sering	Sangat sering
24	Perusahaan-perusahaan supplier bahan mentah yang perusahaan Anda gunakan dalam proses produksi barang/ jasa.	1	2	3	4	5
25	Perusahaan-perusahaan yang membeli barang/ jasa yang ditawarkan perusahaan Anda.	1	2	3	4	5
26	Perusahaan-perusahaan yang memproduksi atau menjual barang/ jasa yang sama dengan perusahaan Anda.	1	2	3	4	5
27	Pemimpin serikat kerja perusahaan Anda atau serikat pekerja (SPSI)	1	2	3	4	5
28	Walikota/ Bupati atau perwakilan mereka di wilayah perusahaan Anda berada.	1	2	3	4	5

		Sangat jarang	Jarang	Biasa saja	Sering	Sangat sering
29	Pemimpin organisasi keagamaan (Imam, Ustad, Pastor, Pendeta, dll.)	1	2	3	4	5
30	Pejabat pemerintah kota/ kabupaten	1	2	3	4	5
31	Pejabat pemerintah propinsi.	1	2	3	4	5
32	Pejabat pemerintah pusat.	1	2	3	4	5
33	Kementrian yang membuat kebijakan dan mendukung kegiatan UKM (misalnya: kementrian UKM, Bank Indonesia, Departemen Keuangan, dll)	1	2	3	4	5
34	Institusi investasi dan industry (misalnya: Badan Penanaman Modal Nasional, Badan Promosi Ekspor Nasional, Bursa Efek Jakarta, dll.).	1	2	3	4	5
35	Tentara (Angkatan Darat, Laut, Udara)	1	2	3	4	5
36	Kepolisian.	1	2	3	4	5

Tolong jelaskan seberapa besar pengaruh dari baiknya hubungan manajemen perusahaan Anda dalam hal personal, sosial, jejaring/ hubungan yang luas dengan pihak luar sehingga dapat dimanfaatkan sebagai keunggulan bersaing perusahaan Anda dalam hal kemudahan memperoleh **informasi**.
Tolong Anda berikan jawaban menggunakan skala berikut ini

		Sangat sedikit	Sedikit	Biasa saja	Banyak	Sangat banyak
37	Perusahaan-perusahaan supplier bahan mentah yang perusahaan Anda gunakan dalam proses produksi barang/ jasa.	1	2	3	4	5
38	Perusahaan perusahaan yang membeli barang/ jasa yang ditawarkan perusahaan Anda.	1	2	3	4	5
39	Perusahaan-perusahaan yang memproduksi atau menjual barang/ jasa yang sama dengan perusahaan Anda.	1	2	3	4	5
40	Pemimpin serikat kerja perusahaan Anda atau serikat pekerja (SPSI)	1	2	3	4	5
41	Walikota/ Bupati atau perwakilan mereka di wilayah perusahaan Anda berada.	1	2	3	4	5
42	Pemimpin organisasi keagamaan (Imam, Ustad, Pastor, Pendeta, dll.)	1	2	3	4	5
43	Pejabat pemerintah kota/ kabupaten	1	2	3	4	5
44	Pejabat pemerintah propinsi.	1	2	3	4	5
45	Pejabat pemerintah pusat.	1	2	3	4	5
46	Kementrian yang membuat kebijakan dan mendukung kegiatan UKM (misalnya: kementrian UKM, Bank Indonesia, Departemen Keuangan, dll.)	1	2	3	4	5
47	Institusi investasi dan industry (misalnya: Badan Penanaman Modal Nasional, Badan Promosi Ekspor Nasional, Bursa Efek Jakarta, dll.).	1	2	3	4	5
48	Tentara (Angkatan Darat, Laut, Udara)	1	2	3	4	5
49	Kepolisian.	1	2	3	4	5

KINERJA PERUSAHAAN

50. Mohon evaluasi kinerja perusahaan anda setelah melakukan ekspor dalam tiga tahun terakhir.

		Sangat menurun (lebih dari 20%)	menurun (20%)	Tidak berubah	meningkat (20%)	Sangat menurun (lebih dari 20%)
1	Penjualan tahunan	1	2	3	4	5

DEMOGRAFI

51. *Mohon lingkari angka yang paling sesuai dengan perusahaan Anda*

1. Apakah posisi Anda di perusahaan ini?
   1. Pendiri
   2. Pemilik
   3. Manajer

2. Jenis kelamin
   1. Wanita
   2. Pria

3. Berapakah umur Anda?
   1. Kurang dari 30 tahun
   2. 31 – 40 tahun
   3. 41 – 50 tahun
   4. Lebih dari 50 tahun

4. Status perkawinan?
   1. Belum menikah
   2. Menikah
   3. Janda/ duda

5. Apakah Anda warga negara Indonesia?
   1. Ya
   2. Bukan

6. Tingkat pendidikan tertinggi yang Anda tamatkan
   1. SMP
   2. SMA/ STM
   3. Akademi
   4. S1
   5. S2
   6. Lainnya, tuliskan____

7. Apakah saat ini Anda masih mengikuti pendidikan formal?
   1. Ya
   2. Tidak

8. Jika ya, tingkat apakah itu?
   1. Akademi
   2. Universitas (S1)
   3. Specialisasi/MBA/ Magister
   4. Doktorat
   5. Lainnya, tuliskan:__

Terima kasih atas waktu Anda!

APPENDIX D: Interview Protocol

INTERVIEW PROTOCOL

Research Title:

Internationalisation of Manufacturing SMEs: Evidence from Indonesia

Day/Date	:
Interview No	:

1. Reasons to Internationalise
2. Factors that influence firm to internationalise
   - Internal Company
     a. Individual
     b. Team
     c. Information communication technology
     d. Machinery
     e. Products (uniqueness, price)
     f. Raw materials

   - External
     a. Government supports (policy, credits, trainings, promotions)
     b. Association (networks)
     c. Personal networks

3. Benefit of Internationalisation
   a. Financial Performance
   b. Productivity
4. Factors that hinder firm to internationalise
5. Problem faced to internationalise