

## **The Role of Internationalization in Moderating the Effect of Innovative Behavior and Dynamic Capabilities on Export Performance of Indonesia Handicraft SME'S**

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### **Abstract**

This study aims to analyse the role of internationalization process in mediating the effect of innovative behaviour and dynamic capabilities on export performance. This research uses descriptive research methods and data is collected with a structured questioner through survey of 138 Indonesia export-oriented Handicraft SMEs. Data were analysed using path analysis techniques. The results show the dynamic capability and internationalization has a partially and simultaneous influence both on export performance, while innovative behaviour has no influence on internationalization and export performance either partially or simultaneously.

**Keywords:** internationalization process, innovative behaviour, dynamic capabilities, export performance, SME.

### **Introduction**

Small Medium Enterprises (SMEs) use exporting as one of their methods for increasing revenue and profitability. Company qualities, competences, and a company's marketing strategy all influence export performance (Gemunden, 1991; Kumlu, 2014). The company's ability to export is measured by its export performance. The long-term viability of a corporation is determined by its export success. Foreign sales under various organizational and environmental variables are termed as export performance. It will have a positive impact on economic growth if the company's export performance improves (Diamantopoulos, 1999; Zehir, Köle, and Yıldız, 2015). The execution of a company's export marketing plan has a significant impact on its export performance. (Madsen, 1994; Kumlu, 2014).

The value of Indonesian exports decreased at the end of the 2018 period compared to the value of exports in 2017. The value of Indonesia's exports in December 2018 reached USD 14.18 billion, down 4.89% compared to exports in November 2018. Likewise, compared to December 2017 it decreased by 4.62%. While compared to non-oil and gas exports in December 2018, it dropped by 7.01%. Cumulatively, the value of Indonesia's exports in January-December 2018 reached USD 180.06 billion, an increase of 6.65 percent compared to the same period in 2017, while non-oil and gas exports reached USD 162.65 billion or an increase of 6.25 percent. (bps.go.id, 2019).

The number of SMEs in Indonesia is increasing every year. Although the increase in the number of SMEs is not as significant as the increase in the number of micro businesses, but still greater than the increase in the number of large businesses that only have a share of 0.01 of the total business entities in Indonesia.

SMEs provide a significant contribution to Indonesia's GDP, however their contribution to exports is relatively minor. This is partly because the annual growth rate of export-oriented SMEs is still locked at 5%. Last year, the value of SME exports was anticipated to be around IDR306 trillion, up barely 2% from the

previous year's total of IDR 298 trillion. While the value of SME exports is likely to fall this year, in line with Indonesia's non-oil exports, the value of SME exports is expected to rise.

There are many obstacles for SMEs to export, ranging from not having knowledge management, not having dynamic capabilities that are reading changing market conditions, export techniques, product quality and quantity, HR, management aspects to the process of internationalization (kompas.com, 2016).

The internationalization process, which comes with a high level of risk and limited SME resources, can be a major roadblock to overseas market expansion. (Buckley, 1989; Kubičková et al, 2014). SMEs, on the other hand, can overcome this by employing dynamic capabilities strategies or establishing networks that benefit all partners. (Hutchinson et al., 2006; Kubičková et al, 2014).

Due to the fact that SMEs are more dynamic, adaptable, and willing to learn than huge corporations, Dynamic Capability will, of course, be a feasible tool to use in SMEs. Dynamic Capability has the potential to make SMEs more innovative and competitive, as well as lead to long-term success. (Wang, M.-H and Yang, T. – Y, 2016). SMEs, on the other hand, are more vulnerable to losing personnel than major corporations when it comes to human resources.

This study analyzes and illustrates moderating role of internationalization process on Innovative behavior and dynamic capabilities that influence SME's export performance.

## **2. LITERATURE REVIEW**

### **2.1 Innovative behaviour and internationalization.**

According to past study, there is a relationship between globalization and innovation that mutually reinforces one another (Golovko & Valentini, 2011). As a result, two research streams are being conducted to see how they interact. In the first flow, the impact of innovation on internationalization was examined. (Dai, Maksimov, Gilbert, & Fernhaber, 2014; Golovko & Valentini, 2011; Zucchella & Siano, 2014). This effect has been determined to be positive, negative, or inconsequential; as a result, the literary body has yet to establish an agreement on this effect. The consequence of this heterogeneous result is said to be dependent on the industrial situation, according to one viewpoint. (Lachenmaier & Wößmann, 2006).

**H1:** There is significance influence of Innovative Behaviour on the Internationalization Process

### **2.2 Dynamic capability and internationalization**

According to study conducted by Jose Carlos Pinho and Christiane Prange (2015), Dynamic Capability and the Internationalization Process both have a favourable impact.

**H2:** There is significance of Dynamic Capability on the Internationalization Process

### **2.3 Innovative behavior and export performance**

Previous research (Gopalakrishnan, 2000; Zehir et al., 2011) suggests that companies that stimulate the development and introduction of innovative products or technology generally outperform their competitors. Current research also emphasizes the value of employees' innovative conduct in a corporation. (Camisón and Villar-López, 2012; Chan et al., 2007).

Finally, according to the RBV, innovative behavior may be the key to achieving positive business outcomes. (Camisón and Villar-López, 2012; Chan et al., 2007). Based on a meta-analytic review by Rosenbusch et al. (2011), and in conjunction with various studies that highlight the positive relationship between innovative behavior and organizational results, including business performance and response to dynamic capabilities to achieve a competitive advantage, this study confirms that this theorizing is correct.

**H3:** Innovative behavior has an influence on the export performance of SMEs

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## 2.4 Dynamic capability and export performance

Dynamic Capabilities are thought to have a synergistic effect on each type of individual ability, despite the fact that explorative talents are particularly vital for generating new products or markets away from dependence on pathways. (Eisenhardt & Martin, 2000). As a result, if the knowledge system serves as a foundation for calculating new skills, technologies, and methods for effective and efficient learning, we hope that dynamic knowledge management capabilities can serve as a link to assist SMEs in reorganizing their knowledge base in the export business and increasing the company's export intensity. Furthermore, research undertaken by Christina Villar, Joaquin Alegre, Jose Pla- Barber (2014) and Albertina Paula Monteiro, Ana Maria Soares, and Orlando Lima Rua (2017) reveals that Dynamic Capability has a favorable impact on export performance.

**H4:** There is an effect of Dynamic Capability (X2) on Export Performance (Y)

## 2.5 Internationalization and export performance

Mina Behyan, Osman Mohamad, and Azizah Omar (2015) found that the Internationalization Process had a beneficial impact on export performance. The findings of this study reveal a positive and substantial association between internationalization and export performance, implying that the direct impact of internationalization on export performance may have a broad range of impact on export performance within organizations.

**H5:** The process of internationalization of SMEs has an influence on export performance.

## 2.6 Innovative behavior, export performance and internationalization process

Cassiman, B., and Golovko, E. conducted research for this article. (2010) demonstrates that successful product innovation leads to small and medium enterprises (SMEs) deciding to enter the export market. According to Scholars, there is a substantial positive association between firm productivity and exports on innovation, as evidenced by a panel of Spanish manufacturing enterprises. Product innovation helps exports since there is a higher demand for products that have the potential to be of higher quality (Hitt, Hoskisson, & Kim, 1997).

According to Becker and Egger (2009), one of the reasons for a company's decision to launch an export operation is the innovation process. The researcher argues that innovation (product) enhances the chance of SMEs' internationalization, where R&D and innovation (product) are positively associated to the company's export decisions due to the demand expansion effect.

Furthermore, through internationalization, the organization can develop some competency through observation, information transfer, and the incorporation of the experiences of others who may refer to the consequences of learning (Banerjee, Prabhu, & Chandy, 2015). Furthermore, internationalization increases the number of markets covered and sales volume, allowing corporations to devote more resources to R&D. To put it another way, R&D, which is a fixed expense, can be spread over a larger number of sales. This increases the motivation to invest in R&D while also boosting productivity and creativity. .

**H6:** There is an influence of Innovative Behavior on Export Performance through the Internationalization Process.

## 2.7 Dynamic capability, export performance and internationalization process

Jose Carlos Pinho and Christiane Prange (2015) discovered that Dynamic Capability and the Internationalization Process have a favorable impact. Mina Behyan, Osman Mohamad, and Azizah Omar (2015) conducted study that suggests the Internationalization Process has a beneficial impact on export performance.

**H7:** There is an influence of Dynamic Capability on Export Performance through the Internationalization Process.

### **3. RESEARCH METHODOLOGY.**

#### **3.1 Research design and instruments**

The research method used in this study is the descriptive associative research is research used to determine the relationship between variables or more. The unit of analysis intended for this research is individual owner or management team of Indonesia handicraft SMEs. The time dimension used in this study is cross-sectional, that is, observations are only made according to the time determined by the researcher by looking at the relationship between the dependent and independent variables (Sugiyono, 2013).

The population in this study were SME handicraft participants who participated in the Crafina exhibition and Trade Expo Indonesia in 2019. The sampling technique used was Purposive Sampling, using the following criteria: Have already exported or sold products abroad at least 1 time; The number of workers is 2-40 people; UKM handicraft; Monthly sales turnover of 50 million -1 billion.

Sample calculations are used according to Ferdinand (2002) in Saputra et.al (2020), with a sample of 138 respondents of Indonesia Handicraft SME's owner. Questioner distributed to 175 SME's and only 138 validated to be process. Data is analysed using path analysis with a double regression approach by dividing it into two substructures and analysis using regression analysis.

All variable constructs were measured using five-point Likert scales with scores ranging from 1 (strongly disagree) to 5 (strongly agree). Items for measuring Innovative behaviour adopted from Omri (2015). This scale consists of three dimension that is 3 items that measure Idea generation (idea creation, research for new method, generate original solution), three items that measure Idea Promotion (Mobilization of innovative ideas, approval of innovative ideas, generate excited employee).

Three items measure Idea Realization (Creative idea conversion, introduce systematic idea, and evaluate idea utilization). Dynamic capabilities were adopted from Villar et. al (2014) and Zheng. S et.al (2011), four items that measure Knowledge Generation capability (Technological Knowledge, marketing knowledge, manajerial knowledge and general knowledge). Three items measure Internal Knowledge Development (employee academic qualifications, technology pioneer capability, and managing innovation capability), four items measure External Knowledge Integration (External knowledge integration, collaboration with industry association, collaboration with research institution, and technology acquisition).

The Internationalisation Process was adopted from Costa et. al (2016) and Ravelomanana (2015) consisting of three dimensions. two items for decisions to enter (foreign language skills and network), two items for market selection (business relation and partner), and four items for entry mode selection (country risk, international experience, product and demand uncertainty). Finally, 2 dimensions for measuring export performance were adopted from (Beleska-Spasova, 2014). These dimensions are sales related measured by five items (export intensity, sales efficiency, sales volume, sales growth and export sales ROI) and market-related (Export market share, export market growth, market diversification and new market entry mode).

### **4. RESULT**

Valid responses provided by respondents represent 7 products sold by SMEs in the expo. There are 73 SMEs for wood, rattan and bamboo Craft product categories, 26 SMEs for Textile, 21 SMEs for natural fiber, 10 SMEs for others, 4 SMEs for metal, 3 SMEs for stone, and 1 SMEs for clay. The demographic characteristics of responding firms are shown in Table 1. Below.

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**Table 1: Demographic Characteristic of SMEs**

Categories		Sales Revenue	
Wood, rattan, and bamboo	73	50 – 208 M	93
Textile	26	209 – 500 M	23
Natural fiber	21	501 – 750	11
Others	10	751 M - 1 B	11
Metal	4		
Stone	3		
Clay	1		

  

Human Resources		Length Of Operation	
< 5	19	1-3 Year	41
5-10	44	4-6 Year	37
11-20	33	7-9 Year	13
21-30	20	10-12 Year	11
31-40	22	>12 Year	36

From table 1, the characteristic based on categories is majority place by Wood rattan and bamboo craft (53%) and the least is Clay craft (1%). In Sales revenue characteristic refer more to micro enterprise with 50-208 M (67%) while the least is medium enterprise with 751 M to 1 B revenue (8%). For human resources, it is align with sales revenue where it refers to micro enterprise with amount of 5-10 people (32%) and the least is <5 people(8%). As For Length of business operation, the highest amount is 1-3 years (30%) and the least is 10-12 years(8%).

In this study, item-total correlations and Cronbach alpha were used to assess the psychometric properties of the measurement scale. On the item-total correlation test, there was a 5% significance level and for a sample size of 138, value of r table is 0.13 and t table are 1.67. All items in all variables obtained a value above 1.66 that proved the validity of items in Innovative behavior, dynamic capabilities, the internationalisation process and export performance. In the reliability test, Cronbach Alpha = 0.93  $\geq$  0.60 and therefore Innovative behavior, dynamic capabilities, internationalisation process and export performance are reliable.

Double multilinear regression analysis was used to seek path between two sub-structures. On first substructure, Multiple linear regression analysis was used to determine whether innovative behaviour and dynamic capability (independent variable) have any significant effect on internationalization process (dependent variable). On second substructure, second multiple linear regression was used to determine the significant effect of innovative behaviour, dynamic capability and internationalization process on export performance.

The first substructure shows the adjusted R<sup>2</sup> value was 0.382 which implied that 38.2% of the variation in the dependent variable was explained by the independent variables included in the model. This result reveals that the model was a strong predictor. The R-value was 0.625 which shows that there was a strong positive

correlation between the dependent variable (Internationalization Process) and the set of independent variables. The F statistic (43.341) for the model was statistically significant at a 5% level ( $p \leq 0.05$ ). Therefore, the overall model was significant.

The regression coefficient indicated that dynamic capability ( $\beta=.581, t=8.021, p:0,001 \leq 0.05$ ), were significantly associated with the Internationalization Process of handicraft SME's. Hence, the innovative behaviour ( $\beta=.99, t=1.363, p:.175 \geq 0.05$ ), were not significantly associated ( $p > 0.05$ ) with the Internationalization process of handicraft SME's. Therefore, H2 were supported whereas H1 were not supported.

The second substructure shows the adjusted  $R^2$  value was 0.289 which implied that 28.9% of the variation in the dependent variable was explained by the independent variables included in the model. This result reveals that the model was a strong predictor. The R-value was 0.537 which shows that there was a positive correlation between the dependent variable (Export Performance) and the set of independent variables. The F statistic (18.115) for the model was statistically significant at a 5% level ( $p \leq 0.05$ ). Therefore, the overall model was significant.

The regression coefficient indicated that dynamic capability ( $\beta=.311, t=3.251, p:0,001 \leq 0.05$ ), and Internationalization process ( $\beta=.224, t=2.395, p:0,018 \leq 0.05$ ) were significantly associated with the export performance of handicraft SME's. Hence, the innovative behaviour ( $\beta=.114, t=1.444, p:.151 \geq 0.05$ ), were not significantly associated ( $p > 0.05$ ) with the Export performance of handicraft SME's. Therefore, H4, and H5 were supported whereas H3 were not supported. Because h1 and h3 were not supported will implied to unsupported h6 with result of no mediating effect of internationalization process between innovative behaviour and export performance. Hence H7 is supported the mediating effect of internationalization process on dynamic capability and export performance with  $\beta = .130$ .

## 5. DISCUSSION.

This research divulge that innovative behaviour is not significantly associated with export performance with or without mediation of internationalization process of handicraft SME's. This study result of create contradictory evidence gap (Miller-Bloch and Kranz, 2014) with previous study by Tavassoli, S. (2018) stated insignificant effect of innovation toward export performance. While there is also contradictory evidence gap to previous research (Becker dan Egger, 2009 Golovko & Valentini, 2011; Genc, E., Dayan, M., & Genc, O. F., 2019) which states there is a relationship between internationalization and innovation that reinforces each other.

There is significant association between dynamic capability to export performance revealed by this research. Its align with previous studies (Monteiro A.P., Soares A.M., Rua O.L, 2017; Prange C., Pinho J.C, 2015; Villar C, et.al, 2014).

Internationalization process in this research divulge its significant effect toward export. Its supported previous study by Saputra D., et.al (2020) and Behyan M., Mohamad O. and Omar A. (2015),

Dynamic Capability was significantly influence export performance directly and mediated by internationalization process. It indicated that SMEs with concern to its internationalization process will increase the effect of their dynamic capability toward the SMEs export performance. A similar result was shown by Saputra D, et.al,(2020) which states there is a significant direct and indirect effect of Dynamic capabilities towards export performance mediated by internationalization process.

## 6. CONCLUSION

The study attempted to point out whether innovative behavior and dynamic capability affect the export performance mediated by internationalization of Indonesia handicraft SMEs. In brief, the study findings showed that dynamic capability was affected the export performance directly and through mediation of internationalization process. On contrary, innovative behavior was not affecting export performance directly and through mediation of internationalization process.

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The study concluded that dynamic capabilities and internationalization process enhancement were significantly related to the export performance of handicraft SMEs. The study findings are helpful to entrepreneurs for understanding as factors affecting their export performance.

Based on the study findings, some recommendations are offered for the enhancement of Indonesia handicraft SME. First, the study identified that dynamic capability significantly affects internationalization process. So, the government should provide export training and platform that bridge collaboration between university, similar product association (e.g. Indonesia Handicraft association), export community to upscale their capability to be dynamic and responsive to market trend.

Second, the study findings reported that dynamic capability significantly relates to export performance. So, government to Directorate general of national export development collaborate with ITPC, Indonesia Embassy abroad to share exhibitions, seminars and partner abroad to SMEs as well as provide short-term training programs to equipped and upgrade the SMEs export skills.

Lastly, study findings showed that international process affected export performance, the barrier of the process is SMEs owner language ability and export funding. So, the study recommended that enhance language training and subsidized loans in term of micro-credit should be given to start their export activity.

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