



The
University
Of
Sheffield.

The Institutional Context of SME Internationalisation in an Emerging-Market Economy: Insight from Indonesia

Muhammad Surya Anindita

A thesis submitted in partial fulfilment of the requirements for
the degree of Doctor of Philosophy

The University of Sheffield
Faculty of Social Sciences
Management School

30 April 2021



1. *“Read (Proclaim!) In the Name of your Lord Who created”*
2. *“Created man, out of a clot (of congealed blood).”*
3. *“Read (Proclaim), and your Lord is the Most Generous,”*
4. *“Who taught by the Pen,”*
5. *“Taught man that which he knew not.”*

Al ‘Alaq 96:1-5

Abstract

This study investigates the role of home-country formal and informal institutions in affecting the Small and Medium Enterprises (SMEs) internationalisation phenomenon within an emerging-market context. The internationalisation of SMEs is a form of entrepreneurial activity that contributes substantially to economic development. Institutional theory has been applied in entrepreneurship research to identify how entrepreneurs are constrained and enabled by their home-country institutions. A successful internationalisation process requires an institutional environment that fosters overseas business and supports specific needs. This study focused on SMEs as representatives of ordinary, everyday entrepreneurs.

This investigation was conducted in Indonesia, an emerging market country in Southeast Asia. As an archipelago country, Indonesia has a rich institutional environment – both formal and informal and at the national and subnational levels. The empirical focus was Bali and the Special Region of Yogyakarta. To fully capture the details of the phenomenon, the research focused on the handicraft sector.

A multi-methods approach was taken and a sequential explanatory research design applied. The quantitative analysis used secondary data from the Indonesian SME profile 2015 and the qualitative analysis involved in-depth, semi-structured interviews with SME owner-managers and entrepreneurs, policymakers and government officials, and representatives of business intermediaries and entrepreneur associations. The analysis of the findings offers an empirically rich understanding of how formal and informal institutions that affect SME internationalisation at the national and subnational levels and shows how interactions between the institutions can create institutional asymmetry between formal and informal institutions and also among the formal institutions. The results reveal the creativity and resilience of SMEs in the institutional context, with institutional asymmetry being used to both positive and negative effect. The results further illuminate the links between government support policy and internationalisation and show how social values influence the SME internationalisation process.

Acknowledgement

In the name of Allah, the Most Gracious, the Most Merciful. All praise be to ALLAH Subhanahu Wa Ta'ala for the uncountable blessings and for giving me the faith and the right state of mind throughout my PhD journey. Best prayers and peace be upon our Prophet Muhammad Sallallahu' Alayhi Wa Sallam, his family and his noble companions.

I would like to express my sincere gratitude to everyone who supports me through this study. First of all, I would like to thank my supervisors, Professor Tim Vorley, for his tremendous support, mentoring, and encouragement since the beginning of my PhD. I would also like to thank Dr Abbi M. Kedir for introducing me to STATA and guiding me through the quantitative part of my thesis. Special thanks and appreciations are also extended to Dr Carole C. Couper, who joined my supervisory team at the right time, for responding to my queries so promptly, giving me clear guidance and valuable feedback, as well as assisting me to resolve issues that arose during the critical period of this thesis. I must also thank the research staff at Sheffield University Management School (SUMS) for their support in various aspects during my Doctoral study.

Secondly, I must also thank all of my participants who kindly take the time and share their entrepreneurship, business, and internationalisation experience, as this research would not have been possible without such valuable data. Further thanks are extended to all my colleagues in SUMS Doctoral Centre: Ahmad Rais, Cristian, Ibrahim, Faisal, Ruxandra, Bala, Naeem, Ahmad, Benjamin, and many others who have contributed with suggestions and motivation throughout this 'all seasons' journey. I would like to convey my heartfelt thanks to all my friends in the Indonesian Sheffield PhD Forum for their encouragement during my entire PhD period.

Moreover, I express my gratitude to Indonesian Endowment Fund for Education (LPDP) for providing financial support and allowing me to expand my knowledge and to have a tremendous experience that challenges me to become a better person.

Finally, I am greatly indebted to my devoted wife, Dian Mayasari, and my two children, Cyrilla Zahra Anindita and Rayhan Muhammad Anindita. Their love, patience, and



support have enabled me to finish this thesis. I dedicate this dissertation to my parents for their endless support and prayers, especially my father, who always wanted one of his children to have a PhD.

Table of Contents

Abstract	3
Acknowledgement	4
Table of Contents	6
List of Figures	12
List of Tables	14
List of Abbreviations	16
Chapter One: Introduction	18
1.1. Background to the Study	18
1.2. Research Context	22
1.3. Research Objective and Theoretical Lens	23
1.4. Research Approach	24
1.5. Major Findings	25
1.6. Key Contributions	28
1.7. Structure of the Thesis	29
Chapter Two: The Internationalisation of Small and Medium-sized Enterprises: A Literature Review	32
2.1. Introduction	32
2.2. Entrepreneurship and the Internationalisation of Small and Medium-sized Enterprises	33
2.3. The Drivers of Internationalisation Activities in Small and Medium-sized Enterprises	37
2.4. The Barriers to Internationalisation of Small and Medium-sized Enterprises ..	40
2.5. Internationalisation Process	46
2.6. Internationalisation Strategy	56
2.7. Internationalisation Performance	58
2.8. Conclusion	61

Chapter Three: The Internationalisation of Small and Medium-sized Enterprises and the Institutional Context.....	63
3.1. Introduction	63
3.2. Institutional Theory.....	64
3.2.1. Formal Institutions	66
3.2.2. Informal Institutions.....	68
3.2.3. The Interaction between Formal and Informal Institutions	69
3.3. The Country-level Institutional Context	72
3.4. Conceptual Framework.....	76
3.5. Knowledge Gaps and Research Objectives.....	77
3.6. Conclusion	80
Chapter Four: Empirical Focus.....	81
4.1. Introduction	81
4.2. Overview of Indonesia.....	81
4.2.1. The Geography of Indonesia	81
4.2.2. Indonesia's Economy.....	83
4.2.3. Indonesia's International Trade.....	85
4.3. Small and Medium-sized Enterprises in Indonesia	92
4.3.1. Definition of Small and Medium-sized Enterprises.....	92
4.3.2. Distribution of Small and Medium-sized Enterprises.....	93
4.3.3. The Role of Small and Medium-sized Enterprises in Indonesia's Economy and Exports	95
4.4. Government Policy for the Internationalisation of Small and Medium-sized Enterprises.....	101
4.5. The Institutional Context	104
Chapter Five: Methodology	106
5.1. Introduction	106
5.2. Research Philosophy	106

5.2.1. Critical Realist Approach.....	106
5.2.2. Critical Realism, Entrepreneurship, and Institutions	109
5.3. Research Design	110
5.3.1. Quantitative Research	113
5.3.2. Qualitative Research	114
5.4. Qualitative Data Analysis	126
5.4.1. First-order Concept.....	127
5.4.2. Second-order Themes	128
5.4.3. Aggregate Dimension	129
5.4.4. Data Structure.....	129
5.4.5. Writing-up the Results	133
5.5. Research Quality	133
5.6. Ethical Considerations	135
5.7. Conclusion	136
Chapter Six: Performance and Export Intensity of Small and Medium-sized Enterprises in Indonesia: A Quantitative Analysis	138
6.1. Introduction	138
6.2. Descriptive Analysis of the Survey Data on Indonesian Small and Medium-sized Enterprises.....	139
6.2.1. Type of Enterprise	139
6.2.2. Age of Enterprises	143
6.2.3. Owner Education Level.....	143
6.2.4. Monthly Profits.....	145
6.2.5. Asset Value.....	145
6.2.6. Business Challenge	146
6.2.7. Business Partnerships	147
6.2.8. Business Support.....	148

6.2.9. Market allocation.....	152
6.3. Correlation Analysis	154
6.4. Regression Analysis.....	155
6.5. Conclusion	158
Chapter Seven: The Effect of Home-Country Institutional Drivers on the Internationalisation of Small and Medium-sized Enterprises	161
7.1. Introduction	161
7.2. Contextualised Motives	164
7.2.1. Pro-internationalisation Social Norms	165
7.2.2. Pro-internationalisation Internal Values	167
7.2.3. Discussion	168
7.3. Institutional Internationalisation Resources	171
7.3.1. Intellectual Property Rights	172
7.3.2. Raw-material Availability	176
7.3.3. Institutional Networks.....	180
7.3.4. Discussion	185
7.4. Internationalisation Skills and Knowledge	186
7.4.1. Information Technology Skills	188
7.4.2. Marketing and Sales Skills.....	190
7.4.3. Entrepreneurial Experience	191
7.4.4. Discussion	193
7.5. Conclusion	195
Chapter Eight: The Effect of Home-Country Institutional Barriers on the Internationalisation of Small and Medium-sized Enterprises	197
8.1. Introduction	197
8.2. Institutional Barriers to Knowledge.....	199
8.2.1. The Lack of Regulation of Government Officials' Knowledge	200

8.2.2. Informal Institutional Barriers to Internationalisation	203
8.2.3. Discussion	206
8.3. Internationalisation Bureaucracy	209
8.3.1. Regulatory Voids	209
8.3.2. Red Tape	213
8.3.3. Discussion	217
8.4. Institutional Asymmetry	219
8.4.1. Conflict Between Formal and Informal Institutions	220
8.4.2. Inconsistent Formal Regulations	222
8.4.3. Unequal Access to Government Support	223
8.4.4. Discussion	224
8.5. Conclusion	228
Chapter Nine: The National- and Subnational-Level Impact of Home-Country Institutional Support on the Internationalisation of Small and Medium-sized Enterprises	232
9.1. Introduction	232
9.2. Institutional Support	234
9.2.1. Government Support	234
9.2.2. Intermediary Support	249
9.3. Informal or ‘Shadow’ Internationalisation	258
9.3.1. Unregistered Small and Medium-sized Enterprises	260
9.3.2. Direct Dispatch	262
9.3.3. Hidden Transaction	264
9.3.4. Discussion	265
9.4. Conclusion	268
Chapter Ten: Synthesis and Conclusion	270
10.1. Introduction	270

10.2. Research Synthesis	270
10.2.1. Research Objectives.....	270
10.2.2. Summary of Major Findings	271
10.3. Research Contribution	274
10.3.1. Contributions to Knowledge	276
10.3.2. Policy Implications	284
10.3.3. Practical Implications	287
10.4. Limitations and Recommendations for Future Research	289
10.5. Conclusion	291
References	294
Appendices	329
Appendix 1 – Ethics Approval	329
Appendix 2 – Information Sheet.....	330
Appendix 3 – Consent Form	333
Appendix 4 – Interview Guideline.....	334
Appendix 5 – STATA Output: Correlation Analysis	336
Appendix 6 – STATA Output: Regression Analysis	337

List of Figures

Figure 2.1. The domestic-foreign and internal-external barriers typology.....	44
Figure 2.2. The aggregate model of internationalisation performance	60
Figure 3.1. Conceptual framework for the institutional context of internationalisation by small and medium-sized enterprises (SMEs) in an emerging-market country.....	77
Figure 4.1. The provinces of Indonesia	82
Figure 4.2. Indonesia gross domestic product.....	83
Figure 4.3. Contribution to gross domestic product (GDP) by industry.....	84
Figure 4.4. Gross domestic product (GDP) by type of expenditure	85
Figure 4.5. Indonesian exports and imports	87
Figure 4.6. Indonesian value of exports by standard international trade classification group	88
Figure 4.7. The Indonesian Companies by Size.....	94
Figure 4.8. Indonesia’s exports by enterprise category	97
Figure 4.9. The exports of Indonesian small and medium-sized enterprises, by sector	100
Figure 5.1. The transformation model of social activity	109
Figure 5.2. The explanatory sequential design.....	110
Figure 5.3. The data structure of the first aggregate dimension	130
Figure 5.4. The data structure of the second aggregate dimension	131
Figure 5.5. The data structure of the third aggregate dimension	132
Figure 6.1. Percentage of small and medium-sized enterprises by industry, based on 2015 survey data.....	140
Figure 6.2. Number of respondents by province based on 2015 SME survey data	142
Figure 6.3. The position of the quantitative method in the research framework	159
Figure 7.1. The position of institutional drivers in the research framework.....	163
Figure 7.2. The data structure of contextualised internationalisation motives	165
Figure 7.3. The position of contextualised internationalisation motives in the research framework	170
Figure 7.4. The data structure of institutional internationalisation resources.....	172
Figure 7.5. The position of institutional internationalisation resources in the research framework	186

Figure 7.6. The data structure of internationalisation skills and knowledge.....	187
Figure 7.7. The position of internationalisation skills and knowledge in the research framework	194
Figure 8.1. The position of institutional barriers in the research framework	198
Figure 8.2. The data structure for institutional barriers to knowledge	200
Figure 8.3. The position of institutional barriers to knowledge in the research framework	208
Figure 8.4. The data structure of internationalisation bureaucracy.....	209
Figure 8.5. The position of internationalisation bureaucracy in the research framework	218
Figure 8.6. The data structure of institutional asymmetry.....	220
Figure 8.7. The position of internationalisation bureaucracy in the research framework	227
Figure 9.1. The position of government support in the research framework.....	235
Figure 9.2. The data structure of government support	236
Figure 9.3. The position of intermediary support in the research framework.....	250
Figure 9.4. The data structure of intermediary support.....	251
Figure 9.5. The position of 'informal' or 'shadow' internationalisation in the research framework	259
Figure 9.6. The data structure of informal or 'shadow' internationalisation.....	260

List of Tables

Table 2.1. Barriers to entry in the internationalisation of small and medium-sized enterprises (SMEs).....	41
Table 2.2. Innovation-related internationalisation models	50
Table 2.3. Internationalisation strategy.....	57
Table 4.1. Indonesian international trade indicators	86
Table 4.2. Indonesia’s value of exports by major countries of destination.....	90
Table 4.3. Contribution of large firms and small and medium-sized enterprises (SMEs) to economic activity	91
Table 4.4. Definitions of small and medium-sized enterprises (SMEs) and large firms	92
Table 4.5. Business establishments in Indonesia.....	94
Table 4.6. Employment figures in Indonesia, by enterprise category	95
Table 4.7. Indonesia’s gross domestic product (GDP) by enterprise categories in IDR billions	96
Table 4.8. Internationalisation ratio for small and medium-sized enterprises (SMEs) by province.....	99
Table 5.1. Research design	111
Table 5.2. List of the secondary data used in quantitative analysis.....	113
Table 5.3. Summary of participant recruitment.....	121
Table 5.4. The characteristics of the owner-managers and entrepreneurs interviewed	123
Table 5.5. The characteristics of the government officials interviewed	124
Table 5.6. The characteristics of the business intermediaries and entrepreneur associations interviewed	125
Table 5.7. Data extract illustration: initial categories from the transcript.....	127
Table 5.8. Data reduction illustration: categories reduced to first-order concepts..	128
Table 5.9. Second-order themes	129
Table 5.10. Aggregate dimension	129
Table 5.11. The research quality criteria and validation strategy employed	134
Table 6.1. Age of small and medium-sized enterprises by organisational type	143

Table 6.2. Education level of owners of small and medium-sized enterprises by organisational type and owners' sex	144
Table 6.3. Monthly profit of small and medium-sized enterprises by organisation type	145
Table 6.4. Asset value by organisation type	146
Table 6.5. Challenge types for small and medium-sized enterprises	147
Table 6.6. Partnership companies of small and medium-sized enterprises.....	147
Table 6.7. Partnership types for small and medium-sized enterprises	148
Table 6.8. Reasons that small and medium-sized enterprises do not receive support	149
Table 6.9. Types of support for small and medium-sized enterprises	150
Table 6.10. Types of companies providing support for small and medium-sized enterprises	150
Table 6.11. Training support received by small and medium-sized enterprises, types of training and provider organisations	151
Table 6.12. Market allocations for small and medium-sized enterprises by type....	153
Table 6.13. Correlation analysis for the export variable	154
Table 6.14. Regression analysis for the export variable.....	157
Table 7.1. Institutional drivers mentioned in the dataset	162
Table 7.2. Institutional regulations related to intellectual property rights	172
Table 8.1. Institutional barriers mentioned in the dataset.....	199
Table 9.1. Institutional supports and shadow internationalisation mentioned in the dataset	233

List of Abbreviations

AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
APEC	Asian-Pacific Economic Cooperation
AR	Account representative
ASEAN	Association of Southeast Asian Nations
ASEPHI	Association of Exporters and Producers of Indonesian Handicraft
COO	Certificate of origin
EXPERF	Export performance scale
FDI	Foreign direct investment
FSTS	Foreign sales to sales
FTA	Free trade agreement
GDP	Gross domestic product
GT	Grounded theory
HaKI	<i>Hak atas Kekayaan Intelektual</i>
IDR	Indonesian rupiah
IPR	Intellectual property rights
IT	Information technology
KADIN	The Indonesian Chamber of Commerce and Industry
KPI	Key performance indicators
LPEI	<i>Lembaga Pembiayaan Ekspor Indonesia</i>
LPI	Logistics performance index
MNEs	Multinational enterprises
PTA	Preferential trade agreements
ROA	Return on assets
SITC	Standard international trade classification
SMEs	Small and medium-sized enterprises
SMESCO	Small & Medium Enterprises and Cooperatives (special mission vehicle)
SMV	Special mission vehicle
SOE	State-owned enterprises
SVLK	<i>Sistem Verifikasi Legalitas Kayu</i> (timber legality assurance system)
TEA	Total early-stage entrepreneurial activity



TMSA	Transformation model of social activity
WIPO	World Intellectual Property Organization
WTO	The World Trade Organization

Chapter One: Introduction

1.1. Background to the Study

Entrepreneurship plays a significant role in economic development and economic growth (Stoica *et al.*, 2020; Urbano *et al.*, 2019; Acs *et al.*, 2008). As a result, the encouragement of entrepreneurship is a key component of many policymakers' development agendas and the subject of many initiatives aimed at encouraging job creation and economic development at the global, regional, and local levels (Smallbone, 2016; Williams & Vorley, 2014). However, Aldrich and Ruef (2020) suggest that entrepreneurship research should be paying more attention to ordinary everyday entrepreneurs, rather than exotic billion-dollar start-ups. This is in line with the conclusion of Welter *et al.* (2017) that entrepreneurship studies tends to focus on technology, growth, wealth, job creation, and the glamorous and heroic entrepreneurs, rather than everyday entrepreneurs, family business, business within communities, and similar contexts found in small businesses.

In the emerging-market context, promoting economic growth through entrepreneurship cannot be segregated from the importance of small and medium-sized enterprises' (SMEs) development (Tambunan, 2007, 2008). Therefore, the SME sectors development has an important role in a nation's economic growth. Abe *et al.* (2012) argue that 'SMEs are a key source of economic growth and dynamism in all economies', contributing to the country's gross domestic product (GDP) and cultivating an entrepreneurship culture. Additionally, Looi (2013) proposes a theoretical framework of entrepreneurial values and export intentions, and this shows that SMEs are a potential engine of national economic growth. One method by which SMEs can develop is expanding their markets into foreign countries, which is normally defined as 'internationalisation'. This thesis explores the internationalisation of SMEs as a form of entrepreneurial activity that substantially contributes to economic development and industry robustness (Oparaocha, 2015; Acs *et al.*, 2008).

There has been an increasing number of studies on SME internationalisation in recent years, from an array of perspectives, including research on drivers of internationalisation (Francioni *et al.*, 2016; Abebe & Angriawan, 2011; Leonidou *et al.*, 2007); barriers to internationalisation (Cardoza *et al.*, 2016; Roy *et al.*, 2016; Rahman

et al., 2015; Fayos Gardó et al., 2006; Leonidou, 2004; Moini, 1997; Kedia & Chhokar, 1986); the internationalisation process (Gankema *et al.*, 2000; Cavusgil, 1980; Johanson & Vahlne, 1977); the characteristics and behaviours of entrepreneurs (Omri & Becuwe, 2014; Reid, 1981); business networks (Solano Acosta *et al.*, 2018; Stoian *et al.*, 2017; Pinho & Prange, 2016; Felzensztein *et al.*, 2015; Boehe, 2013; Coviello & Munro, 1997); internationalisation strategy (Ahmad, 2014; Bell *et al.*, 2004); and internationalisation performance (Stoian *et al.*, 2017; Pascucci *et al.*, 2016; Maldifassi & Caorsi, 2014; Francis & Collins-Dodd, 2000).

There is a lack of clarity concerning the evolution of the SME-internationalisation literature theme, what has been achieved and the key findings and contributions, which causes unclear perception regarding the existing gap of the literature topic (Morais & Ferreira, 2019). In recent years, this field of research has developed around the following topics: SME performance, the internationalisation process, strategic perspectives, entrepreneurship approach, the network model, and the knowledge-based perspective (Ribau *et al.*, 2018). Furthermore, a recent bibliometric and systematic review study by Dabić *et al.* (2020) found that the focus of the extant literature is typically entry mode, human capital, networks, knowledge cognitive, promotion, geography, and technology. Steinhäuser *et al.* (2020) also conducted a systematic review of SMEs internationalisation studies published in the last 20 years. The authors identified three stages of the most prominent themes in SMEs internationalisation research, namely antecedents, patterns, and outcomes. The debate in the previous SMEs internationalisation research emphasises that these aspects are either important for supporting SMEs' internationalisation activities, or, in contrast, they hinder SME internationalisation.

Accordingly, although previous studies of SME internationalisation have discussed various themes – with some addressed more often than others – no themes can be said to dominate the body of research, as all are interrelated and contribute to the big picture. This is unsurprising because the patterns of international business activities vary between SMEs and across nations, as each firm faces different challenges – both internal and external (Olejnik & Swoboda, 2012; Leonidou, 2004). These external challenges are often explored through an institutional lens (North, 2005), with

investigations of the role played by institutions. This perspective is adopted in the current thesis. There are significant differences between the institutions in high-income markets and those in emerging economies (Ahmed & Brennan, 2019; Lamotte & Colovic, 2015; Ketkar & Acs, 2013; Peng *et al.*, 2008). However, the extant research on SME internationalisation has primarily been conducted in high-income economies, while these external challenges are very different to those commonly found in emerging economies (Dabić *et al.*, 2020; Steinhäuser *et al.*, 2020; Ribau *et al.*, 2018; Buckley, 2015; Ruzzier *et al.*, 2006). As such, there is a lack of SME-internationalisation research in emerging-market countries.

Concerning the institutional aspects, the effects of each country's national and subnational institutions might differ in their respective influences on entrepreneurship. The effects depend on the country's acceptance and condition of its formal and informal institutions (Roxas & Chadee, 2012). A study of a large country that is home to many different cultures, spread out across large geographical areas, in the subnational region to the extent of business orientation and firm's performance, would be a valuable contribution to the literature (Meyer & Nguyen, 2005). Cultural variation is likely in countries that are home to numerous ethnic groups, scattered across geographical regions, which is characteristic of archipelago countries (Steel & Taras, 2010; McSweeney, 2009). This study sought to fill this gap in the literature by studying SME internationalisation in the context of a country, like Indonesia, that has variation at its subnational level. The purpose of this was to investigate how the different subnational levels interact with the national level and how they affect internationalisation.

Moreover, the study of entrepreneurship and internationalisation have a strong link with institutional theory (García-Cabrera *et al.*, 2016; Marinova, 2015; Kiss & Danis, 2008; Busenitz *et al.*, 2000). LiPuma, Newbert, and Doh (2013) argue that formal and informal institutions can affect the business environment and economic development. Marano *et al.* (2016) identified a positive relationship between internationalisation performance and home-country formal and informal institutions. Previous research has shown that the national and subnational levels are essential drivers of SME-internationalisation performance (Zhang *et al.*, 2017; Charoensukmongkol, 2016;

Wengel & Rodriguez, 2006). This provides support for the assertion of Dunning (2000) that wealth-creating activities, such as trading activities between countries, are usually concentrated in the subnational cluster. However, no previous study has comprehensively examined the interaction between formal and informal institutions at the national and subnational levels and their impact on SME internationalisation.

According to Salimath and Cullen (2010) and Global Entrepreneurship Monitor (2020), it is important to explore the national context in entrepreneurial research because of its distinctive formal and informal institutional arrangement. A nation is guided by formal institutions such as regulations, policies, laws, and other codified procedures. Similarly, societies develop informal guides and frameworks such as belief systems, cultural norms, customs, and practices. Variation can also be found at the subnational level of the formal institutions. Previous research has observed differences between the formal institutions of subnational geopolitical and economic areas within a national boundary (Zhang *et al.*, 2017; Narayanan & Fahey, 2005). Subnational divergence may occur in both developed and emerging countries (Elgin & Oyvat, 2013; Shaver & Flyer, 2000). Emerging countries are an important context in which to study national and subnational institutions because of their subnational economic and policy disparities, institutional changes, and cultural diversity (Zhang *et al.*, 2017; Hoskisson *et al.*, 2013; Tan, 2002). Some countries implement decentralisation policies, in which central government or a national leader delegates power or functions to lower authorities or local government to pursue local or regional development (Faguet, 2015). A decentralisation programme allows regional leaders to establish regional policies and regulations, thereby creating formal institutional divergence at the subnational level. Chan, Makino, and Isobe (2010) suggest that further study is needed to identify the components of subnational institutions and to explore how these components contribute to firm performance.

SME internationalisation is a complex entrepreneurial process, shaped by many factors (Costa *et al.*, 2016; Ahmad, 2014). Therefore, there is a need for exploration of the role of home-country formal and informal institutions in SME internationalisation at the national and subnational levels.

1.2. Research Context

This thesis focuses on SMEs as representatives of ordinary, everyday entrepreneurs, as suggested by Aldrich and Ruef, (2020) and Welter *et al.* (2017), in conducting their internationalisation activities. As Aldrich and Ruef, (2020) and Welter *et al.* (2017) suggest, research on entrepreneurship should pay more attention to the ordinary everyday entrepreneurs rather than billion-dollars exotic and mythical unicorn start-ups. This study was conducted in Indonesia, an emerging-market country in Southeast Asia, with a rich institutional environment – both formal and informal and at the national and subnational levels.

Indonesia is a diverse archipelago country located at the equator, consisting of around 17,000 islands and home to more than 300 ethnic groups (The World Bank, 2019a). Indonesia covers the largest area of any country in Southeast Asia, with 1,913,600 km² and comprises 34 provinces. The 2016 GDP was US\$ 932.259 billion (The World Bank, 2019a), and most of Indonesia's 60 million businesses are categorised as SMEs (Ministry of Cooperatives and SMEs, 2018). According to Wignaraja (2015) and the Ministry of Cooperatives and SMEs (2018), SMEs in Indonesia are responsible for 97.20% of the country's employment and 57.80% of its total GDP.

The empirical focus of this study is Bali and the Special Region of Yogyakarta. These two provinces are the focus because they have outstanding levels of internationalisation, compared with the other 32 provinces, and the province ranked third for exports falls very far below those two. However, this thesis also includes interview data from SMEs in other provinces to ensure that the research topics are comprehensively addressed.

To fully capture the phenomenon, this research focused on the handicraft sector. Although Statistics Indonesia indicates that most Indonesian SMEs are established in the food industry, most of those with overseas markets are actually in the handicraft sector (BPS-Statistics Indonesia, 2015, 2017). Therefore, the handicraft sector was chosen as the focus of this study.

This thesis's domain is the home-country formal and informal institutions in the context of entrepreneurship study using the insight from the internationalisation of Indonesian SMEs. A comprehensive review of the extant literature on entrepreneurship and SME internationalisation highlighted a number of gaps in the knowledge on the institutional context. First, the SME internationalisation process differs substantially across countries and industries, as this complex institutional phenomenon involves numerous organisations, as well as factors ranging from the national institutional level to the subnational. Second, it is unclear how the interaction between formal and informal institutions stimulates SME internationalisation, primarily when conflict occurs between them in affecting SMEs' internationalisation. Third, the internationalisation literature discusses the weaknesses associated with internal elements of the SMEs, but little attention is given to the external factors that constitute threats. Fourth, the extant literature does not consider the formal and informal institutions in the context of both the national and subnational levels, despite their close relationship and mutual influence. Fifth, there is a lack of knowledge regarding the institutional asymmetry between the formal and informal institutions, between the national and subnational levels, and among single institutions on the same or different levels. Finally, entrepreneurship studies tend not to focus on the ordinary, everyday entrepreneurs found in small businesses. Therefore, this study sought to address these gaps by focusing on SMEs that are run by everyday entrepreneurs with institutional support for a move toward internationalisation.

1.3. Research Objective and Theoretical Lens

The overall aim of the current work was to investigate the role of home-country formal and informal institutions in SME internationalisation within an emerging-market context. To achieve this, several objectives are presented as follows:

1. Evaluate formal and informal institutional drivers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.
2. Evaluate formal and informal institutional barriers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

3. Critically examine formal and informal institutional supports at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

Furthermore, an integrative review of the extant literature on SME internationalisation from the institutional context was conducted; and the central research question was identified on completion of the literature review, as follow:

How is the role of home-country formal and informal institutions affecting SME internationalisation in an emerging-market context?

To address this question, this thesis views the phenomenon under study through an institutional lens (North, 1990). This facilitated an in-depth enquiry into the interactions between formal and informal institutions at the national and subnational levels of the environment. To put the institutional aspects of SME internationalisation into perspective, a conceptual framework was developed from the findings of the literature review. This framework can be found in Figure 3.1 (Chapter Three).

1.4. Research Approach

The purpose of this study is to investigate how home-country formal and informal institutions affect SME internationalisation within an emerging-market context. A multi-methods approach was adopted for the research design (Creswell & Clark, 2018; Neuman, 2014). This decision was based on the findings of previous research, which reveal entrepreneurship studies to be a 'multifaceted, complex social construct' (C. M. Leitch *et al.*, 2010). The quantitative and qualitative methods were integrated using a sequential explanatory research design (Creswell & Clark, 2018). The quantitative investigation was conducted first, followed by the qualitative (Creswell & Clark, 2018). For the quantitative component, secondary data were gathered to produce a broad description of the current condition of SME internationalisation in Indonesia and how the government is currently facilitating this. As in the qualitative phase, interviews provided more in-depth insights and a more comprehensive understanding of the issues from the point of view of SME owner-managers and entrepreneurs, business intermediaries, and policymakers. Critical realism is the research philosophy adopted for this thesis.

The secondary data for the quantitative analysis were obtained from *Badan Pusat Statistik* (BPS)-Statistics Indonesia. Using microdata from the SME Profile for 2015, the STATA software was able to identify the variables that might affect SME internationalisation and provide a brief description of the context. This was helpful when developing the list of questions for the qualitative investigation.

The qualitative phase involved 44 in-depth, semi-structured interviews with SME owner-managers and entrepreneurs, eight interviews with policymakers and government officials, and 10 interviews with representatives of business intermediaries and entrepreneur associations. The interviews revealed the SME-internationalisation phenomenon from different angles, collectively offering an empirically rich understanding of how participants perceive the formal and informal institutions that affect SME internationalisation at the national and subnational levels. The interview data underwent thematic analysis, following the guidelines of Gioia *et al.* (2013). The findings from these analyses were then considered in relation to each of the research objectives. Finally, the results from the quantitative and qualitative analysis were then developed to draw out the insight of this research's overall conclusion and highlight the key contributions.

1.5. Major Findings

The major findings of this thesis were summarised to achieve the overall research objective. The findings of the quantitative secondary-data analysis indicate that the relationship between internationalisation (export) and the other variables assessed in this study (SME type, SME age, education level, monthly profit, asset value, obstacle, partnership, support, general training, partnership with government organisation, support from government organisation, and training from government organisation) are mostly significant even though they considered to have a very low impact on export. Only support and obstacle variables are considered not significant. However, the result cannot be generalised since a more specific type of support, which is support from government organisations is statistically significant even though based on the statistical value, its contribution in affecting export activities is considered very low on SME-internationalisation activity in the Indonesian context.

The qualitative, in-depth semi-structured interviews, findings were analysed from the formal and informal institutions perspective. The study found that formal institutions are generally perceived by SMEs to be institutional barriers. The interview data reveal that, when translating the law into more detailed regulations to be implemented by different government agencies, the government tends to create inconsistencies. The SMEs also complained about the inconsistent and convoluted bureaucracy around tax and export regulations. This finding supports the results of the quantitative secondary data analysis.

The study also found that informal institutions play a crucial role in influencing entrepreneurial behaviour and supporting SME-internationalisation activities in general. However, informal institutions can also act as institutional barriers due to certain aspects of traditional culture and norms. Both formal and informal institutions can significantly affect SME-internationalisation activity at the national and subnational levels. Therefore, more efficient integration of the formal and informal institutions could help the government and the SMEs to eliminate the institutional barriers, achieve the internationalisation objective, reduce the risks in the process, and improve internationalisation performance.

This thesis also provides evidence that institutional asymmetry occurs between formal and informal institutions and among the formal institutions. The extant literature examines institutional asymmetry in the context of formal and informal institutions (Autio & Fu, 2015; Williams & Vorley, 2015; Pejovich, 1999). In this study, institutional asymmetry was also found between formal institutions, including between the same government regulations applied in different organisations and between SMEs' perceptions of government regulations and their impact on SMEs' internationalisation actions. Institutional asymmetry can also be found between national- and regional-level regulations at different levels of the same government agency. However, institutional asymmetry does not necessarily have a negative impact. In fact, it can be used to the advantage of the SME, giving an unofficial benefit when seeking support from different government agencies.

Regarding formal institutional support, this study found that inconsistency in the government rules and regulations at the national and regional levels creates institutional uncertainty, which leads to political and economic institutions being unsupportive of SMEs' internationalisation activities. As a result, some aspects of the government supports do not have the impact expected by the SMEs. Although the implementation of the formal institution was identified as a weakness, some SMEs did nonetheless express appreciation for the government support programmes and reported feeling supported by them.

By contrast, this thesis shows that society's value, as part of the informal institutions, contributes to the supports given by business intermediary organisation and entrepreneur association in the form of mutual cooperation among SMEs. The society where the SMEs are located believes in the value of togetherness. This inspires SMEs to work together in pursuit of a common goal. The SMEs perceive this type of intermediary support as being easier to implement and having a direct, result-oriented objective, in contrast to the government support programmes, which tend to be more formal and bureaucratic.

This study also found that the obstacles and inconsistency around formal institutions strongly influence SMEs' creativity and resilience. Some SMEs choose to avoid procedural complications and instead seek loopholes in government regulation to simplify their internationalisation activity. These SMEs employ three techniques to exploit loopholes in formal institutions: non-registration, direct dispatch, and hidden transactions. This creativity in exploiting loopholes is supported by social norms and values, with these techniques perceived as standard business activities and not illegal. There is broad social recognition that some SMEs prefer to avoid procedural complications and limit their tax burdens.

The following section discusses how the major findings of the study contribute to the extant literature.

1.6. Key Contributions

This study contributes to the extant literature on entrepreneurship study. First, previous studies have failed to consider formal and informal institutions in the context of the national and subnational levels, despite the two being closely related and mutually influential (Khoury & Hitt, 2019; Williams & Vorley, 2015; Holmes et al., 2013; Schwens et al., 2011; Salimath & Cullen, 2010; Tonoyan et al., 2010). There is also a lack of knowledge regarding the institutional asymmetry between formal and informal institutions, between the national and subnational levels of the institutions, and within a single formal institution on the same or different levels. This institutional study was conducted within a national environment, with diverse populations living in several subnational areas and governed by a single set of regulations. As such, it is able to show how institutional theory explains entrepreneurship phenomenon in the context of SMEs internationalisation. Therefore, this thesis makes a contribution to entrepreneurship studies by identifying how SME owner-managers and entrepreneurs perceive the impact of institutional asymmetry on their internationalisation activities. This thesis also shows how formal and informal institutions interact and create this institutional asymmetry at the national and subnational levels, thereby influencing SME internationalisation.

Second, building on the conclusions of Welter *et al.* (2017) and Aldrich and Ruef (2020), who suggest that entrepreneurship studies should pay more attention to ordinary, everyday entrepreneurs and less to the exotic, billion-dollar start-ups, this thesis focuses on SMEs as firms run by ordinary everyday entrepreneurs. Third, this thesis applies entrepreneurial resilience theory (Bhamra *et al.*, 2011) to examine its implications for SME internationalisation (Dominguez & Mayrhofer, 2017). This study shows the SMEs' strategy in facing the hurdle of procedural complications as part of the formal institutions in conducting internationalisation and how informal institutions come into play. The thesis highlights how creative and resilient SMEs are, how effective SMEs are in overcoming the institutional barriers they face during the internationalisation process, hence making another important contribution to knowledge.

The empirical findings of this thesis have practical and policy implications. First, policymakers could apply these findings as valuable guidelines for evaluating and directing their general SME-support policies. Second, SME owner-managers and entrepreneurs could use the findings to set benchmarks for identifying the required institutional drivers, the critical institutional barriers that might constrain their internationalisation performance, and the type of institutional support they require. Finally, this study's findings could be particularly beneficial for business intermediaries and entrepreneur associations that wish to build bridges between SMEs and the government. The findings could underpin suggestions for revising the policy and regulations to make them more valuable to SMEs and easier to follow.

1.7. Structure of the Thesis

This thesis is comprised of 10 chapters, each of which is further divided into several sections. The current chapter has introduced the thesis, provided a broad overview, summarised the background and context, underlined the research objective, presented the methodology and research philosophy, and revealed the major findings and contributions.

Chapters Two and Three present a review of the relevant literature in two theoretical areas. Chapter Two begins with a broad review of the extant literature on entrepreneurship, with a particular focus on SME internationalisation. It highlights the extant literature of SME internationalisation from the perspective of entrepreneurship. The chapter also discusses the consensus, debates, and contradictions evident in the empirical literature on this topic.

Chapter Three begins with a brief review of the literature on institutional theory, which provides the theoretical lens of this study. This chapter unpacks the institutional perspectives on SME internationalisation, the interaction between formal and informal institutions, and the discussion around SME internationalisation and the national institutional context. This chapter develops a conceptual framework through the construct of SMEs internationalisation process within the scope of a home-country institutional context. The conceptual framework provided a methodical approach to exploring the interactions between formal and informal institutions at the national and

subnational levels of the environment during the SME-internationalisation process. Finally, this chapter concludes by addressing the knowledge gaps and highlighting the central research question, including the three research objectives developed on the basis of the literature review findings.

Chapter Four discusses the specifics of the Indonesian context, which provides the empirical focus of the thesis. It begins with an overview of Indonesia as a country and then explains the role of SMEs in Indonesia and their contribution to the national economy. The government policies for SMEs in general and for SME internationalisation are also discussed. This chapter concludes with a discussion of Indonesian SMEs within the institutional context, which is the focus of this study.

Chapter Five describes the methodology. It explains the philosophical stance that underpins the thesis and the theoretical lens applied to analyse the findings. The chapter continues by presenting the research design and explaining the multi-methods approach adopted, detailing the steps of the quantitative and qualitative investigations that form the explanatory sequential design. The chapter also explains the data-analysis technique employed and guided by the conceptual framework. Finally, this chapter acknowledges the research quality issues and ethical considerations of the study.

Chapter Six presents the quantitative data analysis. It begins with a descriptive analysis of the secondary data obtained from BPS-Statistics Indonesia, and this is followed by a correlation and regression analysis of the relevant variables, produced by the STATA software. The results are discussed, and the conclusions presented, which are then applied in the qualitative data analysis – the findings of which are presented in the following three chapters. Each of these three chapters relates to one of the research objectives.

Chapter Seven presents the first part of the qualitative data analysis, focusing on the first research objective. It discusses the themes that emerged from the interviews, identified by thematic analysis, and relates them to the first research objective: *'Evaluate formal and informal institutional drivers at the national and subnational levels*

that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.'

Chapter Eight continues the qualitative data analysis, focusing on the second research objective. It discusses the themes that emerged from the interviews, identified by thematic analysis, and relates them to the second research objective: '*Evaluate formal and informal institutional barriers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.'*

Chapter Nine concludes the qualitative data analysis, focusing on the third research objective. It discusses the themes that emerged from the interviews, identified by thematic analysis, and relates them to the third research objective: '*Critically examine formal and informal institutional supports at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.'*

The qualitative analysis chapters examine the phenomenon of SME internationalisation in relation to the themes that emerged from the interviews. Each chapter provides a response to one of the research objectives.

Finally, Chapter Ten synthesises the findings of the analyses in the preceding chapters, summarises the major findings of the thesis, and highlights the key contributions and the practical and policy implications. Finally, the research limitations are acknowledged and potential areas for future research are suggested.

Chapter Two: The Internationalisation of Small and Medium-sized Enterprises: A Literature Review

2.1. Introduction

This thesis investigates the phenomenon of SME internationalisation in the context of entrepreneurship, with an emphasis on the role of formal and informal institutions in emerging-market home countries. This chapter presents a comprehensive review of both the academic and broader literature on entrepreneurship in general and SME internationalisation in particular, to achieve the research objective. The review has three main purposes. First, it is intended to obtain a broader perspective of entrepreneurship in the context of SME internationalisation, and in relation to the role of formal and informal home-country institutions, based on the findings of previous studies. Second, it discusses the nature and role of institutional drivers and barriers as highlighted by the extant literature, and identifies the type of institutional support that might be received or given during the SME-internationalisation activities. Third, this review details the research gaps that this study sought to address.

It begins with a brief overview of previous studies on entrepreneurship and SME internationalisation, before moving on to critically assess the key themes that emerge from this. Previous research on internationalisation has primarily been conducted in high-income countries and focus on multinational enterprises (MNE; Dabić *et al.*, 2020; Steinhäuser *et al.*, 2020; Ribau *et al.*, 2018; Buckley, 2015; Ruzzier *et al.*, 2006), with little SME-internationalisation research conducted in emerging-economy countries. An academic review of the internationalisation literature has been undertaken to contribute to closing this gap. It is noted that there is a lack of affirmative knowledge in the literature examining how SMEs in emerging-market countries are engaging with formal and informal institutions to overcome the challenges of internationalisation (Dabić *et al.*, 2020; Senik *et al.*, 2011; Bruton *et al.*, 2008, 2010).

To investigate the role of formal and informal home-country institutions in SME-internationalisation activity, there is a need to understand the SME-internationalisation process and strategies, as well as the key drivers and barriers associated with internationalisation activities and performance (Morais & Ferreira, 2019). These are

summarised in five sections, which are as follows: (1) the drivers of SME internationalisation, (2) barriers to entry in SME internationalisation, (3) the internationalisation process, (4) internationalisation strategy, and (5) internationalisation performance.

To this end, the relevant literature has been critically reviewed, with institutional theory employed in the development of a conceptual framework to investigate the effects of formal and informal home-country institutions in SME internationalisation in an emerging-market context. The following section discusses the focus of this study in regard to the position of SME internationalisation in entrepreneurship study.

2.2. Entrepreneurship and the Internationalisation of Small and Medium-sized Enterprises

This study contributes to the study of entrepreneurship by taking SME internationalisation as its research context. Entrepreneurship plays a significant role in economic development (Acs *et al.*, 2008). In the emerging-market context, the promotion of economic growth through entrepreneurship cannot be separated from the importance of SME development (Tambunan, 2007, 2008). Abe *et al.* (2012) argue that 'SMEs are a key source of economic growth and dynamism in all economies' that contribute to the national GDP of a country and cultivate entrepreneurship culture. Additionally, a theoretical framework of entrepreneurial values and export intentions from Looi (2013) shows that SMEs are recognised as one of the potential engines that contribute to increasing the economic growth of a country. One method of developing SMEs is to expand their market to foreign countries, and this is usually identified as 'internationalisation'. This is the area of focus for the current study.

Aldrich and Ruef (2020) suggest that entrepreneurship research should pay more attention to ordinary, everyday entrepreneurs – and less to the exotic, billion-dollar, unicorn start-ups. In this context, an everyday entrepreneur is defined as a business owner who operates tangible business asset that affects the community and contributes directly to the local economic development. This notion is in line with the argument of Welter *et al.* (2017) that entrepreneurship studies puts excessive focus on technology, growth, wealth, job creation, and other glamorous and heroic elements

of entrepreneurship, rather than everyday entrepreneurs, family business, business within communities, and similar contexts found in small businesses.

Definitions of SMEs vary across countries and organisations. Some definitions are based on the number of employees, and others concern annual revenue or the firm's asset value. Each study defines 'SME' based on its own objective and research location, and the current study is no exception. As this study is focused on the specific context of Indonesia, this thesis uses the definition proposed by BPS-Statistics Indonesia (2019a) – namely, a firm with fewer than 100 employees. SMEs can be classified into three groups, based on the number of employees: 'micro-enterprises' have fewer than five employees; small enterprises have 5-19 employees; and 'medium enterprises' have 20-99 employees. If a firm has 100 or more employees, BPS-Statistics Indonesia classifies this as a 'large enterprise'. The rationale for choosing the BPS-Statistics Indonesia definition is discussed in Chapter Four ('Empirical Focus').

While the research on internationalisation began in the late 1950s, with a focus on MNEs (Buckley, 2011; Dunning, 1958), it was only during the 1970s that the research stream turned to SMEs (Ribau *et al.*, 2018). Johanson and Wiedersheim-Paul (1975) sought to identify the steps of the internationalisation process. Their research later became known as the 'Uppsala model'. The research on internationalisation continued, with Bilkey and Tesar (1977) study of the six stages of the gradual innovation process. Cavusgil (1980) and Reid (1981) later adopted a similar gradual innovation process, comprising just five stages. A decade later, Andersen (1993) combined the gradual innovation process into the innovation-related internationalisation models.

This research field has continued to develop over the years, introducing an array of perspectives. Studies have examined internationalisation's drivers (Francioni *et al.*, 2016; Abebe & Angriawan, 2011; Leonidou *et al.*, 2007), barriers (Cardoza *et al.*, 2016; Roy *et al.*, 2016; Rahman *et al.*, 2015; Fayos Gardó *et al.*, 2006; Leonidou, 2004; Moini, 1997; Kedia & Chhokar, 1986), processes (Gankema *et al.*, 2000; Cavusgil, 1980; Johanson & Vahlne, 1977), strategies (Ahmad, 2014; Bell *et al.*, 2004), and performance (Stoian *et al.*, 2017; Pascucci *et al.*, 2016; Maldifassi & Caorsi, 2014;

Francis & Collins-Dodd, 2000), as well as entrepreneur's characteristics and behaviours (Omri & Becuwe, 2014; Reid, 1981) and business networks (Solano Acosta *et al.*, 2018; Stoian *et al.*, 2017; Pinho & Prange, 2016; Felzensztein *et al.*, 2015; Boehe, 2013; Coviello & Munro, 1997). Together, these studies have enriched understanding of the SME-internationalisation context.

In comparison with the activities of MNEs, SME-internationalisation activity is generally more dynamic and less deterministic. Compared with the more complex forms of internationalisation, such as foreign direct investment (FDI), SME internationalisation is also more likely to involve a variety of export activities (Ruzzier *et al.*, 2006; Hollenstein, 2005; Young *et al.*, 1989). Therefore, this study uses the original and simple definition of internationalisation proposed by Nehrt, Truitt, and Wright (1970), namely 'a firm-level business activity that crosses national boundaries or is conducted in a location other than the firm's home country'.

The extant literature on SME internationalisation tends to focus on the factors that influence the process, such as the characteristics of the owner-managers or entrepreneurs, human resources, industry sector, firm age, and technology (Pickernell *et al.*, 2016). Those factors can be related to the entrepreneur's resilient theory (Bhamra *et al.*, 2011) and its implication in SME internationalisation (Dominguez & Mayrhofer, 2017), which involves a creative process of turning challenges into opportunities. A recent bibliometric and systematic review study from Dabić *et al.* (2020) concerning SME internationalisation found that the current literature commonly focuses on entry mode, human capital, networks, knowledge cognitive, promotion, geography, and technology. Complementing these findings, Steinhäuser *et al.* (2020) conducted a systematic review of SME internationalisation studies from the last 20 years, and they summarise the most prominent themes into three stages of internationalisation, namely antecedents, patterns, and outcomes. Both papers discuss the importance of these aspects for supporting or hindering SMEs in conducting international activities.

Another topic prevalent in the SME-internationalisation literature is the influence of home-country institutions on the SMEs' expansion into overseas markets. A meta-

analytic review from Marano *et al.* (2016), regarding the relationship between home-country institutions and internationalisation performance, reports that the literature gives little attention to the role of formal and informal home-country institutions. However, there is evidence to suggest that these institutions play an important role in SME internationalisation (Cheng & Yu, 2012; Descotes *et al.*, 2011). In addition, Child *et al.* (2017) argue that home-country institutions affect the operations and business models of SMEs performing internationalisation activities. Manolopoulos *et al.* (2018) also highlight the importance of the quality of home-country institutions, as this affects how SMEs manage to obtain all necessary resources to perform internationally. Therefore, this thesis attempts to enrich the extant literature by focusing on how home-country institutions influence SME internationalisation, which is discussed in Chapter Three.

In another assessment, and often critique, of the literature, Ruzzier *et al.* (2006) conclude that the study of SME internationalisation generally relies upon theories and models developed through research into MNEs. The main such theories include the stage models, network approaches and resource-based view. In recent years, this field of research has developed to incorporate the following topics: SME performance, the internationalisation process, strategic perspectives, the entrepreneurship approach, the network model, and the knowledge-based perspective (Ribau *et al.*, 2018). Accordingly, while this is an extensive literature that addresses a range of topics, the literature agrees that patterns of international business activities vary between SMEs and across nations because each enterprise is facing different challenges, both internal and external (Olejnik & Swoboda, 2012; Leonidou, 2004). This review explores the existing findings in explaining the phenomenon SME faces during the internationalisation activities. It also compares the similarities and differences between internationalisation characteristics and their implications for SMEs.

It is accordingly important to achieve a clear understanding of internationalisation drivers and barriers, which are highlighted next. The following section focuses on the first of these, exploring the existing knowledge of the drivers of SME internationalisation.

2.3. The Drivers of Internationalisation Activities in Small and Medium-sized Enterprises

A prominent theme in SME-internationalisation studies is the stimulus of internationalisation by factors known as 'drivers'. Knowledge of these drivers is important for this thesis because one role of the formal and informal institutions is to stimulate SMEs by expanding their market to foreign countries. Specifically, this thesis focuses on the institutional aspects of these drivers, and this section presents the extant literature on this question.

Various terms are used in the literature to describe the stimuli for firms' engagement in internationalisation activities (OECD, 2009; Morgan, 1997; Wiedersheim-Paul *et al.*, 1978). These include 'internationalisation stimuli', 'motivation factors', and 'facilitating factors'. The term 'drivers' was chosen for this thesis. Leonidou (1995a) and Morgan (1997) define 'drivers of internationalisation' as the factors that influence a firm's strategic decision to establish an international business operation. Drivers of internationalisation are essential elements at every stage of the process, determining the success of the firm's international operations; and this is especially true for SMEs (Acedo & Galán, 2011; Morgan & Katsikeas, 1997a).

Abebe and Angriawan (2011) divide the SME-internationalisation drivers into three categories: behavioural (managerial), firm-level, and industry-level. Behavioural (managerial) drivers consist of managerial learning/market knowledge, international business experience, entrepreneurial orientation, and social network/social capital. The behavioural (managerial) driver category briefly represents its emphasis on the role of the owner-managers or entrepreneurs, their level of education, their experience in conducting international business, their business orientation, and the extensiveness of their network. The firm-level driver takes a resource-based view, with cooperative strategies to overcome international challenges. This driver is about the kind of competitive resources and capabilities that the firm can maximise to compete internationally (Paul *et al.*, 2017; Keupp & Gassmann, 2009). Finally, the industry-level driver takes a broader perspective of the product life cycle, the industry life cycle, and domestic market competition. For example, an SME that produces mobile phone accessories must recognise that the product life cycle of a particular type of accessory

is rapid; thus, the firm should work to stay ahead of its competitors in developing new products. Competitive pressure in the domestic market can also trigger a company's decision to seek new markets overseas.

Leonidou *et al.* (2007) found that internationalisation could be stimulated by two types of drivers. The first of these is the drivers that are external and internal to the firm. As previously shown by Matlay and Fletcher (2000), Wiedersheim-Paul *et al.* (1978), and Simpson Jr. and Kujawa (1974), these are the most common drivers. Examples of external drivers include domestic and foreign market demand, industrial requirements, government policy, business competition, customer projection, and environmental influences. In contrast, internal drivers are more to the inner encouragement from the firm, such as managerial characteristics, organisational capabilities, financial performance, production readiness, internationalisation knowledge, business networks, and firm resources. The second driver of internationalisation is the proactive and reactive factors. Leonidou (1988) and Piercy (1981) found that proactive firms tend to aggressively seek growth through international market opportunities, while reactive firms initiate internationalisation activities in response to overseas orders or foreign sales, due to excess production capacity. According to the OECD (2009), these drivers have various motives, including growth expectancy, knowledge-related issues, network/social ties, and domestic or foreign market conditions. Another suggested type of drivers come from Morgan and Katsikeas (1997a), who differentiate the driver to internationalisation from the perspective of a firm in the pre-internationalisation stage and the firm which already conducting internationalisation activities. Correspondingly, Acedo, and Galán (2011) propose a less popular type of drivers to portray internationalisation by differentiating the drivers that influence a firm to begin and actively engage in internationalisation activities with the drivers that are affecting a firm's internationalisation behaviour and performance.

The extant literature shows that different drivers produce different results. There are several types of drivers, and these can differ according to the time, place/country, firm size, and industrial circumstances. For example, drivers include the desire for higher sales and greater profits, saturated growth in the domestic market, optimised

production capacity, financial surplus, foreign investment, government incentives policies, and overseas market opportunities.

Ahmad (2014) posits that the key driver of SME internationalisation is a desire for distinctive circumstances that will maintain the firm's unique advantages and ensure its survival in a competitive business environment. Additionally, Durán-Herrera and García-Cabrera (2013) suggest that, to achieve a distinct position, one strategic option is to enhance brand reputation by positioning the product in the international market. Likewise, Nkongolo-Bakenda *et al.* (2010) found that market competition has an indirect impact on internationalisation. For example, if a company's competitor claims that its product is accepted overseas, this might tell customers that the product is of better quality, and this claim will push other firms to internationalise their products as well.

In essence, a recent review from Francioni *et al.* (2016) regarding drivers of SME-internationalisation activity found that the extant literature tends to focus on aspects of human resources and the role of networks. Therefore, this thesis, with its focus on the institutional aspects of the SME drivers, will enrich the extant literature. Understanding the institutional aspects of SMEs' drivers to internationalisation cannot be separated from formal institutional support. One manifestation of the formal institutions is the government support programmes derived from law or government regulation.

To create an effective support programme to drive internationalisation, policymakers must be able to determine the intervention level needed by SMEs of different internationalisation types. The OECD (2010) suggests that there are five categories of SME internationalisation: curious, frustrated, tentative, enthusiastic, and successful. SMEs in the first three categories need a support programme to identify, clarify, and understand their business issues in relation to internationalisation. For SMEs in the *enthusiastic* and *successful* categories, they need direct intervention for their internationalisation activities, as they already have clear objectives.

The following section will complement the extant knowledge internationalisation drivers by exploring those aspects that hinder internationalisation activity or hamper

SMEs seeking to expand their markets overseas. The literature on barriers to SME internationalisation will be explored in relation to its contribution to this thesis.

2.4. The Barriers to Internationalisation of Small and Medium-sized Enterprises

Another prominent theme in SME-internationalisation studies is the barriers to internationalisation. Clarification of this area is valuable for this thesis, as the formal and informal institutions could pose challenges to the SME-internationalisation process. To better capture that phenomenon, this thesis focuses on the institutional aspects of the barriers to SME internationalisation. However, for a comprehensive concept of internationalisation barriers, a general review is required before the focus on institutional factors.

Leonidou (1995b, 2004) defines these barriers as obstacles that hinder a firm's internationalisation activities, arising any time between the initial stage and the developmental stage. Any barrier can potentially disrupt the process and leave a domestic firm reluctant to initiate international business activities or force an experienced global firm to delay its overseas market expansion or even pull out from an existing foreign operation. Therefore, to facilitate internationalisation activities, it is crucial to remove – or at least reduce – these barriers. Nevertheless, there are many unanswered questions regarding barriers to SME internationalisation, especially those barriers found in emerging-market countries (Chandra *et al.*, 2020)

The extant literature provides various definitions of barriers to internationalisation. Some studies have focused on the process of internationalisation (Belhoste *et al.*, 2019; OECD, 2010; Arranz & de Arroyabe, 2009; Leonidou, 2004; Bilkey & Tesar, 1977), while some research has emphasised the emerging market (Roy *et al.*, 2016; Rahman *et al.*, 2015). Some reports have simply reviewed the literature (Kahiya, 2018; Leonidou, 2004), and some relate barriers to firm performance (Sinkovics *et al.*, 2018; Moini, 1997). There are also articles on public policies in relation to barriers to internationalisation (Cardoza *et al.*, 2016; Fayos Gardó *et al.*, 2006). In relation to the internationalisation process, one definition identifies the obstacles based on the internationalisation stage of the firms affected (OECD, 2010; Leonidou, 2004; Bilkey

& Tesar, 1977). For example, at the pre-internationalisation stage, the barriers are usually imposed by the owner-managers or entrepreneurs' opinions or perceptions, which are based on information received from various external sources, rather than their own experiences. Therefore, at this stage, the barriers are usually internal within the firm's capabilities, and how they identify the foreign market that they are aiming for. During this internationalisation stage, the obstacles generally arise from the firms' difficulties with conducting internationalisation activities and these difficulties are usually due to their lack of experience. These include transport problems, export regulations, product quality, cultural differences, cost management, and other related issues. In contrast, at the more advanced stage, the barriers to internationalisation are primarily related to external aspects, such as maintaining relationships with existing foreign customers and agents, building more international networks, and anticipating the global economic development that might affect their international business performance.

Another barrier is described by Leonidou (1995b, 2004), who suggests that barriers to entry in SME internationalisation can be derived from both internal (Safari & Chetty, 2019; Bianchi & Wickramasekera, 2016; El-Gohary et al., 2013; Schweizer, 2013; Hutchinson et al., 2009) and external factors (Cateora *et al.*, 2013; Hashim, 2012; OECD, 2010; Wengel & Rodriguez, 2006). Leonidou (2004) proposes the internal barriers consist of informational, functional, and marketing barriers, whereas external barriers can be grouped as procedural, governmental, task, or environmental barriers. Examples of all barrier types are presented in Table 2.1.

Table 2.1. Barriers to entry in the internationalisation of small and medium-sized enterprises (SMEs)

Internal Barriers	External Barriers
<p>Informational Barriers</p> <ul style="list-style-type: none"> ● Limited market analysis ● Unreliable data for identifying foreign business opportunities 	<p>Procedural Barriers</p> <ul style="list-style-type: none"> ● Unusual procedures, paperwork, bureaucracy, etc. ● Communication problems when dealing with foreign customers

<p>Functional Barriers</p> <ul style="list-style-type: none"> • Limited time in which to organise the internationalisation process • Low quality human resources • Shortage of financial and production capabilities <p>Marketing Barriers</p> <ul style="list-style-type: none"> • Unable to provide new product design for overseas market • Uncompetitive pricing • Unable to find the right channels • Unable to control foreign representation • Transportation and insurance costs • Promotional activities differences in the foreign market 	<p>Governmental Barriers</p> <ul style="list-style-type: none"> • Unsupported country regulations <p>Task Barriers</p> <ul style="list-style-type: none"> • New customer behaviours <p>Environmental Barriers</p> <ul style="list-style-type: none"> • Different economic conditions abroad • Political instability • Compliance with foreign regulations • Tariff barriers • Unfamiliar business practices • Sociocultural differences • Language and communication differences
--	--

(Source: Leonidou, 2004)

When SMEs initiate an internationalisation activity, the first obstacle commonly met is a lack of information about the international market. Knowledge is an essential competency when doing something new, especially business related to international activities (Pradhan & Das, 2015; Kahiya, 2013). This type of barrier is an SME weakness in the face of global competition (Smallbone *et al.*, 1998). Hence, 'informational barriers' are problems associated with the analysis and recognition of business opportunities in overseas markets. SMEs face these barriers because they lack the reliable information needed to expand overseas. Such information includes foreign market research, data analysis from the target country, overseas business opportunities, foreign customer identification, credible foreign agents and distributors, and trusted business networks (Hashim, 2012; OECD, 2009; Leonidou, 2004).

Another internal barrier that can hinder an SME's international business activities concerns the firm's function as a business entity. Vozikis and Mescon (1985) define

'functional barriers' as those that occur within the SME itself, such as inefficient management of human resources, lack of innovation, ineffective production flow, capital shortage, lack of access to international finance, and other financial matters. Equally, weaknesses in global marketing competence can also disrupt the SME-internationalisation process. According to Moini (1997), marketing barriers primarily concern firms' products, prices, distribution, logistics, and promotion. While marketing barriers can have external causes (Kedia & Chhokar, 1986), Leonidou (2004) lists these as internal factors because their nature means that they can still be controlled from inside the firm. Due to these internal barriers, some SMEs may hesitate to attempt internationalisation and choose instead to serve a local niche market, as they may see this as the most efficient strategy for their limited resources (Doole & Lowe, 2012).

The first external barrier for SMEs to consider is the procedural barriers, which are the bureaucratic and regulatory differences that need to be accommodated when entering a new overseas market. In the institutional approach, these procedural barriers can be framed as aspects of formal institutions. Procedural barriers include unfamiliar foreign business procedures, different styles of communication, and new financial transactions (OECD, 2010; Leonidou, 2004). In contrast, governmental barriers might arise from the home-country formal institutions. Government support programmes might enable SMEs to expand their business overseas, but there are also government regulations that do not support internationalisation programmes (Morais & Ferreira, 2019; Hashim, 2012; OECD, 2010; Wengel & Rodriguez, 2006; Leonidou, 2004). These include complicated bureaucracy, unclear export procedures, and inconsistent tax applications. Another external barrier for SMEs is 'task barriers', which concern customer behaviour in the foreign market and potential competitors who already have experience in the targeted market (Hashim, 2012; OECD, 2010; Leonidou, 2004). Finally, the environmental barriers include economic, political-legal, and sociocultural obstacles. Economic and political-legal barriers can be grouped as part of the formal institutions, while the sociocultural barrier can be categorised under the heading of the informal institutions. The critical point for SMEs in terms of economic barriers is the economic differences between the home and target countries, and these include macroeconomic conditions, currency exchange risks, implementation of business regulation and laws, and high or non-tariff threats (Hashim, 2012; OECD, 2010;

Leonidou, 2004). The political-legal environment can influence how firms manage the risk of political instability, foreign government regulations, and global political affairs. To overcome sociocultural barriers, companies must accommodate cultural differences such as verbal and non-verbal language, cultural norms, business manner, and local and traditional business practices. These barriers can be challenging for firms seeking to understand customer behaviour and develop appropriate international marketing programmes (Cateora *et al.*, 2013).

Another way of classifying international barriers is to look at where the barriers come from – in effect, whether they are domestic or foreign (Leonidou, 1995b). Domestic barriers are any obstacles emerging from the firm’s home-country, and these might be unsupportive government regulations, complicated export procedures, resource-related issues, and underdeveloped business communities. Foreign barriers are obstacles that emerge from foreign markets, such as the target country’s regulations, distribution channel issues, distributor relationships, and customer demand. These concepts can also be combined, and Leonidou (1995b) combines the domestic-foreign barriers with the internal-external barrier typology, as shown in Figure 2.1. SME owner-managers and entrepreneurs can generally overcome these barriers to internationalisation by developing a comprehensive understanding of them, especially the internal barriers that it is within their control to anticipate.

	Internal	External
Domestic	<ul style="list-style-type: none"> • Financial limitation • Managerial capabilities • Human resource quality 	<ul style="list-style-type: none"> • Industry complexity • Local business environment • Government regulation
Foreign	<ul style="list-style-type: none"> • International marketing strategy • Internationalisation knowledge • Production capacity 	<ul style="list-style-type: none"> • Target country regulation • Macro-economic condition • Distribution channel

Figure 2.1. The domestic-foreign and internal-external barriers typology (Leonidou, 1995b)

The extant literature shows that most barriers to SME internationalisation are at the entry level (Roy *et al.*, 2016; Hutchinson *et al.*, 2009; Arranz & de Arroyabe, 2009; Fayos Gardó *et al.*, 2006; Leonidou, 2004; Acs *et al.*, 1997). Leonidou (1995b, 2004) argues that proper identification of the barriers and their intensity levels is required to effectively anticipate and cope with them. Government policy and the support of public organisations are the most common external determinants that SMEs face when engaging in international activities, in addition to the internal barriers. These barriers may concern export procedures, cultural differences, currency, and logistics (Roy *et al.*, 2016; Fayos Gardó *et al.*, 2006). Hutchinson *et al.* (2009) and Yan *et al.* (2018) found that government and public organisations can help SMEs to build internationalisation concept to assist them in conducting business overseas. Additionally, Acs *et al.* (1997) note that the protection of property rights and financial problems are obstacles that the government can also help with. Therefore, a comprehensive understanding by home government agencies and public organisations regarding barriers to internationalisation will enable them to be effective in providing appropriate policy and assistance with SME-internationalisation activities. Thus, according to Zhang, Gao, and Cho (2017), government assistance, as part of the government programme in implementing its policy, is usually used as the proxy of formal institution within one country.

Yunastuti (2018) identified the six most challenging barriers to internationalisation for SMEs in emerging countries. Those barriers are international trade regulation, complicated export procedures, international marketing costs, bureaucratic regulation, customer-related issues, and high tariffs. Of these six, two are categorised as internal barriers: international marketing costs and customer-related issues. Thus, these barriers are within the SMEs' ability to control, although there are external aspects among the determinants of international marketing costs. Of the remaining four external barriers, two are due to internal government factors (complicated export procedures and bureaucratic regulation), thus these barriers are within the home government's capacity to comply with the market challenges and SMEs' ability. The two other external barriers (international trade regulations and high tariffs) are beyond the ability of the SMEs to change, but the government can negotiate with other

countries to the benefit of the SMEs. SMEs in emerging countries generally rely on their home governments to assist them in performing international business activities.

To formulate an effective internationalisation assistance programme, the government must first accurately identify the barriers that SMEs will encounter. The OECD (2010) observes that governments may have insufficient understanding of these barriers. In this case, governments often develop their own perceptions, and these may be unsupported by data or evidence. Misconceptions about these barriers and differences in perspectives between the government and the SMEs will inevitably lead to ineffective government support programmes. Therefore, to avoid these misconceptions, the government should build adequate resources and gather reliable information from the SMEs, which can be used to develop an effective government support programme.

This section has introduced the drivers of and barriers to SME internationalisation; and the next section further explores the extant literature in relation to the process of internationalisation in general and for SMEs in particular.

2.5. Internationalisation Process

One key theme in SME-internationalisation studies is the internationalisation process itself. It is important to understand the factors that influence the process of internationalisation and the steps of the process itself. This is where formal and informal institutions have an influential role. While this thesis focuses on the institutional factors that affect the internationalisation of SMEs, a comprehensive understanding of the general process is also required. Therefore, this section discusses the extant literature regarding the internationalisation process in general and for SMEs in particular.

Johanson and Vahlne (1977, p. 23) define the internationalisation process as the 'gradual acquisition, integration, and use of knowledge about foreign markets and operations, and ... [a] successively increasing commitment to foreign markets'. However, this definition is too broad for the SME context, which has a smaller scope. Therefore, drawing on a general definition of the internationalisation process, this

study defines it as an incremental activity that aims to expand the SME's product or service offerings to the overseas market.

Conceptualisations of the internationalisation process vary across the extant literature. In a Leonidou and Katsikeas (1996) integrated review, the internationalisation process basically consists of three common stages: the pre-engagement phase, the initial phase, and the advanced phase. These stages derive from the early concept of internationalisation, with emphasis on the stages by which a firm expands its business overseas. The most popular is the stage-theory model, which suggests that the internationalisation process is a gradual one, comprising the following stages (Johanson & Wiedersheim-Paul, 1975):

1. No regular export activities
2. Export via independent representatives (agent)
3. Establishment of a sales subsidiary
4. Overseas production/manufacturing or FDI

The stage-theory model was further developed by Johanson and Vahlne (1977), later becoming known as the Uppsala model. In general, there are two components of this gradual approach. First, the entry mode is based on an accumulation of previous experiences in a particular market destination. This concept is known as 'cyclical accumulation of market knowledge' and it can be seen as a process comprising causal cycles (Johanson & Vahlne, 1977). Second, the choice of a specific market is based on physical proximity. Therefore, the Uppsala model introduces another dimension of firm internationalisation, known as 'psychic distance'. Johanson and Vahlne (1977) define this as 'the sum of factors preventing the flow of information from and to the market'. In this context, psychic distance refers to the distance between the company's home-country and its destination country. Distance, in this context, does not necessarily mean geographical distance, but also the proximity between nations in term of culture, language, education level, political system, and industrial advancement (Johanson & Vahlne, 1977). Evidence suggests that firms usually begin by exporting to new countries that are close to the home market and considered to be similar. Usunier and Lee (2013) explain that psychic distance concerns differences in perceptions between the home-country and the destination countries, aside from

elements of time and space.

Johanson and Vahlne (1977, 1990) also propose a dynamic model of internationalisation. The dynamic in this context refers to the variety of decisions in the internationalisation process that depend on the firms' knowledge about foreign markets, business operations, resources, and current business performance. This model is applied not just to MNEs but also to small firms. Echoing the findings of Sui and Baum (2014), the Uppsala model shows that to successfully expand overseas, a firm must gradually learn about the foreign market (Olejnik & Swoboda, 2012; Johanson & Vahlne, 2009; Crick & Chaudhry, 1997). Initially, a firm usually conducts direct export activity in the international market, later engaging intermediaries to gradually expand and strengthen its overseas business (Johanson & Vahlne, 1990). A firm establishes its representatives once its business has grown and its international market knowledge has increased. This is often called the 'establishment chain'.

The Uppsala model limits the internationalisation process to a single destination country without considering the internationalisation process to other market destinations based on the firm's knowledge and experience in conducting international business in the previous country, nor does it explain the means by which a firm can gain knowledge in the first place. The keyword of this model is 'gradual', with an optimistic assumption that every experience will increase the firm's commitment to internationalisation and no consideration of any other strategic factors, such as resources and failure. Andersen (1993) criticises the methodology of the Uppsala model, questioning its empirical validity. The author suggests that studies which use the model provide unclear explanations for how their conclusions have been reached, making them difficult to replicate, especially in a non-Swedish or European context.

The Uppsala model can also be criticised for its simplistic technique, namely the reliance on market knowledge to determine entry mode and market destination. In fact, Johanson and Vahlne (1990) themselves note that the model is too linear and rigid and does not consider other factors, such as the drivers of and barriers to internationalisation. Johanson and Vahlne (1990) have made refinements to the model in response to these criticisms. They admit that the model can only explain the

internationalisation process within a particular country, noting that it has never been promoted as a tool for examination of the internationalisation process in general. However, the model can be used to identify the patterns associated with crossing a significant psychic distance to enter into a new market destination.

In 2009, the Uppsala model was revitalised by Johanson and Vahlne (2009, p. 1415) as a 'multilateral network development process' for defining firm internationalisation. It assumes that the company runs through an interconnected network of business relationships, and a well-established network is the foundation of a successful international firm (Johanson & Vahlne, 2009). As a result, the internationalisation process proposed by the Uppsala model is multilateral and inter-organisational, and the process of internationalisation is reliant on the interdependence of the organisations involved.

In relation to the gradual international pattern of the Uppsala model, further entry modes can be found in Hill (2019), as follows:

1. Exporting
2. Turnkey contracts
3. Licensing
4. Franchising
5. Joint venture
6. Wholly owned subsidiaries

The Uppsala model suggests that a company enters a foreign market by exporting, since this requires little investment and imposes a low risk. In fact, export is becoming easier, as trade barriers are decreasing due to global and regional economic integration (Hill & Hult, 2019). In addition, the internet and international air transport is facilitating low-cost engagement in business activities beyond one's country boundaries, which is enabling small firms to conduct export activities.

Table 2.2. Innovation-related internationalisation models

Bilkey and Teaser (1977)	Cavusgil (1980)	Czinkota (1982)	Reid (1981)
Stage 1:	Stage 1:	Stage 1:	Stage 1:
No interest to export	Domestic marketing	Completely uninterested	Export awareness
Stage 2:	Stage 2:	Stage 2:	Stage 2:
Passive exporter	Pre-export stage	Partially interested	Export intention
Stage 3:	Stage 3:	Stage 3:	Stage 3:
Explore the feasibility to become active exporter	Experimental involvement	Start exploring to export	Export trial
Stage 4:	Stage 4:	Stage 4:	Stage 4:
Experiment export to close countries	Active involvement	Experimental exporter	Export evaluation
Stage 5:	Stage 5:	Stage 5:	Stage 5:
Experienced exporter	Committed involvement	Experienced small export	Export acceptance
Stage 6:		Stage 6:	
Explore the feasibility to export further and larger		Experienced large export	

(Adapted from Andersen, 1993)

Complementing the Uppsala model, several other models take the innovation-related point of view. These models consider a firm's decision to internationalise as part of its innovation strategy (Andersen, 1993). Advocates of these models argue that the early stages of internationalisation play a more important role in determining export initiation and the subsequent international activities. For this reason, compared to the Uppsala model, these models propose more phases in the early internationalisation stages. In general, all authors take a similar approach to the innovation stages, slight differences in terminology and the ways in which they divide the gradual innovation process

notwithstanding (as seen in Table 2.2). Bilkey and Tesar (1977) and Czinkota (1982) divide the gradual innovation process into six stages, while Cavusgil (1980) and Reid (1981) propose five.

Nevertheless, the similarities between the authors are more prominent. In the first stage, all agree that firms initially operate in the domestic market without any interest in expanding their business overseas, although they are aware of the overseas market. The firms then begin to learn about foreign market opportunities and gradually choose to explore these by experimenting with export activities. Once they have gained experience and expertise, firms can commit to larger scale internationalisation activities in the final stage. In addition, some firms extend their capabilities to engage in more advanced internationalisation activities, such as FDI. Overall, the innovation-related models broaden the scope of the stages in the Uppsala model and provide broader empirical evidence from different geographical areas (e.g., Australia, North America, and some European countries).

Coviello and McAuley (1999) conclude that the Uppsala model and the innovation-related models provide more thorough explanations when tested on SMEs, rather than MNEs. By the same token, Gankema, Snuif, and Zwart (2000) argue that the implementation of the innovation-related models has no significant difference in the firm's size, including SME. They suggest that, to progress appropriately, SMEs must plan their internationalisation programme with a two-year period assigned for each stage. From the point of view of owner-managers or entrepreneurs, the most extensive internationalisation process is not merely depending on their experience, but it is more affected by the combination of many variables, such as skills, business orientation, individual competencies, quality of the network, and entrepreneurship profile (Arranz & de Arroyabe, 2009; Autio, 2005; McDougall & Oviatt, 1999). This is in addition to external factors such as economic conditions, technological advancement, and government policy. Alternatively, Crick and Chaudhry (1997) argue that firms at every stage of internationalisation have different motivations, thus policymakers must recognise this variation to ensure they are giving the most appropriate support.

While these models have been widely adopted and tested in many studies, they have

also received criticism from scholars. First, Rosson and Reid (1987) claim that the models are too deterministic, as every firm has strategic preferences when making internationalisation decisions. Reid (1983) argues that the decision is contingent upon market conditions, and internationalisation behaviour can be explained by a transaction-cost approach. Second, these models assume that the firms are in the early stages of internationalisation when they do not have sufficient knowledge of the market and resources (Forsgren, 1989). Moreover, the models do not consider the interdependencies between markets in different countries as an aspect that can influence the internationalisation process (Johanson & Mattsson, 1986). Third, the models do not consider how globalisation is making the world less diverse and consequently, decreasing the psychic distance between countries (Nordström, 1990). Finally, the models pay little attention to the conformity between theory and practice, which includes the value, time, and scope of every stage in the internationalisation process (Andersen, 1993).

Morgan and Katsikeas (1997b) summarise four primary criticisms of the Uppsala model and the innovation-related models. First, the models focus more on the early stages than on the later processes. Second, the models do not explain the detail of the processes within each stage. Third, they only consider the cases in which the firm is progressing through the internationalisation process, ignoring the cases in which firms experience failure and decide not to continue. Finally, echoing the third point, the models do not explore the possible drivers and barriers met by different types of firms at each stage. This criticism leads to an argument that the internationalisation model is vary, not limited to the Uppsala model and the innovation-related models.

Theoretical assumptions – and evidence from previous studies on the gradual internationalisation process (Olejnik & Swoboda, 2012; Johanson & Vahlne, 2009; Crick & Chaudhry, 1997) and regarding internationalisation as a part of the firm's innovation strategy (Andersen, 1993) – have shown that most SMEs focus from the pre-export or export intention stage to experimental exporter phase (stage 2 to 4) of internationalisation process based on the innovation-related internationalisation model (Andersen, 1993) in the form of exporting. However, some SMEs reach stage 5 (experienced small exporter) or even stage 6 (experienced large exporter). In

comparison, in the gradual international pattern of the Uppsala model (Johanson & Vahlne, 2009), those are equivalent to the early stages of internationalisation.

This difference between the positions of SMEs in the two models indicates that the theoretical assumptions of these models are based on different types of firms and should not be generalised. This suggests that the innovation-related model (Andersen, 1993) is more suitable for explaining internationalisation in the context of SMEs, since it includes more stages in the early phase and it is unlikely that SMEs will go beyond the experienced export stage (Ruzzier *et al.*, 2006; Hollenstein, 2005; Young *et al.*, 1989). By contrast, the Uppsala model (Johanson & Vahlne, 2009) is more suitable for MNEs. Large firms usually begin their internationalisation activity by conducting exports and then continue to more advanced stages, such as building overseas subsidiaries and FDI.

However, Gankema, Snuif, and Zwart (2000) suggest that both gradual internationalisation models can explain the processes for SMEs and MNEs. This claim contradicts the findings of Coviello and McAuley (1999), who conclude that both models are more applicable to SMEs than to MNEs. However, the debate in the extant literature shows that each gradual internationalisation model tends to work differently for different types of firms. Although each SME may have different experiences of the process, Bell *et al.* (2003) identified similar pathways that firms might follow. However, each pathway can differ due to motivations, objectives, and knowledge of the approach adopted.

Olejnik and Swoboda (2012) propose three categories for the firm's internationalisation pattern: born-global, born-again global, and traditional firms. Each category has a different internationalisation process, reflecting its nature. Oviatt and McDougall (1994, p. 49) define a born-global firm as 'a business organisation that seeks to derive competitive advantage from the use of resources and the sale of outputs in multiple countries'. Born-global companies are usually more proactive in internationalisation since this kind of firm is born to be a global player. These firms take structured approaches to the internationalisation process, with more flexibility in

their entry modes. This type of firm expands more quickly in the international market (Bell *et al.*, 2003; Oviatt & McDougall, 1994).

However, born-global firms do not necessarily conduct international business activities immediately upon their launch. This label only indicates that these firms require just a short period of time to internationalise their business. Cavusgil and Knight (2009) describe born-global companies as firms that secure at least 25% of their sales from overseas markets in their first three years of establishment. Today, it is not difficult to establish a born-global firm, as technological advances have increased the potential for communication and lowered the cost of transportation, as well as decreasing trade barriers, which has resulted in a globalised market. Chetty and Campbell-Hunt (2004) argue that more firms – including SMEs – are being established with an international orientation. As a result, they require a relatively short period of time to develop a global presence. For this reason, some researchers question the validity of the stage models of internationalisation (Abdullah & Zain, 2011).

Cavusgil and Knight (2009) argue that SMEs can apply the born-global concept to facilitate internationalisation at an earlier age, if they can meet these criteria:

1. The owner-manager or entrepreneur has an international entrepreneurial orientation.
2. The SME has a unique product with which to target a niche market that is not attractive to larger companies.
3. Technology such as foreign marketplaces and social media platforms are exploited for marketing and communication purposes.
4. The firm uses a trusted external agent as an intermediary for transport and distribution to foreign markets.

Accordingly, Cumming, Fischer, and Peridis (2015) viewed the internationalisation activity from the use of professional advisers, agents or other intermediaries services. They argue that firms can develop knowledge and ensure their internationalisation activity has a more effective and efficient impact by engaging professional advisers. Previous studies support this argument, showing that intermediaries' position has an important stimulus to support SMEs performance, whether general business

performance or internationalisation performance (Francioni *et al.*, 2016; Hessels & Terjesen, 2010; Ojala, 2009; Eriksson *et al.*, 2006; Pittaway *et al.*, 2004). It is the job of the business intermediary to provide SMEs with export or import-related services, including sharing market intelligence, identifying potential customers, and financing transactions (Balabanis, 2000). Thus, it is suggested that policymakers should invest more in advisory services to ensure better results (Kahiya, 2020). This supports the finding of Tambunan (2009) that agents have a more important role than government support in promoting SMEs' overseas expansion.

Born-again global firms are defined by Bell, McNaughton, and Young (2001) as firms that enter the international competition after a long period as a domestic player. Additionally, Oviatt and McDougall (1994) identify the born-again global firm as a company that has no interest in operating in foreign markets until a significant event that facilitates a commitment.

In contrast, traditional firms are more reluctant to expand their business overseas (Bell *et al.*, 2003). They tend to be more reactive and opportunistic in their approaches to international opportunities. They are not prepared to look internationally from the beginning; but when the opportunity arises – such as government facilities, overseas demand, or network advantages – these firms will take it as a gateway to open new market abroad.

Olejnik and Swoboda (2012) claim that born-global, born-again global, and traditional firms have different foreign mindset, flexibility, and foreign activities. This means they move through different internationalisation processes based on their preferred strategies and approaches. In contrast, Kuivalainen *et al.* (2012) introduced an internationalisation pattern based on time, scale, and scope. 'Time' refers to when the internationalisation begins and how rapid and consistent its pace is. The 'scale' is then how significant the firm's overseas operation is, and this can be measured using the foreign sales to sales (FSTS) ratio (Sullivan, 1994), operation mode, and foreign assets. 'Scope' can be divided into two approaches, namely market concentration and market diversification. Both approaches are measured by the number of countries in which the firm operates.

The studies reviewed here have revealed some patterns within the internationalisation process that could be applied by SMEs to formulate the best possible strategies for expanding their markets overseas. In relation to public policy, these can be considered in the development of the best possible support for SMEs (Kahiya, 2020). In retrospect to the main contribution of the early studies of the internationalisation process, they remain substantially different across countries and industries in portraying internationalisation as a complex institutional phenomenon involving multiple organisations.

Complementing this review of literature on the internationalisation process, the following section adds further knowledge regarding the internationalisation strategy that SMEs adopted by exploring the aspects that SMEs consider in determining the internationalisation process they are going through in expanding their market overseas. The extant literature regarding SME-internationalisation strategies will also be explored.

2.6. Internationalisation Strategy

Another theme in SME-internationalisation studies is the strategy developed by the firm to implement the process. It is important to understand the factors needed to develop a strategy and the consideration of choosing them. Like the process of internationalisation itself, the strategy is influenced by formal and informal institutions; and it is important to understand the impact of the institutional aspects on the strategy and its pursuit of the internationalisation objective. This section discusses the extant literature on internationalisation strategy, particularly in relation to SMEs.

Verbeke (2013) defines an internationalisation strategy as a plan to direct business transactions between companies in different countries. More specifically to SME, this study defines internationalisation strategy as an action plan for executing the internationalisation process in a new overseas market. Therefore, the discussion of internationalisation strategy cannot be separated from that of the internationalisation process, since the two streams of knowledge are strongly related. As such, SMEs must either determine an internationalisation strategy and then move through the

process accordingly or decide on their preferred process and then choose the appropriate strategy. For instance, SMEs often do not have a formal strategy; rather, they are frequently reactive and pushed to internationalise through unsolicited enquiries. In this way, the SMEs' internationalisation process might not be derived from their initial strategy, but the process they choose may oblige them to develop a strategy for execution.

In relation to the development of strategies for internationalisation, Bell, Crick, and Young (2004) define two types of firms: knowledge-intensive and traditional. Knowledge-intensive firms are more proactive, searching for new markets overseas; while traditional firms are reactive when faced with market challenges. In addition to their different motivations, these firms also differ in their international patterns, business pace, methods of distribution or international entry methods, and subsequent internationalisation practice. A summary of those differences is presented in Table 2.3.

Table 2.3. Internationalisation strategy
(Adapted from Bell, Crick, and Young, 2004)

	Knowledge-intensive Firms	Traditional Firms
Motivation	Proactive	Reactive
Patterns	Concurrent	Incremental
Pace	Rapid	Gradual
Method of Distribution/Entry	Flexible	Conventional
Subsequent Internationalisation	Structured	Ad hoc

There is evidence that firms rely on their resources when making business decisions, especially when deciding whether to expand internationally (Kahiya, 2018; Prange & Pinho, 2017; Gerschewski et al., 2015; Abebe & Angriawan, 2011; Mawardi et al., 2011; Machmud & Siregar, 2010). Accordingly, Sui and Baum (2014) demonstrate that there is no better internationalisation strategy than any other strategy except substantial moderating resources for SMEs to survive overseas. That conclusion is derived from the surprising finding that born-global and born-regional firms have a

lower survival rate in the international market than gradually internationalised firms (Sui & Baum, 2014). Therefore, scholars advocate for SMEs to pursue their chosen strategies based on their capabilities and considering all available resources, including the availability of raw materials (Mawardi *et al.*, 2011; Machmud & Siregar, 2010).

The studies reviewed here suggest that, for SMEs, the best possible strategy is based on an understanding of the patterns of the internationalisation process that the firm has chosen to follow. On the public policy's side, these internationalisation strategy can be used to initiate the best possible support for the SMEs to go international (Kahiya, 2020). Correspondingly, Estrin *et al.* (2016) demonstrate that formal and informal home-country institutions have a significant impact on the firm's internationalisation strategy. Summarised from the main contribution of the previous studies, internationalisation strategy remains substantially different across firms, countries, and industries. It relates to internationalisation as a complex institutional phenomenon that involved multiple organisations.

To complement this review of the literature, the final section presents further knowledge on internationalisation performance as a measure of the effectiveness of process and strategy. The extant literature on internationalisation performance is explored, giving particular attention to SMEs.

2.7. Internationalisation Performance

A prominent theme in the SME-internationalisation literature is internationalisation performance. It is important to understand the factors that determine the success of an internationalisation activity, as well as how these factors can be measured. Previous research has shown that internationalisation performance is strongly influenced by institutional factors (Li *et al.*, 2019; Krammer *et al.*, 2018; Zhang *et al.*, 2017; Marano *et al.*, 2016; Lindsay *et al.*, 2014; LiPuma *et al.*, 2013; Roxas & Chadee, 2012), therefore, it is important to understand them. Thus, this section discusses the factors that influence SME-internationalisation performance and how these can be measured.

A meta-analytic review by Marano *et al.* (2016) found that the internationalisation activity of a firm is positively related to its performance. However, there is no measurement universally considered the best for measuring internationalisation performance (Francis & Collins-Dodd, 2000). Previous studies have proposed very different tools for this purpose. According to Sullivan (1994), a firm's internationalisation performance can be measured by several variables:

- a) Foreign sales as a percentage of total sales (FSTS)
- b) Export sales as a percentage of total sales (ESTS)
- c) Foreign profits as a percentage of total profit (FPTP)
- d) Foreign assets as a percentage of total assets (FATA)
- e) Overseas subsidiaries as a percentage of total subsidiaries (OSTS)

Cavusgil and Zou (1994) found that the key determinants of internationalisation performance are managerial commitment, the firm's international competence, and its export marketing strategy. Styles (1998) refined this and proposes an integrated method. Zou *et al.* (1998) developed this further, introducing the export performance (EXPERF) scale, and this has since been implemented in multiple countries. EXPERF has three dimensions: financial export performance, strategic export performance, and satisfaction with the export venture. Drawing from a meta-analysis of empirical studies on export marketing strategy and performance, Leonidou *et al.* (2002) propose an export performance model comprising three variables: managerial characteristics, organisational factors, and environmental forces. Their analysis indicated that these three variables influence the firm's export marketing strategy, in turn affecting its overall export performance.

Alvarez (2004) argues that performance is more heavily affected by internal efforts, such as employee training, process innovation, and intensive export promotion, as well as the firm's export orientation (Okpara, 2009; Larimo, 2007; Francis & Collins-Dodd, 2000). This is supported by Maldifassi and Caorsi (2014), who found that most elements that differentiate successful and unsuccessful international SMEs can be categorised as internal. These include incentives for increasing production, proper operational planning, international quality recognition, innovation-oriented and qualified employees, and broad overseas networks. Although many researchers

conclude that internal factors are the key determinants of performance, Yeoh and Jeong (1995) argue that external factors such as export channel structure and external environment also have a substantial impact.

While the performance influences are complex and differ between firms, the aggregate evidence of the literature suggests that there are some common factors that indicate success. These are described in Figure 2.2. Those factors can be categorised as either internal or external. The internal factors are firm-specific influences, while the external factors are the influences of market and regulation that are beyond the firm's ability to control (Sousa *et al.*, 2008; Katsikeas *et al.*, 2000; Zou & Stan, 1998; Chetty & Hamilton, 1993; Aaby & Slater, 1989). Unfortunately, most internationalisation studies only focus on one of these categories, despite evidence showing that performance is determined by both. Therefore, this study combines the two and employs them as variables for capturing SME-internationalisation performance.

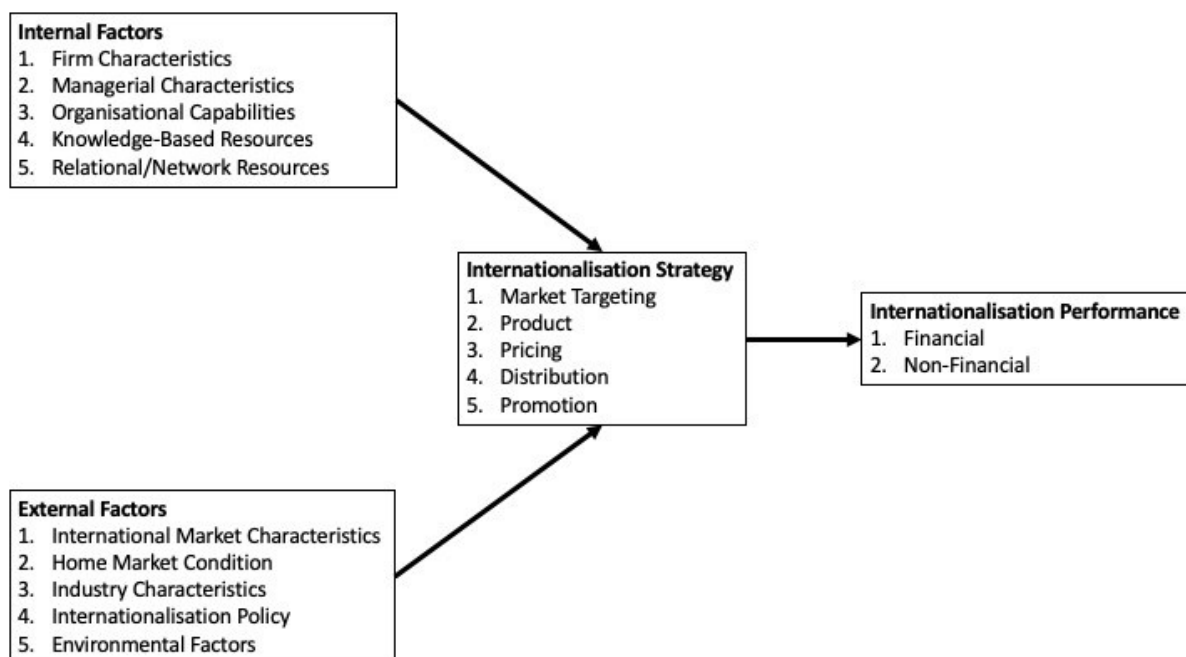


Figure 2.2. The aggregate model of internationalisation performance

There are numerous gaps in the extant literature on internationalisation performance. As in the internationalisation literature in general, most studies of internationalisation performance focus on developed countries and emphasise large firms and MNEs (Chiao *et al.*, 2006). Therefore, the prominent topics include FDI and sales from

subsidiaries in foreign countries, with less attention to direct exports (Hollenstein, 2005). Hence, to enrich the extant literature, a study of internationalisation performance from the perspective of SMEs, which are more likely to engage in direct exports, and focusing on an emerging-market country is needed. Performance is related to institutional factors, such as the role of formal and informal institutions; therefore, a measurement of performance can be used to assess the effectiveness of the institutional support for SME internationalisation.

2.8. Conclusion

This chapter has reviewed the extant literature on the subject of internationalisation, especially in the context of SMEs. Since SMEs are more likely to engage in export activities than in more complex alternatives (Ruzzier *et al.*, 2006; Hollenstein, 2005; Young *et al.*, 1989), this thesis emphasises the internationalisation process in its early or experimental phase, when starting to export (stages 2 to 4), based on the innovation-related model (Andersen, 1993). In the gradual international pattern of the Uppsala model (Johanson & Vahlne, 2009), these stages are equivalent to the early stages of internationalisation.

This study uses the original definition of internationalisation from Nehrt, Truitt, and Wright (1970), namely 'a firm-level business activity that crosses national boundaries or is conducted in a location other than the firm's home-country'. This definition was chosen for its simplicity, as it facilitates a view of the issues through various lenses, including institutional theory. Moreover, this thesis portrays this internationalisation phenomenon from the home-country point of view, as this is where the formal and informal institutions play their most significant roles (Estrin *et al.*, 2016).

This study views the process of internationalisation from the SME's point of view. During the process, formal and informal institutions influence strategies via drivers and barriers, which then affects overall performance. The processes and strategies vary between firms. The variety of the factors and determinants considered in the internationalisation literature illustrates the complexity of the phenomenon itself, especially in relation to SMEs in emerging-market countries. It is clear from the literature that each factor interacts with others, and none can be ignored. Those factors

depend on many aspects, primarily the purpose of the internationalisation and how its performance will be measured. Hence, different institutional drivers and barriers have critical impacts on the internationalisation strategy, ultimately determining the outcomes of the process.

This chapter has presented a comprehensive review of the theoretical and empirical literature in internationalisation studies. There has been discussion of the key theoretical propositions, empirical evidence, and research criticisms related to the SME-internationalisation process, strategy, performance, and drivers and barriers. According to Dabić *et al.* (2020), the extant literature includes few studies of local markets with a regional geographical focus, including culture and legislation. Therefore, the next chapter reviews the literature related to institutional theory, which provides the theoretical lens applied in this thesis.

Chapter Three: The Internationalisation of Small and Medium-sized Enterprises and the Institutional Context

3.1. Introduction

This thesis aims to identify the role of home-country formal and informal institutions in SME internationalisation in an emerging-market context. The literature review revealed that some policies, regulations, and other internationalisation-related rules – whether written or otherwise – might serve as incentives or barriers in the process (Li, 2018; Cardoza et al., 2016; Marano et al., 2016; Makhmadshoev et al., 2015). Entrepreneurship research has recognised the impact of such rules on entrepreneurial activity (Hechavarria, 2016; Autio & Fu, 2015; Harbi & Anderson, 2010; Tonoyan et al., 2010; OECD, 2007; Ahlstrom & Bruton, 2002). These ‘social rules’ are known as ‘institutions’ (North, 1990). The extant literature shows that an institutional lens can be applied to better understand the SME internationalisation process (Jafari Sadeghi *et al.*, 2019; Couper, 2015; Makhmadshoev *et al.*, 2015; Amoako & Lyon, 2013; Cheng & Yu, 2008). This thesis argues that internationalisation is a type of entrepreneurial activity that can occur within an institutional environment, and this environment can enable a firm to access finance, market information, human capital, and other resources (Vatne, 1995). Therefore, institutional theory was deemed the most appropriate tool for meeting the current research objective.

The other reason for choosing institutional theory was its ability to analyse the contextual influences on the SME internationalisation process; this means not only considering the formal written regulations, but also taking into account the informal, unwritten social norms (North, 1990). The study’s findings are thus strengthened, as the research draws upon institutional theory to fulfil the research objectives, which explore the interactions between formal and informal institutions and their effect on SME internationalisation. Carney *et al.* (2016) argue that an emerging-market firm can develop institutional capabilities to facilitate the implementation of internationalisation strategies in other countries. Institutional capability is defined as the competencies, skills, and practices that enable a firm to implement strategies that facilitate internationalisation (Carney *et al.*, 2016). Such capabilities are necessary for operating in the formal and informal institutional environment. Knowledge of institutional

capabilities is developed in this study to clarify the institutional aspects of the internationalisation activities. This is specifically in relation to the effect of formal and informal institutional drivers and barriers on SME internationalisation in the emerging market context, as well as the role of institutional support.

According to Marinova (2015) and Xiao (2015), research into internationalisation and economic development is increasingly recognising the importance of institutions, especially in the emerging-market context. The literature typically focuses on formal written regulation and its effect on the internationalisation process (Schwens *et al.*, 2018; Zhang *et al.*, 2017; Du & Luo, 2016; Wu, 2014), as this type of institution is more explicit and tangible and its impact more straightforward to analyse (North, 1990). In contrast, the less formal rules are more complicated to assess (Sartor & Beamish, 2014). However, the influence of informal unwritten norms on the internationalisation process is increasingly being acknowledged, and they have been recognised as a significant contributor to the development of entrepreneurship and internationalisation theories (Muralidharan & Pathak, 2017; Voigt, 2017; Williams & Shahid, 2014; Roxas & Chadee, 2012). Informal institutions have great relevance for the SME-internationalisation phenomenon under study, especially when conflict between these institutions and their formal counterparts at the national and subnational levels exist.

This chapter explains the institutional theory associated with the internationalisation process at the national and subnational levels, as well as the interaction between the formal and informal institutions throughout the internationalisation activities. These are summarised in section 3.2 on institutional theory, which discusses formal and informal institutions and the interaction between them, and section 3.3 on the country-level institutional context. This chapter then concludes by presenting the conceptual framework of this study, addressing the research objective, and explaining the knowledge gaps that the work attempts to fill.

3.2. Institutional Theory

Bruton *et al.* (2010) observe that entrepreneurship studies increasingly takes institutional theory as its point of view because the model has proven to be very valuable. Additionally, Estrin (2016) highlights the sensitivity of the institutional context

toward entrepreneurship studies. There is also evidence that entrepreneurship is affected by the institutions of the society in which the entrepreneurial activities take place (Sobel, 2008; Boettke & Coyne, 2003; Baumol, 1990). Correspondingly, Acs *et al.* (2008) argue that formal and informal institutions are vital for encouraging the development entrepreneurship.

There are two streams of thought in institutional theory (Bruton *et al.*, 2010). The first comes from Douglass C. North (1990), who defines 'institutions' as the rules that guide or shape human interaction within a society. The author argues that institutions are formed to facilitate complex human interactions to reduce uncertainty around organisational behaviours and establish a conducive exchange environment. As a result, institutions are continually evolving to accommodate the development of economic exchange within society. In this case, institutions act as a guide to the interactions between people in a society, directing what should be done and proper to do, and guiding what can be agreed upon within a certain community and in a particular place. The second stream comes from William Richard Scott (2014). Scott (2014) elaborates on varying interests and emphasis of institutional theory between 1850 and the mid 20th century, he argues that institutional theory previously focused on broader institutional structures – including political, language, legal, and religious structures – and paid very little attention to particular collectivities, such as organisations. According to Scott (2014), institutional theory arose during the 1970s and 1980s, with the recognition of the organisation field of institutions, with DiMaggio and Powell (1983) also influential contributors within the field. DiMaggio and Powell (1983) introduced neo-institutional theory from an institutional logics perspective that focuses on the homogeneity of organisational fields. North's institutional theory concentrates on the political and economic, while Scott's institutional theory is more closely related to the sociological and organisational fields of study. As the current thesis focuses on the interactions between formal and informal institutions at the national and subnational levels, the political and economic perspective are more relevant to the context. Therefore, this study draws insights from the institutional theory of North (1990) to explain SME internationalisation in the emerging-market context. This following section will discuss the theoretical work of the institutional theory from

North (1990) in the context of SME internationalisation to clarify how institutions shape the interactions between SMEs and other parties in this process.

Although the word ‘institution’ means an established law (Stevenson, 2010), it can also refer to less formal rules, such as social and cultural norms and heritage. In other words, institutional theory covers both formal and informal institutions (Stenholm et al., 2013; Acs et al., 2008; Veciana & Urbano, 2008; North, 1990), both of which are required for an efficient and properly functioning economy (Dunning & Lundan, 2008). The following two sections discuss how formal and informal institutions influence entrepreneurship in general and internationalisation in particular.

3.2.1. Formal Institutions

A formal institution is one derived from formal rules, such as government regulations, laws, and constitutions (North, 1990). According to Tonoyan *et al.* (2010), formal institutions form the economic and legal structure of a nation. Therefore, formal institutions play an important role in guiding socio-economic activities and shaping entrepreneurial behaviour. Being directly constituted by the government, formal institutions can be designed to create opportunities for entrepreneurial activities (Welter & Smallbone, 2011). One entrepreneurial activity on which this study focuses is SME internationalisation. Formal institutions can also facilitate commercial entrepreneurial entry across nations, which can then accommodate internationalisation activities (Estrin, Mickiewicz, *et al.*, 2013).

Estrin *et al.* (2013) differentiate between two levels of formal institutions: the constitutional and the lower (regulatory) level. Constitutional-level formal institutions have a more fundamental effect on entrepreneurship, while lower-level (regulatory) institutions represent government policy decisions. Constitutional-level formal institutions are essential for encouraging entrepreneurship (Estrin, Korosteleva, *et al.*, 2013). Moreover, Sobel (2008) demonstrates that the quality of a nation’s formal institutions is directly proportional to its entrepreneurial productivity and level of economic growth. However, at the lower (regulatory) level, it is often found that the government interferes by imposing different policies in tackling market and business failures (Acs *et al.*, 2016).

In addition, formal institutions can shape entrepreneurship and influence internationalisation activities in different ways, depending on the context. For example, Smallbone and Welter (2012) compared a number of European countries and found that strong formal institutions in a country can encourage entrepreneurship productivity. However, the reverse can also occur when entrepreneurship behaviour influences the formal institutions through legal and economic policy adjustments, as has evidently taken place in China (Ahlstrom & Ding, 2014). These cases show that the interrelation between formal institutions and entrepreneurial activities is a dynamic and complex matter (Estrin, Korosteleva, *et al.*, 2013).

Formal institutions do not always support entrepreneurship. The 'Doing Business' (The World Bank Group, 2020) report indicates that the enforcement of tax rules and other regulations can hinder entrepreneurship activity, including internationalisation. Furthermore, reforms and intervention cannot guarantee a positive impact on entrepreneurship activity either (Makhmadshoev *et al.*, 2015). These findings are supported by a meta-analytic review by Marano *et al.* (2016), which concludes that the relationship between a firm's home-country formal institutions and its internationalisation performance is insignificant in emerging-market countries, including Indonesia.

This thesis explores formal institutional factors at different levels within a country, namely the national and subnational levels, as formal institutions can intervene in national-level policy and – at the subnational level – they can have a positive impact by making regional-level interventions to support local SMEs (Minniti, 2008; Rocha & Sternberg, 2005). The national and subnational levels of a country's environment are important to this study because they can house a variety of formal and informal institutions that influence SME internationalisation and also create a distinct role of institutional supports that might be perceived differently by the SMEs. The following section discusses the second type of institution, namely the informal institutions. Equally important to the formal type, these informal institutions play a crucial role in entrepreneurship in general and in internationalisation in particular.

3.2.2. Informal Institutions

The informal institutions are the unwritten laws – such as culture, norms, codes of conduct, typical behaviour, and other social practices (North, 1990). Pejovich (1999, p. 166) views the informal institution as ‘the old ethos, the hand of the past or the carriers of history’. Additionally, Hodgson (2007, p. 331) defines informal institutions as ‘enduring systems of socially ingrained rules’, while North (1989, p. 241) calls them ‘anchors of stability’. Informal institutions can be inherited by individuals or by society and passed onto the next generation as cultural heritage through social interaction and family education, which form societal habits (North, 1990).

Fotopoulos and Storey (2016, p. 672) explain that ‘values and attitudes towards entrepreneurship are locally embedded’ at the subnational level of the environment. This means that informal institutions have a robust influence on subnational or regional entrepreneurship activities. Being ‘context and geography specific’ (Rodríguez-Pose, 2013, p. 1040), informal institutions are unwritten rules, norms, social values, religious law, and culture (Stenholm et al., 2013; Acs et al., 2008; Veciana & Urbano, 2008; North, 1990), and they are socially engraved in spatially diverse society. Therefore, they are difficult to change (Bathelt & Glückler, 2014; Smallbone & Welter, 2012; Pejovich, 1999; Baumol, 1990). Informal institutions in the subnational environment can affect the national level through an institutional process that shapes social structure across generations and from the subnational to the national (Wyrwich, 2015; Martin, 2000).

Informal institutions in the national-level environment are diverse, consisting of various subnational-level societies. Furthermore, informal institutions vary not only at the national level, but also at the subnational level, with local entrepreneurship values affecting economic growth in various ways on the different levels (Fritsch & Wyrwich, 2014; Davidsson & Wiklund, 1997). Every society has its own preferences for entrepreneurship behaviour (Freytag & Thurik, 2007), and these are influenced by the institutional environment that determines its political and economic outlook and affects its business decisions. As a result, informal institutions have a substantial influence on economic development (Williamson, 2009).

The extant literature highlights the impact of informal institutions on entrepreneurial behaviour (Huggins & Thompson, 2012; Welter & Smallbone, 2011). The consistency of informal institutions at the subnational level can create a solid tradition of entrepreneurial activity (Mueller, 2006). This can be seen in the increasing numbers of new enterprises being established in certain subnational areas in relation to the norms and values from those designated subnational level (Davidsson & Wiklund, 1997). Ross *et al.* (2015) demonstrate that informal institutions affect the number of SMEs and the variation in entrepreneurial activities at the subnational level. Therefore, informal institutions can be seen as a source of subnational institutional variation in entrepreneurial activity (Bathelt & Glückler, 2014; Huggins & Thompson, 2012). Hence, the socially embedded norms and values lead to ineffective national policy, as the policy will be interpreted differently in the various subnational institutional contexts (Fritsch & Mueller, 2007). Thus, some policies related to entrepreneurship activity need to be adjusted to suit the informal institutions at the specific subnational level (Fritsch & Storey, 2014). Consequently, SMEs must take informal institutions into account when developing their business policies to anticipate any inadvertent consequences within various institutional contexts (Arshed *et al.*, 2014; Mason & Brown, 2013; Acs *et al.*, 2008).

Smallbone and Welter (2012, p. 217) claim that 'informal institutions evolve as a culture-specific, collective and individual interpretation of formal rules'. To clarify the institutional factors that affect entrepreneurship in general and internationalisation in particular, the following section discusses the interaction between formal and informal institutions and explains how they affect internationalisation.

3.2.3. The Interaction between Formal and Informal Institutions

Since formal institutions emanate from the national level, it is common to have country-level formal regulations that apply across the nation, to all without exception (Minniti, 2008). On the same national level, a country usually consists of various territories and tribes, spread across geographical areas, which leads to a variety of cultures, local languages, habits, and norms, which then form the informal institutions. Consequently, it is likely that formal and informal institutions at the national and subnational levels will not align at all times, and this may create friction. Although the central government

usually translates country-level regulation to the regional level to facilitate different institutional context within certain subnational levels, the impact of those different institutional level might differ toward business practices, especially for SMEs. Therefore, this thesis investigates the effects on the SME-internationalisation process of formal and informal institutions on various institutional levels.

Another potential conflict between formal and informal institutions is due to the origins of these institutions. Owing to the historically embedded existence of the informal institutions, changes can take decades to manifest and are, therefore, often not in line with the imposed formal institutions (Estrin & Mickiewicz, 2011). Hence, it is possible for formal institutions to suppress but not to alter informal institutions (Pejovich, 1999). Formal institutions can react to the informal institutions by adjusting policies or regulations to suit existing norms and values. Alternatively, the authorities might pursue a different approach, developing a new regulation or policy that creates no friction with the prevailing informal institutions. As a result, it can be said that the relationship between formal and informal institutions is dynamic: the two are not precisely aligned, but rather in motion, reinforcing, complementing, or substituting one another. When formal and informal institutions complement and amplify one another, a virtuous circle is created, promoting efficient entrepreneurship. In contrast, when they form institutional asymmetry, conflicts emerge and entrepreneurship is stifled (Dennis Jr, 2011).

Williams and Vorley (2015, p. 841) define institutional asymmetry as ‘the misalignment between formal and informal institutions, with the formal being generally supportive of entrepreneurship and the informal, unsupportive’. According to Pejovich (1999), misalignment between formal and informal institutions can occur when a new regulation is imposed that affects the prevailing norms and values. Additionally, Smallbone and Welter (2012) argue that informal institutions can overcome the absence of formal institution’s coverage in a certain case, as some types of norms and values can quickly adapt to new situations. The adaptation of informal institutions to better align with formal institution can have positive or negative consequences. Tonoyan *et al.* (2010) show that weak enforcement of formal institutions can lead to corruption. For SMEs, this can be an opportunity to bypass the formal regulations. In

any case, in a certain institutional context, the alignment of formal and informal institutions will influence the results of entrepreneurship at various subnational levels (Williams & Vorley, 2015).

Accordingly, Ketkar and Acs (2013) propose that institutions also play a significant role in driving internationalisation decisions. Regardless of a firm's capabilities, certain aspects of informal and formal institutions might conflict in supporting SMEs internationalisation. In emerging-market countries, informal institutions can create unnecessary obstacles that prevent SMEs broadening their market overseas (Roxas & Chadee, 2012). In these circumstances, the formal institution is expected to overcome the problem by intensively promoting internationalisation and support for SMEs. This view is supported by Ma, Ding, and Yuan (2016), who used the data from Chinese entrepreneurial firms to investigate the influence of formal institutions at the subnational level. They found a positive relationship with the degree of internationalisation. Pradhan and Das (2015) also highlight the importance of subnational policy for supporting SME internationalisation.

Formal and informal institutions produce both constraints on and incentives for organisations' economic activities (North, 1990). These constraints and incentives structure the managerial actions of SMEs and affect the interactions among them and between them and other business-related organisations. This affects how the SMEs perform their internationalisation activities. According to Peng *et al.* (2008), both types of institutions substantially affect SMEs' internationalisation performance by influencing their business activities. Under these circumstances, SMEs must acquire institutionally-based knowledge to become competitive in certain institutional environments. This notion proves that a firm's success is not only determined by internal factors – such as good management skills, production efficiency, and financial capability – but also by the wider institutional context. Thus, a firm needs a robust institutional framework to ensure a favourable business context. Otherwise, with an inadequate institutional framework, a firm is likely to have inefficient business flow, leading to financial waste.

Some studies of formal and informal institutions have not considered the national- and subnational-level contexts, despite the two being closely related and highly influential of one another (Khoury & Hitt, 2019; Williams & Vorley, 2015; Holmes et al., 2013; Schwens et al., 2011; Salimath & Cullen, 2010; Tonoyan et al., 2010). Analysis of the formal and informal institutions in the national and subnational contexts of one country can enrich the discussion on entrepreneurship, particularly in relation to SME internationalisation. It can provide meaningful comparisons of barriers and incentives from different institutional levels in a single business environment. Marano *et al.* (2016) conducted a study of internationalisation performance and found that formal and informal institutions in the home-country play a significant moderating role. Furthermore, the institutional systems taxonomy proposed by Fainshmidt *et al.* (2018) identify Indonesia as an understudied country, despite its diversity and unique institutional context as a state-led institutional system. With this institutional study of diverse populations in several subnational areas of a single national environment, operating under the same regulations, the current work can illuminate how formal and informal institutions affect entrepreneurship and internationalisation. In addition, the confounding effects of different regulations for different countries can be avoided. The next section presents a discussion of the relationship between SME internationalisation and institutional theory on the country-level context.

3.3. The Country-level Institutional Context

National-level institutions or 'country-scale institutions' have a significant influence on firms' internationalisation efforts (Marano *et al.*, 2016; Descotes *et al.*, 2011). Kostova (1997) introduces the notion of a 'country institutional profile' to explain the variation in business behaviour between countries. In regard to institutional context, the extant literature tends to divide its focus between developed and emerging-market countries (Kiss *et al.*, 2012; Mair & Marti, 2009; Meyer *et al.*, 2009; Manolova *et al.*, 2008; Peng *et al.*, 2008). Since this thesis focuses on an emerging-market country, it is important to clarify the definition of this from an institutional perspective. There are numerous ways of defining emerging-market countries (Xu & Meyer, 2013; Kiss *et al.*, 2012; Peng, 2003; Hoskisson *et al.*, 2000), so for a more general and globally accepted definition, this thesis employs the World Bank (2020) and United Nations (2014) classification by gross national income. In terms of institutional context, emerging-

market countries are those with low formal institutional performance (Kaufmann *et al.*, 2010). The internationalisation and institutional literature reveals that level of formal institutional performance is what differentiates developed and emerging-market countries (Khanna & Palepu, 1997; North, 1990). The ability to build strong formal institutions and identify institutional voids determines how effectively a government can enforce regulations to guide the interactions and exchange between people in the country and create sustainable economic growth (Puffer *et al.*, 2016). In this context, institutional voids are defined as the absence or underdevelopment of formal institutions that regulate business activities, such as government regulations and the law (Puffer *et al.*, 2010; Khanna & Palepu, 1997). The emerging-market country selected as the empirical focus of this thesis – and the rationale for this choice – are discussed in the following chapter.

Since SMEs are heterogeneous, each is likely to choose a different internationalisation strategy based on its owner-manager's orientation, available resources, and internationalisation objectives. However, adequate institutional support can facilitate internationalisation strategies at the aggregate level. For instance, certain public policies might offer specific assistance that fit certain types of SMEs and strongly influence entrepreneurship and SME-internationalisation performance (OECD, 2007). Formal institutional support originates from the government and its associates (Narooz & Child, 2017; Stephan *et al.*, 2015; Senik *et al.*, 2011), whereas informal institutional support comes from the social norms and values that influence entrepreneurship and internationalisation activity. However, Nuruzzaman *et al.* (2020) argue that institutional support usually co-exists with institutional hazards, and both can potentially influence the process of SME internationalisation. Institutional hazards are defined as 'potential extortion from political and legal institutions at home that can obstruct firms' efforts to achieve efficiency' (Nuruzzaman *et al.*, 2020, p. 369). Therefore, an in-depth understanding of SMEs' needs when developing an internationalisation strategy is needed to highlight the areas in which supports can be given. This support is expected to create an institutional environment that will facilitate SMEs' success in the international market.

According to Kostova (1997), government policies and shared knowledge of the culture, society, values, and norms lead to specific national business behaviour. Some researchers suggest that explorations of country institutional profiles could facilitate understanding of organisational behaviour, with sociocultural norms, financial aid, and government regulations the most prominent topics (Valdez & Richardson, 2013; Reynolds *et al.*, 2005). In fact, SME-internationalisation performance can be strongly influenced by the political system through formal institutions (Dunning & Lundan, 2008). Therefore, an effective government should adopt policies that promote a strong institutional system that supports business activities (Narooz & Child, 2017; Stephan *et al.*, 2015; Senik *et al.*, 2011), especially for SMEs. In contrast, a weak government can create institutional uncertainty, characterised by political and economic institutions inconducive to firm performance (Njinyah, 2018). Institutional uncertainty is the effect of an impractical institutional framework, which in turn delays and reduces the effectiveness of business activities leading to profit decline and low productivity. For instance, institutional uncertainty includes policy incoherence among government agencies, corruption, over-bureaucratic system, arbitrarily law enforcement, and monopolistic control (Turner *et al.*, 2016).

The institutions in a country are divided between the national and subnational levels. A firm that operates at the subnational level must deal with not only the national level of institutions but also the formal and informal institutions on that particular subnational level. According to Ma, Tong, and Fitz (2013), the national level is the country-level institutional environment. The subnational level is a sub-area smaller than the national level, such as regions or provinces that construct country-level institutions (McGahan & Victor, 2010; Poncet, 2005). Although they may not be in conflict, both types of institutions are able to influence people in some aspects, including in the field of entrepreneurship (Autio & Fu, 2015). From the entrepreneurship point of view, the range of the business environment will determine whether an entrepreneur has national coverage or is restricted to a particular subnational level (Roxas & Chadee, 2012). In the context of this study, SME internationalisation as part of the entrepreneurship field is also included. Roxas and Chadee (2012) argue that the informal institutions found in subnational cultures (such as norms, values, and practices) might have the potential to weaken business entities. In this case, informal

institutions can influence business entities in managing and developing their business. As a consequence, the institutional foundation at the subnational degree can be an effective method of endorsing entrepreneurial growth and the attractiveness of SMEs, especially in emerging countries. Nonetheless, the development of subnational institutions over time will ultimately converge towards national institutions, while informal institutions at subnational levels might vary within one country (Kreiser *et al.*, 2010; Salimath & Cullen, 2010).

With respect to the role of formal and informal institutions, LiPuma, Newbert, and Doh (2013) argue that formal and informal institutions can affect the business environment and economic development, while Ketkar and Acs (2013) conclude that the conflict between formal and informal institutions can support internationalisation. Marano *et al.* (2016) identify positive relationships between internationalisation performance and home-country formal and informal institutions. Zhang *et al.* (2017), Charoensukmongkol (2016), and Wengel *et al.* (2006) explore the national and subnational levels as essential factors in SME-internationalisation performance. However, to the best of this thesis' knowledge, no studies have explored the comprehensive interaction between formal and informal institutions at the national and subnational levels in the context of SME internationalisation.

The national and subnational institutions in each country might have a different effect in influencing entrepreneurship in terms of management behaviour, business strategy, and firm performance, depending on its acceptance and condition of its formal and informal institutions (Roxas & Chadee, 2012). It would be valuable to conduct research into large countries with many different cultures, spread out over large geographical areas to explore the cultural effect in the subnational region regarding business orientation and firm performance (Meyer & Nguyen, 2005). Cultural variation is likely to occur in countries with many different ethnicities and scattered geographical regions, which is characteristic of archipelago countries (Steel & Taras, 2010; McSweeney, 2009) such as Indonesia. Given this, the research topic of subnational institutions' influence on internationalisation in complex emerging-market countries is increasingly gaining attention (Shi *et al.*, 2012).

SME internationalisation is a complicated process (Costa *et al.*, 2016; Ahmad, 2014). The process is structured by the formal and informal institutions within the scope of the national and subnational institutions; and it is shaped by the agency of the SMEs' owner-managers or entrepreneurs, who proactively seek internationalisation opportunities. Consequently, the success or failure of SMEs internationalisation cannot be attributed to any single effect. Thus, for an in-depth understanding of the phenomenon, this study examines the effects and influences of both sides.

The next section presents the conceptual framework of this thesis to show how the internationalisation elements are linked.

3.4. Conceptual Framework

The conceptual framework has been derived from the findings of the literature review, and this illustrates the interaction between the primary determinants of SME internationalisation (which are influenced by the formal and informal institutions at the national and subnational levels) and the results of the process. It is believed that 'the formal and informal institutions that define the "rules of the game"' (Williams & Vorley, 2015, p. 2) have a significant impact on the decisions of the SME's owner-managers and entrepreneurs regarding the entrepreneurial process of internationalisation.

To reveal the institutional phenomenon, the framework takes the institutional environment (national and subnational), and the home-country institutional context (formal and informal) that set the circumstances for the SME internationalisation, into account. These institutional factors influence the internationalisation process and the chosen strategy. The framework then explains the interaction between the SME and its institutional environment when conducting internationalisation activities. In the process of expanding their businesses overseas, SMEs deal with various existing institutional environments, which they transform or reproduce to take action to achieve their goals. Figure 3.1 shows that SME internationalisation occurs in a business environment ruled by institutional arrangements and institutional environments, which influence one another. Thus, institutions and entrepreneurship practices influence one another to shape the appropriate business environment (Ervits & Žmuda, 2016; Amoako & Lyon, 2013; Harbi & Anderson, 2010).

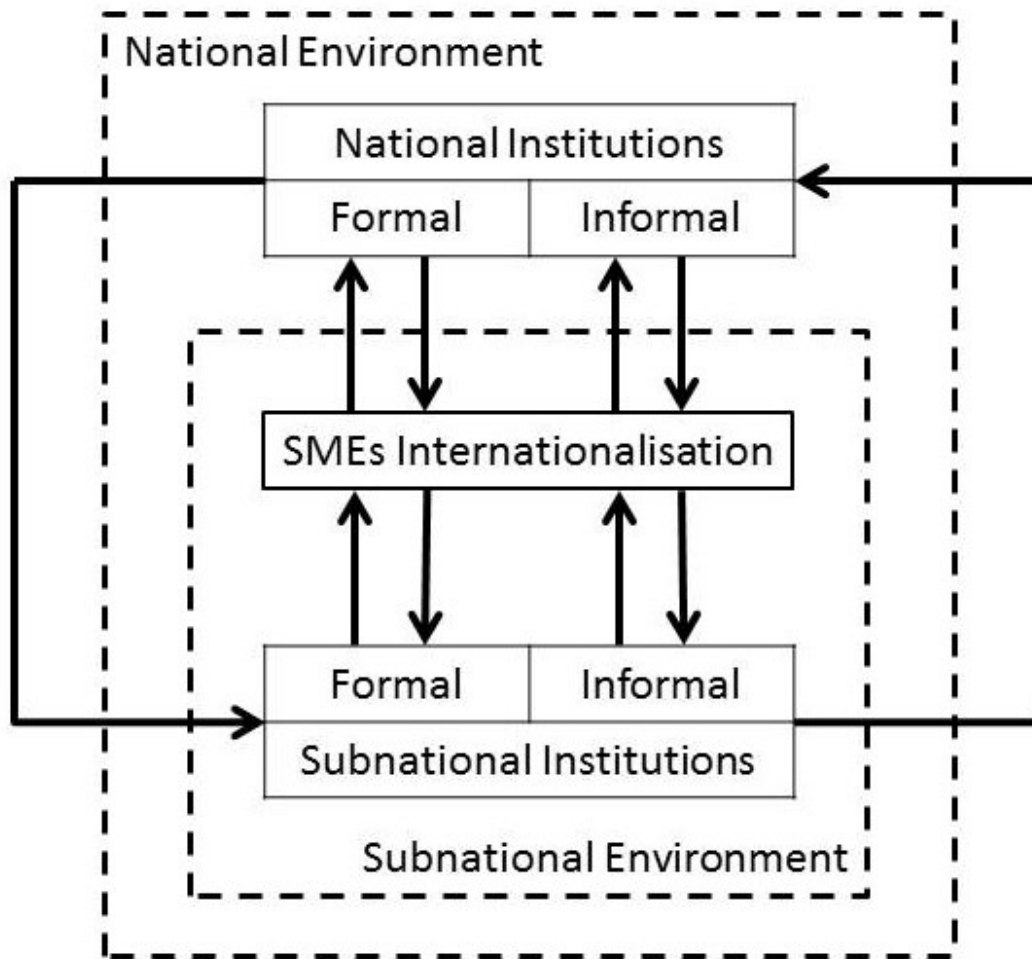


Figure 3.1. Conceptual framework for the institutional context of internationalisation by small and medium-sized enterprises (SMEs) in an emerging-market country

The next section presents the knowledge gaps and the research objectives of this thesis.

3.5. Knowledge Gaps and Research Objectives

The integrative review of the extant literature on SME internationalisation in the institutional context highlighted a number of knowledge gaps. This study seeks to address those gaps through an in-depth study of an emerging-market country. The identified knowledge gaps are summarised as follows:

1. The literature shows that SME internationalisation is influenced by the home-country institutional framework. Nevertheless, SME internationalisation is a complex process, shaped by many factors (Costa *et al.*, 2016; Ahmad, 2014).

The processes and strategies differ substantially across countries and industries, as internationalisation is a complex institutional phenomenon that involves multiple organisations. From the national-level institutions to the subnational, the internationalisation process is varied even at the SME level. It is driven by the SMEs' motivations and conditions (both internal and external) and the drivers and barriers, as well as the levels of the institutions involved.

2. It is unclear how the interaction between formal and informal institutions stimulates SME internationalisation. Ketkar and Acs (2013) argue that institutions play a significant role in driving internationalisation initiatives. However, certain characteristics of the informal and formal institutions might come into conflict while supporting SME internationalisation, which creates barriers. Therefore, an improved understanding of the institutional drivers and barriers in formal and informal institutions at the national and subnational levels will clarify how effective the institutional support for SME-internationalisation activities.
3. The extant literature includes no exploration of formal and informal institutions at the national and subnational levels, despite their being closely related and influencing one another (Khoury & Hitt, 2019; Williams & Vorley, 2015; Holmes et al., 2013; Schwens et al., 2011; Salimath & Cullen, 2010; Tonoyan et al., 2010). An analysis of the formal and informal institutions in the national and subnational contexts of a single country could enrich the discussion on entrepreneurship study, particularly in relation to SME internationalisation. As an institutional study conducted in one national environment governed by the same regulations, with diverse populations dispersed between several subnational areas, this study is able to portray how institutional theory affects entrepreneurship.
4. There is a lack of knowledge regarding the asymmetry between formal and informal institutions, the national and subnational levels of the institutions, and the same institutions at the same or different levels. It will therefore be a beneficial contribution to entrepreneurship studies to clarify how SME owner-managers and entrepreneurs cope with the institutional asymmetry in their internationalisation activities. This gap might be linked to entrepreneurial

resilience theory (Bhamra *et al.*, 2011) and its implications for SME internationalisation (Dominguez & Mayrhofer, 2017).

5. Aldrich and Ruef (2020) suggest that entrepreneurship research should pay more attention to ordinary, everyday entrepreneurs, rather than the exotic, billion-dollar, unicorn start-ups. This is in line with the argument of Welter *et al.* (2017) that entrepreneurship studies puts more focus on technology, growth, wealth, job creation, and other glamorous and heroic aspects of entrepreneurship, rather than everyday entrepreneurs, family business, business within communities, and similar contexts, all of which are found in small business. Therefore, this study will address this final gap by focusing on SMEs run by ordinary, everyday entrepreneurs with institutional involvement.

The central research question of this thesis is how the role of home-country formal and informal institutions is affecting SME internationalisation in an emerging-market context. The findings of the integrative review of the extant literature on SME internationalisation in the institutional context underpin the following research objectives:

1. Evaluate formal and informal institutional drivers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.
2. Evaluate formal and informal institutional barriers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.
3. Critically examine formal and informal institutional supports at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

The other objectives of the research are to contribute to theoretical development in entrepreneurship studies and to help policymakers develop policies that support SME internationalisation in Indonesia.

3.6. Conclusion

Together with the previous chapter, this chapter has presented a review of the extant academic knowledge on SME internationalisation, seen through the lens of the institutional theory proposed by Douglass C. North (1990). This thesis explores how formal and informal institutions affect SME internationalisation in an emerging-market country, thus it is important that both types of institutions are treated equally. Therefore, a more open approach is required. However, as this thesis investigates several subnational levels within a single country, there may be a variety of institutional characteristics, especially among the informal institutions.

In conclusion, these two literature review chapters have explored institutional theory and the characteristics of entrepreneurship from numerous theoretical viewpoints to identify their role in SME internationalisation. A number of related topics have also been critically reviewed, starting with an overview of SME internationalisation. This was followed by a review of institutional theory and entrepreneurship characteristics to clarify the key issues in this area. A conceptual framework was then presented and a list of knowledge gaps highlighted. On this basis, the research objectives were clarified. The next chapter discusses the empirical focus of this study.

Chapter Four: Empirical Focus

4.1. Introduction

Emerging-market countries are defined as ‘fast-growing developing countries that are creating not only a rapidly expanding segment of middle class and rich consumers but also have a sizable segment of ‘poor’ consumers’ (Sudhir *et al.*, 2015, p. 264). From an economic perspective, those countries are between ‘developing’ and ‘developed’ countries (United Nations, 2014). Developed countries are those with high-income economies of more than US\$12,536 per capita, while developing countries are categorised as low-income economies of less than US\$1,305 per capita (The World Bank, 2020). The literature suggests emerging-market countries are a promising context in which to study the institutional perspectives of SME internationalisation (Steel & Taras, 2010; McSweeney, 2009; Meyer & Nguyen, 2005). To further develop the entrepreneurship and internationalisation theory, this study focuses on an emerging-market country in Southeast Asia; more specifically, the empirical focus is on SMEs in Indonesia, as one of the largest emerging-market economies in the world (The World Bank, 2020; Safadi *et al.*, 2009; Marino *et al.*, 2008).

The central research question of this thesis is how the role of home-country formal and informal institutions is affecting SME internationalisation in an emerging-market context. In regard to this research topic, this chapter presents a profile of Indonesia and the role of SMEs in the economy, as the empirical focus of this study. This chapter also discusses the formal and informal institutional context within SMEs in Indonesia. It begins with an overview of Indonesia’s geography, economy, and GDP structure (i.e., its international trade and export structure). Second, the role of SMEs is discussed, including their contribution to the GDP and internationalisation performance. Third, there is a discussion of Indonesian government policy on SME development and export performance. Finally, this chapter places Indonesian SMEs within the institutional context.

4.2. Overview of Indonesia

4.2.1. The Geography of Indonesia

Indonesia is a diverse archipelago country, close to the equator, consisting of around 17,000 islands and home to more than 300 ethnic groups (The World Bank, 2019a).

The largest area of the country is in Southeast Asia, with 1,913,600 km² comprising 34 provinces (Figure 4.1) and a wealth of natural resources. Indonesia is located between two oceans, the Indian Ocean and the Pacific Ocean, and two continents, Asia and Australia. Together with Singapore, Indonesia takes the lead in trading goods in this region.



Figure 4.1. The provinces of Indonesia
(GeoCurrents, 2016)

Indonesia also has the largest population in Southeast Asia and the fourth biggest in the world (The World Bank, 2019a). The 2010 census revealed that Indonesia’s population was 238,518,800; and a population projection indicates that this had reached 265,015,300 by June 2018 (BPS-Statistics Indonesia, 2019a). Additionally, according to the Ministry of National Development Planning/National Development Planning Agency, BPS-Statistics Indonesia, and the United Nations Population Fund (2018), Indonesia is currently benefitting from a demographic bonus period, with the population of productive age (15-64 years) comprising 68.7% of the total population. This means that Indonesia has potential human resources for the workforce. It also means that Indonesia plays an important role as a promising market and investment destination for other countries.

4.2.2. Indonesia's Economy

Indonesia is an emerging-market country with distinctive characteristics. It is growing rapidly in terms of its infrastructure, but it has a huge problem of income inequality. This can be seen from the substantial increase in the Indonesian GINI Index, from 30 to 39, over the last three decades (The World Bank, 2019b). Nevertheless, Indonesia has a stable and robust economy, as reflected by its GDP, which is rising steadily by around 5% to 6% annually – from US\$ 165.020 billion in 2000 to US\$ 1,042.170 billion in 2018 (The World Bank, 2019a), compared to 3.00% growth across the world for the same period (The World Bank, 2019a).

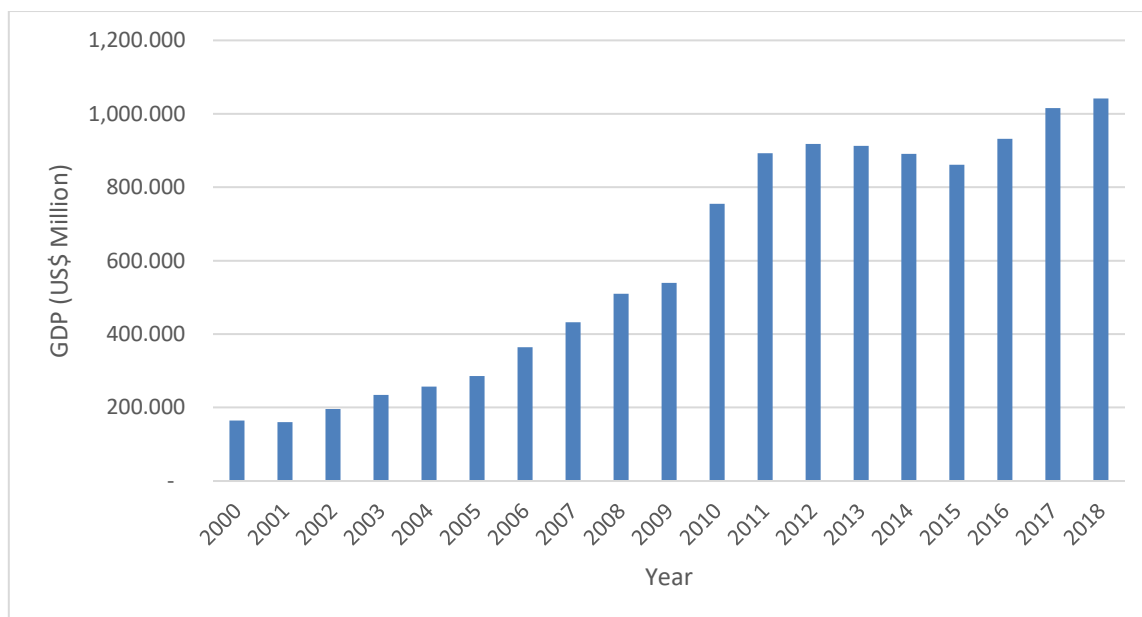


Figure 4.2. Indonesia gross domestic product
(GDP; World Bank, 2019a)

However, Indonesia's economy is not growing symmetrically in every sector. As shown in Figure 4.3, the manufacturing industry plays a dominant role in value creation and production, followed by trade and agriculture industry. However, their respective shares of the GDP show a steady decline. In contrast, the service-based industries are increasing steadily.

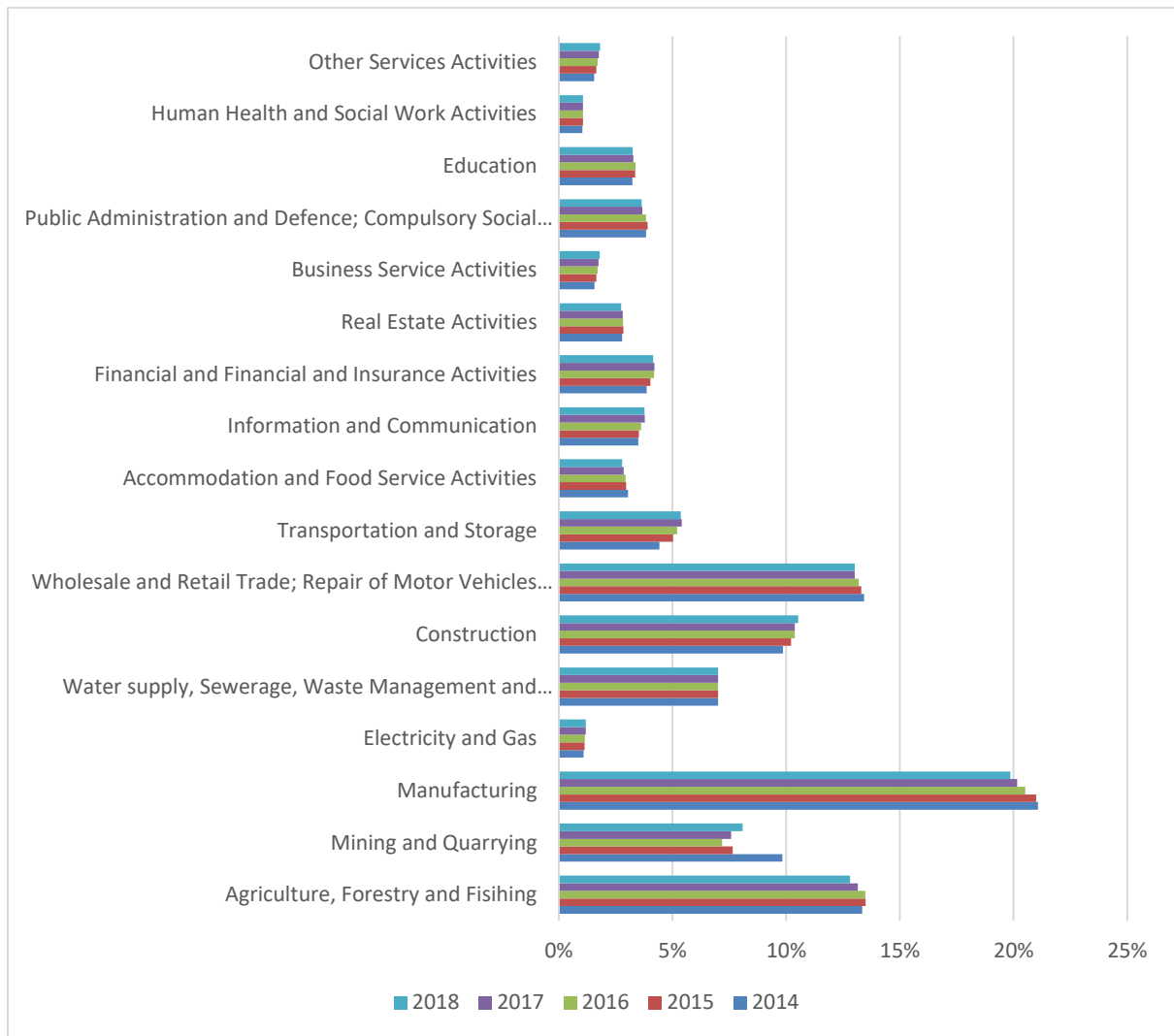


Figure 4.3. Contribution to gross domestic product (GDP) by industry (BPS-Statistics Indonesia, 2019b)

Expenditure data show that Indonesian GDP growth is primarily due to household consumption, followed by capital investment (as shown in Figure 4.4). In contrast, government consumption is growing at a slower rate. Moreover, exports and imports are at the same rate. In the long run, if the trade balance continues to decline, and Indonesian GDP relies more on domestic consumption than on trade, this will have a negative effect on economic growth. As a result, Indonesia must encourage international trade and increase its exports.

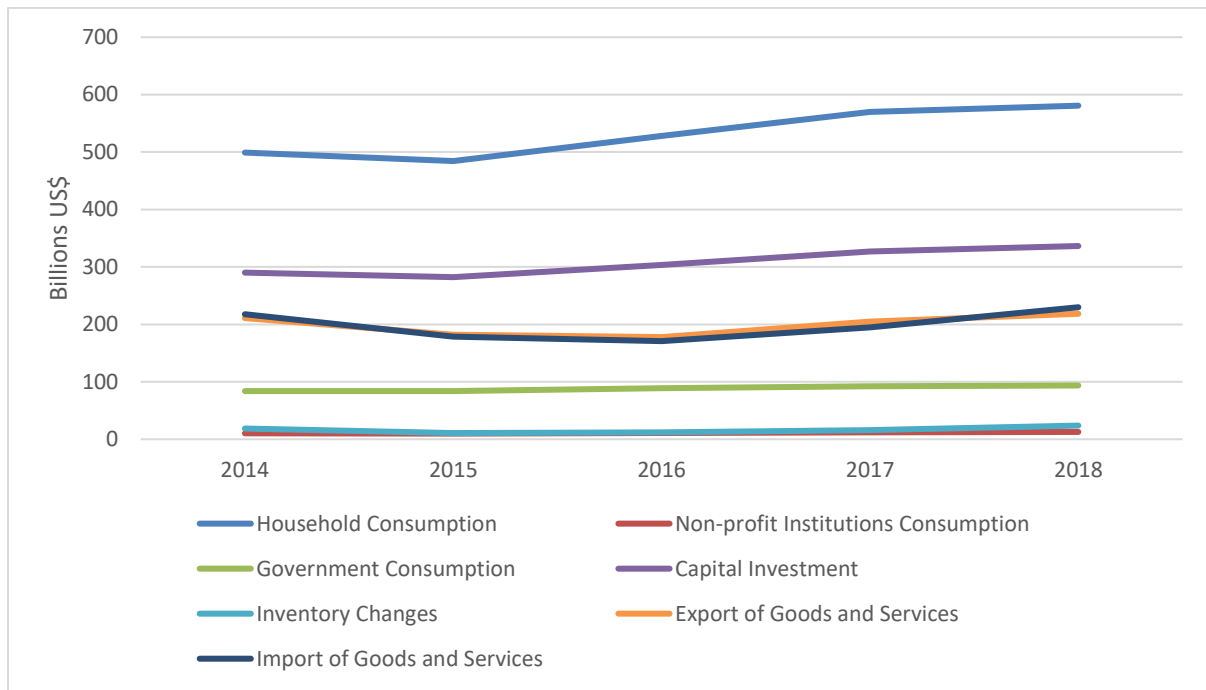


Figure 4.4. Gross domestic product (GDP) by type of expenditure (BPS-Statistics Indonesia, 2019c)

4.2.3. Indonesia’s International Trade

Indonesia is categorised as one of the ‘Association of Southeast Asian Nations’ (ASEAN), along with nine others, namely Brunei, Cambodia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. At the beginning of 2016, the ASEAN Economic Community (AEC) was launched to integrate the members’ economic power and grow the ASEAN economies for the benefit of all citizens. This brought an opportunity for Indonesia to expand its market to nearly three times the size of its domestic market. However, it is also been a challenge for Indonesia to protect its local captive market *alongside* this expansion, as well as managing the difficulties associated with entering another country’s market.

As the most important emerging-market country in Southeast Asia, with a GDP more than double that of Thailand (the second-biggest economy), Indonesia is the only Southeast Asian member of the G20 (G20, 2019). This means that Indonesia’s economy is considered important to the world’s financial markets.

Table 4.1. Indonesian international trade indicators
(The World Bank, 2019a)

Indicators	2000	2003	2006	2009	2012	2015	2018
Total Exports (Million US\$)	67,621	71,553	113,143	130,358	225,744	182,158	218,499
Total Imports (Million US\$)	50,265	54,324	93,412	115,217	229,362	178,864	229,861
Trade Balance (Million US\$)	17,356	17,229	19,731	15,141	- 3,618	3,294	- 11,362
Total Exports (% GDP)	40.98	30.48	31.04	24.16	24.59	21.16	20.97
Total Imports (% GDP)	30.46	23.14	25.62	21.35	24.99	20.78	22.06
Foreign Direct Investment, net (Million US\$)	4,550	597	- 2,188	- 2,628	- 13,716	- 10,704	- 13,654

Table 4.1 illustrates Indonesia's increasing participation in global economic activities. This is shown by the accretion in trade volumes, despite a temporary decline between 2012 to 2016. The bounce-back from 2017 to 2018 is shown below in Figure 4.5. The figure also shows how the trend in exports and imports continued to grow concurrently. However, despite the simultaneous increase in exports and imports, the trade balance showed a decreasing trend and has recorded negative values since 2012. While there were positive values for 2015 to 2017, these were followed by a decline in 2018. These fluctuations indicate that the open-economy policy that the Indonesian government has chosen to apply – as shown by the country's membership in the G20, the World Trade Organization (WTO), the Asian-Pacific Economic Cooperation (APEC), and recently in the AEC – does not guarantee the strength of the competitiveness of Indonesia's export sector.

Furthermore, Table 4.1 also shows that although total exports have risen threefold over two decades, the share of exports relative to GDP has fallen continuously for nearly two decades, and in 2018 became half the value in 2000. This data indicates that Indonesia experiences a 'resource curse' problem. Resource curse refers to the long-held concept important to development economics that countries wealthy in natural resources, notably minerals and fuels, do not perform well economically compared to countries with fewer natural resources (Murshed, 2018). The broader economic development possibilities of resource-rich, newly industrialising economies are hampered by the fact that the currency is always overvalued for other industries. This is due to exports of raw materials and refined substances from raw materials.

Figure 4.6 confirms that Indonesia faces some of these challenges due to the fact that the two largest export sectors, together accounting for some 35% of exports, are in fuels and raw materials. By contrast, Indonesia also has large exports in manufacturing sectors such as machinery and transport, manufactured goods classified by materials, chemicals, and miscellaneous manufactured articles, accounting for some 50% of exports. This data also demonstrates that Indonesia has diversified significantly. These figures suggest that the falling share of exports to GDP can result from the resource curse and the increased domestic GDP growth associated with an increasingly diversified economy.

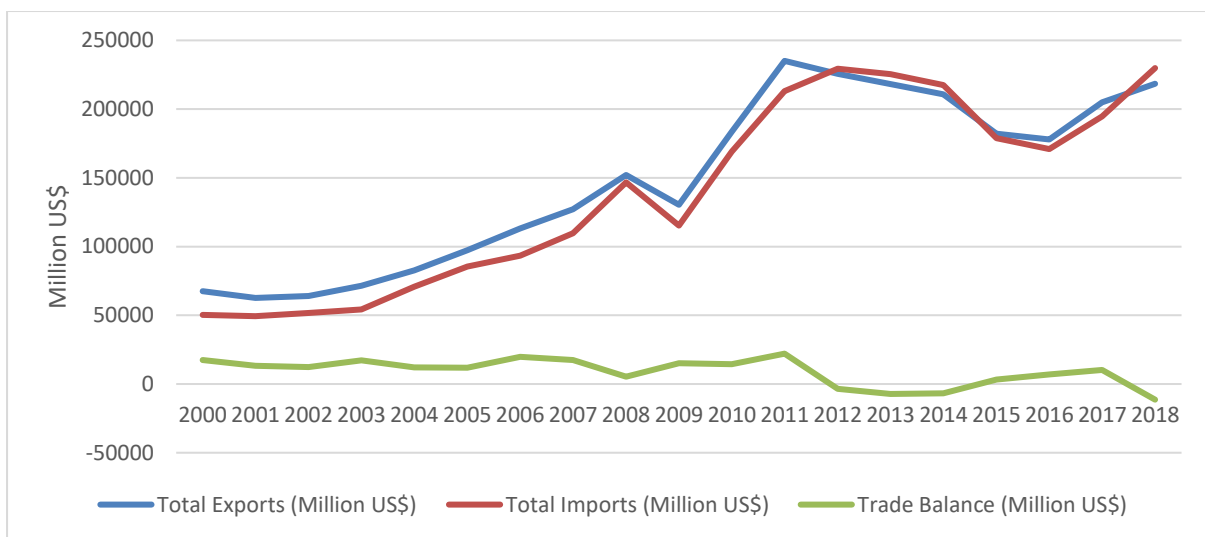


Figure 4.5. Indonesian exports and imports
(The World Bank, 2019a)

Correspondingly, the declining export-to-GDP ratio reveals that Indonesia’s export sector is also in need of attention. It is clear that Indonesia has not taken advantage of the foreign market opportunities in the other ASEAN countries, as evidenced by the consistently negative FDI values. In addition to the fluctuations in Indonesian currency that hamper the export potential, there are other export barriers that the government and business communities must overcome. The negative value of Indonesia’s FDI indicates that the decreasing export value is not due to the exporting companies expanding their production units abroad. Rather, it is caused by domestic problems such as production constraints, export infrastructure, and even export regulation.

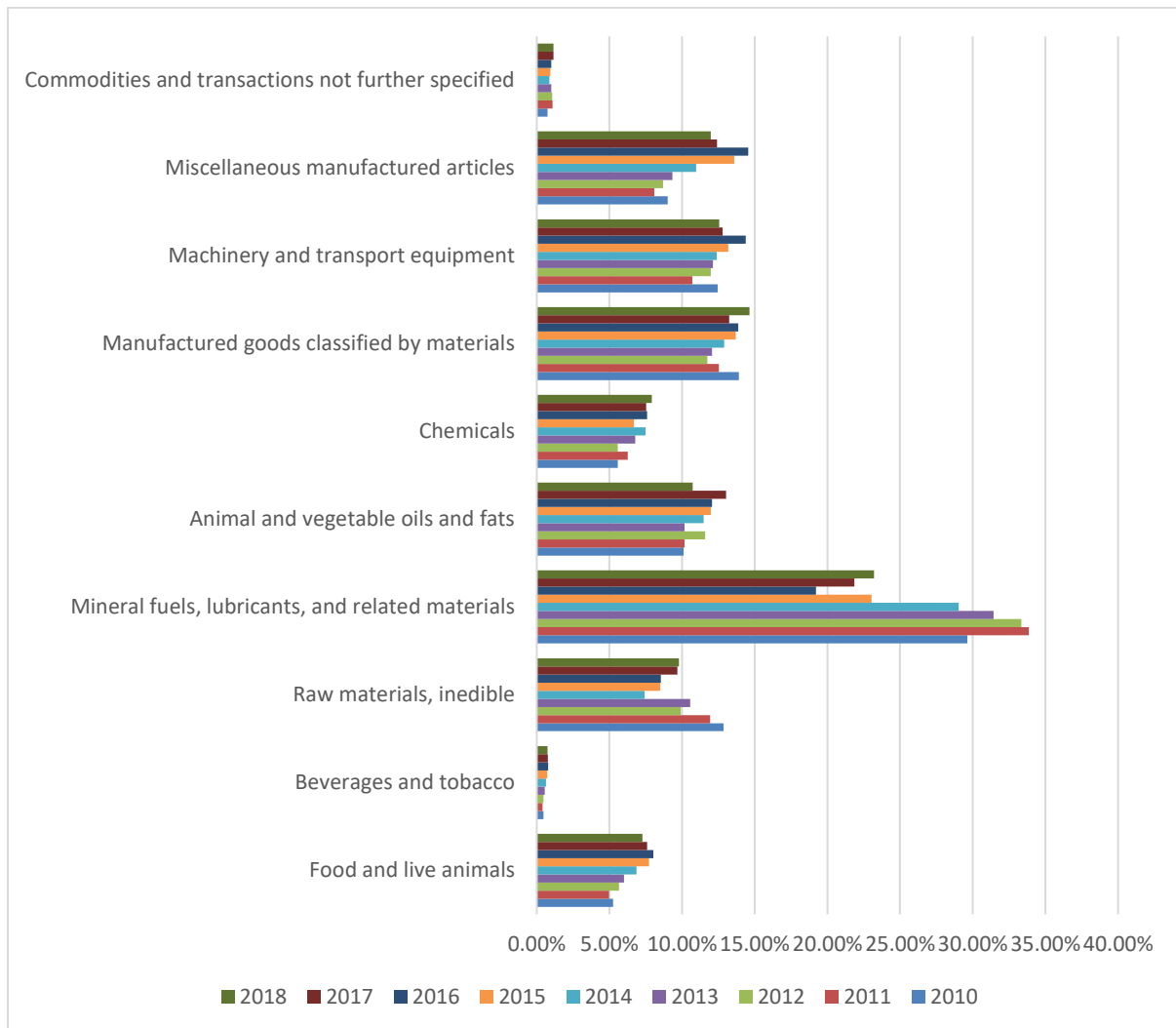


Figure 4.6. Indonesian value of exports by standard international trade classification group
(BPS-Statistics Indonesia, 2019d)

Using the standard international trade classification, Indonesia’s exports can be categorised into several types of commodities, as shown in Figure 4.6. This export percentage indicates the performance of each commodity type in the international market. It also represents Indonesia’s competitive advantage for each product. Mineral fuels, lubricants, and related materials are the commodities that Indonesia primarily exports. When these are combined with the raw and inedible materials, it is clear that Indonesia is relying on exports associated with its natural resources. This shows the vulnerability of Indonesia’s position in the international trade market. Natural resources are commodities that Indonesia does not manufacture. This is a price-driven market that does not involve creativity or create competitive value. They are also non-

renewable resources that will eventually be exhausted. Given these factors, it is vital that Indonesia begins to manufacture more competitive commodities that have comparative advantages in the international trade market.

Indonesia's exports can also be assessed in terms of the destination countries, as shown in Table 4.2. The data indicate that Indonesia tends to focus on a small number of countries, rather than diversifying its markets. Most of Indonesia's exported commodities are shipped to China and the rest of Asia, and this comprises nearly half of the total export. However, ASEAN countries are increasingly important export destinations, receiving almost a quarter of Indonesia's total export. In contrast, the export markets to Africa, the Middle East, Eastern Europe, and South America are still very small. Thus, there are still potential export destinations elsewhere in the world that Indonesia could exploit further.

The data also indicate that China, Japan, and the United States are Indonesia's three primary export destinations, receiving more than a third of its total export. However, there is a danger in this export dependency, as it could leave Indonesia in a weak position if one of its major trading partners experienced monetary turbulence or economic instability. Indonesia must seek out opportunities to expand its export market, diversify its international trade destinations, and develop its export strategy.

Table 4.2. Indonesia's value of exports by major countries of destination
(million US\$) (BPS-Statistics Indonesia, 2019a)

Country of Destination	2014	2015	2016	2017	2018
ASIA					
ASEAN	39,668.10	33,577.00	33,778.20	39,266.40	41,913.20
Thailand	5,783.10	5,507.30	5,394.00	6,473.70	6,820.90
Singapore	16,728.30	12,632.60	11,861.00	12,724.90	12,915.00
Philippines	3,887.80	3,921.70	5,270.90	6,629.60	6,832.20
Malaysia	9,730.00	7,630.90	7,069.50	8,441.10	9,271.60
Myanmar	566.90	615.70	615.70	827.50	897.60
Cambodia	415.80	429.70	426.90	513.90	525.60
Brunei Darussalam	100.30	91.20	88.70	64.50	61.20
Lao People's Dem. Rep.	4.60	7.70	5.90	4.20	7.30
Vietnam	2,451.30	2,740.20	3,045.60	3,586.90	4,581.90
Rest of Asia	84,604.00	69,970.50	64,758.70	79,943.00	87,532.00
Japan	23,117.50	18,020.90	16,098.60	17,798.80	19,465.60
Hong Kong	2,777.60	2,067.20	2,144.90	2,405.80	2,557.60
Republic of Korea	10,601.10	7,664.40	7,008.90	8,200.30	9,540.10
Taiwan	6,425.10	5,043.50	3,655.80	4,229.20	4,703.10
China	17,605.90	15,046.40	16,790.80	23,083.10	27,132.20
Others	24,076.80	22,128.10	19,059.70	24,225.80	24,133.40
AFRICA	6,262.30	4,759.50	4,186.30	4,887.80	4,782.10
AUSTRALIA & OCEANIA	5,738.40	4,433.50	3,913.60	3,264.40	3,579.90
Australia	4,948.40	3,702.30	3,208.90	2,524.40	2,819.60
New Zealand	481.40	436.20	366.60	437.40	490.70
Rest of Oceania	308.60	295.00	338.10	302.60	269.60
AMERICA	21,035.60	20,237.30	20,088.00	22,178.90	22,952.40
USA	16,530.10	16,240.80	16,141.40	17,794.50	18,439.80
Canada	755.00	722.30	732.40	821.20	913.90
Mexico	850.90	824.00	815.10	986.60	905.30
Rest of America	2,899.60	2,450.20	2,399.10	2,576.60	2,693.40
EUROPE					
European Union	16,918.90	14,842.50	14,454.80	16,336.40	17,087.10
United Kingdom	1,658.60	1,527.10	1,590.40	1,406.10	1,465.30
Netherlands	3,984.60	3,442.20	3,254.90	4,037.80	3,896.60
France	1,019.30	973.00	872.70	975.90	1,006.80
Germany	2,821.60	2,664.20	2,638.70	2,668.20	2,708.20
Italy	2,286.90	1,872.90	1,572.10	1,932.60	1,920.90
Spain	1,937.60	1,481.30	1,579.30	2,010.10	2,253.30
Rest of European Union	3,210.30	2,881.80	2,946.70	3,305.70	3,836.00
Rest of Europe	1,752.70	2,546.00	3,954.50	2,951.30	2,166.00
Total	175,980.00	150,366.30	145,134.10	168,828.20	180,012.70

As discussed, Indonesia's exports can also be differentiated from the type of firms that conducting export activities. Table 4.3 details the contributions of large firms and SMEs to economic activity in the ASEAN countries, with data for some major countries

presented for comparison. The data show that Indonesian SMEs comprise the smallest share of the exports in any of the countries cited.

In contrast, Indonesia's SMEs contributed the largest percentage to the GDP. This surprising combination highlights two points. First, it shows how important SMEs are to Indonesia's economy, as evidenced by their significant contribution to the GDP. Second, it reveals the imbalance between large firms and SMEs in Indonesia in terms of number of firms and their respective contributions to the national economy. This shows the substantial contribution that SME internationalisation could make to the national economy if it were increased. (This issue is discussed further in the following section.)

Table 4.3. Contribution of large firms and small and medium-sized enterprises (SMEs) to economic activity
(Wignaraja, 2015)

	Large Firms		SMEs	
	<i>Contribution to GDP (%)</i>	<i>Share of Total Exports (%)</i>	<i>Contribution to GDP (%)</i>	<i>Share of Total Exports (%)</i>
Southeast Asian Economies				
Indonesia	42.2	84.2	57.8	15.8
Malaysia	68.1	81	31.9	19
Thailand	61.3	70.5	38.7	29.5
Philippines	64.3	80	35.7	20
Vietnam	60	80	40	20
Comparator Economies				
Republic of Korea	50.6	69.1	49.4	30.9
Japan	50	46.2	50	53.8
Germany	46.2	44.1	53.8	55.9
United States	54	66.3	46	33.7

4.3. Small and Medium-sized Enterprises in Indonesia

4.3.1. Definition of Small and Medium-sized Enterprises

There are many definitions of SMEs, depending on the interests of the organisation defining them. In Indonesia, three definitions are commonly used. First, the definition from the Indonesia Ministry of Cooperatives and SMEs, which is based on Law No. 20/2008, states that they are enterprises that are not subsidiary or part of any holding company and have assets of less than IDR 10 billion or annual revenue of less than IDR 50 billion (see Table 4.4). Second, the definition from BPS-Statistics Indonesia (2019a) states that firms can be classified into four groups based on their number of employees (see Table 4.4). Third, the Ministry of Finance (2013) differentiates between two categories: small firms and large firms (see Table 4.4).

Table 4.4. Definitions of small and medium-sized enterprises (SMEs) and large firms

Type of Enterprise	Definitions			
	Ministry of Cooperatives & SMEs	BPS-Statistics Indonesia	Ministry of Finance	The World Bank
Micro	Assets: ≤ IDR 50 million; or Revenue: ≤ IDR 300 million	Number of employees: < 5	Small business: Revenue ≤ IDR 4.8 billion	Number of employees: < 10
Small	Assets: IDR 50-500 million; or Revenue: IDR 300 million – IDR 2.5 billion	Number of employees: 5-19		Number of employees: 10-50
Medium	Assets: IDR 500 million – IDR 10 billion; or Revenue: IDR 2.5-50 billion	Number of employees: 20-99	Non-small business: Revenue > IDR 4.8 billion	Number of employees: 50-300
Large	Assets: > IDR 10 billion; or Revenue: > IDR 50 billion	Number of employees: ≥ 100		Number of employees: > 300

There are other definitions also used by international organisations. One of the most common is the World Bank (2012), which defined SMEs as enterprises that are not subsidiary or part of any holding company and have less than 300 employees. Other definitions are also adopted in other countries. This variety in definitions of SMEs

highlights that every organisation and country has its own agenda and interests associated with enterprise development.

In Indonesia, the most commonly used definition of SME is the one given in the 'Law on Micro, Small and Medium-Sized Enterprises' No. 20/2008 (House of Representatives & President of the Republic of Indonesia, 2008), which is based on total assets and annual revenue. This definition is used as a primary reference by most government organisations and ministries, including the Ministry of Cooperatives and SMEs. However, the capacity and performance of an SME cannot always be measured using total assets and annual revenue. For instance, a fashion company might require high-value assets for the equipment needed to produce its products. Comparatively, a jewellery company may not need high-value assets, while producing expensive products that give it a relatively high annual revenue.

Furthermore, the definition of the Ministry of Finance is based only on annual revenue. This is unsurprising, since it was intended for taxation purposes, while the definition proposed by the World Bank is very broad and could be unsuitable for enterprises in Indonesia. Therefore, this study primarily uses the BPS-Statistics Indonesia definition (which is based on the number of employees). This is done for three reasons. First, most of the secondary data on Indonesia's SMEs come from BPS-Statistics Indonesia. Second, annual revenue and total assets cannot be accurately measured for some SMEs, thus it is easier to calculate the number of employees. Finally, BPS-Statistics Indonesia is the official source of data for the Indonesian government, including the Ministry of Cooperatives and SMEs, despite the latter having its own definition.

4.3.2. Distribution of Small and Medium-sized Enterprises

According to the Ministry of Cooperatives and SMEs (2018), most of the 63 million businesses in Indonesia are categorised as SMEs (99.99%). Figure 4.7 shows that micro-scale enterprises dominate, with 98.70% of the total. However, 40% of the contributions to the GDP come from large enterprises, despite numbering only around 5,000 firms or 0.01% of the total. When the enterprises that make up nearly 90% of the total workforce contribute less to the GDP than those with just 3% of the total workforce, this suggests a large discrepancy in the national economy.

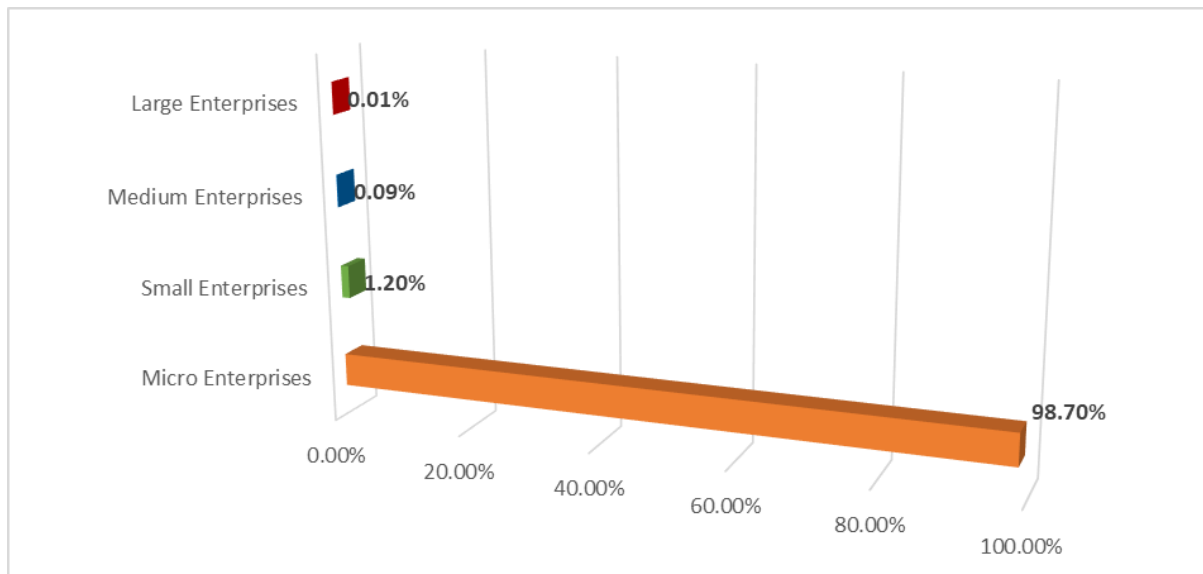


Figure 4.7. The Indonesian Companies by Size
(Ministry of Cooperatives and SMEs, 2018)

The data in Table 4.5 indicate that the number of large enterprises has remained stable for the last nine years, in the range of 5,000 firms, while the number of SMEs has grown at around 2.5% annually. To break down these numbers, with 2.04% annual growth, micro-enterprises tend to grow more slowly than SMEs, which grow at a rate of more than 3.50% per year. This is unsurprising because there are far more micro-enterprises than there are small and medium firms. Although the number of SMEs has continued to grow, there appears to be no trend of SMEs developing into large enterprises.

Table 4.5. Business establishments in Indonesia
(Ministry of Cooperatives and SMEs, 2018)

	2010	2011	2012	2013	2014	2015	2016	2017
Micro Enterprises	52,176,771	53,504,416	54,559,969	55,856,176	57,189,393	58,521,987	60,863,578	62,106,900
Small Enterprises	546,643	568,397	602,195	629,418	654,222	681,522	731,047	757,090
Medium Enterprises	41,336	42,008	44,280	48,997	52,106	59,263	56,551	58,627
Total SMEs	52,764,750	54,114,821	55,206,444	56,534,591	57,895,721	59,262,772	61,651,176	62,922,617
Large Enterprises	4,676	5,150	4,952	4,968	5,066	4,987	5,370	5,460
Total Enterprises	52,769,426	54,119,971	55,211,396	56,539,559	57,900,787	59,267,759	61,656,546	62,928,077

4.3.3. The Role of Small and Medium-sized Enterprises in Indonesia's Economy and Exports

According to Wignaraja (2015) and the Ministry of Cooperatives and SMEs (2018), SMEs in Indonesia account for 97.20% of the total employment and 57.80% of the GDP. Table 4.6 shows that employment opportunities in Indonesia are increasing steadily for every type of enterprise. While there was a decline in 2016, this was reversed in 2017, reflecting a general accretion of employment.

Table 4.6. Employment figures in Indonesia, by enterprise category
(Ministry of Cooperatives and SMEs, 2018)

	2010	2011	2012	2013	2014	2015	2016	2017
Micro Enterprises	89,960,695	91,729,384	94,957,797	99,859,517	104,624,466	110,807,864	103,839,015	107,232,992
Small Enterprises	3,520,497	3,768,885	3,919,992	4,535,970	5,570,231	7,307,503	5,402,073	5,704,321
Medium Enterprises	2,712,431	2,740,644	2,844,669	3,262,023	3,949,385	5,114,020	3,587,522	3,736,103
SMEs' Total Employment	96,193,623	98,238,913	101,722,458	107,657,510	114,144,082	123,229,387	112,828,610	116,673,416
Large Enterprises	2,692,374	2,753,049	2,891,224	3,150,645	3,537,162	4,194,051	3,444,746	3,586,769
Total Employment	98,885,997	100,991,962	104,613,682	110,808,155	117,681,244	127,423,438	116,273,356	120,260,185

Furthermore, all enterprise categories are contributing to GDP growth, as shown in Table 4.7. The aggregate GDP value for every enterprise type is increasing over time. However, while overall trends are always positive, the contributions to GDP by the different types of enterprises do vary. Unlike in the number of business establishments and employment opportunities, micro-enterprises make a smaller contribution to the GDP than the large enterprises do, although the total SME contribution is nearly 60%. In general, the larger the company, the more efficiently it is operating and the more goods and services it is producing. Therefore, output per employee is higher in larger companies than it is in smaller companies. Regardless of the dynamic percentage that each enterprise contributes to GDP over time, the shares for SMEs and large companies remain stable in the range of 60% and 40%, respectively. This data show that even though both SMEs and large enterprises increasingly absorb the labour market constantly over time and their respective contributions to the GDP remain stable (with a ratio of 60:40), the growing number of the business entities are different.

The SMEs' contribution per unit is actually decreasing over time compared to that of the larger enterprises.

Table 4.7. Indonesia's gross domestic product (GDP) by enterprise categories in
IDR billions
(Ministry of Cooperatives and SMEs, 2018)

	2010	2011	2012	2013	2014	2015	2016	2017
Micro Enterprises	1,747,339.00	2,011,544.20	2,579,388.40	2,951,120.60	3,326,564.80	3,841,836.00	4,292,287.80	4,727,989.40
Small Enterprises	517,919.70	596,884.40	740,271.30	798,122.20	876,385.30	984,489.00	1,128,056.80	1,234,210.70
Medium Enterprises	704,087.50	803,146.00	1,002,170.30	1,120,325.30	1,237,057.80	1,401,960.00	1,588,938.30	1,742,435.70
SMEs' Total GDP	2,969,346.20	3,411,574.60	4,321,830.00	4,869,568.10	5,440,007.90	6,228,285.00	7,009,282.90	7,704,635.80
Large Enterprises	2,315,944.20	2,657,188.10	3,123,514.60	3,372,296.10	3,574,943.30	3,913,055.00	4,703,167.60	5,136,223.10
Total GDP	5,285,290.40	6,068,762.70	7,445,344.60	8,241,864.20	9,014,951.20	10,141,340.00	11,712,450.50	12,840,858.90

The enterprises' contributions can also be viewed from the export perspective. Figure 4.8 shows that large enterprises contribute significantly more than the SMEs, consistently dominating Indonesia's exports, with around 85% of the total. At a glance, this is unsurprising, as large firms usually have more resources to export. However, when taking into account all previous data – such as the number of business establishments (Table 4.5) and the export comparisons with other countries (Table 4.3) – it is surprising to learn that SMEs in Indonesia contribute no more than 16% to the country's total export, and this figure is declining over time.

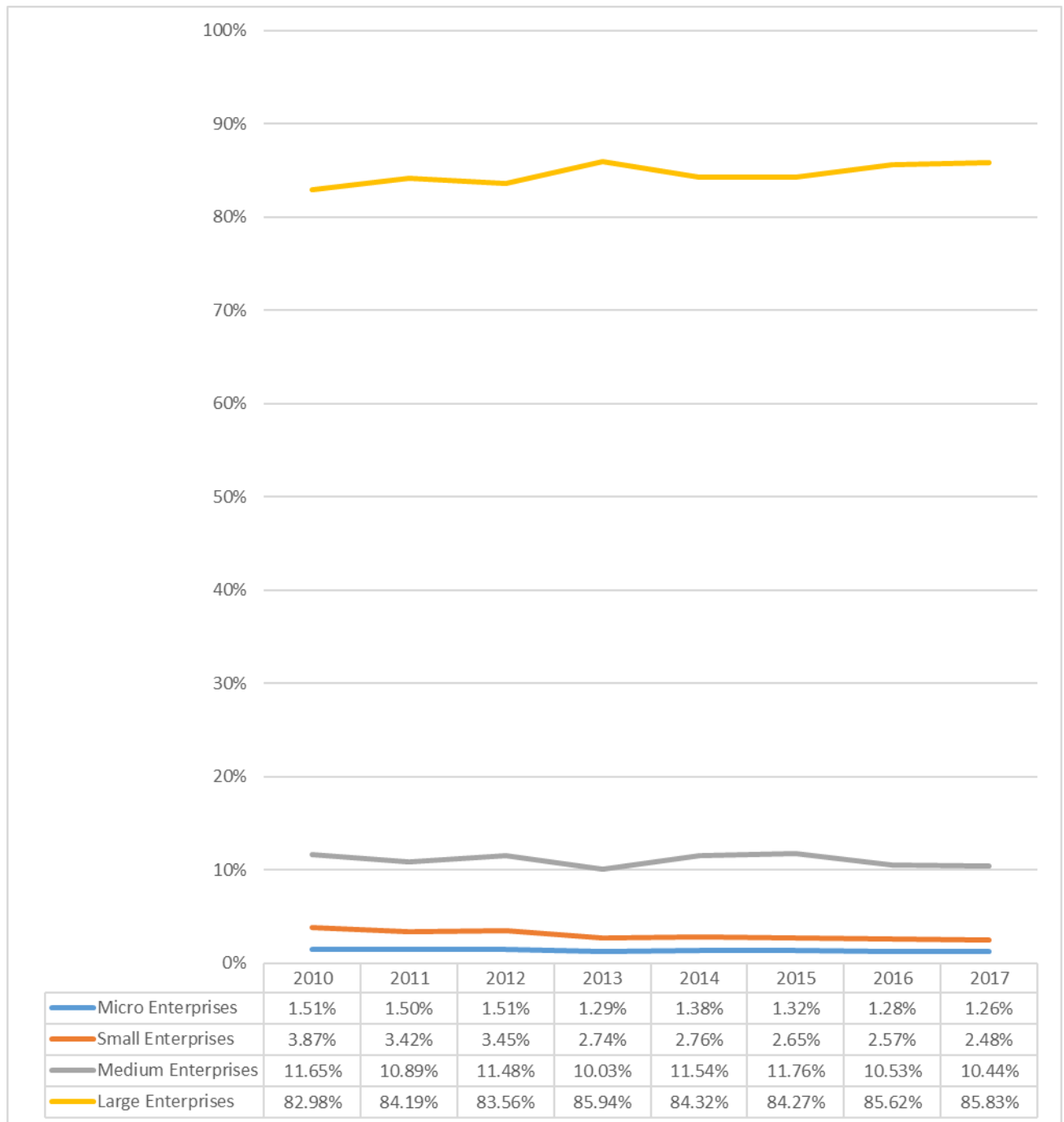


Figure 4.8. Indonesia’s exports by enterprise category
(Ministry of Cooperatives and SMEs, 2018)

Providing another perspective of SMEs’ export performance, Table 4.8 presents the export data for 2015 and 2017. This shows that, in 2015, 15.73% of the export contributions made by SMEs came from just 0.16% of the total SMEs in Indonesia. However, more striking is the data from 2017: this shows that the total number of SMEs grew by 22%, and the exporting SMEs increased by 115%. However, the SMEs’ export

contributions declined to just 14.17%, while the value of SME exports increased by 60.35% of the total value of export (which, in turn, had also increased by 77.94%). This reveals that, although the number of SMEs is growing over time, with definite trends in increasing numbers of exporting SMEs and value of SME exports, their export contribution to GDP remains significantly lower than that of large firms. This suggests that either most SMEs prefer to operate locally, on the national level, or the authorities' export programme is more inclined toward the large enterprises.

Table 4.8 also shows that the SMEs' export capability varies across provinces. In 2015, only Bali province was exporting more than 1% of its SMEs' products; but two years later, SMEs in Yogyakarta and Riau islands provinces were generating exports of more than 1%. In percentage terms, other provinces are some way behind those three provinces. However, in terms of the number of exporting SMEs, Central Java province is leading with 2,624, followed by East Java with 2,246. Overall, there was a growing trend toward exporting SMEs in most provinces in Indonesia between 2015 and 2017. However, four provinces experienced significant declines of between 50% and 100%; and these were Bengkulu, West Nusa Tenggara, Central Kalimantan, and West Sulawesi. The number of exporting SMEs remained the same in East Java province, although the number of established SMEs increased. Additionally, like other economic indicators, the SMEs from the provinces in Java Island still lead to the total SMEs' export performance.

Table 4.8. Internationalisation ratio for small and medium-sized enterprises (SMEs)
by province
(BPS-Statistics Indonesia, 2015, 2017)

No.	Province	2015			2017		
		Number of SMEs	Export SMEs	%	Number of SMEs	Export SMEs	%
1	Aceh	65,492	91	0.14%	99,277	113	0.11%
2	North Sumatra	99,022	-	0.00%	152,466	225	0.15%
3	West Sumatra	67,697	78	0.12%	116,539	513	0.44%
4	Riau	17,435	-	0.00%	65,733	-	0.00%
5	Jambi	24,169	-	0.00%	27,792	-	0.00%
6	South Sumatra	49,346	-	0.00%	69,868	21	0.03%
7	Bengkulu	12,281	15	0.12%	26,780	3	0.01%
8	Lampung	80,505	-	0.00%	99,271	5	0.01%
9	Bangka Belitung	6,151	-	0.00%	26,348	96	0.36%
10	Riau Islands	7,468	-	0.00%	34,394	1,136	3.30%
	Sumatra Island	429,566	184	0.04%	718,468	2,112	0.29%
11	Jakarta	34,994	14	0.04%	76,028	629	0.83%
12	West Java	480,240	271	0.06%	574,175	802	0.14%
13	Central Java	1,030,374	675	0.07%	892,631	2,624	0.29%
14	Yogyakarta	57,665	491	0.85%	97,319	1,302	1.34%
15	East Java	820,844	2,246	0.27%	852,301	2,246	0.26%
16	Banten	117,548	-	0.00%	105,710	209	0.20%
	Java Island	2,541,665	3,697	0.15%	2,598,164	7,812	0.30%
17	Bali	103,360	1,464	1.42%	149,179	1,606	1.08%
18	West Nusa Tenggara	94,291	208	0.22%	116,870	2	0.00%
19	East Nusa Tenggara	73,169	208	0.28%	161,257	390	0.24%
	Bali and Nusa Tenggara Islands	270,820	1,880	0.69%	427,306	1,998	0.47%
20	West Kalimantan	55,113	40	0.07%	55,044	323	0.59%
21	Central Kalimantan	12,599	4	0.03%	34,587	2	0.01%
22	South Kalimantan	57,477	-	0.00%	88,272	-	0.00%
23	East Kalimantan	12,028	-	0.00%	33,098	91	0.27%
24	North Kalimantan	1,300	-	0.00%	7,338	7	0.10%
	Kalimantan Island	138,517	44	0.03%	218,339	423	0.19%
25	North Sulawesi	39,470	-	0.00%	67,230	3	0.00%
26	Central Sulawesi	22,396	-	0.00%	87,190	-	0.00%
27	South Sulawesi	118,473	47	0.04%	123,379	270	0.22%
28	Southeast Sulawesi	47,270	-	0.00%	67,883	-	0.00%
29	Gorontalo	13,216	-	0.00%	36,950	-	0.00%
30	West Sulawesi	11,874	39	0.33%	22,446	-	0.00%
	Sulawesi Island	252,699	86	0.03%	405,078	273	0.07%
31	Maluku	19,575	11	0.06%	41,867	44	0.11%
32	North Maluku	7,051	-	0.00%	31,908	3	0.01%
	Maluku Islands	26,626	11	0.04%	73,775	47	0.06%
33	West Papua	1,523	-	0.00%	11,077	-	0.00%
34	Papua	7,457	-	0.00%	12,481	36	0.29%
	Papua Island	8,980	-	0.00%	23,558	36	0.15%
	INDONESIA	3,668,873	5,902	0.16%	4,464,688	12,701	0.28%

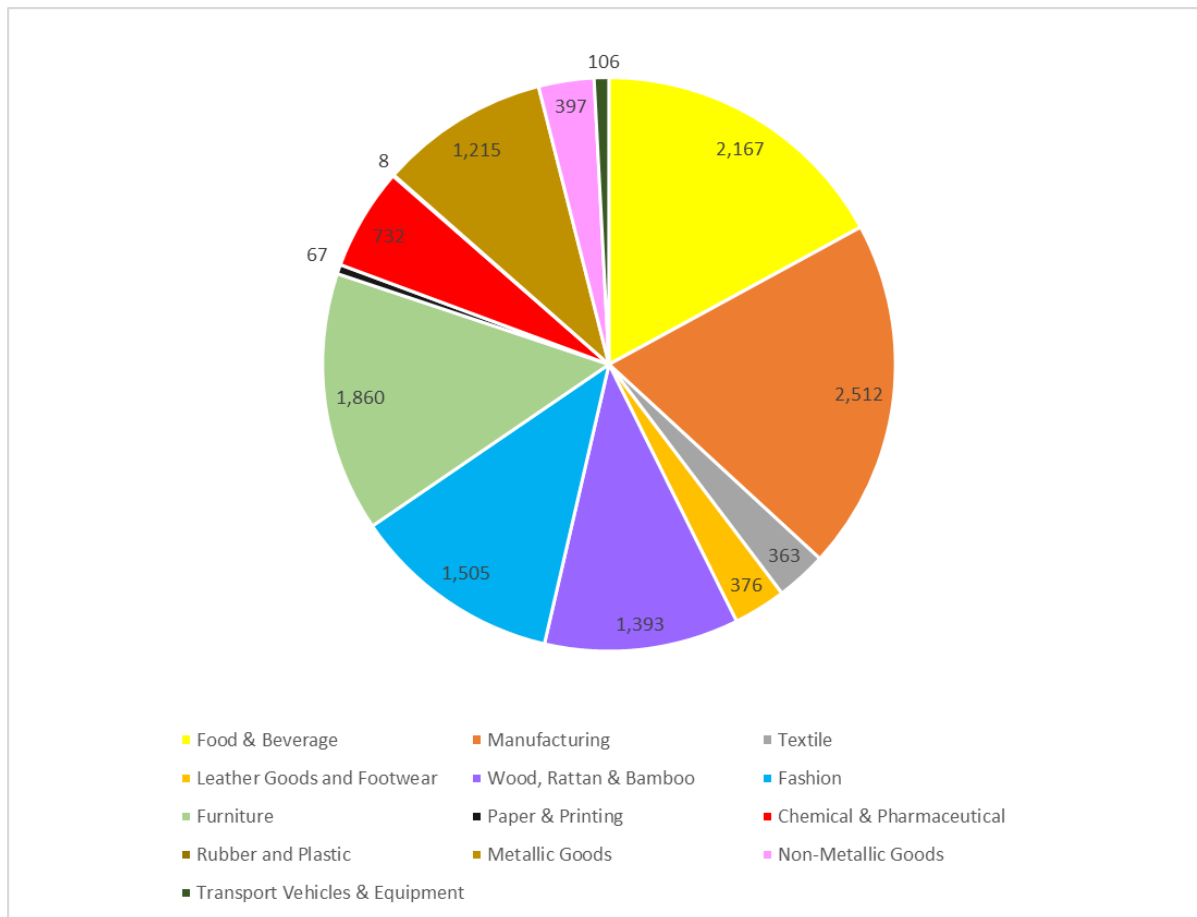


Figure 4.9. The exports of Indonesian small and medium-sized enterprises, by sector
(BPS-Statistics Indonesia, 2017)

The data can also be analysed from the sectoral perspective. Figure 4.9 shows the numbers of exporting SMEs by industrial sector. At a glance, it seems that the manufacturing industry is dominating the exporting SMEs. However, the manufacturing industry itself consists of several smaller industries, such as agriculture, assembling, mineral, and tobacco processing. If this grouping were applied to other industries, the largest sector would be handicrafts, which would comprise several of the sectors currently shown in Figure 4.9. Statistics Indonesia (2017) categorises handicrafts as comprising the industries of wood and bamboo, leather, furniture, and fashion. These categories are in line with those proposed by Indonesia Creative Economy Agency (2019).

Table 4.8 shows that the provinces with the largest percentages of exporting SMEs are Riau Islands, Yogyakarta, and Bali. Moreover, when the data from Table 4.8 are combined with the information in Figure 4.9, it appears that most of the exporting SMEs are from the handicraft industry. As a result, it leaves only the Yogyakarta and Bali provinces as the highest percentage of exporting SMEs in the handicraft industry (see Table 4.8 and Figure 4.9).

4.4. Government Policy for the Internationalisation of Small and Medium-sized Enterprises

Indonesia's Ministry of Finance (2020) has described the country's SMEs are the backbone of the national economy. As shown in Table 4.5 and Table 4.6, these firms account for 99% of the total in Indonesia, generating more than 116 million jobs. For this reason, the Indonesian government takes significant action to support the growth of SMEs. One government strategy is to facilitate the internationalisation of SMEs by improving their human resources and product quality through continuous training and development.

The guidelines for Indonesia's export development can be found in the National Long-Term Development Plan 2005-2025 (House of Representatives & President of the Republic of Indonesia, 2007). The plan establishes a long-term export strategy to move away from export products that rely on cheap workforce and non-renewable raw materials and shift toward products based on intellectual resources and finished goods produced inside the country. Hence, Indonesia's government has expanded its export objective from increasing export value to also increasing export quality by producing better goods, primarily through non-oil products. In other words, Indonesia will turn away from its commodity-based export structure and toward a manufacture-based alternative. Consequently, Indonesia must also diversify its export-market destinations.

'The National Long-Term Development Plan 2005-2025' is divided into four five-year 'National Medium-Term Development Plans'. The fourth medium-term plan is currently underway, covering 2020-2024 (Ministry of National Development Planning of the Republic of Indonesia, 2019). In this phase, the macroeconomic challenges to Indonesia's export objective are global market uncertainty, stagnant economic growth,

increased current account deficit, the industrial revolution 4.0, and the digital economy. To address these challenges and meet the export target, Indonesia's government will implement the following strategies:

- Increase diversification, value, and competitiveness of export products and services
- Increase access to the export market
- Increase participation in global production networks (inbound and outbound investment)
- Increase effectiveness of the free trade agreement (FTA) and economic diplomacy
- Manage imports
- Increase government procurement using domestic products
- Enhance the image and marketing diversification of tourism destinations and creative products
- Facilitate start-up companies that supply products and services to the international market

The medium-term plan states that these strategies will focus on increasing exports of medium and high-tech manufacturing products through global production chains, as well as expanding export markets, especially in Africa, Latin America, and Eastern Europe. The strategies for increasing exports will run alongside the strengthening of economic diplomacy, including the expansion and investment schemes for Indonesian companies abroad.

In detail, the export regulation in Indonesia is explained in the Law of Trade No. 7/2014 (President of the Republic of Indonesia, 2014a). In line with the National Long-Term Development Plan to enhance export products based on intellectual rights and renewable goods, with added value in domestic production to support the local economy, the law of trade states that the government has an obligation to organise training and coaching for export purposes, including facilitating trade promotion. The implementation of this law is the obligation of both central government and regional governments. Moreover, the law of trade states that the government is responsible for

empowering and supporting SMEs via incentives, technical guidance, access to capital, promotion, and marketing assistance.

In regard to international business competitiveness, one challenge that Indonesia faces is the economic integration between countries as a consequence of the open-economy policy that Indonesia has chosen to apply. Indonesia is a member of several global trade associations, including the WTO, ASEAN Free Trade Area (AFTA), and APEC. Indonesia could benefit from these memberships by expanding its market globally. However, this could also pose a threat, as other countries might then consider Indonesia a target market. Therefore, Indonesia must seek to enhance its competitiveness in this new global business environment. If it does not, other countries could take over the Indonesian national market.

The Doing Business survey by the World Bank (The World Bank Group, 2020) measures trading across borders in terms of time and cost to export. Indonesian firms need an average of 114.6 hours and US\$392.5 per container to process exports through customs and ports to comply with the regulation. In comparison, Malaysia needs only 38 hours and US\$248, while Thailand needs 55 hours and US\$320 on average to export. In contrast, Singapore is far more efficient in terms of time, with an average of 12 hours, while its cost of export is higher than that of Malaysia or Thailand – though slightly cheaper than that of Indonesia – at an average of US\$372 per container.

For a comprehensive perspective of the export process, other aspects should be considered in addition to customs and ports regulation. These include trade infrastructure, logistics, and supply chains. According to the Logistics Performance Index (LPI), Indonesia ranked 46 of 160 countries (The World Bank, 2018). This has not fluctuated much in the last 10 years, except in 2010, when Indonesia recorded its worst decline – from a ranking of 43 in 2007 to 75. As in the Doing Business survey, Indonesia has never outperformed Malaysia, Thailand, or Singapore in LPI scores for any criterion, which are customs, infrastructure, international shipments, logistics quality and competence, tracking and tracing, and timeliness. There is one example

in 2018, when Indonesia performed slightly better than Malaysia in tracking and tracing and in timeliness, by 0.15 and 0.21 points, respectively.

Consequently, to foster global competitiveness, Indonesia must restructure its business environment, encourage international venture creation, and facilitate successful internationalisation of existing firms (most of which are SMEs). While not all SMEs are oriented toward overseas markets, the potential for internationalisation remains under-utilised. Thus, this study also considers them as having the potential to expand their business overseas despite the company size.

As reflected in policy (House of Representatives & President of the Republic of Indonesia, 2008), the Indonesian government in seeking to develop SMEs primarily to strengthen the local economy, rather than promoting international competition in the global market. Only in terms of marketing does the policy facilitate SME internationalisation, with trade promotion at the national and international levels. In short, there is currently no specific policy intended to foster SME internationalisation; there are only common export strategies, incorporated into the SME-development policy and general export development plan.

4.5. The Institutional Context

Government support might not be the most valuable assistance that SMEs could receive. As more than 99% have not internationalised their business, culture – as an informal institution – could be an explanatory factor, acting as a barrier to internationalisation. Moreover, Indonesia is characterised by a national institutional framework; and within this, the country has several subnational institution frameworks, which are not merely divided by formal territory (such as provinces), but also by informal boundaries between tribes and races, dispersed across physical territories. These institutional contexts are both formal and informal. For example, the Javanese, the most prominent tribe in Indonesia, might live in Papua for various reasons. However, they will preserve the cultural values of Java, despite living among Papua culture and following local-government regulations. Ma, Ding, and Yuan (2016) and Zhang, Gao, and Cho (2017) found that subnational institutions have a significant impact on firms' internationalisation. This suggests that regional and local

governments at the subnational level can be as important as the central government at the national level.

An analysis of the formal and informal institutions in the national and subnational contexts of a single country will enrich the discussion on SME internationalisation. In particular, it will provide a clear comparison of the barriers and incentives at different institutional levels of a business environment. Marano *et al.* (2016) conclude that the moderating role of the formal and informal institutions in the home-country are significant determinants of firms' international performance.

While there are studies of formal and informal institutions, researchers do not usually consider the institutions in the context of the national and subnational levels, despite the close relationship between the two and their mutual influence. This makes Indonesia an interesting place in which to conduct research of this nature. Having been conducted in a single national environment, with diverse populations dispersed among several subnational areas and operating under the same regulation, this study is able to clarify how institutional theory could be applied to improve the practice of entrepreneurship. In addition, the confounding effects of different regulations that might arise in a study comparing different countries is avoided here.

Therefore, viewing SME internationalisation through the lens of institutional theory in Indonesia might reveal the various institutional drivers and barriers that arise in numerous cultures of one country, while also highlighting the varying impacts of central and regional government policy and regulations. Thus, this study addresses the relationship between formal and informal institutions at the national and subnational levels, using relevant policy (such as government support and legal regulations) and the local beliefs and cultures of the SMEs' owners-managers to assess the drivers of and barriers to internationalisation. The following chapter discusses the methodology employed in this study.

Chapter Five: Methodology

5.1. Introduction

The purpose of this study is to investigate the role of home-country formal and informal institutions in SME internationalisation in an emerging-market context. The study takes a multi-methods approach, comprising both quantitative and qualitative techniques. For the quantitative investigation, secondary data is analysed to identify the relationship between the home-country government, policymakers, and Indonesian SME internationalisation performance. In the qualitative investigation, in-depth interviews illuminate the complexity of the SME-internationalisation process, from the points of view of owner-managers or entrepreneurs and policymakers. Critical realism is the philosophy of this research.

The following section presents the study's underpinning philosophical stance and justifies the choice of method. First, the philosophical approach is discussed. Second, the rationale for choosing a multi-method approach and the manner of implementation are presented. Third, there is an explanation of why particular industry sectors, provinces, and SME samples were chosen for the study. Finally, the details on how the qualitative data is analysed will be explained, followed by ethical quality and considerations.

5.2. Research Philosophy

5.2.1. Critical Realist Approach

For several reasons, this study adopts a critical realist approach. First, this is an investigation of the dynamics of formal and informal institutions' structures, in the national and subnational environments. The national and subnational environments are a complex, interwoven, layered structure. Walliman (2016) suggests that critical realism views the social world as a structured, differentiated, stratified, and changing mechanism (Danermark *et al.* 2001), which is in line with the focus of the current research. In addition, this research reveals dimensions of power, relationships, and regulation. Fleetwood (2005) suggests that central to critical realism, as a causal mechanism, is the debate about social structures (power, relationship, and rules/regulation), which is valuable for the current research focus.

Second, this study seeks to understand SME internationalisation in a natural setting to better interpret the phenomena. Critical realism provides a solid bridge between the worlds of theory and reality (Ransome, 2010). Reality comprises three domains: the empirical, the actual, and the real (Bhaskar, 2014; Blundel, 2007). Critical realism facilitates empirical investigation beyond reality, enables actual enquiry, and recognises the structures and causal influences behind events occurring in particular circumstances. Therefore, critical realism is able to support this investigation of the role of home-country formal and informal institutions in SME internationalisation.

Third, this study employs a multi-method approach to fulfil the research objectives. Critical realism is an appropriate ontology for this study as it facilitates multi-level methods and analysis (Herepath, 2014; Blundel, 2007; Archer, 2003). Critical realism is compatible with data collection via a multi-method approach, as this integrates quantitative research objectivity with the subjectivity of the qualitative approach (Creswell & Clark, 2018; Saunders *et al.*, 2016; McEvoy & Richards, 2006; Robson, 2002). In addition, Danermark *et al.* (2001) and McEvoy and Richards (2006) note that critical realism is one of the most commonly applied epistemological philosophies in studies that take a multi-methods approach (besides pragmatism). Critical realism balances positivism and interpretivism, as the philosophical approaches commonly associated with quantitative and qualitative methods (Rolfe, 2006; Robson, 2002). The ultimate objective of critical realism-based research is not to produce a generalised outcome of specific results (as in positivism) nor to describe opinions and beliefs on a social phenomenon (as in interpretivism), but rather to build a deeper understanding and present an extensive elucidation of the research findings (Zachariadis *et al.*, 2013). As a result, critical realism enables a more coherent, systematic, and novel philosophical approach, reconciled at the ontological level and with useful ramifications for theoretical and research development (Easton, 2010; Scott, 2007). Moreover, critical realism emphasises where things have effects – and that is indeed what this thesis is about – where things do and do not appear to have the desired effects regarding promoting the internationalisation of SMEs in an emerging market context. As such, critical realism suits the nature of this PhD thesis, which seeks a more profound understanding of SME internationalisation in relation to informal and formal institutions in different administrative divisions of Indonesia.

The ontological assumption of critical realism is that reality exists but is not easy to understand because it depends on interactions between the social structure and human agency (Easton, 2010). This type of interaction is the focus of this study, with the role of home-country formal and informal institutions being the social structure that is affected by the SME-owners and entrepreneurs, who represent the human agency. This research also asks whether formal and informal institutions at the national level could differ from those at the subnational level, producing more complex interactions between institutions and entrepreneurs. The epistemological assumption of this philosophy is that social actors are those who produce knowledge (Miller & Tsang, 2010). In other words, reality exists independent of human beings, but reality does not have value without the researcher's interpretation (Thomas, 2003). Hence, critical realism stands between positivism and interpretivism (Cunliffe, 2011). From the ontological perspective, it is closer to positivism; while the epistemological perspective is closer to interpretivism (Sayer, 2000). This study employs a multi-method approach, using the quantitative method to objectively identify the topic, before investigating the phenomenon via a qualitative approach. The objective of critical realism is to identify the elements that can be used to comprise a phenomenon by clarifying how those elements independently affect structure and agency (Archer, 1995). Therefore, the researcher must identify the nature of the relationships between those elements and show how they influence one another.

As noted above, critical realism allows the researcher to explain a social phenomenon by working from the empirical data to identify the rules, until they reach the structure level of reality (Sayer, 1992). This is well suited to this exploration of the mechanisms of SME internationalisation, which operate within other social mechanisms, such as the formal and informal institutions surrounding them. From a critical realist perspective, the internationalisation process is a social mechanism that causes activities to occur within formal and informal institutions. These internationalisation activities are experienced and observed by social actors. It uses critical realism to understand better how institutional theory can explain SME internationalisation in the context of an emerging-market country and show how entrepreneurship plays a role in this phenomenon.

5.2.2. Critical Realism, Entrepreneurship, and Institutions

This study takes an entrepreneurial perspective to investigate the role of home-country formal and informal institutions in SME internationalisation in the emerging market of Indonesia. Hence, entrepreneurship is key to this thesis. Critical realism can have substantial value for entrepreneurship research (Blundel, 2007). Both critical realism and entrepreneurship research consider context essential for explaining the results of entrepreneurial activities. Additionally, Low and MacMillan (1988) argue that critical realism can facilitate the integration of various study levels to facilitate understanding of entrepreneurship activities.

Bhaskar (1989) proposes the transformation model of social activity (TMSA) as the core of the critical realist philosophy, as seen in Figure 5.1. According to this model, society is formed of human activities and inherited by individuals through socialising. Thus, human individuals transform and reproduce society through the interaction process (Bhaskar, 1989).

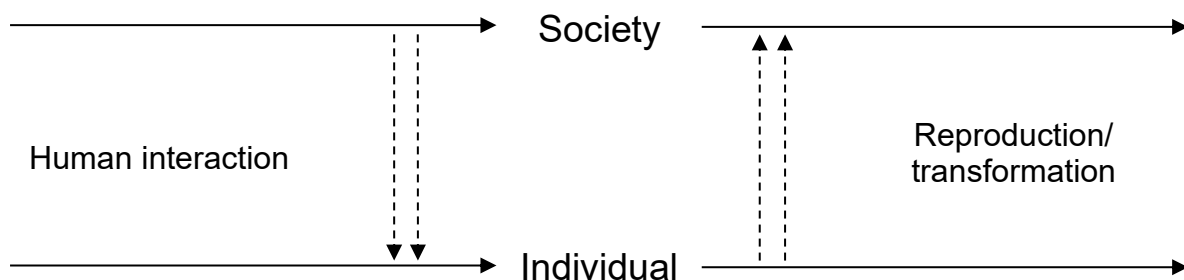


Figure 5.1. The transformation model of social activity
(adapted from Bhaskar, 1989)

Entrepreneurship is affected by the institutions that form the society in which the entrepreneurial activities occur (Sobel, 2008; Boettke & Coyne, 2003; Baumol, 1990). In the context of SME internationalisation, by allowing the owner-manager or entrepreneur to affect the institutions that determine their actions, TMSA enables a new path to be created through conscious alteration. This is in line with North (1990), who defines institutions as 'the rules of the game in a society'. This means that regulations are created to minimise any uncertainties that might occur in society. However, the owner-managers and entrepreneurs are considered critical to

institutional practices. They are often change institutional practices at a social and organisational level to overcome challenges that they face when conducting business. Thus, an entrepreneurship phenomenon can be explained using institutional theory (Bruton *et al.*, 2010) with a critical realist approach.

5.3. Research Design

This study's multi-methods approach takes the explanatory sequential design of Creswell and Clark (2018), shown in Figure 5.2. The quantitative and qualitative investigations were conducted separately in chronological order, based on the same philosophical assumptions. This design's choice is based on previous research to see entrepreneurship studies as a 'multifaceted, complex social construct' (C. M. Leitch *et al.*, 2010). Molina-Azorin *et al.* (2012) argue that using only a quantitative or qualitative approach alone would not adequately clarify the whole aspects since each approach has its strengths and weaknesses. Neuman (2014) urges entrepreneurship research to use multi-methods approaches that are designed based on the study's specific purposes.

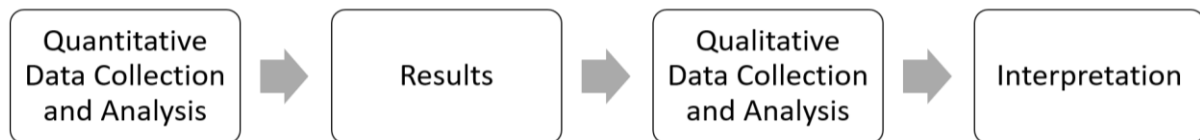


Figure 5.2. The explanatory sequential design
(adapted from Creswell and Clark, 2018)

With that in mind, and in line with this study's purpose, this study implements a multi-methods approach based on critical realism as the basis of scientific inference. The main reason for choosing this research design is because it needs more than one stage of data collection and analysis to investigate the role of home-country formal and informal institutions in affecting SMEs' internationalisation phenomenon with different research objectives, as follow:

1. Evaluate formal and informal institutional drivers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

2. Evaluate formal and informal institutional barriers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.
3. Critically examine formal and informal institutional supports at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

Table 5.1. Research design

Methodology Stages	Details		
Stage 1: Quantitative approach	Secondary-data collection		
	BPS-Statistics Indonesia		
	Quantitative data analyses: descriptive statistics, correlation analysis, regression analysis		
Stage 2: Qualitative approach with owners of small and medium-sized enterprises (SMEs) or entrepreneurs	In-depth, semi-structured interviews with the SME owner-managers and entrepreneurs		
	Five interviews with SMEs owner-managers and entrepreneurs who have no intention of going international	Eight interviews with SME owner-managers and entrepreneurs who want to go international but are facing difficulties doing so	31 interviews with SME owner-managers and entrepreneurs who have successfully expanded their business overseas
	Thematic analysis		
Stage 3: Qualitative approach with policymakers and business intermediaries	In-depth, semi-structured interviews with eight policymakers and 10 business intermediaries		
	Thematic analysis		
Results interpretation	Interpreting the results from all three stages, evaluating the interactions, and discussing the implications of SME internationalisation from an institutional theory perspective		

The findings from the first stage contribute to the next, via a sequential explanatory research design method (Bell *et al.*, 2019; Creswell & Clark, 2018; Saunders *et al.*, 2016). Bryman (2006) suggests that a multi-methods research design is effective for studies that have multiple research objectives. In the current study, each stage took a different approach and addressed a different set of objectives (as explained in the following sections). Accordingly, each stage was able to enrich the answers to the central research question and fulfil the research objectives, as summarised in Table 5.1.

As shown in Table 5.1, this research involved three data-collection stages in answering the central research question and accomplishing all three research objectives. The first stage was quantitative data collection for the purposes of analysing the relationships between internationalising SMEs and other variables. Secondary data were obtained at this stage from BPS-Statistics Indonesia. The quantitative data analysis results provided a background to SME internationalisation in Indonesia and showed how the government is currently facilitating this. The second stage was the qualitative data collection, and this involved in-depth, semi-structured interviews with the SME owner-managers and entrepreneurs. The final stage was another qualitative investigation, and this involved in-depth, semi-structured interviews with public policymakers and business intermediaries to clarify the findings of the previous stages.

Each stage produces findings intended to enrich the following stage and, ultimately, to produce comprehensive results. After all three stages of data collection and analyses had been completed, the results were interpreted using the conceptual framework described in Chapter Three (see Figure 3.1). The research question was then answered based on the themes found in all stages of the data analysis. In brief, the first stage provided a basic knowledge of the study background, with a broad description of the current condition of SME internationalisation in Indonesia and the government's facilitation of that. The second and third stages were then organised to fill the gaps in the first-stage findings.

5.3.1. Quantitative Research

The purpose of the quantitative investigation was to obtain a broad description of the current condition of SME internationalisation in Indonesia and show how the government is currently facilitating this. This quantitative data thus provided background information and set the context of the Indonesian SMEs' internationalisation activity and its relationship with the implementation of formal institutions. The quantitative work then provided information on the numbers of internationalised SMEs and the familiarity of Indonesian SMEs with internationalisation activities.

5.3.1.1. Quantitative Data and Sources

The quantitative study involved working with secondary data. Secondary-data production has the advantages of being less costly and less time-consuming (Vartanian, 2011). This is especially true if the necessary data is already available and can be downloaded from open sources (Saunders *et al.*, 2016). The secondary-data collection in the current research was organised as suggested by Saunders, Lewis, and Thornhill (Saunders *et al.*, 2016), with the availability of the necessary data being established first. The obtained data was then sorted and selected for relevance, currency, and the reliability of the sources.

Table 5.2. List of the secondary data used in quantitative analysis

Data	Type of data	Proxy of
Small and Medium-sized Enterprises (SMEs) by Industry	Discrete	
SMEs by Province	Discrete	
SMEs Age	Discrete	
SMEs Owner Education	Nominal	
Monthly Profit	Continues	
Asset Value	Continues	
Business Challenge	Nominal	Business Obstacles
Business Partnership	Nominal	
Business Support	Nominal	Institutional Support
Market allocation (International Market only)	Nominal	Internationalisation (Export)

Following the steps of Saunders, Lewis, and Thornhill (Saunders *et al.*, 2016) mentioned above, the quantitative findings were drawn from secondary data obtained

from BPS-Statistics Indonesia. The researcher obtained the Microdata SME Profile 2015 from BPS-Statistic Indonesia, a major statistics organisation in Indonesia. The Indonesian government uses data provided by BPS-Statistic Indonesia to develop policy. In addition, international organisations such as the OECD also use BPS-Statistics Indonesia data to inform their global reporting. Therefore, the credibility of BPS-Statistics Indonesia and its data has been demonstrated. The Microdata SME Profile 2015 presents Indonesian SMEs' description as summarised in Table 5.2.

The secondary datasets shown in Table 5.2 concern the proportion of micro, small, and medium-sized enterprises that have already expanded their business overseas; the numbers of SMEs, by province; the institutional support available for SMEs; the SME-business types; SME-business performance; and other aspects that could contribute to the research objective.

5.3.1.2. Quantitative Data Analyses

Three analyses were conducted in the quantitative investigation. The first was the non-descriptive statistics analysis, and this was done to examine the context of SMEs in Indonesia. The data were analysed and summarised using the Tukey (1977) exploratory data-analysis approach, with graphs and diagrams to simplify the findings. Second, there was the correlation analysis. This measured the correlation between variables such as SME age, owner education in internationalisation, and profit. The third analysis was the regression analysis, and this explored how independent variables (such as SME age, owner education, and institutional support) affect internationalisation and profit. STATA software was used in correlation with the regression analysis. As explained previously, the results from this stage provided a brief description of the researched area to facilitate a better understanding of the context. This was also helpful when developing the list of questions for the qualitative component of the study.

5.3.2. Qualitative Research

The purpose of the qualitative investigation was to obtain a better understanding of the complex relationship between SME-internationalisation activity and institutional support, drivers, and barriers. In-depth, semi-structured interviews were conducted in

stages two and three as the key methods for collecting the necessary data. An interview guide (or 'interview protocol') was created, containing a list of questions to guide the interviews with the key participants, namely the SME owner-managers and entrepreneurs, policymakers and government officials, and business intermediaries and entrepreneur associations.

There are several advantages to conducting in-depth, semi-structured interviews with guidance. First, an in-depth interview is considered a proper tool for collecting detailed information in the field of entrepreneurship (Saunders *et al.*, 2016; Blundel, 2007). Bell *et al.* (2019) explain that semi-structured interviews are helpful when the focus of the research is relatively clear. With a semi-structured format, an interview has the flexibility to gather information, while retaining a defined structure for guidance (Bell *et al.*, 2019; Walliman, 2016). This flexibility enables the researcher to expand on the answers given, gathering new insights and enriching the results. In-depth, semi-structured interviews also allow participants to focus on issues that they believe to be significant and relevant. This technique also allows participants to explain their answers, which indicated as exciting topics, and might present new findings as unconsidered information inline for further enquiry to refine the interview guidance. (Bell *et al.*, 2019). In addition, in-depth, semi-structured interviews use open-ended questions that invite more detail responses from the participants and encourage them to explore the topics more fully (Saunders *et al.*, 2016). This form allowed the participants in this study to discuss the institutional drivers, barriers, and support that they have experienced in relation to their internationalisation activity, with the framework imposing fewer boundaries than a closed-question format. Closed questions can limit the participants' receptivity and discourage them from sharing essential information. As most of the participants in this study are educated people, they preferred a certain degree of freedom when responding to questions and articulating their opinions (Aberbach & Rockman, 2002). Therefore, in-depth, semi-structured interviews were deemed most suitable for this study.

5.3.2.1. Stage 2: In-depth, Semi-structured Interviews with Owner-managers of Small and Medium-sized Enterprises and Entrepreneurs

A primary objective of this study was to explore the experiences of SME owner-managers and entrepreneurs in relation to the institutional drivers and barriers they meet when expanding overseas. This exploration involved discussions of the processes they have undergone, the strategies they chose for doing so, and the decisions they ultimately made as to whether they would go international. This research focused on three categories of owner-managers and entrepreneurs as respondents, as shown in Table 5.1. These are (1) those with no intention of going international, (2) those who would like to go international but are facing difficulties in doing so, and (3) others who have successfully expanded their business overseas. These three categories were chosen to further illuminate the phenomenon under study, revealing the effects of different institutional drivers and barriers and how they can stimulate or hinder SMEs' overseas expansion. For instance, some types of institutional drivers can stimulate SMEs to expand overseas and some cannot. Equally important are the institutional barriers that can hinder SMEs' overseas expansion and those that SMEs can typically overcome. With its examination of these three categories, this study has produced comprehensive findings on the effects of those institutional factors on different categories of SMEs.

The respondents were selected to represent various SME characteristics, thereby ensuring a comprehensive view of the internationalisation phenomenon and related institutional factors. Micro-businesses dominate the SME landscape in Indonesia. However, for this study, the interviewees were carefully selected to provide a diverse range of micro, small, and medium-sized enterprises. The respondents all came from the same sector, thereby maintaining a focus on the subject under study. The handicraft sector was chosen as the target, as this is the dominant product category for Indonesian SME exports (BPS-Statistics Indonesia, 2017). The justification for this choice of industry is discussed in more detail in the section 5.3.2.3.

The semi-structured interviews were intended to discover the perceptions and experiences of SMEs owner-managers and entrepreneurs regarding the challenges of internationalisation. The interviews explored the culture, values, and norms of

Indonesia and the region where the SMEs originally come from to better understand the informal institutions that shape entrepreneurial activities when attempting internationalisation. Each interview began with questions about the firm's background, thereby building a rapport with the participant. More specific questions were then asked to obtain information about the internationalisation process and support given. The questions covered the key elements, including understanding the main institutional factors (drivers or barriers) that are affecting the performance of SMEs internationalisation at the national and subnational level, their experiences of implementing an international business strategy, and their experiences of receiving or providing support to other parties. The interviews used open-ended questions to allow the participants to elaborate on the drivers and barriers and the role of institutions within them. The SME-owners and entrepreneurs, for example, were asked who their customers are and where they are located. The complete interview protocol can be found in Appendix 4. Their responses were then compared with those of the policymakers and business intermediaries, who represented the formal institutions.

The interviews were recorded and then transcribed for thematic analysis. Further detail about thematic analysis is given in the section 5.4. The results also contributed to the development of the interviews in the following stage. Any new findings and insights not found in the literature review were examined further, especially those findings to be confirmed by the representatives of the authorities.

5.3.2.2. Stage 3: In-depth, Semi-structured Interviews with Policymakers and Business Intermediaries

This study also explores the institutional environment at the national and subnational levels and how this governs and shapes entrepreneurship behaviour. In-depth, semi-structured interviews with the policymakers from the central and regional levels of Indonesia were conducted to investigate the impact of formal institutions on SMEs' international activities. These officials represented the government organisations considered to have a significant impact on the SMEs' business environment. For instance, they came from government organisations responsible for regulating the SME-business environment and supporting SME internationalisation. The details of these government organisations can be found in section 5.3.2.8.

This study also involved in-depth, semi-structured interviews with business intermediary agencies to better capture the phenomenon by including more perspectives. The list and details of those business intermediary agencies can be found in section 5.3.2.8. The list comprises 10 business intermediaries and entrepreneur associations. Some of the respondents are categorised as business intermediaries. These are government organisations that do not act as policymakers, but as organisations that help SMEs to grow or expand. Many government organisations have a division or unit that helps SMEs in their operational areas; and this is often part of their corporate social responsibility programmes. For this reason, they were not included as policymakers, but rather as business intermediary agencies.

As these are considered 'elite interviews', this study follows the suggestion of Ostrander (1993) for approaching elite respondents: starting from the established network and gaining referrals for other potential interviewees who have more influence over the policy. This elite interview model is relatively understudied in the social science area. Most studies involve ordinary people or organisations as the research subjects (Mikecz, 2012); while in an elite interview, the elites are experts on the subject under discussion. This affects the power dynamic during the interview process, which needs to be addressed throughout the research.

The in-depth, semi-structured interviews were intended to clarify the national and regional background for business in general and SMEs in particular. This included policies and strategies concerning entrepreneurial development and the support given to the SME sector, the importance of SMEs in the national context and in particular regions, and any additional information that was not identified from the literature review or which may be specific to the Indonesian context. The primary objective of this stage was to how formal institutions in Indonesia at the national and subnational level influence internationalisation activities on the SME level. For example, the government officials and business intermediaries were asked what support their organisations provide for SMEs and how they determined the type of support needed. The protocol for the interviews. With government officials and business intermediaries can be found in Appendix 4

The interviews were recorded and then transcribed for analysis. Thematic analysis was able to produce a rich understanding of how formal institutions contribute to shaping SME internationalisation in Indonesia. The findings from this stage were then compared with the opinions of the owner-managers and entrepreneurs in the previous stage to identify any conflicts. It can lead to a surprising finding, as government information is perceived as unreliable by owner-managers or entrepreneurs (Musteen *et al.*, 2014). The results revealed the differences between the perspectives of the two groups and enabled a thorough analysis of the structure-agency interaction. Thus, it enabled the researcher to address the research objective better.

5.3.2.3. Industry Selection

The qualitative data-collection investigation focused on the handicraft sector. This sector was chosen because, although Statistics Indonesia shows that most Indonesian SMEs are established in the food industry, most of those with overseas markets are categorised in the handicraft sector (BPS-Statistics Indonesia, 2015, 2017). Therefore, for a more revealing view of the SME-internationalisation phenomenon, this study treated the handicraft sector as the dominant industry.

Handicraft is an artistic activity that involves using hand skills to process raw materials found in the environment into objects that have aesthetic and/or practical value (Sumartono, 2009). In this research, the Indonesia Creative Economic Agency (2019) definition is used, with 'handicraft' defined as fine arts made from wood, metal, leather, glass, ceramics, and textiles. Statistics Indonesia (2017) categorises the handicraft sector as comprising the wood and bamboo, leather, furniture, and fashion industries.

5.3.2.4. Province Selection

The qualitative research concerned the country level, with several representative regional areas taken as samples (Bell *et al.*, 2019; Walliman, 2016). A national-level study across geographic scales provides policymakers with the empirical evidence they need to create support programmes and formulate new policies (Trettin & Welter, 2011). In addition, country-scale institutions are believed to strongly influence firms' internationalisation efforts (Marano *et al.*, 2016; Descotes *et al.*, 2011). As stated in

the previous chapter, Indonesia consists of 34 provinces. Due to budgetary and time limitations, it was not possible to conduct research in every province; thus, the data were collected from selected regional areas, while conclusions and implications were drawn for the country as a whole.

Under those circumstances, the research needed to focus on the key provinces. The selected provinces had to meet certain requirements. For example, the SMEs located in the province should include firms in three of the internationalisation categories, as shown in Table 5.1. The selected provinces must have the highest percentages of SMEs that allocate their market overseas. Based on the handicraft category, the quantitative data revealed only Bali and the Special Region of Yogyakarta, which have the highest export percentage (BPS-Statistics Indonesia, 2015, 2017). These two provinces were chosen as the focus, as the province ranked third for SME-export percentage falls far below these two. However, this research also includes interviews with SMEs owner-managers and entrepreneurs from several other provinces to address the research topics comprehensively.

5.3.2.5. Sampling Method

The qualitative investigation involved purposive, non-probability sampling. This meant that an SME sector was selected to represent specific categories in a very heterogeneous business environment. Purposive sampling was chosen for its strategic capability, enabling the selection of participants relevant to the research objectives (Bell *et al.*, 2019). Snowball sampling was also employed to complement the purposive sampling.

The participants were identified based on a number of criteria: they own or manage an SME, they are active in the firm's business operation, they influence the firm's strategy, and they are familiar with marketing and sales activities. It was equally important that they understand the business process in their field category and have first-hand working knowledge of government policy regarding the handicraft industry. Internationalisation experience was not required (as shown in Table 5.1), but they did need an understanding of internationalisation and how their firm perceived it, whether as an idea or at the practice level. This was identified by, for example, asking the

interviewee what they knew about internationalisation and whether they wanted to go international or intended to do so but had not yet attempted to pursue it.

5.3.2.6. Recruiting Participants

Owner-managers and entrepreneurs were recruited in several ways: via personal network, snowballing, business association databases, and a trading expo. The database was provided by the Indonesian Chamber of Commerce and Industry (KADIN) and the Association of Exporters and Producers of Indonesian Handicraft (ASEPHI). KADIN is located in Jakarta and has a branch in Yogyakarta. ASEPHI is located in Jakarta and has a branch in Bali. ‘*Crafina*’ (Resources of Indonesian Craft), one of the largest handicraft exhibitions in Indonesia, was the trading expo that was attended (Association of Exporters and Producers of Indonesian Handicraft, 2018). In 2018, more than 400 SMEs from all the provinces in Indonesia participated in *Crafina*. This made it easy to identify and recruit participants who met the criteria. At the end of each interview, the participant was asked to recommend other potential candidates, hence the ‘snowball’ method. This identification process was repeated until a sufficient quantity of data had been gathered and data saturation had been reached. In practice, some potential candidate were not interviewed, due to time constraints and limited resources. Table 5.3 below presents a summary of the participants' recruitment distribution.

Table 5.3. Summary of participant recruitment

Location of the Enterprise (Province)	Personal Network	Snowball	Business Association	Exhibition	Total
Bali	1	1	4	4	10
Yogyakarta	6	5	6	8	25
Other provinces	2	0	0	7	9
Total	9	6	10	19	44

The government officials and business intermediaries were selected as experts and professionals in a position to influence the policy around support for SMEs, deciding the support that SMEs need and which categories of SMEs need this assistance. The selection criteria also state that interviewees must understand how their organisation operates in terms of supporting SMEs and have experience of formulating policy for assisting SMEs and putting this strategy into practice. The policy and support

referenced in this context are primarily regarding SME internationalisation. Some participants were not in a policymaker position, but they were selected nonetheless for their knowledge of the process and why policies are set.

5.3.2.7. Sample Size and Data Saturation

The concept of saturation is often used to validate a sample size (Braun & Clarke, 2021). Guest *et al.* (2006) suggest that 12 interviews should provide data saturation. Saunders *et al.* (2016) suggest that a sample size should be a minimum 5-25 or that which is required to reach data saturation. In this study, the data analysis was begun only after the data collection had been completed. However, it is challenging to measure saturation before the analysis has begun. With that in mind, as suggested by Braun and Clarke (2021), pragmatic consideration was applied to set the provisional range of the sample size. Pragmatic consideration refers to the timing and financial constraints on a research project. In this study, a lower limit of 30 interviews and an upper limit of 50 were set.

At the end of the data-collection stage, 44 interviews had been conducted with SME owner-managers and entrepreneurs, eight interviews with policymakers and government officials, and 10 interviews with business intermediaries and entrepreneur associations (as shown in Table 5.1). After analysing the transcriptions of 62 interviews, the researcher determined that data saturation had been reached. This meant that information redundancy was observed, with new information producing little or no change to the codebook and no new themes emerging from data (Guest *et al.*, 2006).

5.3.2.8. Participants' Characteristics

Owner-Managers of Small and Medium-sized Enterprises and Entrepreneurs

Table 5.4 shows the 44 SME owner-managers and entrepreneurs who took part in the qualitative stage of this study. All of them are categorised as everyday entrepreneurs, as define in chapter two. The table highlights the diversity of the SMEs in terms of number of employees, age, internationalisation stage (based on Crick [1995] and Czinkota [1982]), and internationalisation sales ratio.

Table 5.4. The characteristics of the owner-managers and entrepreneurs interviewed

No.	Participant Code	Business Age (years)	Employee	Internationalisation Stage	Internationalisation Ratio
1	J3ASB	16	80	Experienced small exporter	10%
2	J2ACW	14	13	Experienced larger exporter	100%
3	J2BCN	5	12	Exploring firm	0%
4	J1ANB	6	4	Experienced small exporter	10%
5	J3ADR	18	50	Experienced larger exporter	100%
6	J3AYS	15	70	Experienced larger exporter	90%
7	J2AKP	2	12	Experienced larger exporter	50%
8	J3ABA	3	25	Experienced larger exporter	100%
9	B3ASJ	39	75	Experienced small exporter	30%
10	P3BPB	66	90	Partially interested firm	0%
11	L2ALM	7	12	Experienced small exporter	10%
12	C3CMT	2	20	Completely uninterested firm	0%
13	F1BLC	26	2	Partially interested firm	0%
14	L2ARP	2	16	Experienced small exporter	10%
15	G2CNC	1	5	Completely uninterested firm	0%
16	B3ABA	8	30	Experienced larger exporter	80%
17	A1ABC	5	3	Experienced small exporter	10%
18	A3APS	15	65	Experienced small exporter	10%
19	B2ASS	24	10	Experienced larger exporter	90%
20	N1BAS	2	2	Exploring firm	0%
21	P3AAB	18	25	Experienced small exporter	10%
22	B2BCK	11	6	Partially interested firm	0%
23	B3ASS	29	20	Experienced larger exporter	80%
24	B2CGM	1	5	Completely uninterested firm	0%
25	B1CWC	30	1	Completely uninterested firm	0%
26	B3AKA	5	20	Experienced larger exporter	50%
27	J3AGC	14	50	Experienced larger exporter	70%
28	S3APT	41	83	Experienced small exporter	10%
29	J2BBN	5	13	Partially interested firm	0%
30	J1BNH	2	4	Partially interested firm	0%
31	J3ABC	21	80	Experienced larger exporter	99%
32	J1ADA	3	3	Experienced small exporter	10%
33	J1AIE	2	3	Experienced small exporter	10%
34	J2ADL	6	5	Experienced small exporter	20%
35	J1AHJ	7	4	Experienced larger exporter	99%
36	J2ADE	6	7	Experienced small exporter	10%
37	J1CNS	1	1	Completely uninterested firm	0%
38	J2ADA	5	8	Experienced small exporter	20%
39	J2APC	25	15	Experienced larger exporter	99%
40	J2ARL	4	6	Experienced larger exporter	50%
41	J2AML	5	9	Experienced small exporter	10%
42	J1AHS	4	3	Experienced small exporter	20%
43	J2AKA	8	6	Experienced larger exporter	50%
44	J1BHF	3	3	Partially interested firm	0%

Of those 44 participants, 70.45% have established an international business by exporting, 18.18% operate at the local level but intend to expand their business overseas in the future, and 11.36% intend to stay local and do not intend to build their business in another country. Thus, most participants fall into the first category (SMEs that have expanded into other countries). This is in line with the study's focus. Of the

44 SME participants, 39% constitute small enterprises, 34% medium enterprises, and 27% micro-enterprises. This composition was balanced to ensure similar amounts of data were produced for each category. In addition, 61% of the participants are young enterprises, under the age of 10 years, 25% are 10-25 years old, and 14% are older than 25 years. This reflects the participants' diversity and contributes to the richness of the data.

Government Officials

Table 5.5 presents a summary of the government officials who participated in the study. The table shows the different types of government organisations and the individuals' positions within them. The organisations vary, though all are policymakers and government agency that implement policy on SMEs. Eight government officials represent eight different organisations, and one participant is a policymaker. Two ministries have a primary duty to support SMEs. Two government agencies at the same level as the ministries are responsible for developing SMEs. Finally, three government service agencies directly deliver the SMEs' support. With their various roles, these participants were collectively able to contribute comprehensive data.

Table 5.5. The characteristics of the government officials interviewed

No.	Participant Code	Organisation Type	Position/Role
1	DR	Representative Council	Policy Maker
2	DPK	Ministry	Deputy Director
3	MK	Ministry	Marketing Manager
4	BKF	Government Agency	Director
5	BPN	Government Agency	SME Planner
6	DSU	Government Service Agency	SME Coordinator
7	DP	Government Service Agency	Trade Officer
8	DJ	Government Service Agency	Head of Trade

Business Intermediaries

Table 5.6 presents the details of the 10 business intermediaries and entrepreneur associations who participated in the research. The table presents the types of organisations and the interviewees' positions within them. The organisations are diverse, from the banking industry to a business consultant who assists SMEs in their day-to-day activities. The 10 interviewees represent 10 different business

intermediaries and entrepreneur associations, two of which are from the banking industry. One participant is with the central bank that has a duty to develop SMEs and another comes from a bank that specialises in handling export and import activities. Two participants are with state-owned organisations in different areas of the country, working closely with SMEs to support their business.

Two other interviewees represent entrepreneur associations, one focused on export and the other on general trading. The remaining four business intermediaries and entrepreneur associations are private organisations that help SMEs from their respective domains. One is an economic council that has a role in developing SMEs, and the other is a business consultant for SMEs. The other is a non-governmental organisation that assists SMEs in organising their business activities. Finally, there was a youth association that supports young entrepreneurs to build their SMEs. This wide range of participants provided access to a range of information that was able to clarify the phenomenon under study.

Table 5.6. The characteristics of the business intermediaries and entrepreneur associations interviewed

No.	Participant Code	Organisation Type	Position
1	EB	Bank	Export-Import Manager
2	KD	Trade Association	Chair of the International Relations Committee
3	BIJ	Bank	SME Development Manager
4	DSU	State-Owned Organisation	SME Event Coordinator
5	PK	State-Owned Organisation	SME Development Programme Officer
6	ASC	Economy Council	Director
7	RTK	Business Consultant	Co-Owner/Founder
8	BKD	Non-Government/Private Organisation	Head of Capital Access and Marketing Division
9	JCB	Youth Organisation	Head of HR and Finance Manager
10	AB	Exporters Association	Founder

In addition, the participants' roles are also diverse. Some interviewees are the founders or chairmen of their organisations, while others are in managerial positions. Depending on the organisation's size, the participants' title does not merely represent their position within the organisations' hierarchy and their knowledge regarding supports they are given to the SMEs. For example, a small organisation director might have the same capacity to assist SMEs as a larger firm officer. Therefore, this study did not consider the participants' titles, but instead focused on their knowledge of the

SME support provided by their organisation. It is important to mention that, in the interview transcript analyses and discussions, the terms ‘participant’, ‘interviewee’, ‘personnel’, ‘respondents’, ‘SME owner-manager’, ‘entrepreneur’, ‘policymaker’, and ‘business intermediary’ or ‘entrepreneur association’ are used interchangeably, depending on the context.

5.4. Qualitative Data Analysis

This research uses critical realism that ontologically closer to positivism and epistemologically closer to interpretivism (Sayer, 2000). It is difficult to determine the qualitative analytic camp of this research in terms of its philosophical and theoretical stances. This research cannot fully submit to positivism, for example, do a classic ‘grounded theory’ (GT; Glaser, 1967, 2017) or use solely interpretive methods, such as interpretive phenomenological analysis (Smith & Osborn, 2015) or Strauss’ version of GT (Corbin & Strauss, 2008). With that in mind, the Gioia *et al.* (2013) thematic analysis was conducted, as this is more flexible in its ties to particular philosophical and theoretical positions. This style acknowledges the importance of both the social constructionist and positivist aspects. For example, it acknowledges that participants and researchers are knowledgeable agents, each bringing their background and assumptions to the research. Gioia *et al.* (2013) also highlight the importance of the development of the existing concept and constructs. This research started the data collection upon a guiding research framework, initial research question, and interview protocol. The Gioia *et al.* (2013) thematic analysis enables flexibility in revising the protocol and research question as the research progresses and develops. However, Gioia *et al.* (2013) do not provide an explicit definition of thematic analysis. Therefore, in this study, the King and Brooks (2019, p. 2) definition is used: namely, ‘forms of qualitative data analysis that principally focus on identifying, organising and interpreting themes in textual data’. The analysis in this research did not produce a new theoretical framework, as usually found in Gioia’s work (Gioia, Corley, & Hamilton, 2013; Corley & Gioia, 2004; Gioia & Chittipeddi, 1991). Instead, the initial research framework was maintained throughout the study to guide and explain the finding and contribution. The analysis involved highlighting and commenting in Microsoft Word, as well as coloured notes and highlighting of the printed transcription.

This research is not using a computer-assisted qualitative data analysis software, such as NVivo, because the nature of the interviews was using three different languages (Bahasa Indonesia, local traditional language, and English) simultaneously. The software cannot easily translate the mixed languages into English correctly. That is because it might change the real meaning of the words spoken by the interviewees. The intended meaning of the interviewees is sometimes not the same as the spoken language they are using. Therefore, computer-assisted qualitative data analysis software cannot help much. It will need a lot of double-checked of the code and node produced by the software to make sure that the software organises the data as it should. Besides, this type of software only helps organise the data but does not analyse it, unlike other data analysis software for quantitative research (Jackson & Bazeley, 2019; Zamawe, 2015).

In the following section, the steps of the qualitative analysis are elaborated.

5.4.1. First-order Concept

This phase involved the researcher familiarising himself with the data. In this research, the data corpus was the interview transcriptions produced from the fieldwork. In this stage, the researcher identified any data or ideas that appeared interesting. The participants' terms were maintained in this phase, resulting in more than 80 initial transcription categories. Table 5.7 provides an illustration of how the transcript was converted into initial categories.

Table 5.7. Data extract illustration: initial categories from the transcript

Transcript	Initial Categories
<i>'The tax regulation is not clear. I often have to revise my tax report, although it has already been approved.'</i>	Unclear tax regulation
<i>'Every time the account representative (AR) from the tax office changes, which is usually every 2-3 years, I have to explain everything all over again. It seems they do not have any mechanisms to transfer knowledge from the previous AR to the new one. Not to mention, a different person can interpret the regulations differently.'</i>	Lack of knowledge-transfer among personnel Different people interpret the regulation differently Changing tax regulation

<p><i>'Government regulations are vague. The implementation depends on whose interests are considered.'</i></p>	<p>Vague government regulation</p> <p>Different people implement the regulations differently</p>
<p><i>'Sometimes we met an honest government officer who is willing to help us and make it easy for our business; but other times, another officer can give us a hard time in dealing with the same regulation.'</i></p>	<p>Different people implement the regulations differently</p>

As the analyses progress, the similarities and differences between initial categories become clear, and some categories can then be reduced or merged. In this stage, the researcher's prior knowledge and interest affect which categories can be retained and which need to be thrown away or merged. However, in this stage, the researcher must seek to adhere faithfully to the participants' terms. Gioia *et al.* (2013) describe the results of this category reduction as the first-order concept. Table 5.8 provides an illustration of this.

Table 5.8. Data reduction illustration: categories reduced to first-order concepts

Categories	First-order concept
Vague government regulation	Unclear tax regulation
Changing tax regulation	
Unclear tax regulation	

5.4.2. Second-order Themes

In this stage, the researcher searched for the themes. Themes are defined as the 'recurrent and distinctive features of participants' accounts, characterising particular perceptions and/or experiences, which the researcher sees as relevant to the research question' (King & Brooks, 2019, p. 2). In doing so, the researcher began to link the first-order concepts to a larger narrative, the research question, and the theory. In this study, the researcher acknowledges that themes can be emerged from the data or constructed by the researcher. Table 5.9 illustrates how the theme emerged from the first-order concepts.

Table 5.9. Second-order themes

First-order Concepts	Second-order Theme
Unclear tax regulation	Inconsistent regulation
Different people implement the regulations differently	
Different people interpret the regulations differently	

5.4.3. Aggregate Dimension

In this stage, the researcher attempted to identify the relationship between the themes, exploring whether they suggested a higher-level concept that could explain the phenomena. The themes were also reviewed, defined, and named to make them easier to understand. Table 5.10 shows how themes were aggregated into a higher concept, known as an 'aggregate dimension'.

Table 5.10. Aggregate dimension

Second-order Themes	Aggregate Dimension
Inconsistent regulation	Internationalisation bureaucracy
Convolutated administration	
Inflexible regulation	

5.4.4. Data Structure

From the first-order concepts, a second-order theme and aggregate dimensions were produced, and a data structure was built to show how the data are configured and relate to one another. This also shows how the analysis progressed from the raw data into terms and themes, demonstrating the rigour and quality of this study. Figures 5.3, 5.4, and 5.5 illustrate the entire data structure of this study.

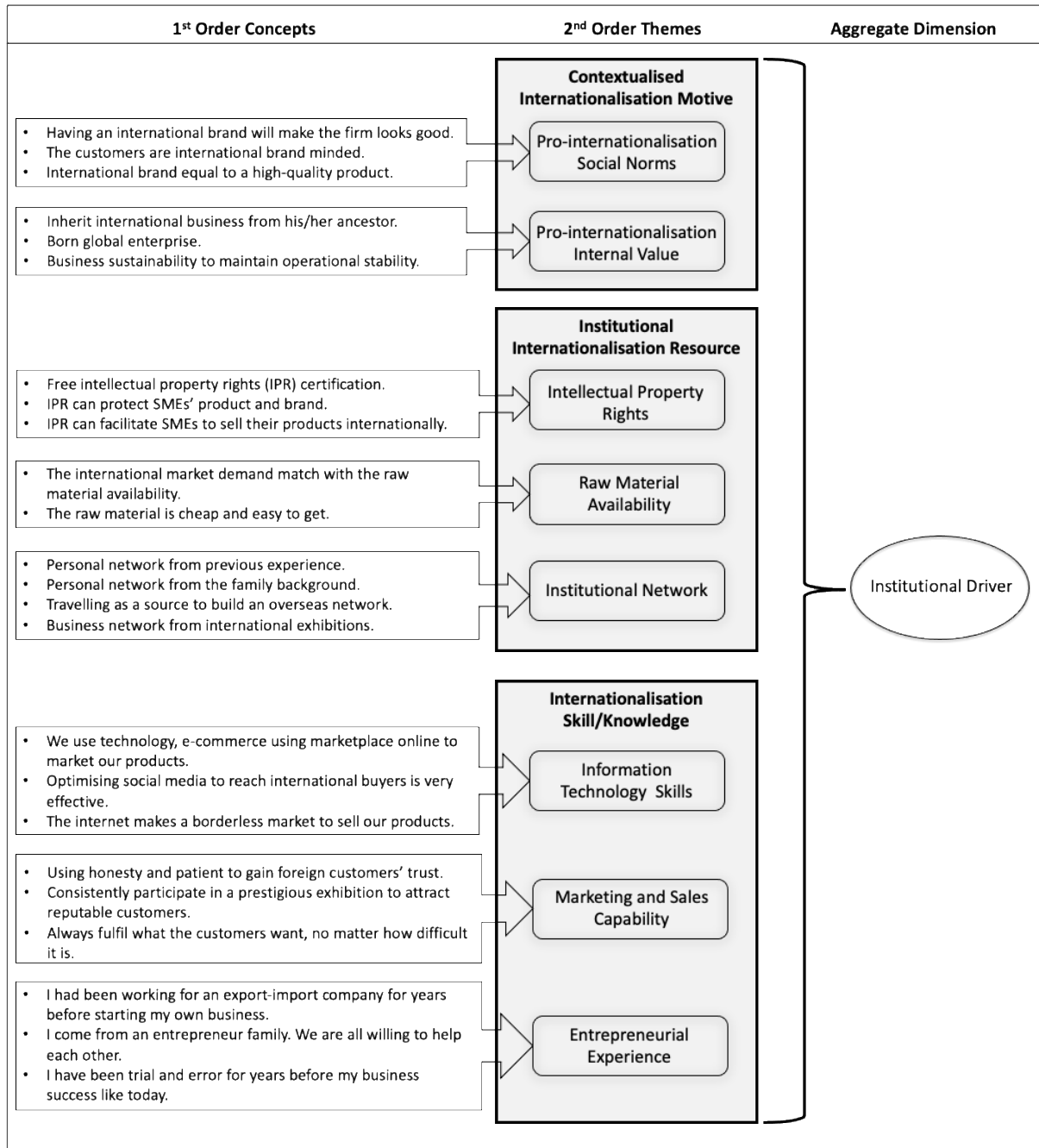


Figure 5.3. The data structure of the first aggregate dimension

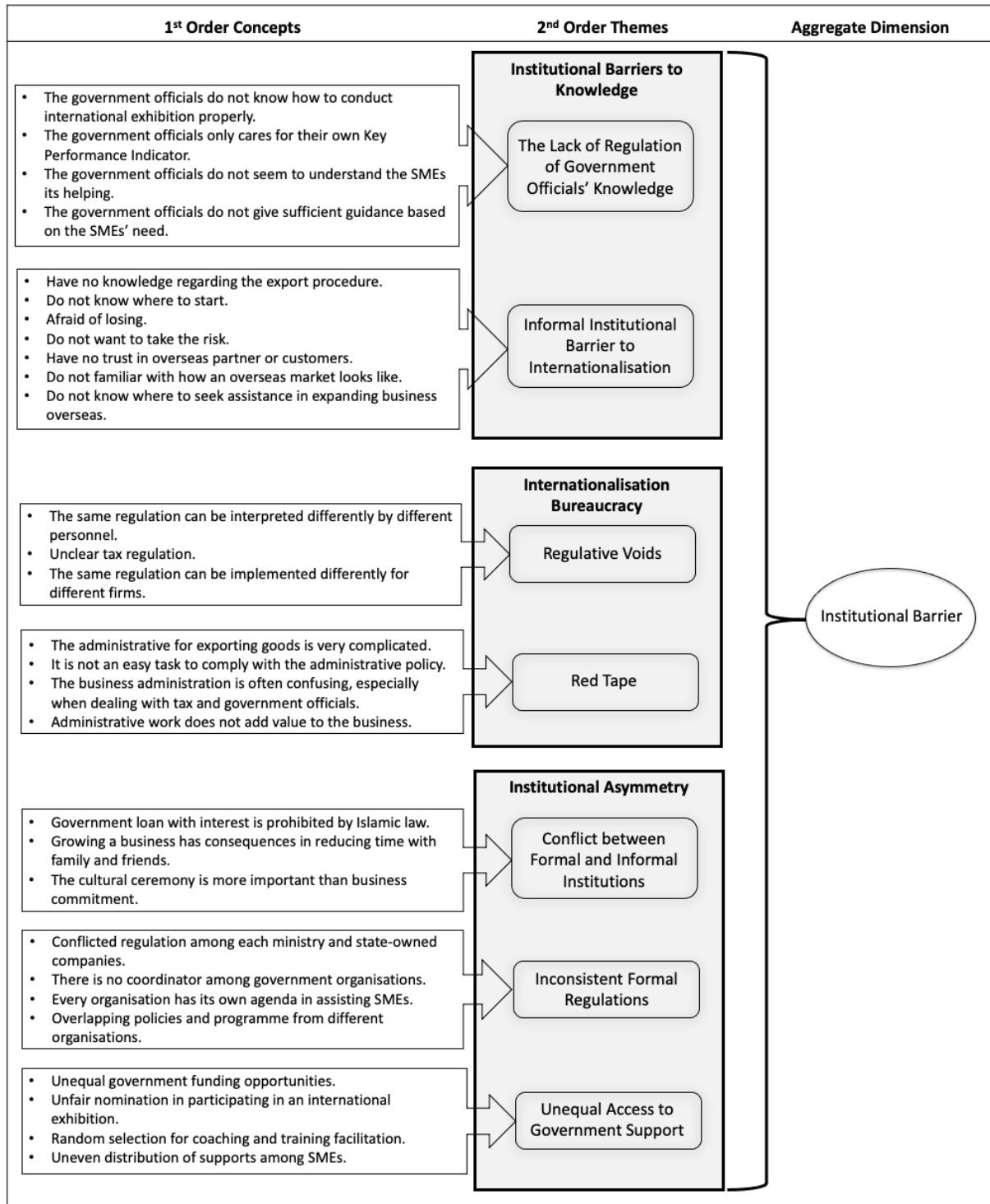


Figure 5.4. The data structure of the second aggregate dimension

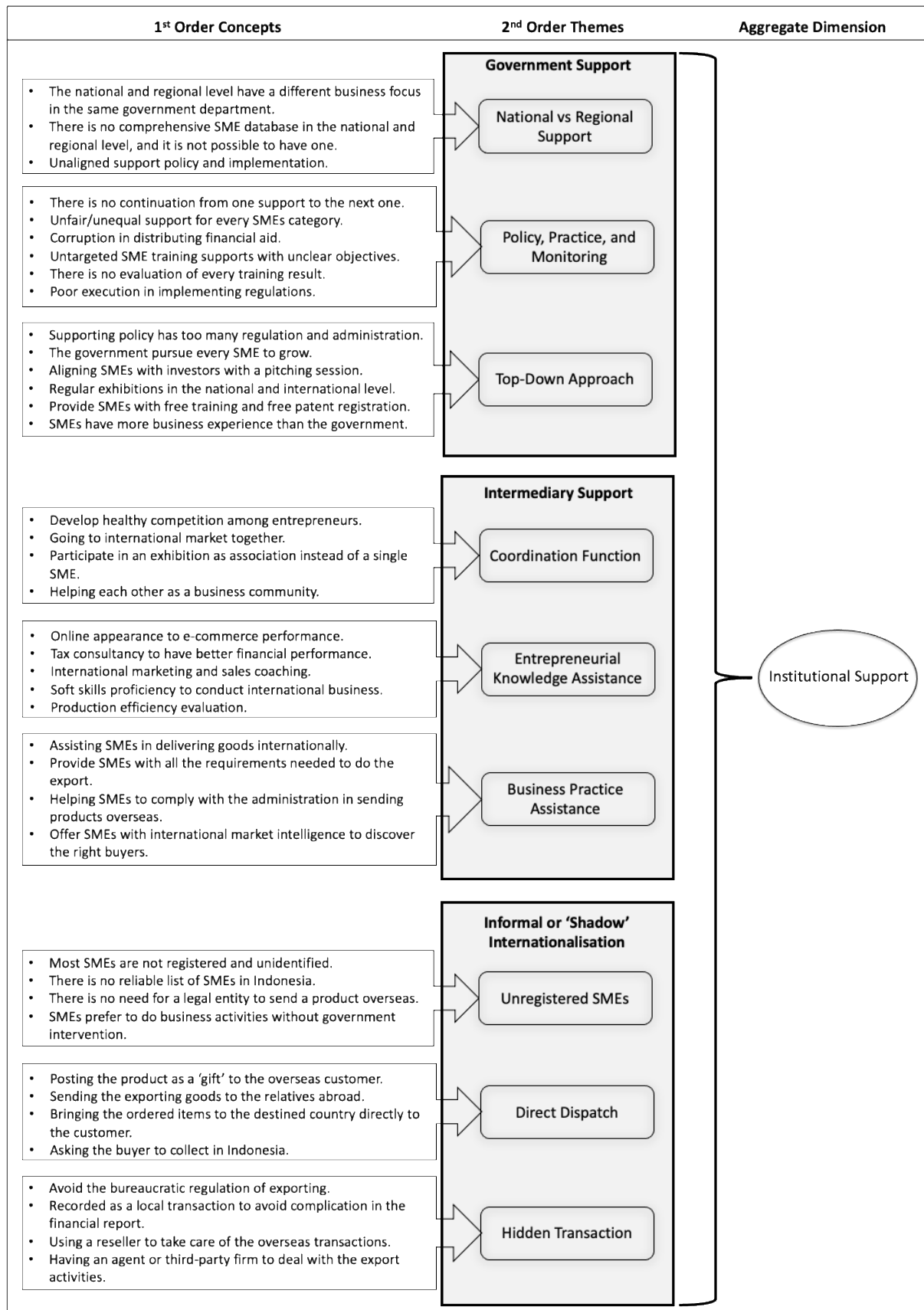


Figure 5.5. The data structure of the third aggregate dimension

5.4.5. Writing-up the Results

The qualitative data analysis results are presented in Chapters Seven, Eight, and Nine, each of which responds to one of the research objectives. The research objectives are as follows:

1. Evaluate formal and informal institutional drivers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context. (Chapter Seven)
2. Evaluate formal and informal institutional barriers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context. (Chapter Eight)
3. Critically examine formal and informal institutional supports at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context. (Chapter Nine)

5.5. Research Quality

This study follows the approach of Anfara *et al.* (2002) for assessing research quality and rigour. The rigour of the quantitative and qualitative approaches was confirmed by the validity measurement strategies proposed by Creswell and Clark (2018), ensuring that the adopted sequential explanatory research design is valid, reliable, trustworthy, and authentic.

This quantitative data validity is determined by the quality measurement of the secondary data by looking at the data source. According to Dochartaigh (2012), this can be done by appraising the reputation and competency of the data source. Government agencies, for example, are reliable source of survey data (Saunders *et al.*, 2016; Dochartaigh, 2012). The secondary data in the quantitative investigation came from a BPS-Statistics Indonesia survey. BPS-Statistics Indonesia is a non-departmental government organisation that has a duty to conduct statistical surveys. The findings of its statistical surveys are used by the government when setting policies and by international organisations such as the OECD when developing global reports. Therefore, the secondary data from BPS-Statistics Indonesia are likely to be trustworthy and reliable.

To determine the validity of the qualitative approach in this study, five validation strategies were employed. These strategies, proposed by Creswell and Clark (2018), cover four data trustworthiness criteria (Anfara *et al.*, 2002; Lincoln & Guba, 1985). The four criteria of data trustworthiness and the validation strategies employed to assess for them are summarised in Table 5.11 below.

Table 5.11. The research quality criteria and validation strategy employed
(adapted from Anfara *et al.*, 2002)

Research Quality Criteria	Validation Strategy
Credibility	<ul style="list-style-type: none"> • Triangulation • Member checks
Transferability	<ul style="list-style-type: none"> • Purposive sampling
Dependability	<ul style="list-style-type: none"> • Code-recode strategy • Triangulation
Confirmability	<ul style="list-style-type: none"> • Triangulation • Practice reflexivity

The first validation strategy was triangulation, which tests three criteria for data trustworthiness at once: namely, credibility, dependability, and confirmability. Triangulation, in this study, refers to ‘combining different sorts of data against the background of the theoretical perspectives applied to the data’ (Flick, 2018). For this purpose, interviews were conducted with a diverse range of participants (SME owner-managers and entrepreneurs, government officials and policymakers, and business intermediaries or entrepreneur associations) to portray the same phenomenon and theoretical perspectives. Triangulation can provide a compelling collective understanding in developing more comprehensive findings.

The second validation strategy was the employment of member checks. This serves the credibility criterion of data trustworthiness. Member checks are intended to increase the accuracy of the data by inviting the participants to assess the accuracy of a summary of the findings. This establishes research credibility. In this study, the key findings of the interviews were confirmed by the research participants via a second

meeting or other form of communication agreed by both parties (telephone call, social media chat, or email).

The third validation strategy was purposive sampling. This serves the transferability criterion of data trustworthiness. Purposive sampling is the strategic selection of participants relevant to the research question (Bell *et al.*, 2019). This study used purposive sampling as an element of the non-probability sampling to ensure the respondents represented a range of categories in a very heterogeneous business environment (Saunders *et al.*, 2016; Robinson, 2014).

The fourth validation strategy was a code-recode strategy. This serves the dependability criterion of data trustworthiness. The code-recode strategy is employed to generate the best possible codes that produce the themes in the research findings. In this study, a code-recode procedure was applied to the interview data in the analysis stage, using the interview transcripts, the developed codes, the links between the codes, and the relevant literature; then the process was repeated to refine the codes and the themes to evaluate the results.

The final validation strategy was practice reflexivity. This serves the confirmability criterion of data trustworthiness. Since the researcher was actively involved in the research process and therefore a part of the study, practice reflexivity is necessary to acknowledge the subjectivity of the researcher. By this process, the researcher reflects on his value in understanding and examining the construct of the interviews' findings. This study embraced the researcher's position in the research process to enrich the outcomes.

5.6. Ethical Considerations

This study was granted ethical approval by the ethics committee of the Sheffield University Management School. The ethics approval document can be found in Appendix 1. This is important because the study involved gathering information from various living human participants who represent their organisations. Although this research is generally low-risk, the collected data is potentially sensitive information that could affect the participants themselves and/or their organisations. For instance,

a participant who represents a government organisation might risk their career by exposing their organisation's lack of support for SMEs. Alternatively, an SME owner might risk their credibility if they criticise a policy or an organisation that is currently assisting them. Conversely, if an SME owner revealed a prospective opportunity or indicated that it was receiving support from a business intermediary or government organisation, this could trigger conflict with other SME-owners who do not enjoy the same benefits.

Consequently, appropriate safeguards were put in place to guarantee that the research complied with the General Data Protection Regulations and Data Protection Act of the University of Sheffield. First, to ensure the transparency of the study (Harvey, 2011), the participants were given clear and adequate information via an information sheet (included in Appendix 2). The participants thus understood that their data would be treated confidentially, and every individual involved in the study would remain anonymous, including the organisations with which they are associated. This allowed the participants to speak freely during the interviews, without fear of consequences for sharing negative information about specific activities or policy of their organisations.

Second, self-censorship was employed. No potentially inappropriate information that emerged from the interviews – or any details that were inadvertently revealed and could be used to identify an individual or their organisation – was cited in any interview quotes included in this thesis. Third, once the respondents understood their rights and had signed the consent form (as outlined in Appendix 3), interviews were recorded with the participants' consent or extensive notes were taken with their knowledge. All the obtained data have been kept securely and not shared with any person other than the doctoral researcher and the supervisory team.

5.7. Conclusion

This chapter has discussed critical realism, as the research philosophy adopted for this thesis, highlighting the assumptions that underpinned the overall research process. This chapter also described the research design and its multi-method approach, explaining how the quantitative and qualitative methods were implemented in a sequential explanatory research design to respond to the research objectives. The

quantitative phase of this study was intended to develop a broad description of the current condition of SME internationalisation in Indonesia and show how the government is currently facilitating these firms; while the qualitative phase was used to attain more in-depth insights into the role of home-country formal and informal institutions in SME internationalisation in Indonesia and their impact on the field of entrepreneurship.

This chapter also detailed the type of quantitative analysis used, the number of interviews for each sampling criterion, and the justifications for the selected industry and provinces. This chapter also justified the research quality to ensure the findings are valid, reliable, trustworthy, and authentic. Finally, the ethical considerations were discussed to demonstrate that the safeguarding of the research participants and their data was properly considered.

The next chapter presents the findings of the quantitative analysis, and this is followed by three chapters discussing these findings in relation to the three research objectives.

Chapter Six: Performance and Export Intensity of Small and Medium-sized Enterprises in Indonesia: A Quantitative Analysis

6.1. Introduction

The quantitative analysis produced the initial results for this study, as explained in the methodology section. Together with the literature review, this helped to develop the list of questions used as the guidance for the semi-structured interviews in the second and third stages of this study. This research investigated the role of home-country formal and informal institutions in SME internationalisation in an emerging-market context. This chapter analyses the secondary data obtained from BPS-Statistics Indonesia and presents the results produced by the STATA software. To examine the relationship between formal institutions and SME internationalisation (the export variable in the secondary data), this analysis tested the support-related variables associated with government assistance for SMEs. These variables were general partnerships, general support, general training, partnerships with government organisations, support from government organisations, and training from government organisations. As the quantitative analysis employs secondary data, there is no discussion here of the validity and reliability of the questionnaire used by BPS-Statistics Indonesia to produce the SME Profile 2015.

While the empirical focus chapter presented the exploratory data analysis and descriptive analysis of the SMEs in Indonesia, this chapter focuses on the SME Profile obtained from BPS-Statistics Indonesia, especially those elements found to influence SMEs' export activities. A microdata set from the Indonesian SME survey of 2015 was utilised (BPS-Statistics Indonesia, 2015). The purpose of this survey is to develop a profile of the SMEs at the national and provincial levels, which can be used when planning macroeconomic activities, such as export-import, national income, economic growth, and unemployment rate. This microdata set was chosen for its relevance to this research and the reliability of its sources. The same microdata is also used by the OECD when writing reports. The most current data (from the 2017 survey) could not be retrieved due to the time and budget constraints of this study, but the 2015 data

provide a brief description of the researched area and illuminate the SME context in Indonesia.

There were 58,290 respondents to the 2015 SME survey. Weighting values were used to draw conclusions about the total population. The weighting value is the value that states how large the sample unit represents the characteristics of the population. In other words, weighting value is the inverse of sample selection fraction. In some survey designs, weighting value is needed for total or absolute estimation. Using the weighting value, the 2015 survey can be extrapolated to an SME population of 3,668,873 business units.

The first part of this chapter reports the findings of the descriptive analysis. The variables in the analysis are SME type, SME age, owner education level, monthly profit, asset value, business challenge, business partnerships, business support, and market allocation as an indicator to measure internationalisation or export level. The second part of the chapter presents the results of the correlation analysis, which tested the relationships between certain variables and their influence on the decision for exporting. The third part of the chapter details the regression analysis that measures the extent of the relationships between the selected variables. Finally, the final part summarises this chapter and explains how the results of this stage were applied to develop the following stages.

6.2. Descriptive Analysis of the Survey Data on Indonesian Small and Medium-sized Enterprises

Sekaran and Bougie (2019) suggest that a descriptive analysis of a data sample should be performed before undertaking any detailed analysis. Frequency distribution was chosen as the descriptive technique for calculating and reviewing the data, using frequency, percentage, and mean. The results of this descriptive analysis were gathered to increase understanding on the characteristics of SMEs in Indonesia.

6.2.1. Type of Enterprise

This study uses the definitions of SME types proposed by BPS-Statistics Indonesia, as stated in the empirical focus chapter. Based on number of employees, SMEs can

be divided into three categories: micro (1-4 employees), small (5-19 employees), and medium (20-99 employees). Of 58,290 samples, only 70 are categorised as medium-sized enterprises, 4,301 are small, and the majority (53,919) are micro-enterprises. This is unsurprising, as micro-enterprises comprise 98.70% of all SMEs in Indonesia (Ministry of Cooperatives and SMEs, 2018).

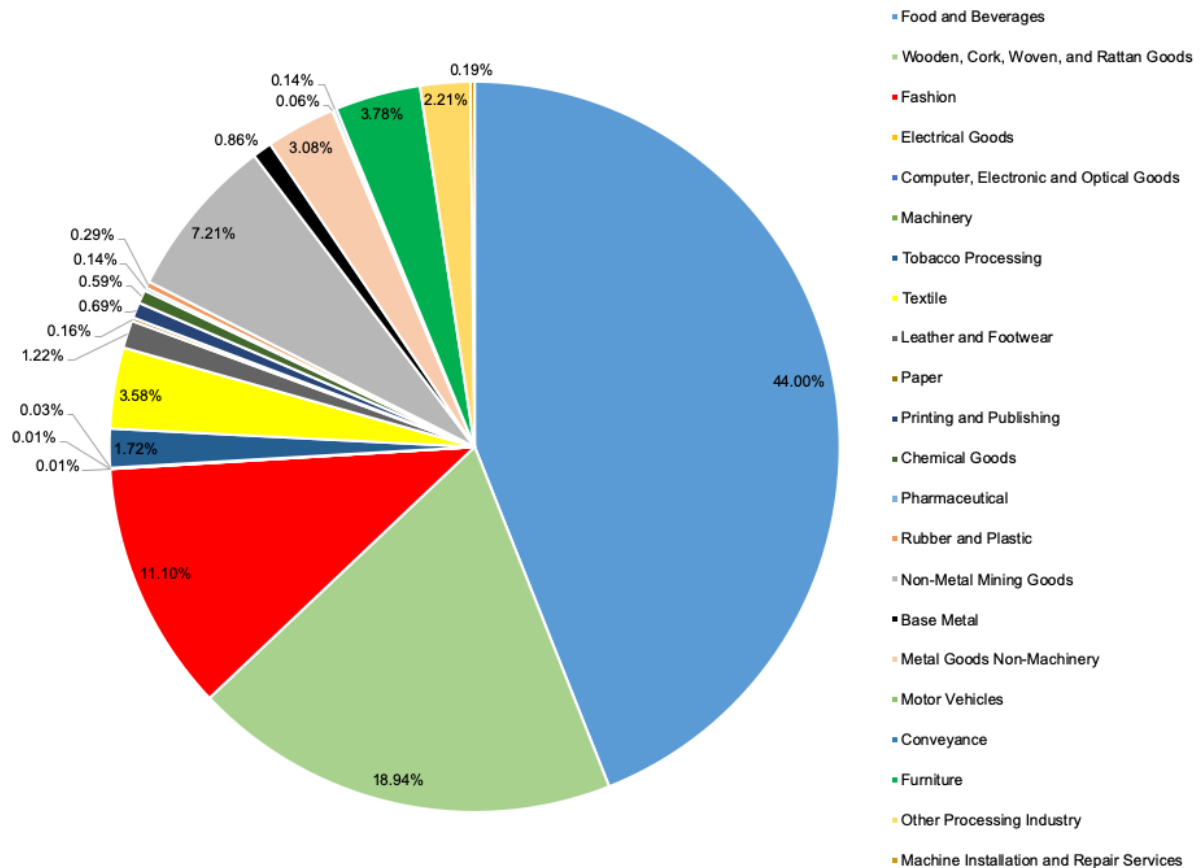


Figure 6.1. Percentage of small and medium-sized enterprises by industry, based on 2015 survey data (BPS-Statistics Indonesia, 2015)

Regarding the industry sector, the largest group of SMEs in the sample comes from the food and beverages sector, comprising 44% (or 22,827 respondents). This is followed by wooden, cork, woven, and rattan goods, with 18.94% (9,828 respondents). Fashion is the third-largest industry among the surveyed respondents, with 11.10% (5,759 respondents). The other industries are much smaller than these three groups, as shown in Figure 6.1.

This composition differs from that of the Indonesian SMEs by industry, discussed in the empirical focus chapter. Although both sets of data come from BPS-Statistics Indonesia, the industry proportions are taken from 2016 economic census, which has a different purpose to the 2015 Indonesian SMEs survey. The industry categories are different, as were the respondents, and the surveys were organised by different methods. However, both sets of findings enrich the knowledge of the SMEs' condition in Indonesia. Moreover, this evidence shows that the government agencies that produce these data and represent the formal institutions are working together and interacting with one another, asymmetrically.

Finally, the data for respondents by province are shown in Figure 6.2. Java Island dominates the survey, as the most populated island in Indonesia (57% of Indonesia's total population), and plays an important role in the Indonesian economy (providing 58% of the nation's GDP). However, most striking is the number of respondents from Bali Island. Despite its small population (4,152,800 people, or 1.56% of Indonesia's total) and area (5,780 km²), Bali is home to almost as many respondents (1,462) as other, larger provinces such as North Sumatra (1,400), South Sulawesi (1,675), and Banten (1,662). Not to mention, if it is compared to some of the largest provinces in Indonesia – such as Papua (319,036 km²) and Central Kalimantan (153,564 km²), or the most populated province, Jakarta (10,177,900 people), then Bali has more representative respondents for this survey by percentage. This shows that SMEs in Bali play an important role in shaping the landscape of entrepreneurship in Indonesia.

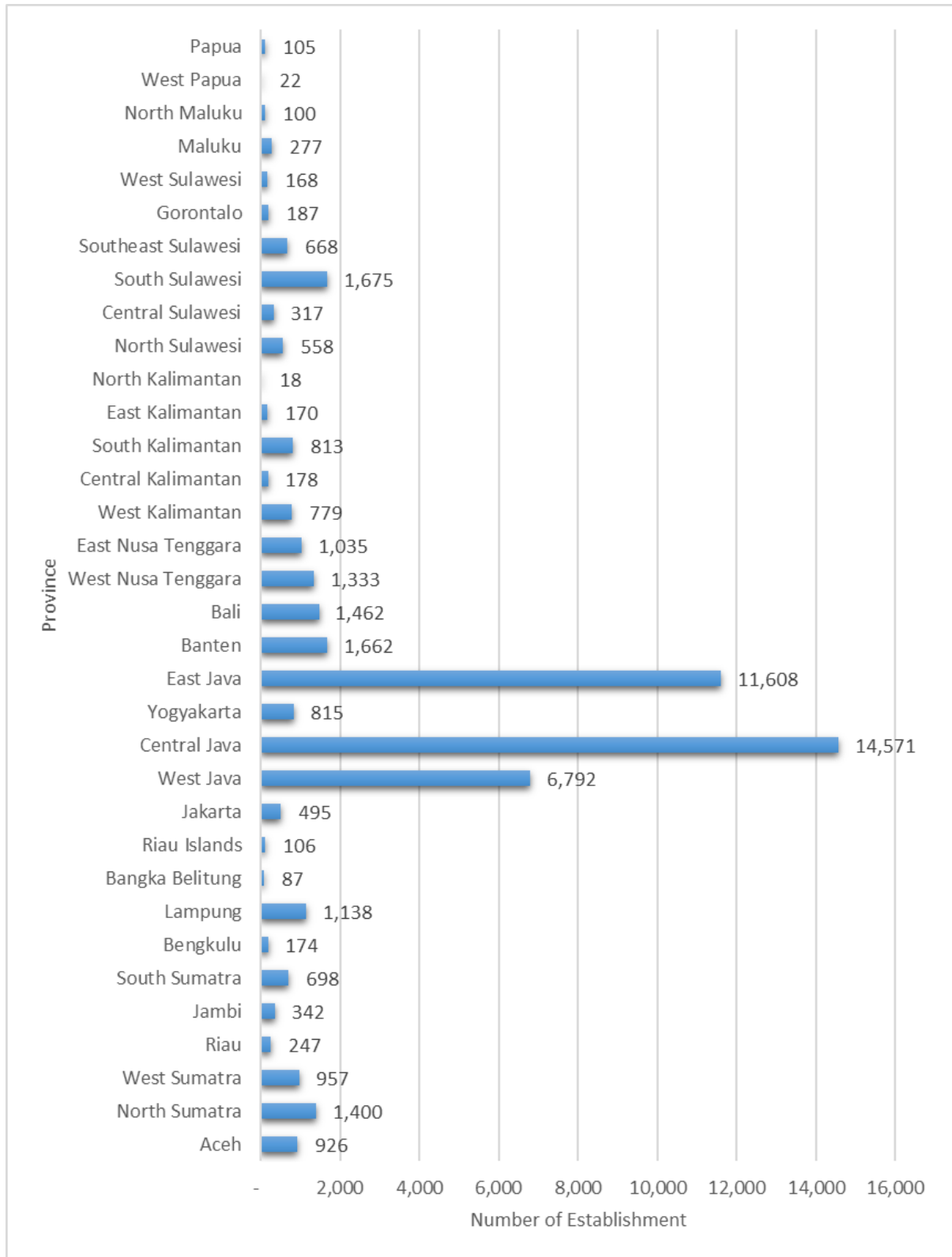


Figure 6.2. Number of respondents by province based on 2015 SME survey data (BPS-Statistics Indonesia, 2015)

6.2.2. Age of Enterprises

The SMEs in the survey ranged from brand new to more than 100 years in age, as shown below in Table 6.1. The largest group in the sample was those aged below ten years (44.84%), with group size directly proportional to age in years. This is unsurprising, as Arasti, Zandi, and Bahmani (2014) found that 50% of business survived for fewer than five years and business survival rates fell as the businesses aged. Similarly, in the context of Malaysia, there is a 60% failure rate for businesses in their first 10 years (Ahmad & Seet, 2009); and in South Africa, this reaches 75% (Fatoki & Asah, 2011). Even in developed countries such as the UK, the US, and Australia, 80-90% of SMEs do not survive their first 10 years (Zimmerer *et al.*, 2008; Hodges & Kuratko, 2004).

Table 6.1. Age of small and medium-sized enterprises by organisational type
(BPS-Statistics Indonesia, 2015)

SME Type	SME Age										Total
	0-9	10-19	20-29	30-39	40-49	50-59	60-69	70-79	80-89	>90	
Micro	24093	16413	7878	3879	1315	281	45	10	2	3	53919
Small	2015	1449	551	217	58	7	2	1	1		4301
Medium	31	25	10	2	1		1				70
Total	26139	17887	8439	4098	1374	288	48	11	3	3	58290

The survival rate for micro-businesses is slightly higher than that of small and medium-sized businesses, as they tend to face fewer challenges and less complexity: the smaller a business, the more flexible it is and thus the easier to operate and manage. As a result, a micro-business can adjust more easily to changes in the business environment.

6.2.3. Owner Education Level

In regard to the highest education level of the SME-owners, the largest group of micro-business respondents reported a secondary-school graduation (41.67%), followed by a primary-school education (35.84%), and no formal education (19.71%), as shown in Table 6.2. The same table also reveals that the owners of small businesses tend to be secondary-school graduates (55.82%), followed by primary-school leavers (23.83%), and no formal education (10.28%). A tenth of small-business owners have a tertiary

education. Most medium-sized-enterprise owners are secondary-school graduates (55.71%), while one-fifth have a tertiary education (20%) and 15.71% are primary-school graduates. The owners with no formal education formed the fourth-largest group (8.57%).

In summary, larger SMEs tend to have more highly educated owners. Additionally, most SMEs owners are educated to primary- or secondary-school level, while a significant proportion have no formal education at all.

Table 6.2. Education level of owners of small and medium-sized enterprises by organisational type and owners' sex
(BPS-Statistics Indonesia, 2015)

Education Level	Sex		%	Grand Total
	Male	Female		
Micro	28174	25744	100%	53919
No Formal Education	4549	6079	19.71%	10628
Primary School	10235	9087	35.84%	19322
Secondary School	12561	9908	41.67%	22469
Tertiary Education	829	671	2.78%	1500
Small	3673	628	100%	4301
No Formal Education	381	61	10.28%	442
Primary School	877	148	23.83%	1025
Secondary School	2067	334	55.82%	2401
Tertiary Education	348	85	10.07%	433
Medium	62	8	100%	70
No Formal Education	6		8.57%	6
Primary School	11		15.71%	11
Secondary School	34	5	55.71%	39
Tertiary Education	11	3	20.00%	14
Grand Total	31909	26381	100%	58290

The numbers of SMEs owned by male and female owners are roughly equal, at 55% and 45%, respectively. However, when the data are broken down, it becomes clear that the larger enterprises are primarily run by men, with 48% of the micro-enterprises owned by women, but just 11% of the medium-sized firms. This finding is in line with the results of Tambunan (2007), who reports that female entrepreneurs tend to have less formal education than their male counterparts. Nonetheless, due to the limitations of this study, the sex-related phenomena are not discussed here.

6.2.4. Monthly Profits

There is variation in the average monthly profits of the different SME categories. The data from Table 6.3 show that the size of a firm does not necessarily correlate with its profit levels. While 94.50% of the micro-enterprises make profits of US\$ 76-750 per month, some report more than US\$ 7,500 per month. In contrast, the largest group of medium enterprises (45.71%) reports monthly profits of US\$ 751-3,750.

Table 6.3. Monthly profit of small and medium-sized enterprises by organisation type (BPS-Statistics Indonesia, 2015)

SME Type	Monthly Profit (USD)					Grand Total
	<75	76-750	751-3750	3751-7500	>7500	
Micro	192	50954	2542	164	67	53919
Small	33	2612	1324	197	135	4301
Medium	0	19	32	7	12	70
Total	225	53585	3898	368	214	58290

US\$ 1 = IDR 13,389.41 (Bank Indonesia, 2015)

The number of small enterprises making profits of more than US\$ 7,500 is more than 10 times that of medium-sized enterprises, despite most profits (60.73%) being in the range of US\$ 76-750 per month. This is in the same range as the micro-enterprises. Regarding total monthly profits, most respondents (91.93%) report in the range of US\$ 76-750. The average cost of living in Indonesia for a family of four is around US\$ 410.78 per month (BPS-Statistics Indonesia, 2019a). Thus, most SMEs produce only have enough to support the owner's family, with no profits left over to support business grow. This finding supports the claim of Silalahi (2019) that the profits generated by SMEs are sufficient only for daily necessities, including children's education. However, due to the limitations of this study, the relationship between SME profits and the cost of living is not discussed.

6.2.5. Asset Value

The asset values of the SME categories also vary. The data from Table 6.4 show that firm size does not necessarily correlate with value of assets. Although the largest group of micro-enterprises (49%) has asset value of less than US\$ 750, some report more than US\$ 75,000. In contrast, the asset value of the medium-sized enterprises

is relatively evenly distributed. Some medium-sized enterprises has assets of less than US\$ 750, while the largest group reports value of more than US\$ 75,000.

Table 6.4. Asset value by organisation type
(BPS-Statistics Indonesia, 2015)

SME Type	Asset Value (USD)									Grand Total
	<750	751-3750	3751-7500	7501-15000	15001-22500	22501-30000	30001-37500	37501-75000	>75000	
Micro	26426	15776	5262	3772	1381	561	256	370	115	53919
Small	367	1195	707	715	379	257	153	326	202	4301
Medium	4	7	4	10	7	8	4	8	18	70
Total	26797	16978	5973	4497	1767	826	413	704	335	58290

US\$ 1 = IDR 13,389.41 (Bank Indonesia, 2015)

A similar pattern is seen for small enterprises. The largest group (27.78%) has asset value of US\$ 751-3,750. However, the rest of the small enterprises report a range of asset value: while hundreds report less than US\$ 750, there are 202 small enterprises with asset value above US\$ 75,000.

Using total monthly profit, asset value can be used to calculate the respondents' average return on assets (ROA). Assuming that the monthly profits of all the respondents are constant for every month, the average ROA can be calculated by multiplying the monthly profit by 12 and dividing the result by the total asset value. The average ROA for SMEs is thus 82%. This is very high, well above the average for general firms in Indonesia (9.09%; Wiranata & Nugrahanti, 2013). However, this result might not be accurate, as it does not consider tax or other aspects. Nevertheless, this study does not focus on ROA or other financial considerations; thus, due to the limitations of this thesis, this issue is not discussed further.

6.2.6. Business Challenge

The survey also revealed the key challenges faced by the SMEs, as described in Table 6.5. More than a quarter of the respondents (25.26%) claimed that they face no impediments when conducting their business. For the respondents who did identify some adversity, capital difficulty was the most frequently cited (31.72%), followed by marketing (18.74%), and raw-material availability (14.50%). The other challenges are considered minor, as they were each referenced by fewer than 5% of the respondents.

Table 6.5. Challenge types for small and medium-sized enterprises
(BPS-Statistics Indonesia, 2015)

SME Type	Challenge Type									Grand Total
	No Challenge	Raw Material	Marketing	Capital	Fuel/Energy	Transportaation	Employee Skill	Employee Wage	Others	
Micro	13932	8000	9997	17107	527	391	885	419	2661	53919
Small	770	446	917	1368	222	35	217	54	272	4301
Medium	23	4	11	16	1	1	8	4	2	70
Total	14725	8450	10925	18491	750	427	1110	477	2935	58290

Although it is positive that most SMEs do not face challenges to internationalisation, this finding does not reveal any data on business performance growth. In reality, it is unlikely that a business can grow without first overcoming barriers (Rahman *et al.*, 2015). Therefore, this points to two possibilities. First, the respondents might genuinely have no challenges at all, which means they were happy with their current business performance while taking the survey and had no intention to grow further. Alternatively, the respondents might be unaware of the barriers they must overcome, due to a lack of business knowledge and low level of education.

6.2.7. Business Partnerships

The survey data also show which types of SMEs tend to have business partners, the organisations that these SMEs choose to do business with, and the areas in which partnerships generally operate. The data suggest that only 5,397 respondents (9.26%) from a total of 58,290 had a partnership agreement. The details are presented in Table 6.6 below.

Table 6.6. Partnership companies of small and medium-sized enterprises
(BPS-Statistics Indonesia, 2015)

SME Type	Partnership Company					Grand Total
	State-Owned Enterprise	Private Company	Bank	NGO	Others	
Micro	85	1179	122	100	2975	4461
Small	43	459	41	24	346	913
Medium	1	14	2	2	4	23
Total	129	1652	165	126	3325	5397

Unfortunately, 61.61% of the partnership companies fall into the category of 'other', thus the type of company cannot be identified. The second-largest category is 'private companies', which account for 30.61% of the total, and the rest fall into the three other categories. One of these three is 'banks'. This is unsurprising, as many SMEs cannot

get access banking facilities because they do not meet the requirements for obtaining business credit (Lembaga Pemeringkat Kredit UMKM, 2011), as discussed in the previous chapter. Interestingly, state-owned enterprises (SOEs) were the least frequently cited, despite there being 18 ministries and many SOEs having SME-development programmes.

The SMEs with private companies as partners benefit from the flexibility of the agreements, which contrasts with the rigid regulations of SOEs. This is supported by the report from Deloitte (2015), which states that strong partnerships with the private sector help SMEs to expand their business and promote the use of digital technology for sharing information and developing solutions.

Table 6.7. Partnership types for small and medium-sized enterprises
(BPS-Statistics Indonesia, 2015)

SME Type	Partnership Type						Grand Total
	Financial	Raw Material	Marketing	Machinery	Equipment	Others	
Micro	460	1566	1328	395	596	116	4461
Small	76	193	413	54	149	28	913
Medium	6	6	5		5	1	23
Total	542	1765	1746	449	750	145	5397

Furthermore, the report from Deloitte (2015) reinforces the data shown in Table 6.7 for partnership types, as one of the most common types reported is marketing-related (32.35%), and another is for raw materials (32.70%). This finding is in line with another from the same survey that marketing and raw materials are in the top three most severe obstacles that SMEs face (alongside financial capital). Most SMEs are unable to engage in financial partnerships, as most do not fulfil the requirements.

SME partnerships are discussed further in the following chapter, as this issue is central to the question of the support received by SMEs to expand their business.

6.2.8. Business Support

In addition to business partnerships, another aspect worthy of examination is business support. The findings on business support show that SMEs receive formal institutional

assistance from the government and from private organisations. The survey divided business support into two categories: general assistance, which includes financial, raw material, marketing, machinery, equipment, and so on; and training to improve the knowledge and skills of the entrepreneurs and their employees in particular areas, such as management, production techniques, marketing skills, and other expertise.

Most respondents (95.29%) claimed that they were not receiving any support. The reasons for not receiving support were varied, but most (62.51%) stated that they did not know, as shown in Table 6.8. Other respondents indicated that they knew support was available to help their business, but they were unable to meet the requirements or they had chosen not to take advantage of it for some other reason. There were two reasons that respondents might be unaware of the available support: the owner might be uninterested in receiving support and therefore not looking for it, or the support provider may not have properly communicated their agenda. Unfortunately, the survey does not provide any further data to clarify this point.

Table 6.8. Reasons that small and medium-sized enterprises do not receive support (BPS-Statistics Indonesia, 2015)

SME Type	Reason for Not Getting Support					Grand Total
	Do Not Know the Procedure	Proposal Rejected	Not Interested	Do Not Know	Others	
Micro	8983	783	7718	32418	1841	51743
Small	551	101	624	2271	189	3736
Medium	5	3	21	28	5	62
Total	9539	887	8363	34717	2035	55541

Table 6.9 shows the types of support that the respondents reported receiving. Of the 4.71% who were receiving support, more than half (54.42%) were receiving financial aid. A further 15.35% of respondents were in receipt of equipment support; 12.19% and 10.80% raw materials and machinery for production, respectively; and 3.31% marketing assistance. This reveals that the support given is serving the needs of the SMEs in relation to the obstacles they report facing.

Table 6.9. Types of support for small and medium-sized enterprises
(BPS-Statistics Indonesia, 2015)

SME Type	Support Type							Grand Total
	No Support	Financial	Raw Material	Marketing	Machinery	Equipment	Others	
Micro	51743	1125	293	60	249	359	90	53919
Small	3736	367	40	30	48	62	18	4301
Medium	62	4	2	1	0	1	0	70
Total	55541	1496	335	91	297	422	108	58289

The survey data indicate that most of the support given is financial aid, which is reflective of the primary obstacle faced by the SMEs. Capital difficulties were reported by 31.72% of the respondents, as discussed in the previous section. However, the second most common barrier is marketing, reported by 18.74%, but this was the least commonly provided support, being received by just 3.31% of the respondents. This is far below the levels of equipment, raw material, and machinery support. Raw materials are the third most common obstacle (reported by 14.50% of respondents), while equipment and machinery were not on the list.

These data demonstrate a discrepancy between the support that SMEs need and the support provided by the authorised organisations. The authorised organisations seem to focus more on producing than marketing the products. Moreover, the supporting organisations are more likely to support the SMEs with one-time donations of goods, rather than continuing provision of intangible support (such as access to networks and distribution channels for marketing products).

Table 6.10. Types of companies providing support for small and medium-sized enterprises
(BPS-Statistics Indonesia, 2015)

SME Type	Support Company						Grand Total
	State-Owned Enterprise	Cooperative	Private Company	Bank	NGO	Others	
Micro	807	575	113	300	47	334	2176
Small	307	59	45	116	9	29	565
Medium	1	1	3	2	0	1	8
Total	1115	635	161	418	56	364	2749

The survey found that 40.56% of the supporting companies are SOEs, while 23.10% are cooperatives and 15.21% are banks. Interestingly, private companies – which

SMEs are most likely to have partnerships with – only support 5.86% of the respondents, while banks provide support to 15.21%. At the same time, the previously discussed partnership data indicate that banks only build partnerships with 3.06% of respondents, due to their inability in meet the requirements for business credit (Lembaga Pemeringkat Kredit UMKM, 2011). These data highlight an inconsistency between the support given to SMEs and the partnerships they have with SOEs.

Table 6.11. Training support received by small and medium-sized enterprises, types of training and provider organisations
(BPS-Statistics Indonesia, 2015)

SME Type/Training Organisations	Training Type				Grand Total
	Managerial	Production Technique	Marketing Skill	Others	
Micro	148	1818	138	232	53919
Self-Training	32	355	18	188	593
Government Institution	88	1092	92	154	1426
Private Company	4	144	13	14	175
NGO	7	118	6	13	144
Others	17	109	9	16	151
Small	59	336	47	67	4301
Self-Training	6	40	1	4	51
Government Institution	31	148	37	44	260
Private Company	11	128	3	6	148
NGO	9	13	4	7	33
Others	2	7	2	6	17
Medium	1	9	0	2	70
Self-Training	0	3	0	1	4
Government Institution	0	3	0	1	4
Private Company	1	2	0	0	3
NGO	0	1	0	0	1
Others	0	0	0	0	0
Total	208	2163	185	301	58290

Finally, the support companies categorised as SOEs are most likely to distribute their support programmes for SMEs' development through 18 ministries and other SOEs. Unfortunately, the survey does not show whether the support is given by the same partners or other organisations in the same category. For example, if an SME has a private-company partner and also receives marketing support from a private company, the survey does not indicate whether these private companies are one and the same.

The next category of support is training provision. Table 6.11 shows the types of training received by the respondents and the training organisations that delivered the training. Unsurprisingly, 95.10% of the respondents reported never receiving any training support. The most commonly received was in the area of production techniques, accounting for 75.71% of the total. This is to be expected, as training organisations tend to focus on hard skills (e.g., production), rather than soft skills (e.g., managerial and marketing), as discussed previously.

Government organisations (including SOEs) are the most common training providers, responsible for 59.15% of the total. Interestingly, self-training was the second most common, with 22.68%. This indicates that some respondents are improving their employees' knowledge and skills in the areas that are critical for their businesses. The third most common category of training providers is private companies, with 11.41%. However, the survey does not clarify the capacity in which these private companies are operating, and there are two possibilities: either these companies are the initiators of the training or they are appointed by another party. In the latter case, this could be a government organisation or the SMEs' owners themselves.

As noted previously, the survey differentiates between partnerships and support provision, even when their respective elements share characteristics. The term 'partnership' refers to an alliance with another company or business (including an SOE) that is mutually beneficial. In contrast, 'support' refers to any form of assistance received by the SMEs from other companies and businesses (including SOEs), which is intended to increase their business performance or help them to overcome business obstacles (BPS-Statistics Indonesia, 2015). In short, a partnership is a legal agreement with both parties bound by terms, while support is one-way assistance, without any long-term agreement.

6.2.9. Market allocation

To measure the extent of the SMEs' internationalisation, the survey identifies four categories of SMEs in terms of the size of their markets. First, there are SMEs that sell their products and services in their own city only. Second, some sell outside of their region, but within the same province. Third, some trade in several provinces, and

these can also be categorised as having a national-level market scope. Finally, some SMEs sell both inside the country and in the international market, using export as their internationalisation method.

Table 6.12. Market allocations for small and medium-sized enterprises by type
(BPS-Statistics Indonesia, 2015)

SME Type	Market Allocation											
	Same City Market			Outside Region Market			Outside Province Market			International Market (%)		
	0%	1-50%	51-100%	0%	1-50%	51-100%	0%	1-50%	51-100%	0%	1-50%	51-100%
Micro	3107	3792	47020	44587	5307	4025	51888	1362	669	53800	77	42
Small	549	931	2821	2382	1290	629	3564	449	288	4245	39	17
Medium	16	20	34	35	27	8	42	19	9	64	4	2
Total	3672	4743	49875	47004	6624	4662	55494	1830	966	58109	120	61

Table 6.12 presents the number of SMEs in each category. It should be noted that a single SME can fall into more than one category: for example, 30% of an SME's sales may come from their own city, with 20% from the national level and 50% from overseas. In this case, the same SME would fall into three categories. However, since this study focuses on internationalisation, the discussion emphasises the latter category.

The survey identifies 181 SMEs operating their businesses overseas, with 39 operating entirely in the international market. Hence, just 0.31% of the total respondents do business outside of the country. This does not align with the information provided in Table 4.8 on SMEs' internationalisation ratio by province (BPS-Statistics Indonesia, 2015, 2017), which indicates that just 0.16% of all SMEs in Indonesia had expanded their business overseas in 2015. Although both figures come from the same survey, the data in Table 4.8 were extracted from the public report, weighted to enable an estimation of the total population. Conversely, the data in Table 6.12 come from the microdata, with no weighting value applied. According to Little (2002), the result of a weighting value estimation depends on the context of the data, and it may be biased, as it involves missing data. Therefore, it is reasonable to assume that both data are reliable and can be used in different contexts.

Both figures indicate that the level of internationalisation among SMEs in Indonesia is deficient, compared to those of other emerging countries or of large companies, as discussed in the empirical focus chapter. Unfortunately, the survey cannot reveal the

causes of this deficiency, nor does the survey describe the internationalisation activities in detail (e.g., country destinations, distribution channels, specific networks needed to open the overseas markets). Therefore, this study investigates these issues further in the following chapter, using a qualitative approach).

6.3. Correlation Analysis

To examine the relationship between the support variables and level of internationalisation, a correlation analysis was run using STATA software. The export variable was used as the dependent variable and obtained from the international-market *a*/location data.

Table 6.13. Correlation analysis for the export variable

Variables	(Export)	(SME Type)	(SME Age)	(Education Level)	(Monthly Profit)	(Asset Value)	(Obstacle/Challenge)
Export	1.000						
SME Type	0.062***	1.000					
SME Age	0.000	-0.033***	1.000				
Education Level	0.044***	0.150***	-0.227***	1.000			
Monthly Profit	0.058***	0.283***	-0.022***	0.109***	1.000		
Asset Value	0.055***	0.269***	-0.011***	0.150***	0.239***	1.000	
Obstacle/Challenge	-0.001	0.045***	-0.016***	-0.006	0.020***	0.014***	1.000
General Partnership	0.026***	0.120***	-0.020***	0.029***	0.045***	0.049***	-0.011***
General Support	0.017***	0.111***	-0.018***	0.040***	0.053***	0.044***	0.048***
General Training	0.032***	0.093***	-0.035***	0.101***	0.038***	0.054***	0.019***
Gov Partnership	0.020***	0.036***	-0.003	0.035***	0.024***	0.064***	0.015***
Gov Support	0.006	0.105***	-0.005	0.026***	0.009**	0.006	0.034***
Gov Training	0.029***	0.050***	-0.013***	0.067***	0.033***	0.039***	0.038***

Variables	(Gen Partnership)	(Gen Support)	(Gen Training)	(Gov Partnership)	(Gov Support)	(Gov Training)
Export						
SME Type						
SME Age						
Education Level						
Monthly Profit						
Asset Value						
Obstacle/Challenge						
General Partnership	1.000					
General Support	0.163***	1.000				
General Training	0.090***	0.228***	1.000			
Gov Partnership	0.130***	0.049***	0.059***	1.000		
Gov Support	0.087***	0.625***	0.246***	0.055***	1.000	
Gov Training	0.046***	0.178***	0.704***	0.060***	0.222***	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 6.13 presents the results of the correlation analysis, examining the dependent variable (exports) and 12 independent variables (i.e., SME type, SME age, education level, monthly profits, asset value, obstacles, general partnerships, general support, general training, partnerships with government organisations, support from government organisations, and training from government organisations). The analysis

revealed only one negative correlation – and this is between exports and obstacles to internationalisation. In short, the more obstacles an SME faces, the *less* likely it is to engage in export activities. In contrast, the higher the rating for the other 11 independent variables, the *more* likely the SME is to engage in export activities.

These results support the extant literature and the data presented in the empirical focus chapter. However, most of these correlations are not significant, and only two have a value of more than 0.10 (support, with 0.1635, and government partnerships, with 0.1304). This indicates that the other independent variables are not significant determinants, while general support and partnerships with government organisations can significantly increase the likelihood of an SME engaging in export activity.

6.4. Regression Analysis

A regression analysis is a ‘statistical technique that can be used to analyse the relationship between a single dependent (criterion) variable and several independent (predictor) variables’ (Hair *et al.*, 2010, p. 161). It also measured the extent to which the significant variables (i.e., general support and government partnerships) affect the export variable. The regression analysis was conducted using the STATA software. The export variable was the dependent variable, used to measure the relationship between the independent variables and the level of internationalisation. This study involved a regression analysis, with 12 independent variables.

The Table 6.14 shows the results of the regression analysis. The estimated model equation for predicting exports from the 12 independent variables is as follows:

$$\text{Predicted Export (PE)} = b_0 + b_1V_1 + b_2V_2 + b_3V_3 + b_4V_4 + b_5V_5 + b_6V_6 + b_7V_7 + b_8V_8 + b_9V_9 + b_{10}V_{10} + b_{11}V_{11} + b_{12}V_{12} + e$$

b_0 = Constant

b_1V_1 = Change in PE regard with unit change in SME type

b_2V_2 = Change in PE regard with unit change in SME age

b_3V_3 = Change in PE regard with unit change in education level

b_4V_4 = Change in PE regard with unit change in monthly profit

b_5V_5 = Change in PE regard with unit change in asset value

b_6V_6 = Change in PE regard with unit change in obstacle

- b_7V_7 = Change in PE regard with unit change in general partnership
 b_8V_8 = Change in PE regard with unit change in general support
 b_9V_9 = Change in PE regard with unit change in general training
 $b_{10}V_{10}$ = Change in PE regard with unit change in government partnership
 $b_{11}V_{11}$ = Change in PE regard with unit change in government support
 $b_{12}V_{12}$ = Change in PE regard with unit change in government training
 V_1 = SME type
 V_2 = SME age
 V_3 = education level
 V_1 = monthly profit
 V_2 = asset value
 V_3 = obstacle
 V_1 = general partnership
 V_2 = general support
 V_3 = general training
 V_1 = government partnership
 V_2 = government support
 V_3 = government training
 e = Residual (predictor error)

$$\begin{aligned}
 \text{predicted export} = & - 0.00997 + (0.0075 \times \text{SME type}) + (1.25e-06 \times \text{SME age}) + \\
 & (0.0013 \times \text{education level}) + (1.29e-10 \times \text{monthly profit}) + (7.25e-12 \times \text{asset} \\
 & \text{value}) - (0.0005 \times \text{obstacle}) + (0.0027 \times \text{general partnership}) + (0.0021 \times \\
 & \text{general support}) + (0.0030 \times \text{general training}) + (0.0158 \times \text{government} \\
 & \text{partnership}) - (0.0050 \times \text{government support}) + (0.0052 \times \text{government training})
 \end{aligned}$$

The F-ratio tests whether the overall regression model is a good fit for the data. The output shows that the independent variables significantly affect the dependent variable, $F(12, 58273) = 42.58, p < 0.0005$. This means that the regression model is a good fit for the data. In the next stage, the statistical significance of each independent variable was tested. If $p < 0.05$, the value of $P > |t|$ would indicate that only 'obstacles' (0.323) and 'general support' (0.132) do not significantly affect export. The other 10 independent variables are thus statistically significant predictors of exports.

As a result, the regression analysis demonstrates that 10 of the variables are statistically significant predictors of export activity, $p < 0.05$, while the variables of 'obstacles' and 'general support' are not: $F(12, 58273) = 42.58, p < 0.0005, R\text{-squared} = 0.0087$.

Table 6.14. Regression analysis for the export variable

	Export
SME Type	.0075472*** (.0009245)
SME Age	1.200e-06** (5.000e-07)
Education Level	.0013086*** (.0001888)
Monthly Profit	0*** (0)
Asset Value	0*** (0)
Obstacle/Challenge	-.0005241 (.0005299)
General Partnership	.0027146*** (.0008147)
General Support	.0021227 (.0014103)
General Training	.0029846* (.0015231)
Gov Partnership	.0157668*** (.005587)
Gov Support	-.0049529** (.0021882)
Gov Training	.0052157** (.002083)
_cons	-.0099711*** (.0011435)
Observations	58286
R-squared	.0086919

Standard errors are in parentheses

*** $p < .01$, ** $p < .05$, * $p < .1$

The regression analysis found a low R-squared and low p -value (< 0.05). This indicates that the statistical model does not explain much of the variation of the data, but the number is significant. While this does not mean that the model has practical significance, it is nonetheless better than not having a model (Neter *et al.*, 1993). If the data of revenue and production output for each firm had been available, it would have

been preferable to estimate a model that estimates the exports as a function of these various explanatory variables. Ideally, this would be represented as a % share (P), and therefore a log-linear transformation of $\ln P/\ln (1-P)$ would have allowed this study to examine this in more detail. Unfortunately, such data was not available.

The regression analysis concludes that all the significant variables have values of much less than 1, which means their contributions are very low. It also reveals that export activity is not significantly affected by the presence of general support or obstacles. This result contradicts the extant literature, which highlights the influence of general support in this area (Nuruzzaman *et al.*, 2020; Yan *et al.*, 2018; Pradhan & Das, 2015; Hashim, 2012; OECD, 2010; Hutchinson *et al.*, 2009; Wengel & Rodriguez, 2006; Leonidou, 2004) and shows that some obstacles clearly hinder a firm's internationalisation process (Yunastuti, 2018; Bianchi & Wickramasekera, 2016; El-Gohary *et al.*, 2013; Schweizer, 2013; Cateora *et al.*, 2013; Hashim, 2012; Roxas & Chadee, 2012; OECD, 2010; Hutchinson *et al.*, 2009; Wengel & Rodriguez, 2006; Leonidou, 1995b, 2004; Bilkey & Tesar, 1977). However, this result cannot be generalised, as more specific types of general support – such as support from government organisations – is found to be statistically significant.

As noted, the regression analysis has a low R-squared, which means the result cannot be generalised. In short, the findings of this quantitative analysis support those of previous studies that state SME internationalisation is a complicated process, informed by many factors (Costa *et al.*, 2016; Ahmad, 2014).

6.5. Conclusion

This chapter presents the results of the quantitative data analysis of the microdata set for the Indonesian SME survey, conducted by BPS-Statistics Indonesia in 2015. From a total of 58,290 respondents, 70 are categorised as medium-sized enterprises, 4,301 as small, and 53,919 as micro-enterprises. As seen on the research framework (Figure 6.3), the quantitative method of this study serves the formal institutional scope of the national and subnational environment. Unfortunately, the data cannot explain the different between the types of formal institutional supports at the national and subnational levels of the environment.

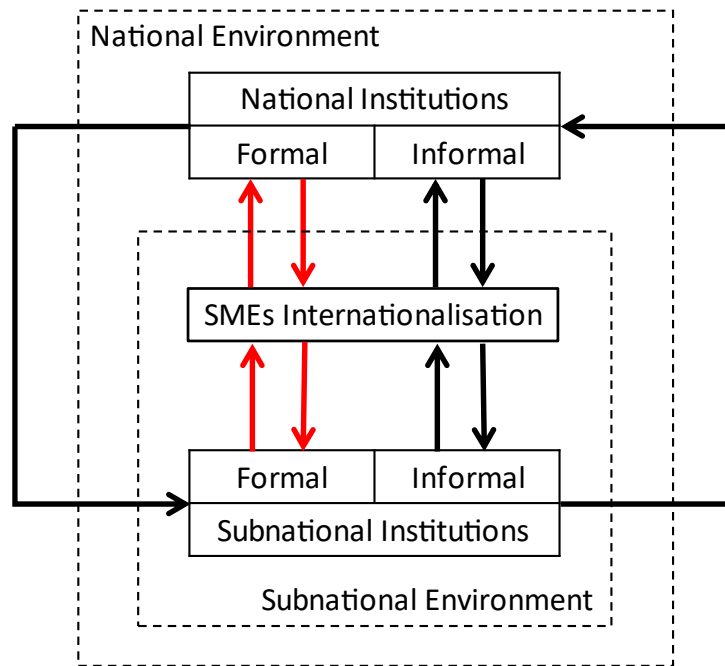


Figure 6.3. The position of the quantitative method in the research framework

The descriptive analysis shows that most respondents are located in Java Island, with substantial contributions from Bali Island, despite its small size. The SMEs in the survey range from very new to more than 100 years of age. The largest group in the sample is less than ten years old (44.84%), and the numbers of firms in each age group are inversely proportional to years of business.

The survival rates of micro-businesses are higher than those of small and medium-sized businesses: the smaller a business, the more flexible it is to operate and manage. Most respondents reported a basic education, between primary and upper-school level. Master's graduates and holders of doctorates were the minority for all enterprise categories, while some SME-owners reported no formal education at all. Men and women were equally represented among the SME-owners (55% and 45%, respectively); but male owners are disproportionately represented in the larger enterprise categories.

Most respondents (91.93%) make monthly profits in the range of IDR 1-10 million. This means that most earn only enough to support the owner's family, with no profits to re-invest in expanding the business. In addition, the size of a firm is not necessarily

correlated with its asset value. There is substantial variation in the asset value of all the SME categories, from below IDR 2 million to more than IDR 2 billion. Finally, most of the SMEs claimed that they faced no obstacles when conducting their daily business activities.

The survey differentiates between the terms 'partnership' and 'support'. The two most commonly reported partnership types are for the purposes of marketing (32.35%) and raw materials (32.70%), and partnerships are more likely to be with private companies (30.61%) than with any other type of organisation. However, most respondents (95.29%) said that they were not receiving any support. Of the SMEs that were receiving support, the majority (54.42%) were receiving financial aid.

Only 181 SMEs (0.31%) said they were engaging in overseas business activities, and 39 were operating their business entirely in the international market. This suggests that the level of internationalisation among SMEs in Indonesia is low, compared to those of other emerging countries or of larger companies. Unfortunately, the survey does not reveal the causes of this deficiency.

Finally, the correlation analysis found that the relationships between exports (the dependent variable) and the 12 cited independent variables were primarily not significant. Only the relationships with 'general support' and 'government partnerships' were considered significant, indicating that these variables are significant determinants of export activity. However, the regression analysis found that the statistical model does not explain much of the data variation, suggesting it does not have practical significance. As noted above, the survey cannot reveal the reasons for these findings. Therefore, this study seeks further explanation of these findings in the following chapter, where the results of the qualitative approach are presented.

Chapter Seven: The Effect of Home-Country Institutional Drivers on the Internationalisation of Small and Medium-sized Enterprises

7.1. Introduction

Chapter Six presented the correlation and regression analysis that forms the quantitative component of this thesis. The secondary data neither specify the institutional driver variables nor reveal the reasons for these findings. Consequently, to achieve the first research objective, a qualitative approach is required. This chapter explores the home-country institutional drivers of SME internationalisation through the qualitative findings (see Figure 3.1) and thus contributes to fulfilling the first research objective:

Evaluate formal and informal institutional drivers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

The first theme to emerge from the interviews with the SME owner-managers and entrepreneurs was institutional drivers. This theme concerns the institutional stimulants of SMEs to pursue growth in the international market. The interviewees talked about the decision-making processes involved in choosing whether to engage in business overseas or to stay local. They also talked about their business environment in facing globalisation or open market. This theme also concerns the participants' perceptions of the influence of external institutional drivers, such as social norms regarding globalisation and government regulation. From the entrepreneurs' responses, it was apparent that the institutional drivers put their firms at a different level of readiness for conducting international business.

The dataset shows that the formal and informal institutional drivers affect SME internationalisation by influencing three aspects: contextualised motives, resources, and skills and knowledge. These aspects interact with the home-country formal and informal institutional factors at both the national and subnational levels, thereby driving SME internationalisation. The sub-theme of 'contextualised motives' reveals how the institutions at the national and subnational levels encourage entrepreneurs to pursue

internationalisation. For example, social norms mean that firms with overseas markets are perceived as superior to those that only sell locally. The second sub-theme is 'resources', and this describes how institutions affect the availability of the resources needed for internationalisation. For example, legislation affects the availability of those raw materials that meet international standards. When legislation increases the availability of raw materials, this motivates entrepreneurs to expand their markets overseas. The sub-theme 'skills and knowledge' refers to the ability of entrepreneurs and government's skills and knowledge to trigger internationalisation. These sub-themes are elaborated upon in the following sections.

Table 7.1. illustrates how often the three sub-themes were referenced in the interviews. 'Contextualised motives' were mentioned by 38 participants – the details of which can be seen in the middle column of Table 7.1. 'Resources' and 'skills and knowledge' were mentioned by 32 and 30 participants, respectively. These sub-themes are thus highly prevalent in the dataset, which is an important finding.

Table 7.1. Institutional drivers mentioned in the dataset

Themes	Participants with Homogeneous Perspectives	Frequency
Institutional Drivers		
a. Contextualised Motive	J3ASB, J2ACW, J2BCN, J1ANB, J3ADR, J3AYS, J2AKP, J3ABA, B3ASJ, P3BPB, L2ALM, F1BLC, L2ARP, B3ABA, A1ABC, B2ASS, N1BAS, P3AAB, B2BCK, B3ASS, B3AKA, J3AGC, S3APT, J2BBN, J1BNH, J3ABC, J1ADA, J1AIE, J2ADL, J1AHJ, J2ADE, J2ADA, J2APC, J2ARL, J2AML, J1AHS,	38
b. Resource	J3ASB, J2ACW, N1BAS, J3ADR, J3AYS, J2AKP, J3ABA, B3ASJ, L2ALM, L2ARP, B3ABA, A3APS, A3APS, B2ASS, P3AAB, B3ASS, B3AKA, J3AGC, S3APT, J3ABC, J1ADA, J1AIE, J2ADL, J1AHJ, J2ADE, J2ADA, J2APC,	32
c. Skill/Knowledge	J3ASB, J2ACW, J2BCN, J1ANB, J3ADR, J3AYS, J2AKP, J3ABA, B3ASJ, L2ALM, L2ARP, B3ABA, A1ABC, B2ASS, P3AAB, B3ASS, B3AKA, J3AGC, S3APT, J3ABC, J2ADL, J1AHJ, J2ADE, J2ADA, J2APC, J2ARL, J2AML,	30

Linking this chapter to the research framework mentioned in Chapter Three (Figure 3.1), this study suggests that the home-country institutional drivers influence SMEs in deciding whether or not to pursue internationalisation. Figure 7.1 shows whether each of the factors emerges from formal or informal institutions at the national or subnational levels of the environment. Whether an institution is considered national or subnational can be detected from the words used during the interview (or, alternatively, by clarifying it with the participant during the interview). An informal institution deemed to

be national is associated with terms such as 'emerging country', 'Indonesian', 'this country', 'our people', and so on. In contrast, the subnational level is usually associated with terms such as 'here' and 'our neighbour' or the name of a region. The word 'society' can represent societies at either the national or subnational level. While this study did not include a discourse analysis, this point is mentioned here to give the reader the context of the words beyond their literal meaning.

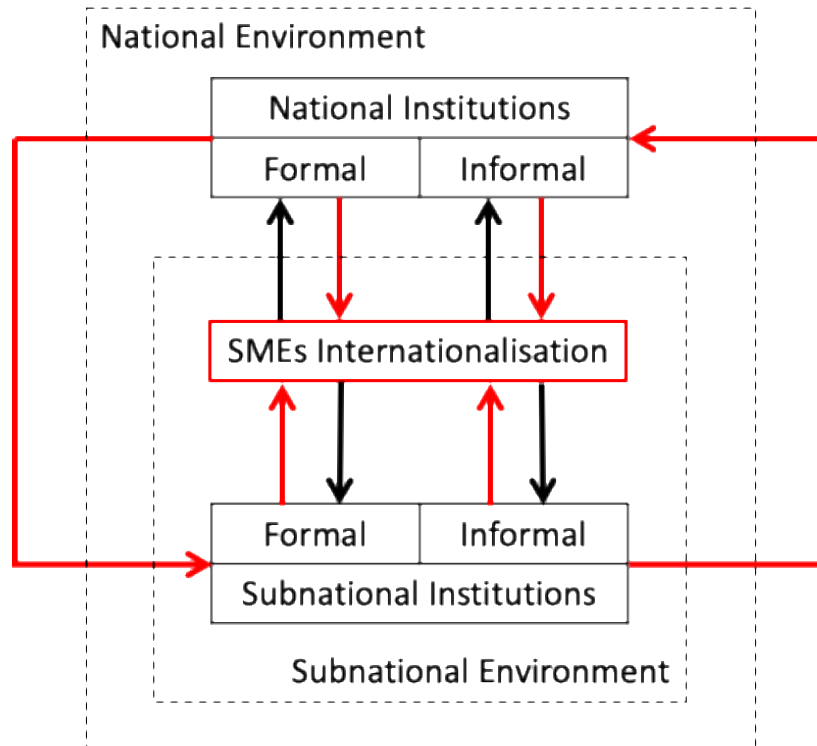


Figure 7.1. The position of institutional drivers in the research framework

The following sections explain the role of motives, resources, and skills and knowledge as institutional drivers for SMEs, showing how these sub-themes fit into the research framework. This chapter comprises a number of sections, looking in turn at first-order concepts, second-order themes, and sub-aggregate dimensions. This follows the suggestion of Gioia, Corley and Hamilton (2013) for reporting the results of thematic analyses. Thus, the next section discusses contextualised motives, resources, and skills and knowledge.

7.2. Contextualised Motives

The dataset suggests that contextualised entrepreneurial motivation serves as an internationalisation driver. 'Contextualised motivation' here refers to motivation that is affected by context, particularly institutional context. This research found that entrepreneurs' motive for going international is affected by the home country's informal and formal institutions.

As a country with collectivist values (Hofstede, 2001), Indonesia prioritises the needs and goals of the group over those of the individual. Scholars have identified that entrepreneurs operating in a collectivist culture have easier access to networks, resources, and funding from the social network (Pinillos & Reyes, 2011), resulting in a higher total early-stage entrepreneurial activity level.¹ This phenomenon was observed in this study, and it is discussed further in the following section on resources. Moreover, this study found that society's voice could influence what entrepreneurs should do to improve their firms' status and improve product sales and overall performance. This finding is in line with previous research on consumer behaviour that has shown peer, group, or social perceptions all strongly influence consumer consumption in the context of a collectivist culture (Varshneya *et al.*, 2017; Gregory *et al.*, 2002). Therefore, entrepreneurs must understand the norms of the society in which they are operating if they are to successfully position and market their products. For example, there are norms around how a society perceives internationalised firms, as compared with non-internationalised firms. The study also found that social norms around perceptions of international brands may trigger entrepreneurs to enter the international market and position their own products head-to-head with the international products in their home-country markets. This study constructs this circumstance as 'pro-internationalisation social norms' (see Figure 7.2).

Aside from the drivers from external parties (including society), internal values were also found to play a significant role in internationalisation decisions. These include an

¹ Total Early-Stage Entrepreneurial Activity level (See Global Entrepreneurship Monitor global report <https://www.gemconsortium.org/report>)

entrepreneur's awareness or adoption of filial piety² values and a familial or organisational valuing of internationalisation. This phenomenon is defined as 'pro-internationalisation internal values' (Figure 7.2). This is discussed further in the following section.

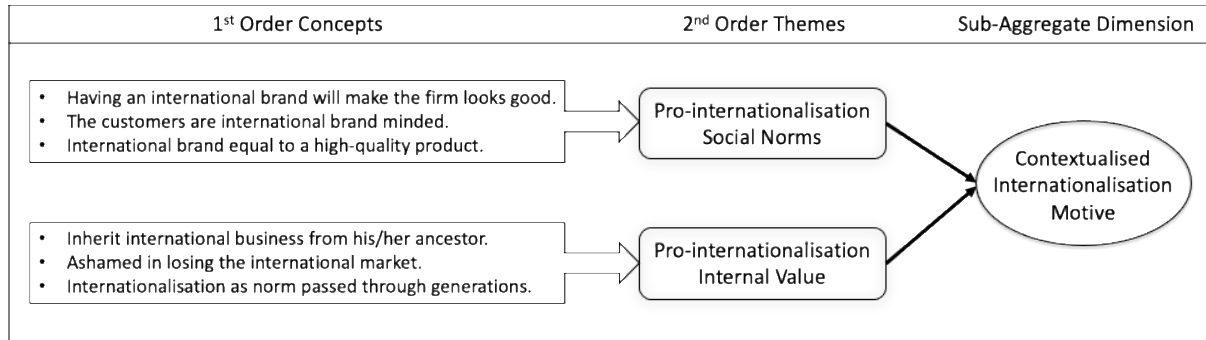


Figure 7.2. The data structure of contextualised internationalisation motives

7.2.1. Pro-internationalisation Social Norms

The view that society appreciates international products, brands, and companies more than others was detected at both the national and subnational levels. It was heard when participants referred to an 'emerging country' and 'Indonesia' to represent a national scale, with 'my customers' to represent local circumstances. Thus, there is a subnational and national norm that international brands are more accepted and considered better quality, which increases consumer consumption. In addition, as collectivist values are prevalent in Indonesia, the society perception or collective thoughts are important; thus, entrepreneurs are motivated to position their product to fit social expectations, hence encouraging the development of international products. One strategy is to position a product as 'international' by entering an overseas market.

In the interviews, some entrepreneurs expressed concern about brand image. The participants said that their brands were better perceived by local customers when they

² The Confucian doctrine of filial piety commands young people to be respectful, caring, and obedient to elders. Filial piety is a norm in most Asian country, as the basis to teach children to respect and prioritise parents. See Zhang *et al.*, (2020) and Schwartz *et al.*, (2010) for further reading on filial piety.

were also accepted overseas. Some SME-owners argued that having an international market made their company look good:

We do not have a lot of overseas sales, but when our local customers know that our products have positive acceptance in the overseas market, they have more confidence in the quality of the products that our firm produces (J3ASB).

Moreover, some entrepreneurs shared the insight that their customers in emerging countries – such as Indonesia – tend to value international brands more highly:

The typical customers in emerging countries are international-brand minded, especially here in Indonesia. You know, there are some local brands that people do not realise are local. They think the brands are international because of the name, how the firm advertises them to customers, and the brand's existence in the overseas country. When customers perceive a brand as international, it boosts their confidence about consuming it (J2BCN).

In the same fashion, other interviewees were concerned that international brands are usually perceived to be better quality.

My customers have inaccurate perceptions of international brands. To be honest, international brands are not necessarily better than local products. I do not know where this perception comes from. Our people believe that international brands are high quality. That is not always true, but that's what they believe. That's why I sell my products in another country – not much, because in my case it is not worth it financially, but at least I can gain the trust of my customers that my products are high quality (P3BPB).

The quotes above reveal that internationalisation can provide social legitimacy to a product or business and improve a firm's performance. This strategy of entering the international market to improve a firm or brand reputation is highlighted by Durán-Herrera and García-Cabrera (2013). The entrepreneurs interviewed in this research even reported that the size of the overseas sales was unimportant, as long as the firm could accurately state that it sells internationally (as mentioned by P3BPB above).

7.2.2. Pro-internationalisation Internal Values

Institutionalised drivers can also come from inside the firm, while remaining under the umbrella of collectivist values. The entrepreneurs value respect for one's elders over individual interest (the value of filial piety), and this is likely to affect internationalisation decisions. Some entrepreneurs felt the need to continue doing business as their elders had done before them, including their international business:

My father was exporting our products for years. We just do what we usually do. Simply continue the business that has been run for years. I am a good son [laughs] (B2ASS).

Similarly related to filial piety, some entrepreneurs continued to do international business to earn their parents' pride. The entrepreneurs sold their products on the overseas market because this meant that their parents were recognised as international business owners. The entrepreneurs did not want to threaten their parents' legacy by retreating from the overseas markets, and they were afraid that doing so would bring shame to their family. Again, this shows how collectivist values play a central role in individual business decisions. The entrepreneurs were highly alert to what wider society would think about their business.

It has been a family business for a long time. Our neighbour knows my parents as an international business owner. I could not hold my head up if I suddenly left the overseas market. People would see my business went downhill. Also, it would bring shame to my parents (P3BPB).

Another internal driver was the value conceived in the firm's identity. Some entrepreneurs said they identified themselves as internationally successful firms. Therefore, despite the challenges, they maintained their international markets to ensure the firm's value. This was explained by one participant as follows:

We have been doing business in the international market for years. That is how we do business. Less than half of our market is at the national level; we sell most of our products to our customers in several different countries. We are going to maintain this operation to sustain our business in the future. It is

working well so far. We believe it is our identity [as an international business] (B3ABA).

The reason they are continuing their business in overseas market is influence by the informal institutional norm they believe in, as the value they hold for years, in their family or community. This type of norm passed through one generation to the next by numerous ways, such as teaching, showing example, and community tradition (Tonoyan *et al.*, 2010). Pejovich (1999, p. 166) viewed this type of informal institution as ‘the old ethos, the hand of the past or the carriers of history’.

On a similar point, the participant below reported going international because they felt that it was the company's identity:

When we first build this company, we intend to make it born-global because we knew our potential market was out there. We will work as hard as we can to keep this firm operating in the global market, as we intended to (J2ACW).

As highlighted in the last two quotes above, some firms were ‘born global’, having been launched as international or with the objective of someday becoming so. This originates with the individual motivations of the entrepreneurs or founders, and it is then institutionalised in the firm's values and motivations and maintained throughout the internationalisation journey. Oviatt and McDougall (1994) define a ‘born-global’ firm as a new venture that seeks competitive advantage by seeking sales in multiple countries from the beginning. Some of the Indonesian SMEs in this study are identified as born-global firms, with a focus on international-market sales. This model is usually chosen on the basis of previous experience, market research, or the views of colleagues or family, indicating that there is substantial overseas demand for the products.

7.2.3. Discussion

Internationalisation can be seen as a proxy for company growth (C. Leitch *et al.*, 2010). While some scholars argue that external factors affect a company's growth more intensely than internal aspects do (Davidsson *et al.*, 2006), others such as Moen *et al.* (2016) claim that internal factors have an equal impact on a firm's growth. The current

study found that both internal and external factors contribute to entrepreneurs' motivation to either go international or stay local. Both of these forces can be attributed to the collectivist values found at Indonesia's national and subnational levels. Collectivist values promote the prioritisation of family (including maintaining a family legacy and values and respecting one's parents), and this was found to play a key role in attitudes toward entrepreneurial activity, including internationalisation. For filial piety, one must respect and continue the family legacy.

In this case, the informal institution works in two ways, as discussed above: namely, internal and external drivers. External informal institutions emerge from social values, while internal informal institutions come from individual, family, and firm norms. The entrepreneurial behaviour is reflected upon the SMEs' internationalisation decision in anticipating society's value in perceiving international brands. It also applies to some individuals who continue a family business as part of the family norms and community values.

Taking a theoretical perspective of the informal institutions, the internationalisation motives discussed in this sub-chapter can broaden the study from Roxas and Chadee (2012). According to Roxas and Chadee (2012), informal institutions at the subnational level do not necessarily have the potential to hinder the development of business entities. This study found that some community values and family norms help SMEs grow and maintain their business in the international market. For example, at both the national and subnational levels, social values include a preference for international brands and firms, which encourages SMEs to pursue international market opportunities to improve their image locally.

This finding is in line with previous study that have found informal institutions play a crucial role in influencing entrepreneurial behaviour (Huggins & Thompson, 2012; Welter & Smallbone, 2011). It also endorses the conclusions of Crick and Chaudhry (1997), which suggest that several stimuli are needed to motivate SMEs to conduct business overseas, depending on their position in the internationalisation process. However, SMEs are not necessarily motivated by the informal institutions considered in this study. Even internal triggers can be derived from social norms. Even internal

triggers can be derived from social norms. It could be filial piety or another individual motive that integrated into the firm's value. This observation is in line with the conclusions of Child *et al.* (2002) and Gashi *et al.* (2014), which indicate that firms' motivations to do business in the international market are varied. They depend on the SME's business orientation, its external environment, and its condition. Nonetheless, this study found that, regardless of the original motives, informal institutions influence the process.

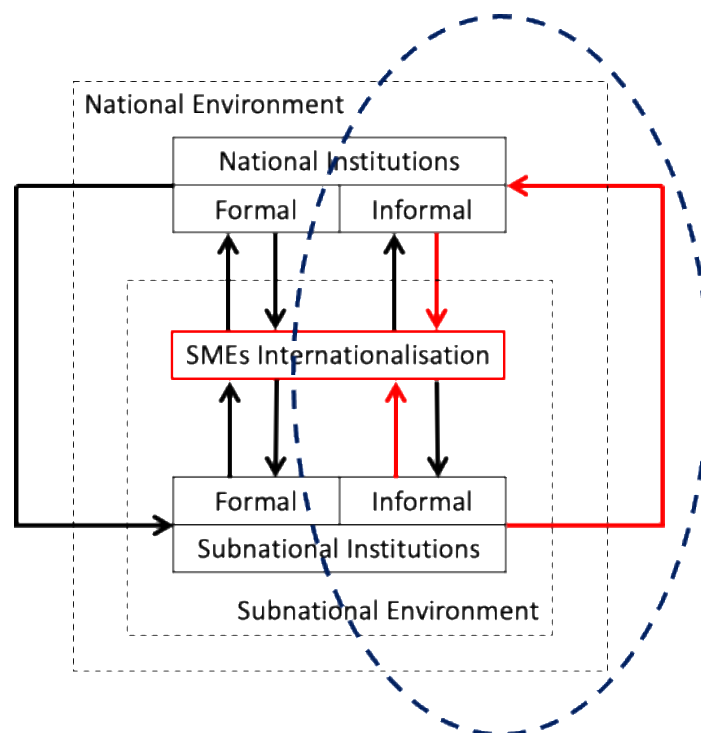


Figure 7.3. The position of contextualised internationalisation motives in the research framework

The interaction between the institutionalised internal and external drivers at the subnational and national levels is summarised in Figure 7.3. The interaction is represented by the informal institutions' arrows from the national and subnational level toward the SME internationalisation, which mean that both informal institutions in second-order themes directly affect the SME internationalisation process, resulting in contextualised motivations to go international.

7.3. Institutional Internationalisation Resources

The theme of resources emerged in the dataset, acknowledged by participants as an important driver and facilitator of internationalisation. A resource is defined as the tangible and intangible assets used by firms to implement their strategies (Hessels & Terjesen, 2010). A resource can also be linked to the factor that affecting a firm's growth (Barney, 2007). In this study, the sub-theme of 'institutional internationalisation resources' means a firm's resources to perform internationalisation activities that affected by formal or informal institutions. This sub-theme emerges based on the previous study, which found that resources may arise from a unique institutional environment in which a firm is embedded, such as a business network (Gaur *et al.*, 2014) or an institutional network (Oparaocha, 2015). Tarui (2015) suggests that many resources are managed under a different institutional arrangement (e.g., patent, open-access, etc.). Institutional theory is also concerned with legitimacy, and it was also found that a firm with the legitimacy to serve overseas markets is likely to go international (Hessels & Terjesen, 2010).

A resource that is scarce, valuable, rare, inimitable, and non-substitutable (Barney, 2007) can play a role in the institutions as 'humanly devised constraints that structure human interaction' (North, 1990, pp. 3.) and can structure incentives for human exchange (North, 1990). This sub-theme thus assumes that resources obtained from or provided by a specific institutional environment can similarly constrain or drive an internationalisation activity. In this research, this sub-theme considers resources as a driver of internationalisation.

Three institutional resources that drive internationalisation are cited in the interview data. These are intellectual property rights (IPR), raw-material availability, and institutional networks (Figure 7.4). These sub-themes are elaborated upon in the following section.

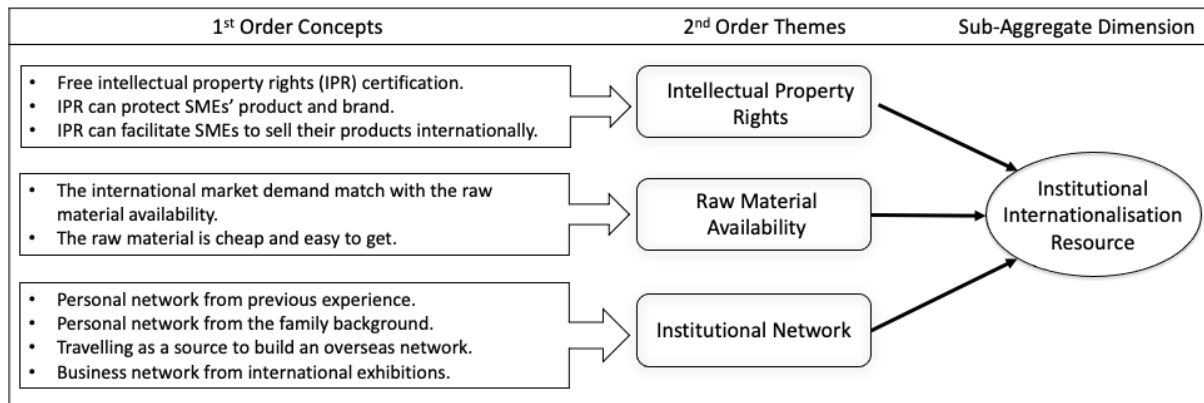


Figure 7.4. The data structure of institutional internationalisation resources

7.3.1. Intellectual Property Rights

This research focuses on the handicraft sector, for which intellectual property is a topic of concern. 'Intellectual property' refers to creations of the mind or human intellect. The participants expressed concern about their IPR, known in Indonesia as *Hak atas Kekayaan Intelektual*. In Indonesia, IPR is regulated under Indonesian Law No. 7 1994, 'Agreement to the Establishment of the World Trading Organisation'. More specific legislation on particular types of intellectual property is summarised in Table 7.2. The guidance for implementing these laws and regulations is formalised by several lower-level regulations, including government, ministerial, and local-government regulation.

Table 7.2. Institutional regulations related to intellectual property rights
(adapted from The Handbook of Intellectual Property, Indonesian Ministry of Law and Human Rights, 2013)

Regulation	Subject
Law Number 20/2009	Micro, Small and Medium Enterprises
Law Number 19/2002	Copyright
Law Number 29/2000	Plant Variety Protection
Law Number 30/2000	Trade Secret
Law Number 31/2000	Industrial Design
Law Number 32/2000	Integrated Circuit Layout Design
Law Number 14/2001	Patent
Law Number 15/2001	Brand
Presidential Regulation Number 15/1997	Ratification of Paris convention for the protection of Industrial property, and convention establishing the World Intellectual Property Organisation
Presidential Regulation Number 16/1997	Ratification of the Patent Cooperation Treaty

Presidential Regulation Number 17/1997	Ratification of Trademark Law Treaty
Presidential Regulation Number 18/1997	Ratification of Berne convention for the protection of literary and artistic works
Presidential Regulation Number 19/1997	Ratification of WIPO Copyright Treaty

Table 7.2 above details the IPR regulations, indicating that the Indonesian government considers IPR an essential aspect of Indonesia's business landscape. The table also lists regulations in Indonesia which related to the international convention of ratification. It shows that Indonesia put attention and seeks to conform to international trade regulation. The government formally encourages SMEs to ensure their IPR, with Law No. 20/2008 encouraging micro, small, and medium-sized enterprises 'to obtain a certificate of intellectual property rights' (Indonesian Law No. 20/2008, Article 20e).

In line with that, another government official elaborated on the IPR-related support given by the government:

We can help SMEs to ensure their intellectual property rights. We provide them with the training to standardise their products, and it is all free. They can contact us to arrange the time and schedule for the training. Once they have completed it, we can administer the certificate to the Ministry of Law. The Ministry of Law issues the certificate (MK).

The quote above shows that, in addition to building the firms' credibility, the government utilises IPR to standardise firms' products and processes to meet international standard.

IPR is also an important asset from the government perspective, especially when firms intend to go international. IPR can improve a firm's credibility in the global market. The government official from the Ministry of Trade explains this:

We see IPR as an important aspect when a company, including an SME, wants to go international. We know an IPR application can be costly for SMEs, especially if different countries of interest need different IPR applications. That is why we expect SMEs to at least apply for an IPR locally to protect their brand

or featured design. Having a registered brand or design increases credibility, making it easier to build international partnerships and networks. It can also enable the financing necessary to go global – for example, when the SMEs apply for a bank loan (DP).

The quote above shows that the government sees IPR as helping SMEs to go international. First, it helps the SME to build credibility. Second, it protects the SME's product and brand from copycats and breaches of other parties' IPR. Finally, it can help the SME gain access to the funding it needs to go international.

From the entrepreneur perspective, some participants said they felt more confident about entering an overseas market when they had obtained IPR:

Every design we produce has its own meaning. They [the designs] tell us a story. Therefore, we apply for intellectual property rights for each of our designs. When we have intellectual property rights, we are not worried about advertising and selling the products – not just locally, but especially for the international market (J3ASB).

The participant below felt similarly that IPR facilitate overseas product sales. They also highlighted that obtaining IPR limits the risk of their products being imitated:

We apply for it [IPR] because we want to have more confidence that no one will produce a similar product to ours. It gives my team more confidence about marketing our product, including in overseas markets, without worrying about copycats (N1BAS).

One participant mentioned that she had not planned to go international, but when her IPR application is granted, she will expand into selling in the neighbouring country:

I was never ambitious. I was okay with my product being sold locally. I thought it was enough. But when my brand and logo registration are approved, I will feel like, wow, my business is now real. Could I make it bigger? It makes me want to expand to an overseas market. It is okay if I start selling to the nearest market

– for example, Malaysia. I am planning to find an overseas business partner or intermediaries to sell my product internationally (B2BCK).

The quotes above show that entrepreneurs see IPR as a crucial resource and a business milestone. IPR leads some entrepreneurs to see their businesses as ‘real’, which then makes them think about expanding internationally. This is particularly plausible for those SMEs that are home-based. Having a home-based business in a society that emphasises separation between the public and private sphere can leave entrepreneurs who run their businesses from home feeling as if their work is ‘not real work’ (Bourne & Calás, 2013). This is especially true in Indonesia, where the informal economy is prevalent (International Labour Organization, 2010; Cuevas *et al.*, 2009) and an informal, home-based business is often assumed to be a part-time job. It is not perceived as real work or a serious job, even when it contributes to the family income (Rothenberg *et al.*, 2016; Babbitt *et al.*, 2015). Babbitt *et al.* (2015) found that when a business is formalised – by a license or IPR, for example – entrepreneurs’ attitudes tend to change. They often begin to run the business more seriously, perhaps considering growth and international expansion.

The participants said that having IPR on their products, brand, design, and so on, gave them confidence that they were ready to compete in the international market. It also provided them with a sense of security that their products would not be copied. This finding is aligned with previous research that concludes SMEs' motives for obtaining IPR differ from those of large companies. A large company acquires IPR for appropriation or to gain profit from the innovation and to avoid litigation, while SMEs aim to improve their credibility or image and to prevent imitation (Holgersson, 2017; Nelson *et al.*, 2000).

In summary, IPR is an asset for internationalisation and a driver for SMEs entering the international market. In Indonesia, the government encourages SMEs to obtain IPR for their products and brands. IPR in Indonesia is regulated at both the national and subnational levels. However, it was also found that obtaining IPR can be challenging for SMEs. Therefore, institutional resources can be both a constraint and a driver of

internationalisation. This issue will be discussed further in Chapter Eight regarding internationalisation bureaucracy.

7.3.2. Raw-material Availability

The dataset revealed that the participants perceived raw-material availability as essential for internationalisation. The participants highlighted that when raw-material availability meets international market demand for quality, quantity, and timeframe, this is a solid reason to do internationalisation. However, access and availability of raw materials are highly regulated. They may be the subject of national legislation and international conventions, such as Article VI of GATT 1994, known as the WTO anti-dumping agreement.

As mentioned in the empirical discussion in Chapter Four, raw-material availability in Indonesia is arranged to align with the country's long-term export strategy. Raw material for industry is regulated by Law No. 3/2014; specifically, raw-material availability is guaranteed by the government, as stated in Article 33:

The government and local governments ensure the availability and distribution of natural resources for the domestic industry (Law No. 3/2014, Article 33).

The national legislation is then adopted at the subnational level. For example, Bali Provincial Law No. 8/2020 about Bali Provincial Industrial Development Plan 2020-2040 read as follows:

Bali Province industrial development goals 2020-2040, namely: [...] increasing the availability and quality of raw materials' (Bali Provincial Law No 8/2020, Appendix Article 1b).

This subnational-level legislation is further elaborated on the provincial road map of industry and another law of implementation guideline.

By adopting national-level regulation into subnational regulation, local governments are able to devise regulations that suit their region. For example, in Yogyakarta, Provincial Law No. 7/2019 ('Industrial Development Plan for the Special Region of

Yogyakarta 2019-2039') states that the furniture industry is Yogyakarta's priority industry. Therefore, the Yogyakarta industrial road map prioritises rattan and wood procurement, which are the raw materials of the furniture industry. In contrast, Bali Provincial Law No. 8/2020 ('Bali Provincial Industrial Development Plan 2020-2040') defines the agroindustry as Bali's priority. Therefore, the Bali industrial road map prioritises the availability of various seeds (e.g., cocoa, coffee, and cashew seeds) that are the raw materials for agroindustry.

Some raw materials cannot be sourced locally, and some need to be imported. To maintain the competitiveness of those SMEs that need to import their raw materials, the government launched the KITE programme (*Kemudahan Import Tujuan Export* [Ease of Importing for Exports]). KITE gives SMEs incentives to reduce import duties and value-added tax on the imported raw material for export purposes. However, this scheme requires caution, as reducing import duties and value-added tax could breach the anti-dumping agreement, as explained by one government officer:

We need to be very discreet when approving a KITE application. The entrepreneurs have to provide evidence that they will use the imported product as raw materials for export. If we do not assess it properly, we will breach the anti-dumping agreement because this would allow the imported product to have a lower price here than in its home country (MK).

Another initiative by the government to help SMEs access raw materials is *Rumah Produksi Bersama* (Shared Factory). This scheme encourages SMEs to share factory facilities. The scheme is currently only available for entrepreneurs in the furniture sector. According to a government officer, this scheme helps SMEs to collectively buy raw materials in bulk to benefit from competitive prices. This is instead of buying individually and obtaining small quantities at higher prices. This scheme does not specifically promote the internationalisation of furniture SMEs, but 80% of the firms in this sector serve overseas markets (BPS-Statistics Indonesia, 2019d). Therefore, this can be considered a government initiative to support SME internationalisation. A government official from the Yogyakarta office explained how this programme helps SMEs:

Rumah Produksi Bersama solves problems related to raw materials. SMEs in Trucuk Klaten³ can make any furniture, but the availability of raw materials hampers them. Small companies and home industries can afford cash for raw materials. But because of the [raw materials] retail purchase, the price is high. Not to mention the [raw materials] supply problem. But now, that has been improved. There are raw materials at good prices because they can purchase in bulk. Now the supply is stabilised, they can sell the products overseas confidently (DJ).

The entrepreneurs reported that it is essential to have all the materials available before agreeing to supply an overseas market. This is especially true for the handicraft industry, where some raw materials come from natural resources and have seasonal availability (e.g., woods, rattan, and animal-based materials such as leather). One entrepreneur highlighted the importance of knowing the cycle of the raw materials when doing international business:

Before we deal with our overseas buyer, we need to make sure that we have the raw materials to produce the products that they order. Therefore, after years of business, we now know very well the cycle of the raw material needed, and we can adjust to the stock availability (P3AAB).

In line with the quote above, another participant mentioned that it is important to have reliable suppliers of good-quality raw materials, and this affects the decision to sell overseas:

Rattan, our main raw material, is not easy to get. What I mean by that is, it is true that we have a lot of rattan in this area, but to get good quality, we need to be selective. After years in this business, we now have some reliable suppliers who consistently fulfil our needs. Therefore, we are not worried about accepting new orders, including those from overseas markets, which usually need a lot of rattan materials (J3ADR).

³ Trucuk Klaten, a village in Yogyakarta where one of the *Rumah Produksi Bersama* (Shared factory programme) takes place.

For sustainability and environmental reasons, some rare raw materials are highly protected and entrepreneurs need to obtain a license to access them. One entrepreneur shared his view that this licensing system is important:

Yes, I have the license to export and also the license to purchase rare materials. I just want to comply with everything and do my best to equip my business with any paperwork needed. It is annoying sometimes, but I just do not want to worry. By having all the licensing and necessary permits, I feel like I am doing business in the right way. So, whenever I get a sudden request, especially for my overseas customers, I know I can fulfil it within a reasonable time (B3AKA).

The quotes above show that the issue of raw-material availability plays a key role in SME internationalisation. The participants highlighted this as a critical factor in production, especially in the handicrafts industry. It determines the SMEs' ability to satisfy demand, both locally and internationally. It also shows how the existing law can affect them as part of the formal institutions. Once an entrepreneur feels confident about the availability of the necessary raw material, they are often eager to enter the overseas market. In addition, the participants identified the quality and price of raw materials as critical dimensions. When the entrepreneurs are able to source raw materials of good quality and for a good price, within a reliable timeframe, they are able to take orders from overseas. This study cannot provide a piece of direct evidence from the entrepreneurs' perspective to justify whether entrepreneurs link to the raw materials' availability has something to do with the government's effort as mandated in formal legislation. However, the participants highlighted that they were eager to obtain licenses to access certain raw materials for internationalisation. This provides evidence that, from the entrepreneurs' perspectives, a formal institution plays a role in regulating the availability of raw materials for internationalisation.

The government has two roles with respect to raw materials: it is, first, a facilitator that guides SMEs' access to raw materials, and second, a regulator that protects the raw materials, especially the natural resources, and ensures they are used wisely and for the common good. This study found that raw-material-related regulations exist at both

the national and subnational levels, highlighting the significant role of formal institutions in raw-material availability.

Although informal institutions were not prevalent in this dataset, norms and myths around the extraction of natural raw materials were referenced by the participants. For example, when discussing the challenge of obtaining raw materials, one participant shared the infamous urban legend of *Wenara Wana*, Bali's so-called haunted forest. This story has successfully discouraged logging companies from cutting trees in this forest. Another participant told a story of *Pasar Bubrah*, the remnants of a traditional market in Yogyakarta, swept out by the Mount Merapi volcano eruption. It is said that people can hear wailing voices from the empty *Pasar Bubrah*, and, as a result, artisanal miners avoid extracting sand and gold from there. These stories can be understood as an informal institution serving a conservation function. The participants did not feel that these myths hampered their efforts to access raw materials, as they reported that these could be found from other places and suppliers. Therefore, it can be concluded that both formal and informal institutions at the national and subnational levels influence the availability of raw materials, including in the SME-internationalisation context. Considering raw material as a factor that is highly regulated, when the entrepreneurs have reliable access and availability to raw materials, they feel confident to go international.

7.3.3. Institutional Networks

Networks have been emphasised in previous studies as a prominent facilitator of SME internationalisation. There are various types of network, such as social networks (Pinho & Prange, 2016); personal networks (Jin & Jung, 2016); business networks (Slotte-Kock & Coviello, 2010); local networks (Boehe, 2013); and institutional networks (Oparaocha, 2015). Institutional networks are defined by Oparaocha (2015) as 'network relationships that can exist between a firm and publically funded, open-access institutions'. The concept might overlap with that of a business network. However, Oparaocha (2015) and Costa, Lucas Soares, and Pinho de Sousa (2017) highlight the difference between a business network and an institutional network, explaining that a business network is a dyadic relationship (e.g., customers, suppliers, strategic partners).

In comparison, in an institutional network, support is provided by institutions to create an environment that facilitates internationalisation. In this research, an institutional network comprises public and semi-public agencies, such as the foreign trade ministry, government agencies, independent export assistants, business associations, NGOs, and so on. This sub-theme is similar to that of institutional support in Chapter Nine, as both institutional support and institutional networks are related to government and private agencies. However, this chapter considers the institutional network from the entrepreneurs' perspective, revealing how institutional networks open the gate for the entrepreneur to begin their internationalisation journey. Chapter Nine, in contrast, focuses on the type of institutional support provided by the formal institution, especially from the government's perspective.

In the Indonesian context, the government's role as an institutional network is linked to legislation. For example, Indonesian Law No. 20/2008 on micro, small, and medium-sized enterprises states that the government has several responsibilities for supporting these firms. For example, Article 7 on building a business environment states as follows:

Government and Local Government [must] foster [a] business environment by establishing statutory regulations and policies covering the following aspects:

- a. funding;*
- b. facilities and infrastructure;*
- c. business information;*
- d. partnerships;*
- e. business licensing;*
- f. business opportunities;*
- g. trade promotions; and*
- h. institutional support*

(Indonesian Law Number 20/2008, Article 7).

As the text refers to 'government and local government', this implies that this type of support is available at both the national and subnational levels.

To carry out the duties mandated by the legislation above, the government has launched a number of programmes. For example, the Ministry of Finance established *Lembaga Pembiayaan Ekspor Indonesia* (LPEI), the Indonesian export-financing agency for SMEs with an export orientation. LPEI provides a financing facility with accessible terms and interest rates. With this, the government hopes to enhance SMEs' competitiveness and encourage domestic industrial growth by increasing Indonesia's exports. To help SMEs enter the international market, the Ministry of Cooperatives and SMEs has a special mission vehicle (SMV) called 'SMESCO'. SMESCO's activities include providing exhibition facilities for SMEs, promoting and marketing superior Indonesian products abroad through Trading House activities, and providing training for SMEs.

Indonesia is a signatory to various FTAs, such as AFTA and the ASEAN Free Trade Association. To ensure that local SMEs get the benefit of these FTAs, the Ministry of Trade runs a programme under the export and import (EXIM) agencies as the SMV. The support includes helping SMEs to decide the destination country and utilise the schemes associated with the FTAs, preferential trade agreements, or comprehensive economic partnerships.

However, the qualitative dataset revealed that some entrepreneurs are reluctant to seek support from the government (this will be elaborated upon in Chapter Eight, on bureaucracy). This phenomenon can be linked to previous research reporting that some SME-owners do not have the personal or social contacts needed to connect with the international market (Costa *et al.*, 2017; Oparaocha, 2015). Therefore, formal agencies that every SME can access have become essential for facilitating internationalisation. One participant explained that, as he lacked resources and a personal international network, he had requested support from government agencies to facilitate his introduction to the international market:

I do not really have any personal connections. I started my business on my own. My parents are not in business. I have several friends, but they are in different industries, so I cannot really ask them about the international market. But since we joined the Department of Trade and Industry as their fostered business,

there have been many opportunities to participate in their exhibitions abroad. That's how we started our export business (J3ABC).

Another participant expressed a similar notion. He reported that, when he joined an entrepreneur association, he got the opportunity to indirectly enter the overseas market by helping another member to fulfil an order:

I get most of my current customers from the entrepreneurs' association that I have joined. This has given me a lot of market opportunities. For instance, when a colleague comes back from an overseas exhibition, he usually shares the experience and opportunities he gets and asks for cooperation to make the most of them. My first overseas sales were like that – helping another member to fulfil his order. And after that, I felt more confident about going international with my brand. You know, we are a small business. Sometimes we do not have enough capacity to meet the demand from foreign buyers. But it is a shame if we miss an opportunity. There are a lot of benefits that we can get by working together – not just merely finding a new market, but also, we can be aware of any update regarding our business. I also enjoy making friends. We believe that nurturing relationships will increase our fortunes (B3ASJ).

As stated above, the institutional network can also be a business association. Members help one another to fulfil overseas demand, and they learn from other firms' experiences.

In relation to the previous sub-theme, it was noted that access to raw materials can be institutional. Some good-quality raw materials can only be accessed by entrepreneurs who are part of a business association – and, in some cases, information about the raw materials is available exclusively to members of the association. This was explained as follows:

In this type of business, it is nearly impossible to get raw materials if you do not join a pearl association. As you can see, most of my jewellery products use pearl. Pearl has classes, and it is not easy to get. Yes, indeed, we can easily find it in a jewellery store for retail purposes; but for us, as crafters, we need to

look for the cheapest possible material, but high quality. One way to get that is by buying it together with our colleagues, since it is quite expensive. Besides, the pearl breeder normally offers their pearls to the wholesalers first, and our pearl association is considered one of them (L2ARP).

As mentioned above, joining an association provides two benefits: first, it facilitates members' access to the raw materials, and second, it lowers the prices they pay, as members can pool their resources to buy in bulk.

Another benefit of joining an institutional network is obtaining help with licenses or permits. A small business that has received its first overseas order may need a license for the destination country, and regulations can be complex and costly. In this situation, a business association offers 'under-name' support, which means the member can export under the association's name (or under the name of another member):

My export experience began when a friend of mine, out of nowhere, introduced me to his colleague from Singapore. He said that his colleague was looking for unique souvenirs to supply his customers in Singapore and Malaysia. I was a small seller in a traditional market at that time. I did not know anything about exports and had no idea how to send my products to Singapore. But as an entrepreneur, I could not say no to an opportunity! So, I asked my other friends in the entrepreneur association. They directed me to an exporter, who – to cut a long story short – were willing to help me send my products to Singapore, as that is what he was doing anyway as an exporter. All I needed to do was to send my products to him, and then he took care of the rest (A3APS).

In summary, the institutional network is a consideration of entrepreneurs when they begin the internationalisation journey. While not everyone has a social or personal network, the institutional network is designed to be accessible to all. The institutional network helps entrepreneurs with licensing, market penetration, raw materials, and so on. The networks channel support to SMEs from government agencies. For example, international exhibitions provide SMEs with the opportunity to expand their business networks by meeting with other business actors, potential customers, and overseas agents. One example of a formal institution at the subnational level are the regional

support programmes provided by the local government, including managerial training and matchmaking partnerships, where SMEs can meet with potential partners to discuss business development and network expansion.

7.3.4. Discussion

The findings on internationalisation resources – in relation to the institutional driver variable – highlighted three second-order themes: IPR, raw-material availability, and institutional networks. The first of these supports the previous studies showing that IPR drives SMEs internationalisation. This study found that an IPR license enhances the credibility of a firm. From a government perspective, IPR can signal to potential partners that a firm is credible. This makes it easier for the SME to attract funding, buyers, technical partnerships, and so on. From the entrepreneurs' perspective, obtaining an IPR license is akin to formalising the business. The entrepreneur perceives their business as 'real' and is inspired to expand the business. In Indonesia, formal institutions regulate IPR at both the national and subnational levels. The government thus supports SMEs in obtaining IPR licenses and preparing them for internationalisation.

Similarly, the theme of raw-material availability is associated with law and government regulations, which are among the formal institutions. This supports the North's (1990) view of the institution on the topic of resources. Resources can be part of the economic institution – structuring, constraining, or driving exchange. In this research, the exchange is SME internationalisation. This finding supports the conclusions of Gao *et al.* (2010) that formal institutions control the supply of raw materials through government policies at the national and subnational levels. Therefore, this research concludes that institutional networks are important drivers of internationalisation.

Moreover, from the theoretical perspective of formal and informal institutions, these internationalisation resources broaden the study's perspective from Manolopoulos *et al.* (2018) that examine the home institutional quality that affects resource decision in SMEs' export performance. In short, good home-institutions drive internationalisation.

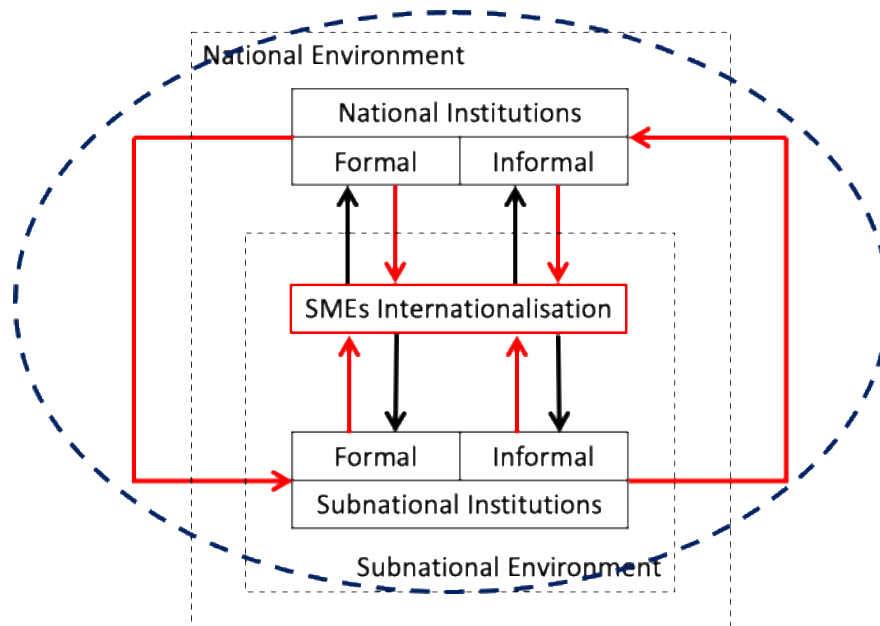


Figure 7.5. The position of institutional internationalisation resources in the research framework

In the research framework, the themes of IPR and institutional networks are explained by the arrows from the formal and informal institutions at the national and subnational levels toward SME internationalisation (as shown in Figure 7.5). This means that both second-order themes are directly affected by the formal and informal institutions in the process. In contrast, the theme of raw-material availability is only explained by the arrow from the formal institutions at the national and subnational levels toward SME internationalisation. This means that these second-order themes are only affected by the formal institutions in the process. The research framework also highlights that the formal institutions at the national level directly influence the formal institutions in the subnational environment. In contrast, the informal institutions in the subnational environment can affect national-level informal institutions. The theme of internationalisation resources reveals how formal and informal institutions can directly influence SME-internationalisation decisions.

7.4. Internationalisation Skills and Knowledge

The final sub-theme of the institutional drivers concerns the skills and knowledge possessed by the entrepreneur and their organisation. Skills and knowledge are clearly essential competencies for engaging in internationalisation activities (Pradhan & Das, 2015; Kahiya, 2013).

In the Indonesian context, internationalisation skills and knowledge are included in the support provided by the government. They are mentioned directly in Indonesian Law No. 20/2008 in Articles 19 and 20, which say that the government is obliged to deliver the required training programmes to SMEs. Article 25 (3) describes incentives schemes for large companies to engage in partnerships with SMEs, specifically providing education and training:

The Minister and the Technical Minister regulate the provision of incentives to Large Enterprises that have partnerships with Micro, Small and Medium Enterprises through innovation and export-oriented product development, labour absorption, the use of appropriate and environmentally friendly technology, as well as providing education and training.

The dataset revealed that the sub-theme of internationalisation skills and knowledge can be further classified into three second-order themes, as shown in Figure 7.6. Thirty participants in the SMEs category referred to skills and knowledge as institutional drivers of internationalisation. This section elaborates – primarily from the entrepreneurs’ perspective – how information technology (IT) skills, marketing and sales skills, and entrepreneurial experience drive SMEs’ participation in internationalisation.

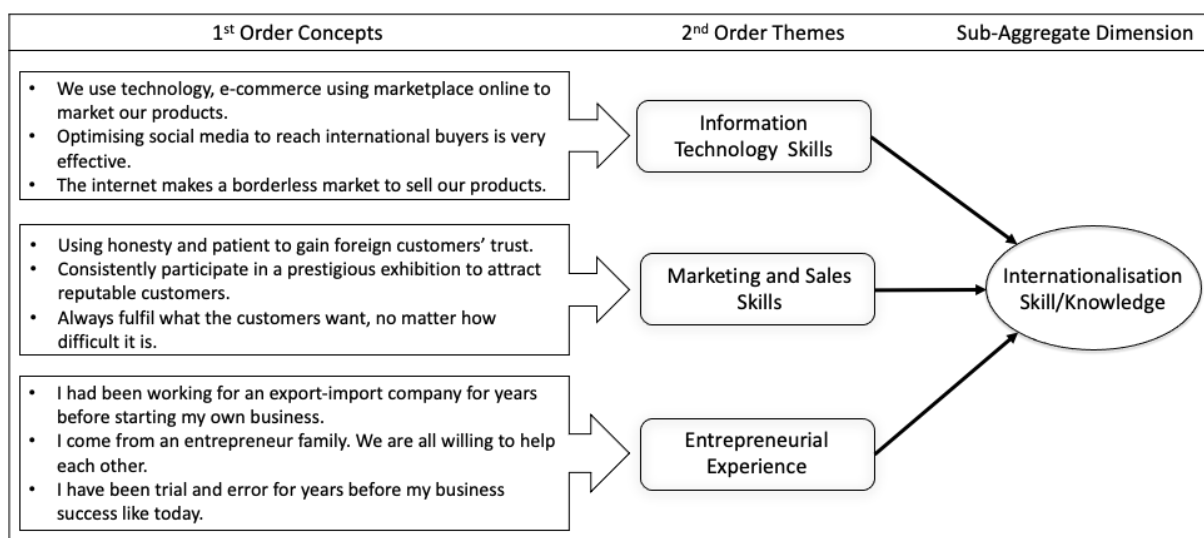


Figure 7.6. The data structure of internationalisation skills and knowledge

7.4.1. Information Technology Skills

The first topic captured in the interviews was the importance of an IT skill set when engaging in internationalisation. With the use of the internet in business being a norm and information moving rapidly across national borders, SME internationalisation requires e-commerce and internet skills, including the ability to use social media platforms to sell products overseas. This is in line with the previous research showing that technological knowledge is crucial for SME-export decisions (Cassetta *et al.*, 2020; Pradhan & Das, 2015). The use of IT in SME internationalisation is varied. This research found that IT is used to promote products digitally, to conduct market research and investigate regulation for countries of interest, to build networks, as a source of inspiration for product development. The use of the internet is a standard business practice today, as explained by one participant:

The internet offers unlimited opportunities for us. It blurs the boundaries between regions and even countries. Every business needs a virtual presence. This is now essential for winning markets inside and outside of the country (J2ACW).

This quote demonstrates how national-level social norms promote IT skills and encourage entrepreneurs to develop a social media presence. Therefore, SMEs require IT skills to adhere to this norm. A social media presence brings SMEs closer to their customers – both local and international.

The platforms used to promote products to the international market are also varied. They range from social media sites (such as Instagram and Facebook) to specific marketplaces, such as Amazon and Etsy. One SME owner shared her experiences of unintentionally selling a product internationally via Instagram:

I use social media to promote my products. At first, it was just a hobby. Taking pictures of my products and posting them to social media platforms such as Instagram. However, when a buyer from overseas contacted me, I realised that social media could be a very effective tool for advertising my products for free. I began to optimise my use of the platform to get more international buyers (J2AKP).

Another participant explained that they used e-commerce websites to promote their products internationally:

We use technology, e-commerce, websites like etsy.com to market our jewellery. The overseas buyers know our products through these e-commerce platforms (J1AHJ).

The entrepreneurs reported that be taught IT skills in school had helped them to internationalise their businesses:

Nowadays, everything is [on the] internet, everything is [on the] computer. Fortunately [IT is] taught at school. If it weren't taught, I would definitely not have thought about selling products overseas. I can't even speak English. But now there is Google Translate. Just search on Google Translate (B3ASJ).

Another participant felt that specialist technology education can be particularly beneficial:

I had never thought about selling overseas until I hired an employee who is good at IT; he knows computers. He can search for product info and designs that are trending internationally. He uses Pinterest and other things I do not know. So, if we need anything, we ask him to search the internet. He can also do graphic design. His posts on Instagram are artsier than mine and other employees'. I think a vocational school graduate is better than a general high school graduate. Their IT skills are better (L2ALM).

Similarly, the government is focusing on the development of IT skills in SMEs, as stated by one government official:

*Being able to use the internet and computers is important. We are here to provide that [training]. From the easiest skills – turning on a computer, because many can't [*laughs*] – to the most sophisticated ones, like web design (DJ).*

This research found that both the entrepreneurs and the government agree that IT skills are essential for internationalisation. However, previous research found that SMEs have lack personnel who has IT skills (Devos *et al.*, 2012). Therefore, investment in IT skills is crucial. This study also showed that the government-designed school curricula ultimately determine the IT skills possessed by entrepreneurs.

7.4.2. Marketing and Sales Skills

The second topic to emerge from the data-collection process for this sub-theme was marketing and sales skills. As examples of internationalisation skills and knowledge, marketing and sales skills play a significant role in driving SMEs' overseas expansion (Barbero *et al.*, 2011). They also affect SME-internationalisation performance (Cavusgil & Zou, 1994). Along with IT skills, marketing and sales skills are discussed widely in the entrepreneurship literature on business performance and internationalisation (Jin *et al.*, 2018; Pellegrino & McNaughton, 2017; Pratono *et al.*, 2016; Yeoh, 2013).

Thus, it is unsurprising that some participants cited these as critical skills for conducting business overseas. Marketing and sales skills are varied, and they include negotiation skills, presentation skills, marketing-campaign design, and so on.

For instance, one interviewee shared his approach to maintaining his overseas customers, citing honesty and patience as the key:

It is not easy to deal with a foreign buyer for the first time, but with honesty and patience, we can gain their trust and the orders begin to flow (B3ASS).

Some entrepreneurs revealed that their marketing strategy involved participating in the exhibitions, as this sends a signal that the SME is credible:

I started my international business before the internet era. At that time, the best way to get large buyers was by participating in reputable exhibitions, and it had to be consistent every year. That was how big buyers knew we were a sustainable firm (B2ASS).

The other marketing and sales strategy discussed during the interviews was about presentation, or the ability to properly introduce the product to the customer. One SME owner explained this:

Our main export destination is Japan. Japanese people are usually very detailed and love perfection. They scrutinise our products before they accept them. It is not easy to satisfy them. However, we accept this as a challenge and do our best to fulfil their requirements, no matter how difficult (J3ABA).

The government is responsible for supporting SME marketing, as mandated by the Law of Trade No. 7/2014 on export regulations. The law states that the government is responsible for empowering SMEs and supporting them with incentives, technical guidance, access to capital, promotion, and marketing assistance. In addition, the national medium-term development plan states that the Indonesian government will implement strategies to support SMEs internationalisation. One of these involves enhancing the image and diversifying the marketing of tourism destinations and creative products at the subnational levels. Accordingly, the implementation of those laws at the subnational level is marketing and sales training and assistance conducted by the regional or local government.

Therefore, it can be concluded that marketing skills are an essential driver of internationalisation. In the negotiation stage, marketing and sales skills can affect whether an entrepreneur is able to convince the buyer of the product's quality or unique nature and to show that the company is credible.

7.4.3. Entrepreneurial Experience

The final second-order theme for this sub-theme of internationalisation skills and knowledge is entrepreneurial experience. Entrepreneurial experience is beneficial for improving SME business processes to facilitate internationalisation and anticipating impediments during the transition. This experience is necessary for maintaining existing international networks, making business forecasts, and reckon on any unpredictable adversity at each stage of the internationalisation process. There is a body of literature highlighting the importance of entrepreneurial experience for managing a business, and it is especially valuable when expanding internationally.

Studies have shown that SMEs whose owners and managers have entrepreneurial experience are more likely to succeed in international expansion (Hollender et al., 2017; Love et al., 2016; Oura et al., 2016; Jones & Casulli, 2014; Kalinic & Forza, 2012; Fayos Gardó et al., 2006).

This study provides support for those conclusions, as entrepreneurial experience can encourage SMEs to consider business internationalisation as part of their growth strategies. This entrepreneurial experience can be institutional, gained through interaction with institutions or by becoming part of an institution. For example, several entrepreneurs shared that they had learned a lot from their role in their former offices:

I had been working for an export-import company for years before starting my own business. Since I have experience of this, and I also know some buyers well, I started my business with a sole focus on exporting goods (J3AYS).

Family, which is another institution, can also provide entrepreneurs with the experience needed to start an internationalisation journey. One participant emphasised his family background:

I come from an entrepreneur family. Both my parents have their own businesses. My parents-in-law are also entrepreneurs; my wife too. We don't have an employee figure as an example that we can see in our family. So, our mindset is, if you want to work, be an entrepreneur. Even my sisters have the same view. My wife's sister is the same because she doesn't have an employee figure either. The good thing is we are all willing to help and support each other. I learn so much from them about running and growing my business (J2BCN).

However, some respondents told a slightly different story. Their entrepreneurial experiences had been shaped by the environments in which they were living. Bali, known as a tourist destination, attracts many overseas entrepreneurs and entrepreneurs have the opportunity to learn from them. For one participant, this triggered her entrepreneurial journey:

We have many visitors from abroad, since we are in Bali, the number one tourist destination in Indonesia. Some of them are businessmen from other countries

and they ask me to supply their businesses with my crafts. From that, I started to learn about the regulations for doing exports and how to comply with them. There was some trial and error before I could do exports by myself (B3AKA).

This highlighted the importance of having the opportunity to learn from other entrepreneurs. As mentioned in relation to the previous theme, these opportunities can be found through personal and institutional networks.

7.4.4. Discussion

This study has found that internationalisation skills and knowledge are an institutional driver. Readiness for internationalisation are thus associated with three resources, namely IT skills, marketing and sales skills, and access to learning from other entrepreneurs (entrepreneurial experience).

Based on the institutional theory and the evidence from the extant studies related to institutions, the skill and knowledge theme is influenced by informal institutions that transferred across generations in the society through previous experience, teaching, and value transmission (Tonoyan *et al.*, 2010; Wright *et al.*, 2005; Hoskisson *et al.*, 2000). Society values internet skills. This same norm is also found at the subnational level, where it is a general social value to use the internet in one's daily life. Evidence of informal institutions at the national and subnational levels was provided in the interviews, where the participants expressed that social media and virtual marketplaces were valuable for international business growth.

Moreover, the informal institutions at the subnational level that influence the marketing and sales skills, and entrepreneurial experience, are shown by the value in the society or the local community that supports an internationalised SME in their community. The general community perceives entrepreneurship to be a positive concept of livelihood. The community is willing to support SME marketing campaigns by sharing social media posts and providing parking spaces for the large containers that collect the SMEs' products for long-distance deliveries. Entrepreneurs' family and friends encourage and help their business grow in the way they want it to be, including if they want to go international. The exact value is also perceived at the national level as a

nation's general national value to help national products be recognised internationally. These informal institutions at the national and subnational levels were described in the interviews, where the participants explained that social support is a contributor to international business growth.

Internationalisation skills are also shaped by government regulation, including the teaching of IT skills in school (especially vocational schools). Vocational school graduates are able to work with IT and this valuable for SME internationalisation. The government also supports SMEs by providing training in necessary internationalisation skills.

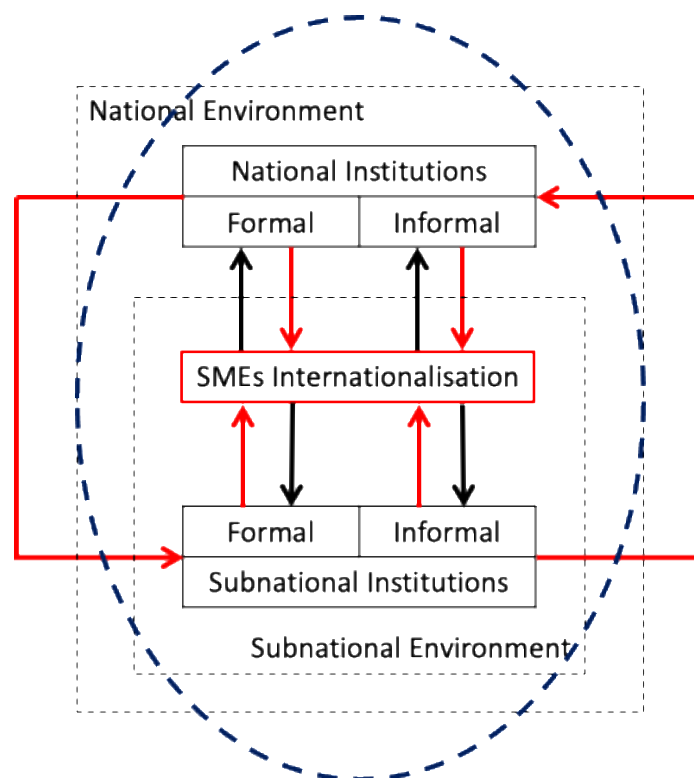


Figure 7.7. The position of internationalisation skills and knowledge in the research framework

In Figure 7.7, all three sub-themes of internationalisation skills and knowledge are explained by the arrow from the formal and informal institutions at the national and subnational levels to SME internationalisation. This means that all second-order themes are directly affected by the formal and informal institutions in the process. The research framework also highlights that the informal institutions in a subnational

environment can have an impact on the national level, due to an institutional process that shapes social structure across generations, from the subnational to national levels (Wyrwich, 2015; Martin, 2000). As shown above, the internationalisation skill and knowledge theme, which consist of IT skills, marketing and sales skills, and entrepreneurial experience, strengthen the evidence that informal institutions have a notable influence on SMEs' internationalisation activity.

There are many other entrepreneurial skills and knowledge that SMEs must also have – such as technical skills, financial knowledge, operational expertise, and so on. However, this study focuses on internationalisation activity, thus only those skills and knowledge that directly affect internationalisation practices have been selected from the data set.

7.5. Conclusion

This chapter has fulfilled the first research objective:

Evaluate formal and informal institutional drivers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

This thesis found that formal and informal institutional drivers affect SMEs internationalisation at the national and subnational levels through three factors: contextualised motives, institutional resources, and skills and knowledge. This research also provides an analysis of those institutional drivers of SME-internationalisation activity. This study has drawn from the formal and informal institutions' position according to the research framework. This research integrates its new findings with the extant institutional-theory literature. It enriches academic knowledge on the institutional context by positioning every theme in the institutional drivers in relation to the formal or informal institutions and showing how they interact and influence SME-internationalisation activity.

Regarding formal institutions, the study has shown that, when translating national-level law into subnational level regulation, government officials must understand the characteristics of the SMEs in the particular area of work. This is especially true when

the regulation is used to deliver support programmes, as this can prevent possible conflicts between SMEs and between SMEs and government agencies. Second, government regulation must consider the informal institutions involved in the area. If the regulation does not accommodate social norms and values, conflicts will arise between the formal and informal institutions. As a result, the government export initiative and other related SME-support programmes must acknowledge the interests of the SMEs and the social norms and values.

In the informal institutional context, SMEs must also adapt to the norms and values of the area in which they are operating. Their business activities and their perceptions of internationalisation should be adjusted to comply with the informal institutions. This study of institutional drivers has not identified any conflict between the informal institutions at the national and subnational levels. This is because the informal institutions at the national level are the product of informal institutions at the subnational level. Therefore, those at the national level are able to fully accommodate those at the subnational level. The informal institutions can also stimulate SMEs internationalisation in the form of inherited family business value, society support value in expanding business overseas, and society's view on business.

To conclude, formal and informal institutions at the national and subnational levels are substantial influences on SME-internationalisation activity. The practical implication is that the government must consider the institutional integration of formal and informal institutions when designing and implementing regulations and programmes. At the same time, SMEs must seek government assistance when developing internationally, integrating the informal institutions they adopt with the formal institutions they can utilise. An efficient integration of the formal and informal institutions could help the government and the SMEs to achieve their internationalisation objectives, reducing risk in the process and improving performance.

The next chapter turns to the second research objective and considers the institutional barriers to SME internationalisation. The findings and analysis complement the findings in this chapter, detailing the challenges and hindrances that arise from formal and informal institutions.

Chapter Eight: The Effect of Home-Country Institutional Barriers on the Internationalisation of Small and Medium-sized Enterprises

8.1. Introduction

This chapter presents the findings of the qualitative data analysis, unpacking the semi-structured interviews with SME owner-managers and entrepreneurs, government officials and policymakers, and business intermediaries and entrepreneur associations to investigate the role of home-country formal and informal institutions in SME internationalisation within an emerging market context. The goal of this is to fulfil the second research objective:

Evaluate formal and informal institutional barriers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

The secondary data discussed in Chapter Six concern the business challenges and obstacles that comprise the 'barriers' variable. The obstacles identified are capital difficulties, marketing adversity, and raw-materials availability. The qualitative datasets highlight the institutional barriers cited by participants as hindrances to SME internationalisation, and this chapter analyses these barriers, taking a qualitative approach to achieve the second research objective.

The respondents discussed the difficulties and hardships they faced when engaging in internationalisation activities. Three sub-themes emerged from the dataset: institutional barriers to knowledge, internationalisation bureaucracy, and institutional asymmetry. Institutional barriers to knowledge are the norms and regulations that hinder access to internationalisation knowledge. For example, the regulations shape the contents of the training delivered by the official government. Furthermore, the official government's KPIs determine the knowledge that SMEs must pursue. The sub-theme of 'internationalisation bureaucracy' concerns how regulations and their implementation can hinder internationalisation – for example, due to regulatory voids and red tape. The third sub-themes under the heading of institutional barriers is 'institutional asymmetry'. This concerns the misalignment between institutions (such

as between formal and informal institutions), as well as between sectoral regulations and in unequal access to government support.

Figure 8.1 serves as a research framework, showing how institutional barriers to knowledge, internationalisation bureaucracy, and institutional asymmetry are related to formal and informal institutions at the national and subnational levels of the environment. This is elaborated upon in the following section.

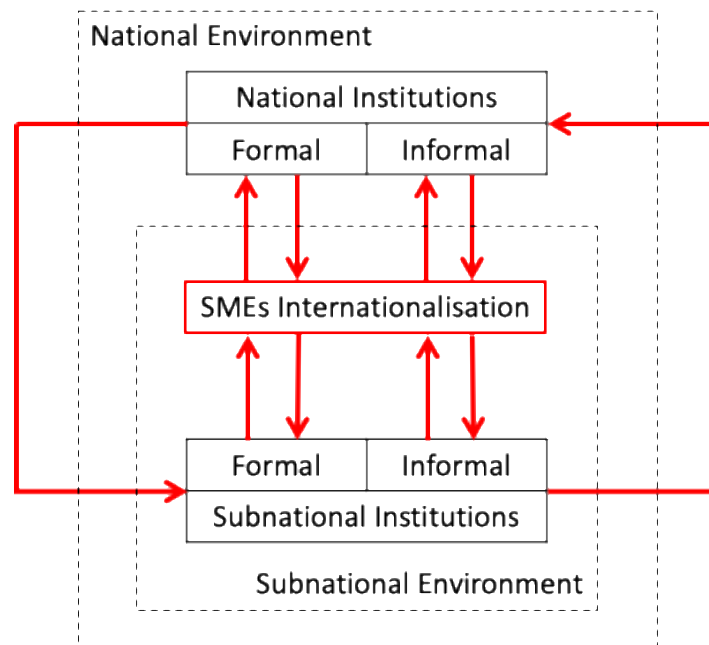


Figure 8.1. The position of institutional barriers in the research framework

Table 8.1. shows how frequently the sub-themes (institutional barriers to knowledge, internationalisation bureaucracy, and institutional asymmetry) were discussed in the interviews. The sub-theme of ‘barriers to knowledge’ was mentioned by 22 participants, ‘bureaucracy’ by 40, and ‘institutional asymmetry’ by 31. (The details are presented in the middle column of Table 8.1.) These sub-themes are thus common in the dataset, which is an important finding in relation to the research objective.

Table 8.1. Institutional barriers mentioned in the dataset

Themes	Participants with Homogeneous Perspectives	Frequency
Institutional Barriers		
a. Barriers to Knowledge	J3AYS, P3BPB, F1BLC, G2CNC, A3APS, B2ASS, N1BAS, P3AAB, C3CMT, B2BCK, B2CGM, B1CWC, J2BBN, J1BNH, J1ADA, J1AIE, J1CNS, J1BHF, DP, KD, BIJ, AB	22
b. Bureaucracy	J3ASB, J2ACW, J2BCN, J1ANB, J3ADR, J3AYS, J2AKP, J3ABA, P3BPB, L2ALM, F1BLC, L2ARP, A3APS, B2ASS, N1BAS, B3ASS, B3AKA, J3AGC,	40
c. Institutional Asymmetry	J3ASB, J2ACW, J2BCN, J1ANB, J3ADR, J3AYS, F1BLC, G2CNC, N1BAS, B3ASS, J3AGC, S3APT, J2BBN, J1BNH, J3ABC, J2ADL, J1AHJ, J2ADE, J1CNS, J2APC, J2AKA, DR, DPK, MK, BKF, BPN, EB, KD, BIJ, PK, RTK	31

The following sections explain how these sub-themes hinder the pursuit of internationalisation and show how they fit into the research framework. This chapter presents the first-order concepts, the second-order themes, and the aggregate dimensions, in line with the suggestions of Gioia, Corley and Hamilton (2013) for reporting the results of thematic analyses. Thus, the following section discusses the institutional barriers to knowledge, internationalisation bureaucracy, and institutional asymmetry.

8.2. Institutional Barriers to Knowledge

Chapter Seven discussed how internationalisation skills and knowledge can *facilitate* the internationalisation process. However, the first sub-theme in this chapter is the institutional barriers that *inhibit* access to the knowledge needed for internationalisation. These barriers affect both entrepreneurs and the government itself. The data structure for this sub-theme is presented in Figure 8.2.

This sub-theme comprises two second-order themes: first, the lack of regulation of government officials' knowledge and second, the informal institutional barriers to internationalisation. These sub-themes are constructed from the perspectives of SMEs and business intermediaries.

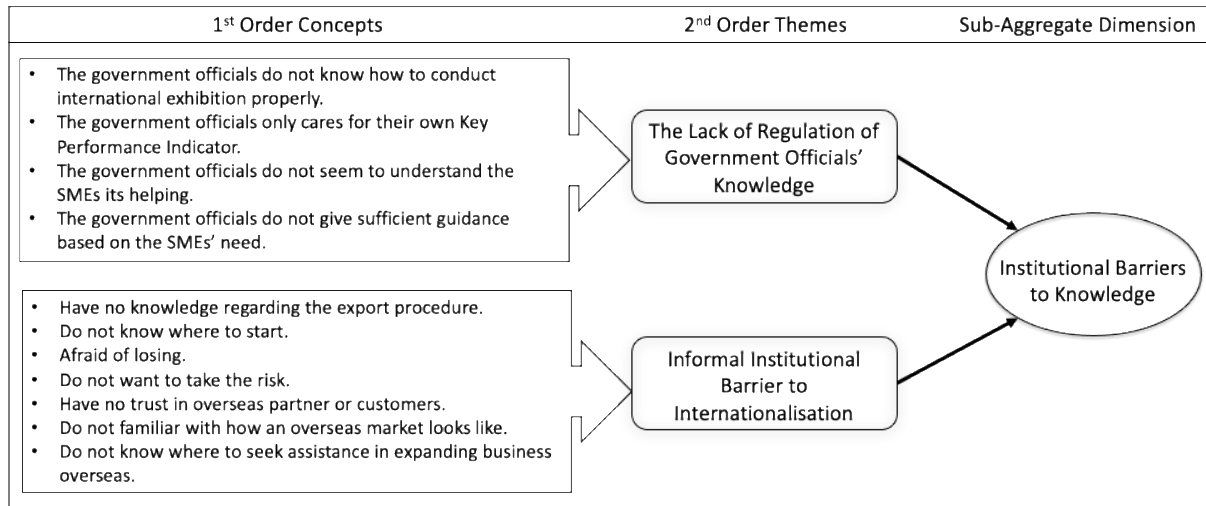


Figure 8.2. The data structure for institutional barriers to knowledge

8.2.1. The Lack of Regulation of Government Officials' Knowledge

As discussed in Chapter Seven, skills and knowledge are important drivers of internationalisation and essential for entrepreneurs to begin their internationalisation journeys. Chapter Seven also showed how these skills and knowledge are made accessible in the entrepreneurial environment. However, institutional networks are vital, including networks of government institutions to provide entrepreneurs with the required resources and information about new markets, regulation, and so on. The government must assist in SME development, as regulated by Law No. 20/2008:

Development is an effort made by Government, Local Government, Business World, and community to empower Micro, Small, and Intermediate Enterprises through providing facilities, guidance, mentoring, and reinforcement assistance to grow and improve abilities (Indonesian Law Number 20/2008 on SMEs, Article 1, verse 10).

The government officials in charge of supporting and regulating SMEs' internationalisation need to know this area. However, the participants reported in the interviews that the government lacks the knowledge to fulfil its role according to the law. Therefore, this lack of government knowledge constitutes a formal institutional barrier to SME internationalisation.

This can be attributed to the lack of regulation in state civil-service management or the mismatch between the competencies and qualifications required by civil servants and the civil-service management system (e.g., recruitment, training, etc.). This is acknowledged by the government in Indonesian Law No. 5/2014 on state civil apparatus, in the consideration section (Article b):

The implementation of the management of the state civil apparatus has not been based on the comparison between the competencies and qualifications required by the position with the competencies and qualifications of the candidates in recruitment, appointment, placement and promotion to positions in line with good governance (Indonesian Law Number 5/2014 consideration Article b).

Indonesia has long adopted a 'spoils system' in which the government gives civil-service jobs to its supporters (Qomarani, 2020; Lohida, 2015; Dwiyanto, 2011). The 'spoils system', combined with the lack of regulation in state civil-service management, affects the attitudes of the civil servants when performing their duties. For example, a media report on the Ministry of Empowerment of the State Apparatus expressed a concern that civil servants act more as rulers than as public servants:

The mentality of government employees must also be addressed. Currently, many government employees think that they are the rulers. In fact, government employees are public servants. There should be no more bureaucrats with a ruler mentality. They must have a spirit of hospitality, not a spirit of a ruler (Ministry Empowerment of the State Apparatus, as cited by Saepulloh, 2017).

This political spoils system and the lack of regulation has a detrimental effect on civil servants' competence. However, while this is not specific to the internationalisation area, it does mean that many government officials have no incentive to improve their knowledge of internationalisation to perform their jobs as required. In the political structure of the spoils system, the civil service is a safe career path, with no rewards or punishment to encourage development and performance.

One participant expressed that the government often lacks knowledge about the cultures of the destination countries:

It seems the government only cares about having exhibitions overseas, without caring about the types of SMEs they are bringing. Can you imagine bringing a leather product made from cow to India? That amazingly happened! (P3AAB).

Another participant linked this phenomenon to the government's sole focus on KPIs, explaining that the government has targets for numbers of exhibitions attended or held, with no consideration of their quality. They felt that the government lacks information about the exhibitions; therefore, the support it provides is often inappropriate and incompatible:

I think the Department of Industry and Trade only cares for their KPIs and facilitating a certain number of exhibitions annually. They do not care about the quality or the performance of the exhibitors. They never seem to understand how to facilitate an SME exhibition properly. They seem to never do the research or learn before spending money to attend exhibitions. They just send us so that their target is achieved and the budget is spent. They need to know that every exhibition has different circumstances, needs different resources. Quite often, the Department of Industry and Trade has asked us to join an exhibition, but has not given us sufficient space or facilities to perform well (J3AYS).

This point was supported by a business intermediary, who gave an example of government officials not having basic information about transport costs and pricing:

When we had an exhibition in Russia, we were invited by the Ministry of Trade. I saw many SMEs who had not had any guidance about selling their products for the Russian market. They didn't know the transport costs, how long it would take, foreign pricing, and – surprisingly – the government representatives who came with us did not know either! (AB).

Another participant expressed the view that there is a gap between what SMEs need and what the government knows about SMEs; and this gap means that government support programmes are often ineffective:

It is obvious that the government does not know what SMEs need. They never learn or do research properly. They need some training in the international market. Their programme to help SMEs does not seem genuine. It is only for their own good. I don't think the government understands what SMEs really need (B2ASS).

It can be summarised that the political system and regulation have created barriers to knowledge, including for those government officials. As mentioned above, this circumstance gives no incentive for the government official to pursue knowledge related to their task. Therefore, for the SMEs who often rely on institutional support, especially from the government, their internationalisation journey often disrupted by the government's official lack of knowledge.

8.2.2. Informal Institutional Barriers to Internationalisation

In addition to formal institutions, some informal institutions also erect barriers to knowledge. These institutions include the norms and values that discourage the pursuit of wealth and the cultural dimension of uncertainty avoidance. Indonesia's culture is classified by Hofstede (2011) as having a dimension of uncertainty avoidance. This cultural value can be seen in the entrepreneurs' attitude to internationalisation. Some see internationalisation as risky and uncertain and are hesitant to begin the journey, as expressed below:

The idea of selling my products overseas seems too risky to me. I feel like I will not have any control of it. What if something goes wrong? Besides, I do not have any financial capability to do so just yet. Alon-alon waton kelakon⁴ ['better to be safe than sorry'] (J1CNS).

⁴ *Alon-alon Waton Kelakon* is a Javanese philosophy to highlight safety when carrying out an activity. The literal meaning is 'slowly and safely'. It is sometimes linked to Javanese people, who are not thought to be ambitious.

Similarly, another participant added that he had considered the risk of internationalisation and decided it was not worth it for him:

I have seen some of my colleagues and my family do international business. I know the risk at stake. It is not worth it for me. Therefore, I prefer to stay local and focus on the national market (C3CMT).

This lack of internationalisation knowledge was not only found among the official governments mentioned in the previous section. The entrepreneurs also experience this, and many resist going international as a result. Some participants said that they were not pursuing internationalisation because they are happy with what they have right now. There is uncertainty when starting or learning something new, such as internationalisation.

Can you tell me what the overseas market looks like? Honestly, I have no experience whatsoever. I don't have any idea how my products will fit in the international market, and I don't think I can comply with all the requirements. I do not feel like learning something new. After all, 'urip iki mung numpang ngombe'⁵ ['life is for drinking'] (B2CGM).

Some people do not want to go international because they do not know how to do it and would feel burdened by the learning:

I want to expand my market overseas, but I still do not know how to do it. It seems very complicated. I do not know where to start. I am not keen to learn (J1AIE).

⁵ *Urip iki mung numpang ngombe* is Javanese traditional value. The literal meaning is that life is just for resting/drinking (before continuing our journey to the afterlife). This philosophy recalls the value that life in this world is temporary, and we must prepare for the afterlife. This is a reminder of the need for a balanced life, between the spiritual and the worldly, not simply pursuing earthly goals (usually wealth).

To overcome these issues of a lack of knowledge and a desire to avoid risk, some entrepreneurs choose to sell their products through third-parties, such as overseas partners and export agents:

I don't want to be burdened with complicated regulations and export procedures. In fact, I don't want to know about it. That's why I asked my agent to take care of it. I produce the products and then ask them to collect them from here (J3ADR).

Another informal institution that obstructs internationalisation is a sense of 'spiritual value' embedded in the product. Some of the production processes involve the performance of spiritual ceremonies; and as a result, the manufacturers are not enthusiastic about selling them to a mass public. The entrepreneurs may develop emotional bonds with their products, or they might believe their products have a distinctive value that needs to be preserved:

My products are unique. I produce them with spiritual ritual involvement in a high quality standard. Therefore, every product I sell needs to be treated carefully. You asked about export: I don't trust any third-party to sell my products. The customers need to come here themselves, and then I can see whether they fit with my unique products (B1CWC).

One entrepreneur explained that the products have souls and cannot, therefore, be sold at random:

They [the products] have a soul. You cannot just fly them to other parts of the world. They need to be in the right hands (B2BCK).

This belief that the products have special value is not specifically an institutional barrier to knowledge. However, this example shows how local values can become deeply embedded and discourage learning, as people do not want knowledge to clash with existing norms and values.

8.2.3. Discussion

The findings on institutional barriers to knowledge can be categorised as two second-order themes: namely, the lack of regulation of government officials' knowledge and informal institutional barriers. This is in line with previous research that has shown barriers are caused by a lack of knowledge (Safari & Chetty, 2019; Bianchi & Wickramasekera, 2016; El-Gohary *et al.*, 2013; Schweizer, 2013; Hutchinson *et al.*, 2009). However, this study found that this lack of knowledge is not only due to internal factors (the SMEs' weaknesses), but also external factors, such as threats. The external factors are driven by the government, as the policymaker that implements the formal institutions. The interviews revealed that regulation can lead to a lack of knowledge, thereby installing institutional barriers. In this context, government officials often lack the required knowledge, while the government is expected to assist SMEs in building internationalisation concepts and conducting business overseas (Yan *et al.*, 2018; Hutchinson *et al.*, 2009). This means that some of the government agencies expected to help SMEs are not able to do their jobs correctly. This can be attributed to how the government creates regulation for civil-service management: in short, this regulation does not create incentives for civil-servants to develop their knowledge. This lack of knowledge can have repercussions that jeopardise the government's support programmes, as facilitators may be concerned only with implementing the programme and not with the value of the programme itself.

However, society perceives a government officer to be a safe and stable career path, especially for those who have won their position through the spoils system or nepotism (Dwiyanto, 2011). As a result, once someone becomes a government employee, they often do not want to develop or challenge themselves. Moreover, there is no reward when a civil servant does develop and no punishment when they do not. The workplace context does not encourage a competitive atmosphere; hence, this norm leads to a lack of knowledge among government employees. They feel comfortable with what they have and what they know. This attitude affects the quality of service given to the people, including the internationalisation support provided to SMEs.

The government has acknowledged this lack of regulation and is revising legislation to improve the quality of the civil servants. For example, the government issued the

Ministry Empowerment of the State Apparatus Regulation No. 3/2020, concerning talent management. This regulation introduces a merit system to replace the spoils system. The Ministry Empowerment of the State Apparatus Regulation No. 7/2020 proposes guidelines for implementing civil-service management technical competency certification. The government hopes that these guidelines will encourage civil servants to improve their technical abilities.

Knowledge is also vital for the SMEs engaging in internationalisation activities (Costa *et al.*, 2016), since good decision-making depends on the firm's knowledge (Johanson & Vahlne, 1977, 1990). Entrepreneurial knowledge is the foundation for SMEs' development, motivating them to proactively search for new markets overseas (Pradhan & Das, 2015; Kahiya, 2013; Bell *et al.*, 2004). However, in the early stages, SMEs often do not know the market or the resources (Forsgren, 1989). This study found that this lack of knowledge is associated with social norms that discourage the pursuit of wealth and ambition, while promoting satisfaction with what one currently has. For example, the philosophy of '*Urip mung numpang ngombe*', or '*alon-alon asal kelakon*' is practised by Javanese people in their daily lives, thus affecting their business decisions.

This lack of knowledge can put SMEs at a business crossroads where the informal institutions come into play. Positive informal institutions can take SMEs into the international markets, by promoting learning and the implementation of new internationalisation skills and knowledge (as discussed in the chapter on institutional drivers). In contrast, some informal institutions can hamper SMEs by discouraging learning and the pursuit of growth. This lack of entrepreneurial knowledge can prevent SMEs' internationalisation activity. The interviews revealed that some entrepreneurs do not have sufficient knowledge or courage to pursue growth in the international market.

The qualitative data indicate that informal institutions are partially responsible for the entrepreneurs' lack of knowledge, as well as discouraging the development of knowledge among government employees. Some SME-owners are afraid to try new things, and they feel safe in their current condition. This value is defined as the 'do not

want to bother' attitude. Holders of this value are reluctant to develop their businesses in new areas where they are not comfortable. In other words, they are convinced by their cultural identity to avoid risk, rather than embracing new challenges for better business prospects. As indicated in the interviews, the entrepreneurs who meet this particular barrier tend to decide not to go international. This finding is in line with those of Doole and Lowe (2012), who conclude that a lack of knowledge is a barrier to expanding into new markets. However, when SMEs decide to pursue internationalisation, they prefer to hand over the process to third-parties, such as business intermediaries or exporting agencies.

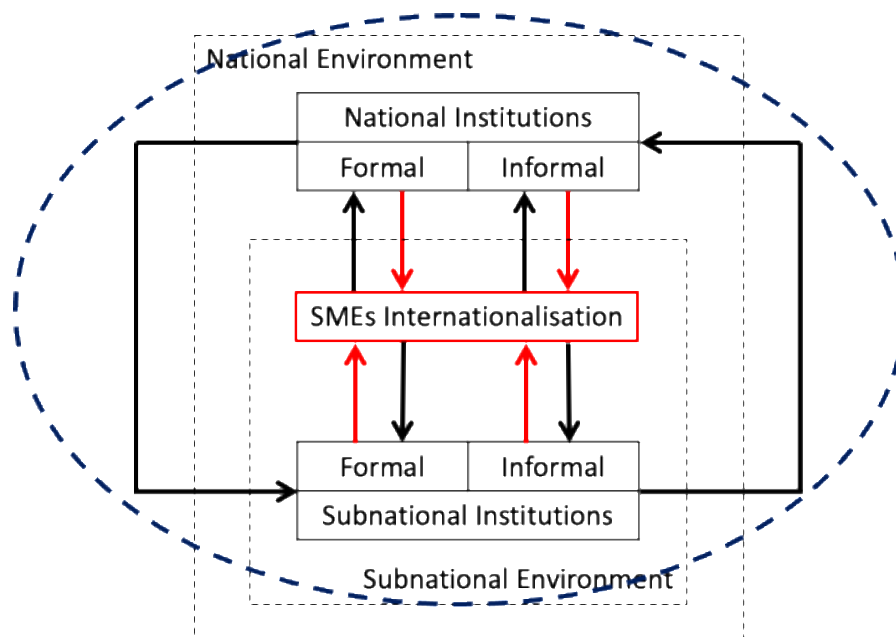


Figure 8.3. The position of institutional barriers to knowledge in the research framework

In relation to the research framework, the theme of 'institutional barriers to knowledge' is explained by the arrow from the formal and informal institutions at the national and sub-national levels to SME internationalisation, as shown in Figure 8.3. As a second-order theme, the lack of regulation of government officials' knowledge is affected directly by the formal institutions in the process. At the same time, the theme of 'informal institutional barriers to internationalisation' is directly affected by informal institutions. To conclude, the institutional barrier to knowledge shows how informal institutions can directly influence the implementation of formal institutions in assisting SME-internationalisation activity.

8.3. Internationalisation Bureaucracy

While there are many definitions of bureaucracy (Cornell *et al.*, 2020; Adler, 2012; Sager & Rosser, 2009), this research proposes that ‘internationalisation bureaucracy’ is a hierarchical structure that operates to facilitate a legal entity to conduct international business. Some positive perspectives view bureaucracy as a driver of efficiency and growth (Cornell *et al.*, 2020; Adler, 2012). However, this study has found that bureaucracy inhibits internationalisation due to regulatory voids and red tape. These dimensions are constructed as a second-order theme, pictured in Figure 8.4.

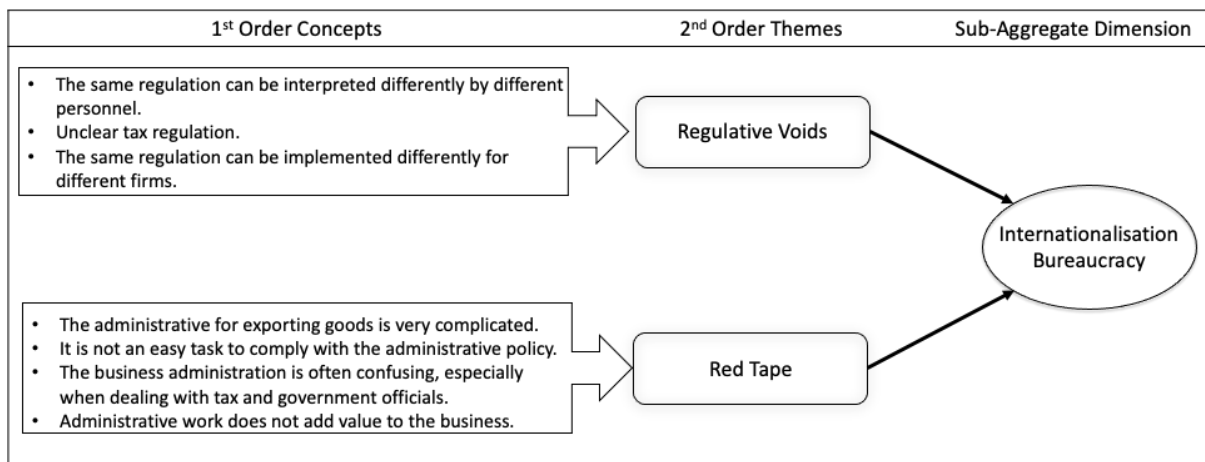


Figure 8.4. The data structure of internationalisation bureaucracy

8.3.1. Regulatory Voids

Regulatory voids are defined by Stoian and Mohr (2016) as a particular type of institutional void, characterised by missing, volatile, or inadequate rules and regulations that are poorly enforced or monitored (p. 1125). In this research, such rules and regulations comprise, *inter alia*, regulations regarding tax, IPR, export permits, and licenses.

As mentioned in the previous section, the government is mandated by Law No. 20/2008 to assist SMEs in developing their business. There are also several other home-country formal institutions that govern business and trade in general. For example, there is Law No. 7/2014 regarding trade and Law No. 3/2014 for industry. Those laws were later translated into regional government regulations at the subnational level, such as Yogyakarta Special Region Regulation No. 7/2019

regarding the 2019-2039 Special Region of Yogyakarta Industrial Development Plan and Bali Provincial Regulation No. 8/2020 regarding the Bali Provincial Industrial Development Plan 2020-2040. These regional regulations have accommodated informal institutions at the particular subnational level. This illustrates that the national and sub-national regulation is intertwined. These regional regulations are helpful for SMEs, clarifying the rules with which they must comply when developing their business, including expanding overseas. Nevertheless, the regulations can be misinterpreted by the regional government officials responsible for implementing them in the field. In addition, entrepreneurs can become overwhelmed by the complexity of the regulation at the national and sub-national levels.

According to one participant, regulatory voids occur when there are conflicts of interest between a policymaker or lawmaker, who will not accommodate or research what is needed by the SMEs. Therefore, the regulation is inadequate:

There are a lot of conflicts of interest affecting the regulations we make. Every party or individual wants to take advantage for their own benefit. No one takes into consideration the businesspeople – or in this case, SMEs – or the market conditions (DR).

The participants explained that the regulations could be implemented very differently, depending on who was in charge. Volatility and opacity in the regulations mean that multiple interpretations are possible, or the rules have different purposes in different contexts.

We know that exporters can take advantage of tariff preferences by using a certificate of origin (COO) because we have trade agreements with ASEAN countries, for example. But, sometimes, the officer calculates the tariff differently because they put the product in different categories to the last time I applied. Every officer seems to have a different interpretation. I wonder if there could be training for people in charge to ensure a similar understanding across the organisation (J3ADR).

In line with the quote above, another participant highlighted the opacity of some of the regulations. These unclear sections are then interpreted differently by each officer, leading to poor implementation of the regulations:

Government regulations are vague. The implementation depends on whose interests are at stake. Sometimes we meet an honest government officer who is willing to help us and make it easy for our business; but other times, another officer gives us a tough time when dealing with the same regulation. This has also happened to our colleagues' business: same regulation, but different implementations for different people and firms (J2ADL).

Another entrepreneur had met similar difficulties due to opacity in the regulations, with different implementations at different times:

The tax regulation is not clear. I often have to revise my tax reports, even when they have been approved before (B3ASS).

Another participant observed that, in addition to this lack of transparency and opacity, the regulatory void occurs because there is no mechanism for knowledge-transfer between the people in charge:

Every time the account representative (AR) from the tax office changes – which is usually every 2-3 years – I have to explain everything all over again. It seems they do not have any mechanisms for transferring knowledge from the previous AR to the new one. Not to mention, a different person can interpret the regulations differently (J3AYS).

Participants see these regulatory voids as dangerous because they can cause an SME to inadvertently violate the trade and export laws, as explained by one of the SME-owners:

*Sometimes I feel lucky when they [customs officers] charge me lower customs fees than usual. Maybe they are newbies [*laughs*]. But I think maybe they have changed the rule or given an incentive. I never ask. But it is also worrying. Someday they could send me an invoice or charge me a fine due to insufficient*

payments. You know when there is an audit, a mistake like that will be found. I will end up paying more for a fine. It would be their mistake, though (J3ABA).

The participant also expressed that a regulatory void or missed regulation could lead to a breach of an international trade regulation or agreement, causing the entrepreneurs to lose their overseas markets:

Sometimes it is very frustrating trying to understand the law. It changes frequently, and I think they do not think things through thoroughly when creating the law. We know there is a bill to eliminate the obligation to include timber legality documents [SVLK]. I guess the government does not consider this [SVLK] document part of a voluntary partnership agreement for forest law enforcement between Indonesia and the European Union. Based on the agreement, Indonesian wood products with SVLK documents can enter European countries through the green route. If we no longer have this timber verification system, how can we enter Europe? Who will issue the document? (B3AKA).

This statement was corroborated by an SME owner who observed that regulatory voids due to outdated regulation could cause entrepreneurs to lose their potential markets:

The regulation from the government could have been made years ago, while the market conditions are changing rapidly. Hence, the regulations are often outdated and do not comply with the current market situation, without the government realising it. For example, the use of the internet to sell our products overseas: I don't think we have any regulations for that (J2AML).

Finally, a regulatory void can occur at the national or subnational level. This is usually because national-level legislation has not been translated into more practical regional legislation, as explained below:

There is a national programme to decentralise IPR licensing. It can be done in the provincial office. But when I visit the provincial office, they say they cannot

accept the application because they have not finished formalising the regulation at the regional level (J2ADE).

The evidence from the datasets shows that regulatory voids have several potential causes. They can originate from outdated regulation. Regulatory voids can also occur when there is no properly assigned stakeholder in the law-making process, resulting in missing or inadequate rules or regulation. The lack of transparency or the presence of opacity within the law – coupled with a lack of relevant training – can lead to poor implementation of the regulations, with rules applied differently at different times and by different people. Regulatory voids can also occur at both the national and sub-national levels.

Regulatory voids can contribute to internationalisation barriers in several ways. Poor implementation of the regulations can result in uncertainty around doing business. This forces SMEs to expend more effort, time, and money to understand the regulations. In some cases, a regulatory void may cause an SME to lose their market. It could also trigger the cancellation of an international agreement. Statements from the respondents explain that regulatory voids are frustrating, especially when they concern export administration, taxes, customs tariffs, and licensing. These are elements that an entrepreneur must deal with and which are not always regulated clearly. Therefore, SMEs must take care when dealing with administration and regulation to prevent problems arising in the future. In conclusion, while excessive regulation and red tape can be frustrating for SMEs (and this is elaborated upon in the following section), missing or inadequate regulation is also a burden.

8.3.2. Red Tape

There are various definitions of red tape. The OECD (2001) defines it as an administrative and regulatory burden, while Kaufman (2015) defines it as excessive restrictions. However, Kaufman (2015) emphasises the subjective nature of red tape: one person's red tape may be another's treasured safeguard (p.1). While regulatory voids concern missing, inadequate, or opaque regulations, 'red tape' refers to excessive procedures or rules. In this research, it is the barriers that entrepreneurs

face when dealing with government applications for support, permits, or authorisation of business activities (including exports).

One entrepreneur described the administrative burden associated with export regulations:

The export regulations are so complicated. I don't want to deal with that. That's why I use an agent to take care of that bureaucracy and administrative stuff. So, I can focus on my business (J3AGC).

This participant described the complexity of excessive paperwork. This paperwork can be repetitive, with numerous government organisations requesting the same information, and it may deal with unclear guidance (which is linked to the first second-order theme). A further annoyance for most entrepreneurs is that the administrative paperwork does not relate directly to their business, but it is needed by the government as evidence of good corporate governance, disclosure, and transparency.

Although the regulations and formalities are developed in the interests of safety, health, competition, and environmental protection (Kern *et al.*, 2021; OECD, 2001), the cost of administrative compliance can be high. For example, costs might include the financial investment of hiring an individual or agency to manage the administrative tasks, as expressed below:

It is not an easy job to comply with every government policy. Dealing with all paperwork and administrative stuff wastes a lot of time for a businessperson. Therefore, I usually suggest, whenever possible, that my clients hire an employee who is a very detailed person and likes administrative jobs (RTK).

In terms of the cost of administrative compliance, one participant highlighted the relationship between red tape and regulatory voids: explaining that when regulation is unclear, it takes more time to comply with it and there is no guarantee that this is being done correctly:

Dealing with the tax regulations and government officials is so annoying. It is not just due to the unclear regulation, but the most irritating part is the

administrative work, which is confusing and time-consuming. Not to mention there is no guarantee that we are doing it right (L2ARP).

Excessive regulation can also affect the efficiency of the SMEs. For example, it adds to the cost of raw materials:

Now, there is a new law: if we want to take raw materials, there has to be a deposit. There must be a minimum order. We must pay storage fees during quarantine. It is said to be for protection, but it is burdensome for small entrepreneurs (L2ALM).

The time spent doing paperwork, according to one participant, could be better spent on production or developing strategies. Thus, red tape negatively affects the efficiency of the firm.

Administrative work is useless. It does not add value to the business. The amount of time we dedicate to doing the administrative stuff could be spent on producing valuable goods or making a good marketing strategy (J2AKA).

Red tape also affects the capital costs for entrepreneurs to go international:

Every country has different regulations – intellectual property in Europe is different to that in America or Asia. Not to mention, the home government also requires a specific license or permit for SMEs who want to go international. Can you imagine how much money we need to invest for IPR licenses alone when we want to go international? (J1AIE).

One participant explained that there is red tape at all levels of government, including the national and subnational levels:

Too much regulation. If we want to export a product, it has to comply with regional rules, for example taxes and permits. In the central government, we also need to have permits. Why can't we have one for all? (J3ABC).

The government admits that excessive rules can cause entrepreneurs to lose potential markets; and some higher-level regulations limit the government's ability to create programmes for the entrepreneurs:

In business and in the open market, we need the flexibility to create programmes to support SMEs. However, government policy and regulations do not allow us to do so. We are bound by the rules (BKF).

There is also some evidence that the red tape can lead to corrupt behaviour, among entrepreneurs and in government:

They need to use business 'tricks' to avoid administrative work. You either do some tricks in paperwork, or you pay insiders to make exemptions for you (RTK).

It was also claimed that red tape leads to involuntary noncompliance:

Every time there is a new law or new agency to handle SMEs, for example, a new license agency, it drives SMEs into involuntary non-compliance with the law. We need some time to adapt to the new law. Meanwhile, we need to fulfil orders taken under the old laws. I know I just can't comply with the laws. Therefore, I'm playing around, looking for a temporary non-compliant solutions (J2ARL).

One participant gave an example on how they seek to overcome the problem of red tape:

Instead of following the bureaucratic regulations around exporting, I prefer to send my product as a 'gift' to my customer abroad. My jewellery is relatively small, so I can easily send it using DHL or FedEx (J1AHJ).

(This practice of using tricks to avoid institutional barriers is elaborated upon in the following chapter, under the theme of 'shadow internationalisation'.)

This quote above shows how complicated bureaucracy can encourage noncompliance, encouraging people to do business in their own way and to treat government support as 'red tape' to be avoided.

Government bureaucracy is too complicated. I don't want to deal with that. It is better to do business in our own way. Besides we have more experience in this business than the government. Why should we want/seek support from them?
(C3CMT).

8.3.3. Discussion

This red tape and regulatory voids are discussed in the extant literature, especially in organisational studies (Stoian & Mohr, 2016; Kaufman, 2015; Ciriaci, 2014; Sarte, 2000). This research extant the study on the topic of government bureaucracy in the context of SME internationalisation. This study found that there are two dominant institutional barriers to internationalisation: red tape and regulatory voids. While regulatory voids are due to missing or inadequate regulation, red tape is the obstacle of excessive regulation.

From the formal institutional perspective, the interview data reveal the poor processes of translating laws into more detailed regulation for implementation in different government agencies. Different government officers thus interpret the same regulation in different ways, depending on their own interests. This leads to regulatory voids. The regulation then often requires substantial paperwork, which becomes red tape for SMEs. Consequently, this slows down the business process, especially for SMEs, which have limited human resources for handling their administrative tasks. This red tape often concerns paperwork that does not add value to the business. It also incurs additional cost for SMEs. The cost could be an administrative compliance cost, capital cost, and indirect or efficiency cost, such as higher raw-material cost.

Another concern regarding the implementation of these regulations is the government's inflexibility and lack of responsiveness to rapid market change. SMEs, as business players, fear that the regulations will slow down their internationalisation activities. This is especially concerning for SMEs, which have limited resources for

adapting to international market demand. In other words, the government regulation is often too rigid; therefore, it does not comply with real-world market conditions.

Under these circumstances, bureaucracy becomes an institutional barrier erected by the home-country formal institutions. All the identified second-order themes have repercussions that jeopardise the government export initiatives, hindering the SMEs' internationalisation procedures and forcing small firms to take on unnecessary tasks. For example, SMEs must invest in human resources to manage unrelated business paperwork to comply with the regulations, without gaining any benefits from doing so – for either their business or their customers. This can also create undue pressure for the SMEs, as expressed in the interviews. As a result, SMEs tend to respond to this red tape by hiring dedicated employees or agents to handle the paperwork or finding loopholes to avoid the administrative work altogether. In addition, when SMEs have to prioritise the market demand over the government regulation, they usually prefer not to follow the formal procedures – or not to involve the government in their internationalisation activities – because they are afraid of losing the momentum to gain profit if they cannot fulfil the market demand.

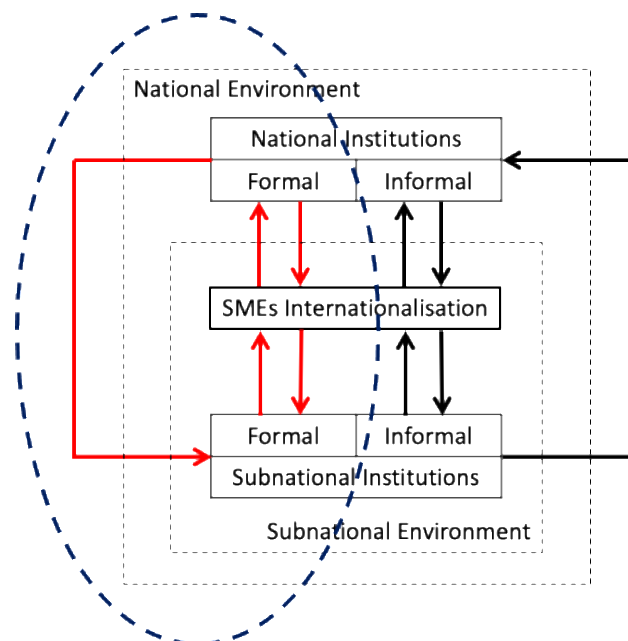


Figure 8.5. The position of internationalisation bureaucracy in the research framework

Illustrating the position of internationalisation bureaucracy in the research framework, regulatory voids and red tape are explained by the arrow from the formal institutions at the national and sub-national levels to SME internationalisation, as shown in Figure 8.5. This shows that the second-order themes are directly affected by the formal institutions in the process. The research framework also highlights that formal institutions in a national environment can emerge at the subnational level through regional government regulations. Under the wider theme of 'bureaucracy', red tape and regulatory voids are evidence of how formal institutions can influence SMEs' internationalisation decisions. Some regulations can be too rigid and, without careful implementation, they leave insufficient room to comply with market demand, leading to additional paperwork. Therefore, government officials must understand the regulations and ensure flexibility when implementing them to ensure they enable internationalisation activity.

Bureaucracy is a problem that SMEs face in their daily business activities and when conducting business overseas. This type of external barrier is beyond the control of the SMEs. Therefore, their only option for overcoming it is to attempt to comply with the uncertain regulations or to find loopholes that make the process more manageable. However, this latter option brings further risks, as explained by one of the participants. This creative use of loopholes to avoid unclear regulation is discussed in the following chapter (Chapter Nine) and presented as one of the main findings of this study.

8.4. Institutional Asymmetry

The final institutional barrier identified from the data-collection process is 'institutional asymmetry'. In the words of Williams and Vorley (2015), 'institutional asymmetry is defined as the misalignment between formal and informal institutions, with the formal being generally supportive of entrepreneurship and the informal, unsupportive'. However, this study found that institutional asymmetry can occur between formal institutions and between formal and informal institutions. Both can either hinder or support entrepreneurship. In fact, some evidence from the interviews shows that formal institutions are generally unsupportive, while informal institutions tend to be more supportive.

Together with ‘bureaucracy’, this sub-theme is related to government regulation, as a formal institution for managing the country’s export procedures. They differ, however, in that ‘institutional asymmetry’ concerns the dynamics of government organisations working together to assist SME internationalisation, while ‘bureaucracy’ only concerns government regulation as a procedure for administering SMEs’ overseas business. The other difference is that ‘institutional asymmetry’ refers to both (formal) government regulations and (informal) social norms and values.

The dynamics of government regulations in different government organisations are a significant barrier to SME internationalisation. Therefore, based on the first-order concepts highlighted in the interviews, this study differentiates the notion of institutional asymmetry into three second-order themes: conflict between formal and informal institutions, inconsistent formal regulations, and unequal access to government support (as shown in Figure 8.6).

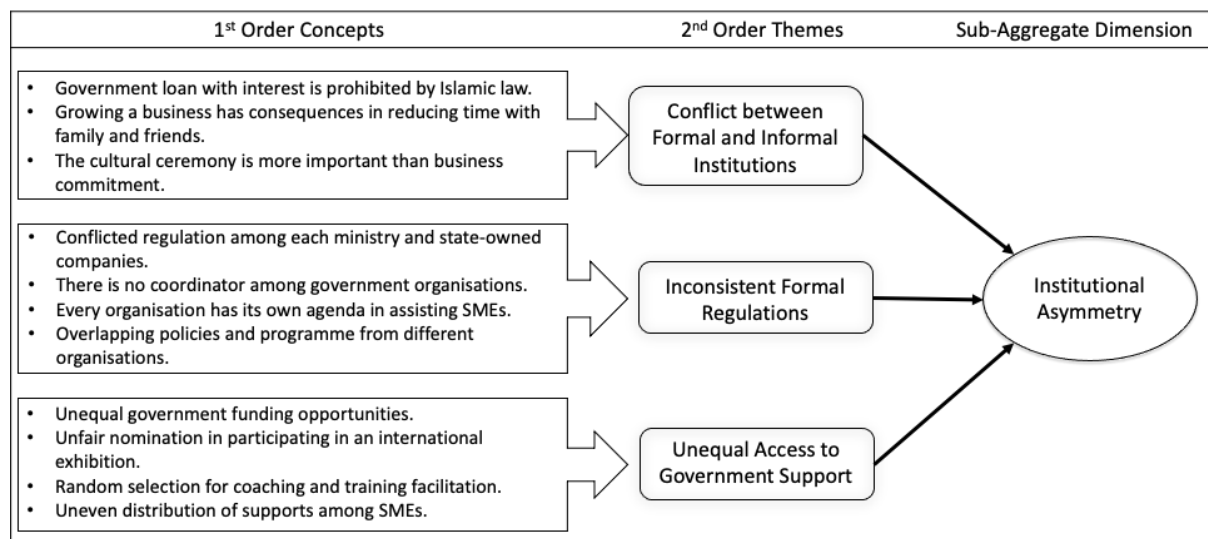


Figure 8.6. The data structure of institutional asymmetry

8.4.1. Conflict Between Formal and Informal Institutions

As discussed in the literature review, ‘formal institutions’ refers to government regulations and law, while ‘informal institutions’ are unwritten rules, such as norms, social values, religious beliefs, and culture (Stenholm *et al.*, 2013; Acs *et al.*, 2008; Veciana & Urbano, 2008; North, 1990). The literature shows that the conflict between formal and informal institutions is one of the significant drivers of institutional

asymmetry. This conflict was described by an SME owner, who believes that the rules around government financial support contradict her religious law:

The government provides no-collateral loans with very low interest rates. However, I don't want to take any loans, although the interest is very low. It's prohibited in my beliefs (J2BBN).

Another participant raised a concern in regard to cultural values:

They [the government] want to assist me in growing my business, but I do not want to. We have a proverb in Javanese culture: Mangan ora mangan sing penting kumpul [it is not important whether you can eat or not – rich or not, the most important thing is you can be together with your family]. Why should I stress myself with internationalisation? The most important thing is to be together with my family. That is why I retired from my job and started this business (G2CNC).

The conflict between formal and informal institutional was not always about the SME owner or entrepreneur, but rather about the attitudes of the employees, as expressed by one respondent:

I was stressed because we had an order commitment with our buyer. We had to comply with many regulations and had so much paperwork to do, and the deadline was approaching. Suddenly, my administrative staff and my crafters told me that they could not work for a week because their neighbour's son is getting married and they need to take part in certain traditional ceremonies. They all attended the whole series of events and helped their neighbour to prepare everything (J2APC).

To summarise it, the institutional asymmetry exists between formal and informal institution. What is stated in the formal legislation, sometimes is not aligned with informal value as expresses by the participants above. In this study, even though SMEs internationalisation is encouraged by formal institution, it could be overridden by a stronger informal institution whom discourage internationalisation. Therefore to

promote SMEs internationalisation, it is important for those stakeholder to consider a strategy to align the informal and formal institution.

8.4.2. Inconsistent Formal Regulations

The second type of institutional asymmetry discussed during the interviews was that emerging among the formal institutions themselves and create 'inconsistent formal regulations'. It happens when different law from similar level clash or unsynchronised to each other. It can also be happened to the law from different levels, for example, between national and regional law. The problem of inconsistent formal regulations is admitted by the Indonesian government, cited as one of the problems to be addressed in the National Midterm Development Plan 2020-2024 (Ministry of National Development Planning of the Republic of Indonesia, 2019). As this is a problem of internal government, the issue was primarily raised by the policymakers and government agencies:

We want to have only one ministry or department in the government that deals with entrepreneurship, especially SMEs. Currently, there are 18 ministries, not to mention the state-owned companies that look after SMEs as part of their duties. Thus, it is not surprising that many of them want to stand out among the others to seize the SMEs' attention because the SMEs assistance programmes involve a lot of money (DR).

That statement was echoed by another government representative:

We want our ministry to coordinate this job [looking after SMEs], as clearly seen in our ministry title. But other ministries and the department just do not want to release it because it involves a big budget (DPK).

No ministry or state-owned company wants to lose the opportunity to support the SMEs because this work comes with a large budget. This issue is discussed further in the following chapter, in relation to the sub-theme of 'government support', which is under the heading of 'institutional support'.

This inconsistent formal regulations is felt not only by the government institutions, but also at the SME level, as explained by an SME owner:

We often have many government institutions offering assistance to us, but there's no coordination among them. They all have their own agenda that often doesn't fit our vision (F1BLC).

A business association echoed that experience:

We aim to connect SMEs that need specific support with government agencies that can provide that type of support. However, we often experience overlapping policies and programme from different government institutions while assisting those SMEs (KD).

8.4.3. Unequal Access to Government Support

The last second-order theme under the heading of institutional asymmetry is 'unequal access to government support'. This concerns the discrepancies between SMEs' access to government support, leading to institutional asymmetry between the SMEs and the government agencies. For instance, one participant explained how the distribution of support between SMEs can be imbalanced:

Do you know that there is more support for small companies than for medium-sized companies? That's what the regulation says. That's why, instead of getting bigger, I would prefer to build a new small company (J2ACW).

Another entrepreneur explained how the government had organised SME participation in an international exhibition:

The Department of Trade usually organises international exhibitions once or twice a year. They invite SMEs to join the Indonesian delegation at the exhibition. My company has participated for years. However, the way they nominate the SMEs to participate is not really fair – they only invite SMEs that have a close relationship with the government officers. I don't think they advertised the opportunity in media for the public to know, then implement a fair

selection process. I know they have an SME database, but I believe they also know that the database is not up-to-date (J3AYS).

Another respondent reported the same experience with a different type of support:

We have a lot of experience in facilitating government agencies to organise training for SMEs. Quite often, we know that the training or coaching are only for formality purposes. The way they select the participants is mostly random. They do not even try to match the training topic with the audience's needs. Sometimes, they only want to get the training to take place (KD).

Furthermore, this inequality of access to SME support also arises in the distribution of funding opportunities, as explained by one participant:

I am fortunate to get funding from the government at a very low interest rate. I know there are a lot of my fellow entrepreneurs who cannot get access due to their circumstances, like their financial history, lack of collateral, lack of experience, family background, etc. I don't think it is fair to them. They are honest entrepreneurs; some of them just started their businesses, and they need financial aid to grow. I know sometimes the government gives them working tools or equipment instead of money, but that is not what they need (J3ADR).

8.4.4. Discussion

The findings on 'institutional asymmetry', under the heading of the 'institutional barriers' variable, generated three second-order themes – namely, conflict between formal and informal institutions, inconsistent formal regulations, and unequal access to government support. The literature on institutional asymmetry is limited. The most relevant study is that of Williams and Vorley (2015), which identified that institutional asymmetry between formal and informal institutions can hinder entrepreneurs' productivity. The authors argue that asymmetry between institutions should be reduced by better aligning the formal and informal institutions. The other investigations of institutional asymmetry between formal and informal institutions are more inclined towards one of the institutions. Williams and Shahid (2014) emphasise the

informalisation aspect of entrepreneurship and the implications for theory and policy. In contrast, Autio and Fu (2015) underline the importance of formal institutions, showing how they can affect informal entrepreneurship by adapting policy to ensure economic growth. Narooz and Child (2017) also examined the issue of institutional asymmetry, focusing on SMEs' networking capabilities and the internationalisation decision-making process under different institutional conditions in developed and emerging countries.

The literature generally relates institutional asymmetry to formal and informal institutions; whereas, in this study, institutional asymmetry is also found between formal institutions – not only government organisations, but also between SMEs and government agencies. These institutional asymmetries are reflected in the inconsistent formal regulations between government institutions and the inequality of access to government support. Institutional theory and the evidence from previous studies of institutions reveal that institutional asymmetry often occurs in transition countries, between central government regulations and prevailing informal institutions (Williams & Vorley, 2015; Pejovich, 1999). Complementing the extant literature, this study also found institutional asymmetry among government organisations and between government organisations and SMEs.

For example, the government has an obligation to assist SMEs' development, as regulated in Law No. 20/2008 regarding SMEs (House of Representative & President of The Republic of Indonesia, 2008). To implement this law, government agencies must first translate it into sets of regulation according to their needs. Unfortunately, the regulations often do not consider either the informal institutions in the areas in which the regulation will be implemented or the interests of other government agencies, which inevitably creates conflict among them, as indicated in the interviews. Moreover, there is no clear guidance on how to transform the regulations into practice. This leads to ambiguity in the execution of the regulations, which leads to inconsistent formal regulations among government agencies and creates conflict between the formal and informal institutions. The interview data revealed that institutional asymmetry causes confusion for the SMEs, leading to discrimination in access to government support and unfair competition, which drives the inefficiency that is detrimental to both the

SMEs and the government agencies. As a result, certain regulations cannot be appropriately implemented.

From the perspective of home-country institutional barriers, institutional asymmetry can have repercussions that jeopardise the government export-initiative programmes and make them redundant, leading to ineffective relationships between SMEs and government agencies, at both the national and subnational levels. This further diminishes the ineffectiveness of the government support programmes, which tend to focus on the KPIs of the government agencies, rather than the SMEs' objectives. However, the data indicated that SMEs were often unwilling to accept government support programmes built on the formal institutions, due to a belief in prioritising the informal institutions. SMEs typically respond to institutional asymmetry between formal and informal institutions by avoiding the formal institutions and choosing, instead, to conduct their business according to the values of the informal institutions.

The interviews revealed that SMEs struggle to engage with the programmes due to the inconsistent formal regulations that complicates the implementation processes. Another finding reported in the interviews concerns the unequal access to government support that leaves the unlucky SMEs without the benefits and support of their counterparts. As a result, competition is unfair and there is envy among the SMEs. Additionally, it can give the government agencies that deliver the support programmes a bad reputation. In response to this institutional asymmetry, SMEs usually commit to only certain support programmes, avoiding similar programmes offered by different government agencies. In addition, some SMEs file complaints directly to the government agencies. However, most ignore the problem and move on with their daily business activities, assuming – based on their previous experience – that government agencies will be uninterested in their complaints.

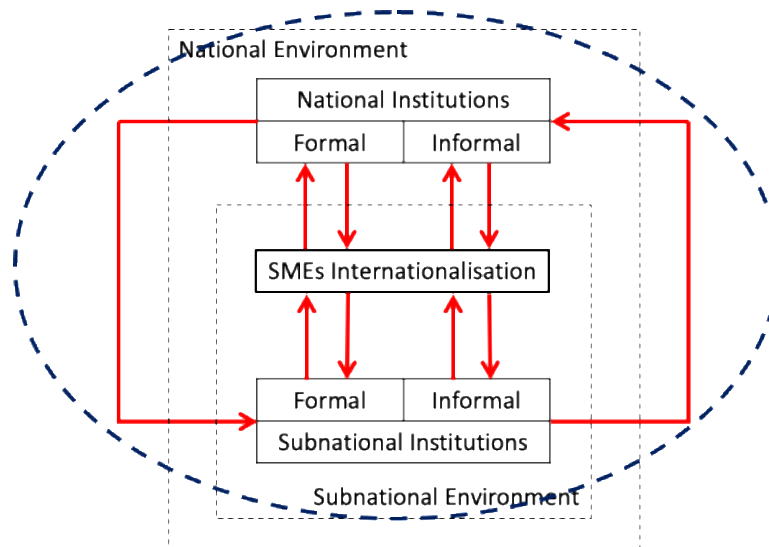


Figure 8.7. The position of internationalisation bureaucracy in the research framework

In the research framework, the institutional asymmetry is explained by the arrow from the formal and informal institutions at the national and subnational levels to SME internationalisation, and vice versa as the SMEs respond to it, as shown in Figure 8.7. This indicates that institutional asymmetry is an aspect of the formal and informal institutions that influence SME-internationalisation activity. Institutional asymmetry is also represented by the arrow from the national and subnational institutions, indicating a dynamic interaction between the institutions at the national and subnational levels of the environment. The theme of ‘institutional asymmetry’ reveals how formal and informal institutions directly influence SME-internationalisation decisions.

However, the impact of institutional asymmetry is not necessarily negative. It can also be positive, from the SMEs’ point of view. For example, one business intermediary revealed that this creates opportunities for SMEs to obtain support from different government agencies:

It is possible for an SME to get support from different government agencies because the government agencies are unlikely to coordinate with one another. Legally, it is prohibited to get the same financial aid multiple times, for example, but who would know? Especially when one entrepreneur can have several different business legal entities. We call them government support hunters (PK).

The above testimonies indicate a lack of concern from the government about supporting SMEs based on their needs. The support given is usually only to meet the departments' own KPIs or to serve their other interests. This is evidenced by the fact that institutional asymmetry occurs not only between formal and informal institutions, as commonly discussed in the literature, but also between formal institutions and in the discrepancies around access to institutional support. This is evidence of unclear communication and poor coordination between departments in the government administration.

Although this conclusion appears largely negative, this institutional asymmetry can have unofficial benefits for entrepreneurs. This finding might be linked to entrepreneurial resilience theory (Bhamra *et al.*, 2011), with its implications for SME internationalisation (Dominguez & Mayrhofer, 2017). The resilience of Indonesian SMEs was explained by one of the interview participants as follows:

Indonesian SMEs are not like start-up unicorns. Indonesian SMEs are more like a flock of cockroaches that are tough in the face of a storm. They have survived since ancient times. This is evidenced by the discovery of jug artefacts around the temple that are said to be a relic of the fast-food beverages produced by SMEs in the early Majapahit kingdom era (1293 CE) (J2BCN).

This view is in line with the suggestion of Aldrich and Ruef (2020) that research into entrepreneurship should pay more attention to the ordinary, everyday entrepreneurs and less to the exotic start-ups. (This point is discussed further in Chapter Nine.)

8.5. Conclusion

This chapter has fulfilled the second research objective:

Evaluate formal and informal institutional barriers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

This thesis found that formal and informal institutional barriers affect SMEs internationalisation at the national and subnational levels through three factors:

institutional barriers to knowledge, internationalisation bureaucracy, and institutional asymmetry.

This chapter has discussed the second theme that appears in the interviews with SME owner-managers and entrepreneurs to fulfil the second research objective. The second theme was about the institutional problems that hinder expansion into the international market. This theme covers the institutional barriers to SME growth in overseas markets. Many previous studies have discussed the barriers to internationalisation, with various focuses. Some studies have explored the process of internationalisation (Belhoste *et al.*, 2019; OECD, 2010; Arranz & de Arroyabe, 2009; Leonidou, 2004; Bilkey & Tesar, 1977), while some have emphasised the emerging market (Roy *et al.*, 2016; Rahman *et al.*, 2015); some reports have presented reviews of the extant literature in this area (Kahiya, 2018; Leonidou, 2004), and some studies concern barriers to firm performance (Sinkovics *et al.*, 2018; Moini, 1997). There are also articles on public policy in relation to internationalisation barriers (Cardoza *et al.*, 2016; Fayos Gardó *et al.*, 2006). Thus, it is unsurprising that institutional barriers also arose as a key theme in this study.

This chapter provides an analysis of the institutional barriers to SME-internationalisation activity. SMEs face challenges from both formal and informal institutions, hindering their expansions into overseas markets. These consist of barriers to knowledge, bureaucracy, and institutional asymmetry. This study enriches this field of study by analysing every theme in the institutional barriers through the lens of the formal or informal institutions and showing how they interact and influence SME-internationalisation activity.

In the formal institution context, it is important that when translating national-level law into subnational-level regulation, government officials understand the characteristics of the SMEs in their area of work. This is vital when the regulation concerns the delivery of a support programme, as this can prevent conflict arising among the SMEs and between SMEs and government agencies. Second, when developing government regulation, coordination among government agencies is necessary to prevent overlapping policies and confusion in the implementation, especially for SMEs. Third,

government regulation must consider the informal institutions in the area. If the regulation does not accommodate social norms and values, conflict may arise between formal and informal institutions. Since formal institutions can become obstacles to government export initiatives and other SME-support programmes, it is essential to acknowledge the risk of institutional asymmetry. Therefore, government officials must understand the SMEs in their area of work – including the type of support they need and the delivery techniques that could be implemented to ensure the support programmes are effectively supporting SMEs. Government officials could also consider coordinating with other government agencies with the same interests, working together and supporting one another, as intended by the law.

Regarding informal institutions, SMEs must adapt to the norms and values in the areas in which they are operating. Their business activities, including their perceptions of internationalisation, should also be adjusted to comply with the informal institutions. This study found no conflict between the informal institutions at the national and subnational levels. This is because the informal institutions at the national level are the *product* of those at the subnational level and are thus able to fully accommodate them. The informal institutions can also constitute an institutional barrier from certain aspects of social norms, such as prioritising traditional celebrations over business opportunities, being reluctant to meet foreigners, and emphasising the family value of staying together.

To conclude, formal and informal institutions at the national and subnational levels are significant influences on SME-internationalisation activity. The government should not only focus on its own KPIs, but should also consider institutional integration between the formal and informal institutions implementing the regulations. In addition, SMEs must proactively seek government assistance to develop internationally, integrating the informal institutions they adopt with the formal institutions they can utilise. More efficient integration between the formal and informal institutions could help to eliminate the institutional barriers and achieve the internationalisation objectives, reducing risk in the process and improving internationalisation performance.



The next chapter presents further discussion of institutional asymmetry, specifically in relation to the institutional support provided for SME internationalisation, to fulfil the final research objective. The findings of the analysis will complement the findings from this chapter regarding the institutional supports in promoting SME internationalisation from the government and business intermediaries. Chapter Nine will also discuss the alternative solutions that SMEs employ to overcome the institutional barriers.

Chapter Nine: The National- and Subnational-Level Impact of Home-Country Institutional Support on the Internationalisation of Small and Medium-sized Enterprises

9.1. Introduction

The analyses of institutional drivers and barriers in the previous two chapters have shown how formal and informal institutions at the national and subnational levels affect SME internationalisation. Another interesting finding concerns institutional asymmetry, which not only appears between the formal and informal institutions but also among the formal institutions. Furthermore, the findings of the analyses indicate that this institutional impact primarily affects the support given to the SMEs.

This chapter investigates the impact of home-country formal and informal institutional support on SME internationalisation within an emerging-market context, as indicated by the qualitative findings (see Figure 3.1) from semi-structured interviews with SME owner-managers and entrepreneurs, government officials and policymakers, and business intermediaries and entrepreneur associations. In this way, it contributes to fulfilling the third research objective:

Critically examine formal and informal institutional supports at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

The secondary data presented in Chapter Six highlighted three independent variables of formal institutional support that could affect SME internationalisation. These are partnerships with government organisations, support from government organisations, and training from government organisations. Of these three variables, only the first (partnerships with government organisations) was found to have a significant correlation with SME internationalisation. In short, a partnership with a government organisation can significantly increase the possibility of an SME conducting internationalisation activities. However, the value of this variable is low, thus its contribution is considered weak. For a more comprehensive answer to the central research question and fulfilling the third research objective, this chapter presents a qualitative analysis of institutional support and its impact on SME internationalisation.

This chapter seeks to close the knowledge gaps in relation to formal and informal institutions at the national and subnational levels and their support for SME internationalisation, especially in the context of an emerging market. This chapter also explores how SMEs attempt to overcome institutional asymmetry by utilising loopholes in the regulation. To more effectively understand institutional asymmetry, entrepreneurial resilience theory (Bhamra *et al.*, 2011) is applied to interrogate its implications for SME internationalisation (Dominguez & Mayrhofer, 2017). This thesis focuses on SMEs that are run by ordinary, everyday entrepreneurs and explores the impact of institutional involvement on their internationalisation activities. This addresses a gap in entrepreneurship research, which, as scholars have observed, tends to pay more attention to billion-dollar start-ups than to more typical entrepreneurial ventures (Aldrich & Ruef, 2020).

Table 9.1. Institutional supports and shadow internationalisation mentioned in the dataset

Themes	Participants with Homogeneous Perspectives	Frequency
1. Institutional Support		
a. Government	J3ASB, J2ACW, J2BCN, J1ANB, J3ADR, J3AYS, J2AKP, B3ASJ, P3BPB, L2ALM, C3CMT, F1BLC, L2ARP, A1ABC, B2ASS, N1BAS, B3ASS, B2CGM, J3AGC, S3APT, J2BBN, J1BNH, J3ABC, J2ADL, J2ADE, J2ARL, J2AML, J1BHF, DR, DPK, MK, BKF, BPN, DSU, DP, DJ, EB, KD, BIJ, DSU, ASC, RTK	41
b. Intermediary	J3ASB, J2BCN, J3ADR, J3AYS, G2CNC, A1ABC, A3APS, P3AAB, B3ASS, B3AKA, J3AGC, S3APT, J2BBN, J3ABC, J1ADA, J1AIE, J2ADA, J2ADL, J2ADE, J2ARL, J2AML, J1AHS, J2AKA, J1BHF, DPK, MK, BPN, EB, KD, BIJ, DSU, PK, ASC, RTK, BKD, JCB, AB	37
2. Informal or 'Shadow' Internationalisation		
	J2ACW, J2BCN, J3ADR, J3AYS, J2AKP, P3BPB, A1ABC, A3APS, B2ASS, B3ASS, B3AKA, J3AGC, S3APT, J1ADA, J1AIE, J2ADL, J1AHJ, J2ADA, J1AHS, DPK, MK, KD, ASC, RTK, AB	24

Table 9.1 shows the frequency with which the sub-themes of 'institutional support' and 'informal' or 'shadow' internationalisation were referenced in the interviews. Forty-one participants mentioned the sub-theme of government, and the theme of intermediaries was mentioned by 37 participants (as shown in the middle column of Table 9.1). The shadow internationalisation theme was mentioned by 24 participants. Thus, these sub-themes are highly prevalent in the dataset, which is an important finding in relation to the research objective. The dataset is organised in the same way as the other tables

from the previous themes that use the thematic analysis procedure from Gioia, Corley and Hamilton (2013).

9.2. Institutional Support

Another recurring theme is ‘institutional support’, which consists of assistance with the implementation of law and government regulation (e.g., sharing of knowledge, services, physical equipment, market opportunities, information, and even financial aid), thereby helping the SMEs to engage in international business. The extant literature refers to institutional support as that given by the government and its associates for the implementation of laws and regulations (Morais & Ferreira, 2019; Narooz & Child, 2017; Stephan *et al.*, 2015; Senik *et al.*, 2011). However, informal institutions can influence how laws and government regulations are implemented; and, as shown in the previous chapter, for regional-level implementation, adjustments to the local culture and values are occasionally necessary.

Moreover, this study found that institutional support comes not only from the government and its associates, but also from private companies and entrepreneur associations, which act as business intermediaries between the SMEs and the international market. Therefore, this theme is divided into two sub-themes of ‘government support’ and ‘intermediary support’.

9.2.1. Government Support

Coming back to the research framework, the theme of ‘government support’ represents the factors that SMEs typically received from the government organisations as the implementation of formal institutions to develop their business, including internationalisation. Figure 9.1 shows that government support comes from the application of formal institutions in the national- and subnational-level of the environment; it also highlights how SMEs respond to formal institutions. Figure 9.1 also shows the interactions between formal institutions at the national and subnational level, represented by the arrows connecting them. This section explains the role of government support in the SME-internationalisation process and explains how this theme fits into the research framework.

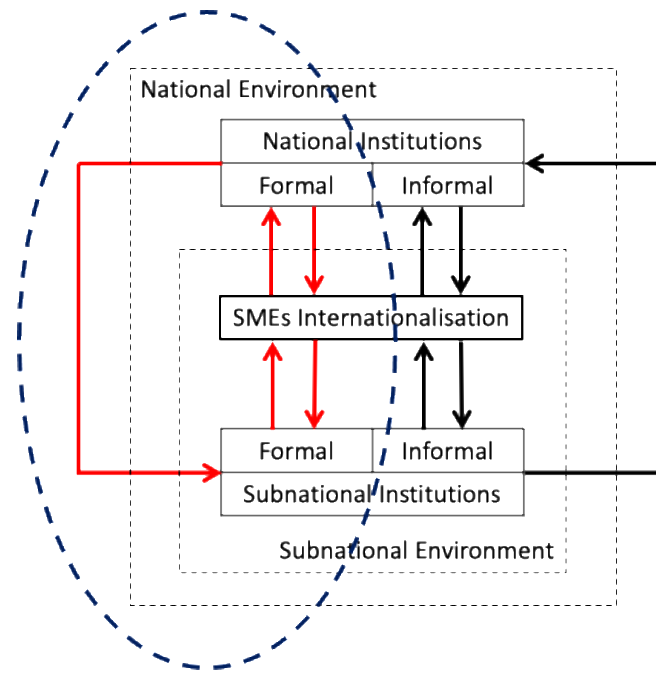


Figure 9.1. The position of government support in the research framework

Figure 9.2 shows the first-order concepts derived from the interviews in relation to government support. These first-order concepts lead to three second-order themes, which then form 'government support' as a sub-aggregate dimension. The first second-order theme is 'national and regional support', which relates to the institutional asymmetry between government support at national and regional or provincial levels. The next second-order theme concerns institutional asymmetry during the implementation of the support, which starts with policy and feeds into practice, ultimately affecting how the support is monitored for evaluation. Finally, the third second-order theme concerns the government approach to implementing the institutional support, namely the 'top-down approach'.

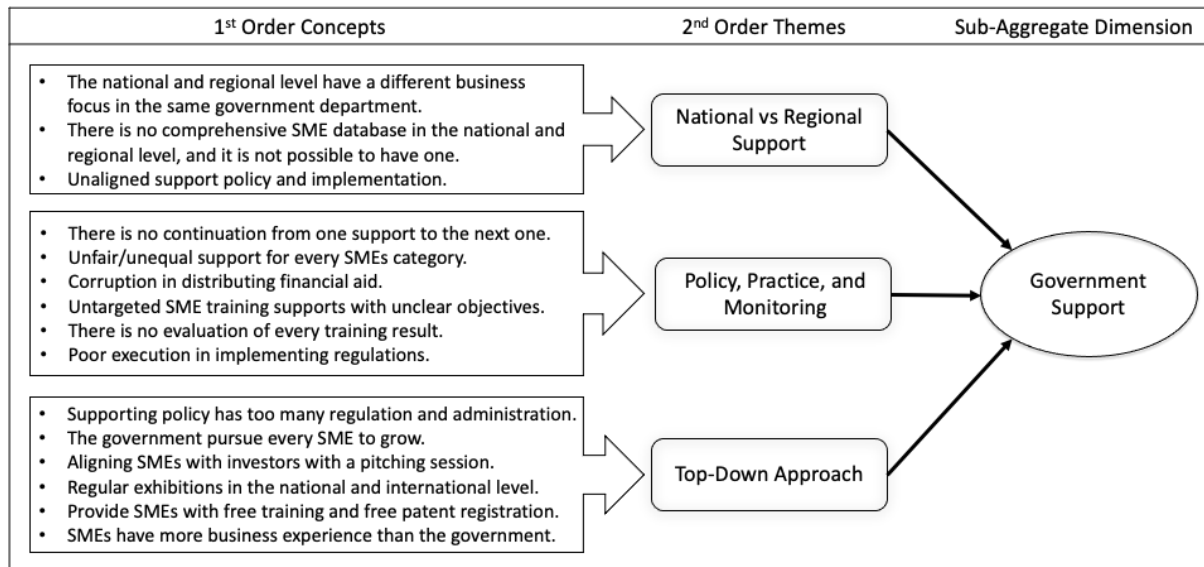


Figure 9.2. The data structure of government support

9.2.1.1. National vs. Regional Support

The first second-order theme is the institutional asymmetry between national and regional support, which may arise due to decentralisation policies. This concerns government agencies with different levels of authority. The coordination between the government at the national and regional levels is regulated by Indonesian Law No. 20/2008 concerning ‘Micro, Small and Medium Enterprises’. This law describes a division of roles between national and regional government for assisting SMEs. Article 38 (verse 2) on empowerment, coordination, and control of SMEs states as follows:

Coordination and control of the empowerment of Micro, Small and Medium Enterprises as referred to in paragraph (1) shall be implemented nationally and regionally which includes: preparation and integration of policies and programs, implementation, monitoring, evaluation and general control of the implementation of empowerment of Micro, Small and Medium Businesses, including the implementation of business partnerships and financing of Micro, Small and Medium Enterprises (Indonesian Law Number 20/2008, Article 38, verse 2).

The coordination between the government at the national and regional levels in relation to international trade is also regulated by Law No. 7/2014 (Article 75, verse 1) concerns trade promotion:

To expand market access for domestically produced goods and/or services, the government and/or local governments are obliged to introduce goods and/or services by:

- a. organising Trade Promotion domestically and/or abroad; and/or*
 - b. participates in Trade Promotions domestically and/or abroad*
- (Indonesian Law Number 7/2014, Article 75, verse 1).*

Article 78 further regulates how the government should facilitate trade promotion at the national and regional levels:

The Government and/or Regional Governments can provide facilities and/or facilities for the implementation of trade exhibition activities conducted by Business Actors and/or institutions other than the Government or Regional Governments in accordance with the provisions of laws and regulations (Indonesian Law Number 7/2014, Article 78, verse 1).

The relationship between the national government policy and its implementation at the regional level is regulated in Article 94 (verse c), where the government at the national level has the authority to do as follows:

[To] cancel policies and regulations in the trade sector stipulated by the Regional Government which are contrary to Government policies and regulations (Indonesian Law Number 7/2014, Article 94, verse c).

The same law also regulates the role of the regional government in international trade (Article 95, verse g):

Regional government has the [duty to encourage] the development of national exports (Indonesian Law Number 7/2014, Article 95, verse g).

For the purposes stipulated in Article 95, Article 96 (verse 1) provides regional governments with the authority to do as follows:

establish policies and strategies in the trade sector in the regions in order to implement Government policies;

grant licenses to Business Actors in the trade sector delegated or delegated by the Government;
manage trade information in the regions in the context of implementing a Trade Information System;
carry out guidance and supervision of Trading activities in the local area; and other authorities in the trade sector in accordance with the provisions (Indonesian Law Number 7/2014, Article 96, verse 1).

Although there are laws that regulate the roles and coordination of the national- and regional-level government, a number of the participants highlighted a lack of understanding between the same government agencies at the national and regional levels, leading to inconsistent implementation of the same regulations. This was evidenced in the interviews, where two representatives of the same government agency gave very different answers to the same question. One participant was from the central headquarters and the other was from the provincial level. The national-level representative said as follows:

We only focus on international trading by big businesses and multinational companies. The government already has the Ministry of Cooperatives and SMEs to support SMEs. It is not our job (DP-National Level).

However, the regional-office representative took a very different view:

We do not have a lot of big business at the regional level. Thus, we are focusing on SMEs, helping them to develop their business and grow their market (DJ-Provincial Level).

Similarly, central-government programmes for supporting SME internationalisation are rarely implemented in the regional agenda. Furthermore, the regional office often creates its own programmes, thereby generating redundant programmes with similar objectives.

This issue was highlighted by another government agency:

The problem among government agencies is miscommunication. This certainly leads to misalignment in how we deliver support to the SMEs, even when it is based on the same regulations or policies. Surprisingly, it often occurs between the same government agency at the national and regional levels (BPN).

Misalignments between the support policies of the national and regional government agencies also develop due to inaccuracies in the SME database that they use, as explained by one government representative:

We realise that we don't have a good database of SMEs in Indonesia. We are now trying to build a comprehensive database for SMEs in Indonesia. We are hiring a consultant to collect the data and build the system (DPK).

To follow this up, an interview was conducted with the consultant, who is also acting as an SME-business intermediary. The individual in charge of the SME survey said as follows:

I have travelled to many Indonesian regions to collect data from SMEs. I don't think it is possible for the government to have comprehensive data for the SMEs. Why? Because most SMEs are not registered, unidentified; what you see as an SMEs today might not exist tomorrow, and suddenly the same person can have another SME business with a different name and product (ASC).

Another business intermediary commented on the issue of the inaccurate SME database:

Without a proper database, it is not possible to give the right support to SMEs at the national or regional levels. It is like shooting while blindfolded. We do not know the target; we do not know what they need, what they want for their business; and we do not even know exactly where they are (KD).

This research found that coordination between the national- and regional-level government is essential for promoting SME internationalisation. However, despite the laws in place to regulate coordination between government organisations, institutional

asymmetry still occurs. This finding supports the finding in the previous chapter that institutional asymmetry can hinder SMEs' internationalisation activity.

9.2.1.2. Policy, Practice, and Monitoring

Another issue with government support was raised during the interviews, and this concerns the inconsistencies that arise when policy is put into practice and when the results of such implementation are evaluated, as mandated by law. Indonesian Law No. 20/2008 on 'Micro, Small and Medium Enterprises' (Article 38, verse 2) regulates the empowerment, coordination, and control of SMEs:

Coordination and control of the empowerment of Micro, Small and Medium Enterprises as referred to in paragraph (1) shall be implemented nationally and regionally which includes: preparation and integration of policies and programs, implementation, monitoring, evaluation and general control of the implementation of empowerment of Micro, Small and Medium Businesses, including the implementation of business partnerships and financing of Micro, Small and Medium Enterprises (Indonesian Law Number 20/2008, Article 38, verse 2).

Indonesian Law No. 20/2008 (Article 4, verse e) regulates the principles of empowering SMEs by highlighting the importance of the following:

the implementation of planning, implementation and control in an integrated manner (Indonesian Law Number 20/2008, Article 4, verse e).

The same law also highlights the need to monitor policy implementation (Article 13, verse 2):

The Government and Regional Government shall supervise and control the provisions as referred to in paragraph (1) (Indonesian Law Number 20/2008, Article 13, verse 2).

Additionally, Indonesian Law No. 7/2014 regulates the duties and authority of the government in relation to trading. Article 93 (verse h) states that government has a duty to do as follows:

carry out guidance and supervision of activities in the trade sector (Indonesian Law Number 7/2014, Article 93, verse h).

Article 95 (verse f) assigns the following duty to the regional government:

carry out guidance and supervision of activities in the trade sector in the regions (Indonesian Law Number 7/2014, Article 95, verse f).

The government formed a National Trade Committee to assist with the development and regulation of trade policy. Article 97 (verse 4[e]) states that the duties of the National Trade Committee include the following:

assisting the Government in supervising trade policies and practices in trading partner countries (Indonesian Law Number 7/2014, Article 97, verse e).

In regard to the synchronisation of policy, practice, and monitoring, Indonesian Law No. 7/2014 (Article 76) explains the implementation of international trade promotion activities as follows:

What is meant by notifying and discussing the implementation or 'coordinating' is the activity of participating in a Trade Promotion abroad with a Representative of the Republic of Indonesia Abroad in the country where the Trade Promotion is carried out starting from the planning, organizing, implementing and evaluating stages in order to realize a smooth Trade Promotion (Indonesian Law Number 7/2014, Explanation of Article 76).

More specifically, in Indonesian Law No. 7/2014, Chapter XVI (Articles 98 to 102) discusses in detail the regulating of trade-policy monitoring.

Although regulated in law, the application of policy into practice and the monitoring of the implementation to evaluate the results has not been done correctly. The SME-owners testified to the inconsistency they had witnessed in the provision of government support. One SME owner explained as follows:

There is plenty of support offered by government agencies to us as SMEs. We took advantage of it – some about skills, some involves financial aid or equipment. However, what I noticed about this was that the support was given separately. They are completely independent of one another, even though the support was given by the same government agency. Therefore, quite often, we received the same support over and over again (B3ASJ).

In accordance with this statement, another entrepreneur said that the SMEs were not treated equally or fairly:

Most of the time, the government agencies only give support to the same groups of SMEs on their list. We have to be proactive in asking for support if we want to get it. They just want to do it the easy way to meet their own targets (KD).

Another respondent added that the focus of the government support was not meeting the needs of the SMEs:

We have received a lot of training and invitations to coaching on various topics from some government agencies. I was enthusiastic at first, but then after attending several different training sessions, I realised that the government agencies were delivering this training and coaching not for us, but for themselves. This training is for their own agenda to fulfil their work key performance indicators (KPI). They do not care what the result of the training is for us. No evaluation at all. However, they give us a transport fee in exchange for our time spent attending their events. Therefore, I am now using this type of event as a reward to give to my employees. I do not care about the content of the training; but for me, I can give a free reward to my employees by allowing them to take a break from work and getting the transport fee from the training organiser (J2ADL).

The inconsistency in the delivery of government support programmes is felt not only by the SMEs but also by the business intermediaries in the macro-business cycle:

We often see the Department of Trade conducting training for SMEs without having a clear goal. For example, they want to organise e-commerce training for SMEs [to show them] how they can use technology to boost their sales. They invite every SME in their database, without distinguishing between SMEs that already have an online store and SMEs that do not even have email. How can they measure the effectiveness of the training? (KD).

The same business intermediary made a further point about the deception that often occurs in government training programmes:

Corruption is still a severe problem in this country, even in trivial matters like SME training. I often see many SMEs invited to a seminar or workshop from a government organisation. Part of the deal is the organiser will give transport money to the SMEs who are willing to come. However, the SMEs only receive three-quarters of the total amount of money they signed for, or even less. This is a common practice, and the SMEs understand that (KD).

On the issue of government support-monitoring and evaluation, one participant concluded as follows:

Actually, I believe the government has a good intention to support SMEs. This is reflected in the regulation. However, implementing it is another issue. I am sure they do not want to hide the information; they just do not disclose it. I don't know why. We have to proactively look for it. Therefore, the execution looks poor (J2BCN).

The implementation of the support – starting from the policy itself, followed by the practice, and including how the support is monitored for evaluation – has an impact on the effectiveness of the SME-internationalisation support programmes. However, this study found that institutional asymmetry persists throughout the policy, practice, and monitoring stages, despite the laws in place to regulate them. This finding supports the finding detailed in the previous chapter that institutional asymmetry can hinder SMEs' internationalisation activity.

9.2.1.3. Top-Down Approach

Another second-order theme that emerged in relation to government support is the 'top-down approach' to SME support. The interview participants reported that the government appears more concerned with adjusting the support to suit the regulations, rather than the genuine needs of the SMEs, even though the regulation itself is intended to support the SMEs. This can be seen in the formation of Indonesian Law No. 7/2014 and Indonesian Law No. 20/2008, which regulate the government's authority over SMEs and other firms in a one-way approach. For example, Indonesian Law No. 7/2014 (Article 94) states as follows:

The government in carrying out the tasks referred to in Article 93 has the authority to:

- a. grant licenses to Business Actors in the trade sector;*
- b. carry out harmonisation of domestic trade policies in order to increase the efficiency and effectiveness of the national distribution system, trade order, market integration, and business certainty;*
- c. cancel policies and regulations in the trade sector stipulated by the Regional Government which are contrary to Government policies and regulations;*
- d. stipulate prohibitions and / or restrictions on trade in goods and / or services;*
- e. developing national logistics to ensure the availability of basic necessities and / or important goods; and*
- f. other authorities in accordance with the provisions of laws and regulations*

(Indonesian Law Number 7/2014, Article 94).

As a result, these types of laws often hinder SMEs in their daily business and internationalisation activities. One policymaker acknowledged this point:

We hope that the law we created helps the SMEs to have clear regulation, grow their business, have healthy competition, protect their brand and product rights. However, we realise that it can hinder them by forcing them to comply with too many regulations and too much administration (DR).

On this issue, a business intermediary said that the government seeks to determine what is best for SMEs, without asking the parties themselves:

The government thinks that every SME wants to grow their business. Therefore, all the support they deliver aims to make the SMEs bigger, from micro to small and then to medium enterprises, and hopefully some can become large companies. However, that is not the case. As you can see – and ask them yourself – not every SME want to be bigger. Most were launched to satisfy their owner’s basic needs. Some are quite happy with what they have achieved by creating value for society. Yes, probably some of them want to be multinational companies; but speaking from my experience, that is not many of them (ASC).

Owing to this top-down approach, some of the government support programmes are not in line with the SMEs’ needs. For instance, one ministry argues that SMEs need to have international exposure, which in fact, not all SMEs have an international orientation to grow.

We want Indonesian SMEs to have an international perspective, with the confidence to compete against other SMEs abroad and create high-quality products. Therefore, we provide them with free training, free patent registration, and free exhibitions (DPK).

Another example is coming from a government agency, which emphasises its support programmes in growing the SMEs’ business. However, some SMEs do not want to grow their business, as discussed in Chapter Seven.

Indonesian SMEs are very creative in terms of their products and services. Therefore, we facilitate them to grow better and bigger by aligning them with the right investors. We provide them with investor-pitching sessions, online and offline (BKF).

There is also a government support agency that organises a regular event for SMEs without understanding what the SMEs need.

We have regular exhibitions for SMEs at the national and international levels (DP).

This study found that not all SMEs want free support from the government. Most do not want investors to interfere in their business, and some do not want to expand their business overseas. As one SME owner argued:

We have more experience in this business than the government, why should we want any support from them? (C3CMT).

This thesis found that the top-down approach to implementing government support programmes is not effective for assisting SMEs in conducting their business or promoting internationalisation. Although some SMEs have benefited from the support, the impact is generally not as intended. The findings suggest that the support programmes could yield better results if the SMEs' interests were considered in the development stages.

9.2.1.4. Discussion

According to Narooz and Child (2017), government agencies are assumed to have the ability to support SME growth through the provision of essential, publicly available resources. However, this study found that this is not necessarily the case, providing support for the conclusions of Morais and Ferreira (2019). First, as discussed in the previous chapter, some government agencies fail to support SMEs fairly; and second, the terms for accessing government support are unclear.

Further to the previous chapter, this issue of government support is related to that of institutional asymmetry. The problems arising in national- and regional-level support are due to institutional asymmetry between different levels of government agencies. The lack of synchronisation between policy, practice, and the monitoring of support programmes is also related to institutional asymmetry between policymakers and executives. Likewise, the top-down support strategy is a consequence of the institutional asymmetry between the government organisations.

As discussed in the previous chapter, the interviews show that the government lacks clear guidance, which creates confusion. The regional government operating at the subnational level frequently makes adjustments when implementing national-level regulation in its area of operation. Furthermore, there is no consistency between

support programmes, combined with unfairness in the allocation of support to different SME categories, corruption in the distribution of financial aid, unclear support objectives, and no evaluation of the results.

Additionally, the government's top-down approach means that the support programmes often do not provide the support that the SMEs need. For example, the government provides internationalisation training, but it does not simplify the bureaucracy or the paperwork. Similarly, the government proposes that SMEs engage investors to grow their businesses internationally, without first considering whether the SMEs want to pursue internationalisation at all.

From a theoretical perspective, the interview findings indicate that the government's national- and regional-level support is not necessarily an important driver of SME internationalisation. This finding is in opposition to the conclusions of Dunning and Lundan (2008), who argue that the government and the political system play a key role in determining firms' performance, including in internationalisation. In the current study, the interviews revealed that the policy, practice, and monitoring of government support are not properly executed, despite their importance for implementing these regulations. The interviews also revealed that the top-down approach is not appropriate for developing support programmes that suit the SMEs' internationalisation needs.

The government at the national and regional levels have not adopted a series of policies to establish a robust institutional system that supports SME-internationalisation activities, as suggested by Narooz and Child (2017), Stephan *et al.* (2015), and Senik *et al.* (2011). On the contrary, the interviews indicate that the government creates institutional uncertainty at the national and regional levels, leading to political and economic institutions that are inconducive to internationalisation activities, as supported by Njinyah (2018) and Turner *et al.* (2016). This institutional uncertainty is evidenced by policy incoherence in the government agencies. Furthermore, rather than establishing a robust institutional system, some government agencies are compelling the SMEs to follow government guidance on internationalising their business, even when this is not the SME's own plan. This is

because the government agencies have KPIs that include providing support programmes, even when these programmes serve no formal purpose and the organisers are enriching themselves through corruption.

This demonstrates the co-existence of the institutional hazards that usually appear concurrently with institutional support, as argued by Nuruzzaman *et al.* (2020). SMEs usually respond by selectively choosing institutional support offered by government agencies to ensure they can obtain certain benefit to their internationalisation process. SMEs typically ignore the top-down approach and the misalignment of policy, practice, and monitoring. Instead, they focus on their own internationalisation plans, refusing government support. However, if they feel a particular support programme could benefit their business, they are happy to test it. For example, when SMEs are invited to host a stall at an international exhibition in a country where they have no plans to expand their business, they might accept the offer to test the market and develop their international network.

Although this theme demonstrates the general weakness of the government initiatives for supporting SMEs, some participants did express their appreciation of the government programmes, saying they felt supported by them:

Yes, I have received some marketing training from the Department of Trade. It is kind of useful. Also, I got a certificate from the customs duty, just in case I want to export my own products, they can prioritise me. The most beneficial one is probably from a state-owned bank, which gave me a financial aid with a very low interest rate (J3ADR).

However, none of the support given by the government had had the impact expected by the SMEs. The interviewees' responses to this question indicate that they are not satisfied, but nor are they aggrieved:

We were once invited to an Indonesian exhibition in Russia by the Department of Foreign Affairs. It was kind of useful for opening our eyes to a new opportunity abroad. We met some buyers as well. Unfortunately, they only gave us a free

booth to display our products; we still had to bear the other costs, like transport and other necessities (F1BLC).

The government support programmes can be useful for SMEs that wish to develop their business, including expanding overseas. However, without careful consideration and a proper implementation based on firms' needs, the programmes will not be effective. Therefore, negative perceptions of government support were predominant in the interviews.

The local Department of Trade gave us machinery equipment for production several times. We used some of it, and I let my employees bring it home to work from home. I do not know how they determine what machinery equipment we need. I lost some of them, to be honest, but they never questioned it (J3AGC).

While previous studies report that government support is positively associated with SME performance (Turner *et al.*, 2016; Mahajar & Yunus, 2006), this study found that government support is generally perceived negatively by SMEs, as stated clearly by one participant:

If possible, the government should not interfere in the SMEs' business. They make it more complex (J3AYS).

9.2.2. Intermediary Support

As mentioned previously, the extant literature does not categorise intermediaries' support as institutional support. Rather, it considers institutional support to be the implementation of laws and regulations by the government and its associates. However, this study includes intermediaries' support under this heading because the intermediaries in this context are independent organisations that support SMEs in managing their businesses. They include business and entrepreneur associations, private companies, and banks.

Unlike government support, intermediaries' support is perceived to have a more positive impact on SMEs' business performance. This finding is in line with the previous studies that position intermediaries as an important stimulus of both general

business performance and internationalisation success (Francioni *et al.*, 2016; Anderson *et al.*, 2010; Hessels & Terjesen, 2010; Ojala, 2009; Eriksson *et al.*, 2006; Pittaway *et al.*, 2004). However, the existing literature tends to position intermediaries as part of the firm's network, rather than independent organisations offering support.

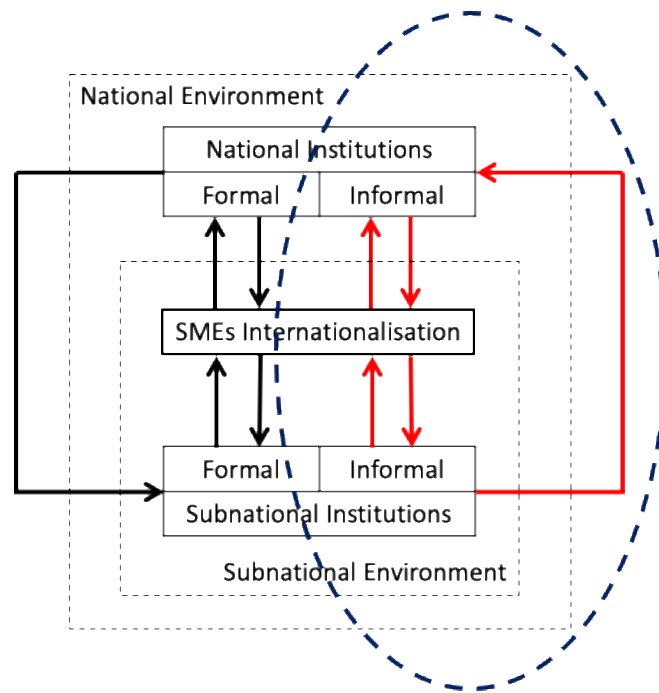


Figure 9.3. The position of intermediary support in the research framework

Coming back to the research framework, the position of intermediary support is opposite to that of government support. This is because intermediary support is not associated with the formal institutions. The research framework shows that intermediary support is primarily the product of informal institutions. Intermediary support also refers to the factors that SMEs normally deal with to develop their business, including internationalisation. In Figure 9.3, the arrow toward intermediary support only comes from the informal institutions on the national and subnational levels, and also towards the opposite direction as the SMEs respond to it. Figure 9.3 also shows the interaction between informal institutions at the national and subnational levels, with arrows connecting them. In this context, the informal institutions at the national level are coming from national-level organisations that support SMEs in managing their business. They include business and entrepreneur associations, private companies, and banks. At the subnational level, intermediary support is provided by the branches of the national-level organisations mentioned previously, or

local business and entrepreneur associations, private companies, and local banks. This section explains the role of intermediary support in the SME-internationalisation process and how this theme fits into the research framework.

The data-collection process revealed that the theme of ‘intermediary support’ comprises three second-order themes, which established from the group of statements raised from the interviews as part of the first-order concepts. The arrangement of the second-order themes was built upon the role of the intermediary in supporting SMEs, as shown in Figure 9.4.

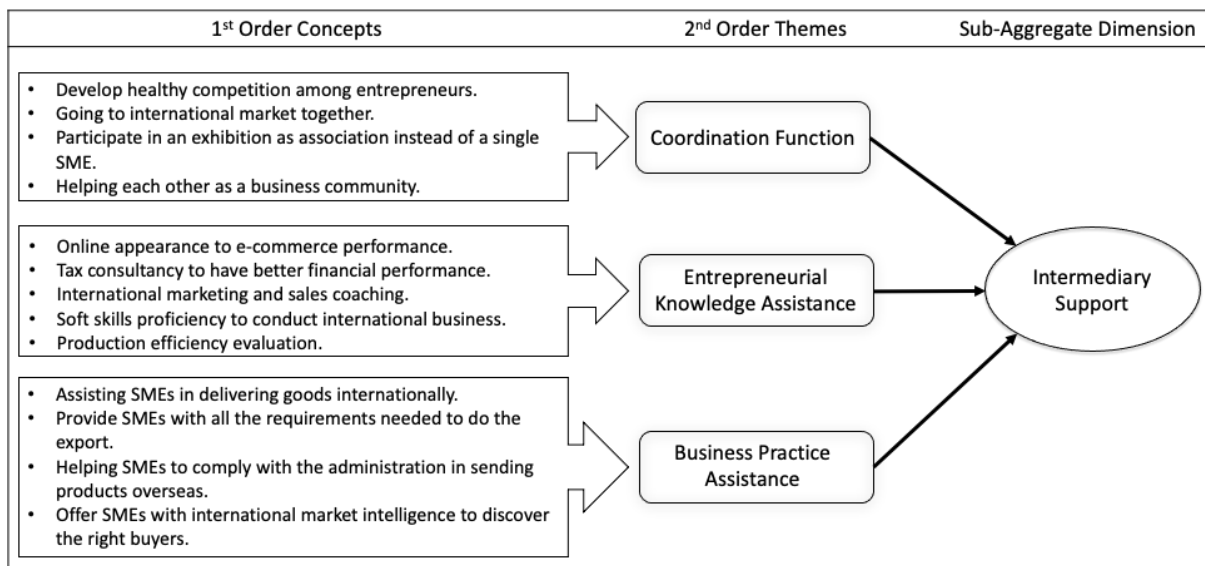


Figure 9.4. The data structure of intermediary support

Figure 9.4 shows the first-order concepts derived from the interview discussions of intermediary support. These first-order concepts lead to three second-order themes, which form ‘intermediary support’ as an aggregate dimension. The first second-order theme is the coordination function. This second-order theme concerns the function of intermediary support in coordinating SMEs to achieve a common goal or activity (in this case, internationalisation activity). The next second-order theme concerns the role of an intermediary for assistance with entrepreneurial knowledge. This refers to the ability of intermediary organisations to assist SMEs with soft business skills, marketing proficiency, and so on. Finally, the third second-order theme concerns the role of intermediaries in business-practice assistance, supporting SMEs with their internationalisation activities.

9.2.2.1. Coordination Function

The intermediary has a coordination function among SMEs operating in the same area. This area can be a geographical territory or a business scope (such as clothing, jewellery, furniture, etc.). The intermediaries in this context are usually business and entrepreneur associations. They support SMEs in the form of membership in business and entrepreneur associations.

The support that the intermediaries give as coordinators were referenced by several of the participants:

We have regular meetings and seminars or training with our members. The topics depend on the requests or the current issues. We commit to helping each other and growing together. Competition among members is unavoidable, but we want to make it as healthy as possible (JCB).

Another respondent also acknowledged the support with coordination when entering prospective markets. They also highlighted intermediary organisations as places to share knowledge:

We are here to help each other, member or non-member, to have prosperous businesses. We want to create healthy competition and help each other to grow. However, how the business is run is entirely up to the owners. We often provide opportunities to find good markets or share knowledge on how to do things better. We also ask for member participation in exhibitions (DSU).

A business association highlighted that his organisation was a place to share knowledge and experience. For example, members are willing to share their knowledge and help one another when participating in international exhibitions:

Some of our members have expertise in participating in international exhibitions. We often coordinate our members to put them together with others who meet certain criteria. As a result, they can exchange knowledge and, at the same time, help each other to promote Indonesian handicrafts overseas (AB).

One private organisation summarised the function of the intermediary by drawing on his own organisation's credo as a business community that aims to help, support, and grow SMEs by building networks and collaborating:

As a business community, we aim to facilitate our members to help each other, support each other, and grow together. Hopefully, this organisation can be a start toward growing a larger network of entrepreneurs and creating more collaboration among them, instead of competition (BKD).

Unlike the government organisations that often have coordination issues between the national and subnational levels, the intermediary organisations seem to be well-coordinated within themselves and with the SMEs at all levels. As shown in the interview data, this coordination function is useful for SMEs that want to learn how to develop, including expanding overseas. In short, this coordination function is proven to be valuable support for SME internationalisation.

9.2.2.2. Entrepreneurial-knowledge Assistance

Another intermediary support discussed in the interviews was 'entrepreneurial-knowledge assistance', or the role of the intermediary in assisting SMEs' development of entrepreneurial knowledge. The entrepreneurial knowledge delivered by the intermediaries tends to be soft skills training, consultancy, coaching, and other learning-related services.

One entrepreneur explained that she had received intermediary support for her online business, in the form of comprehensive e-commerce training for her team:

It is good to get support from the experts. When my team and I had their training, we realised that online appearance is totally different to offline appearance. It does not just mean having a good picture to display; we need to add keywords and links to support our e-commerce performance. And it was important to learn search engine optimisation (J2ADA).

One intermediary explained that his organisation is a place in which SME-owners can share and learn the things required for strong business performance:

We gather SMEs from many backgrounds and teach them to maximise their online performance. We also provide them with accountants and tax consultants to enable better financial performance. We urge them to cooperate with each other in order to optimise their potential. In terms of internationalisation, we help them to look for the best market and to gain trust from their buyers (RTK).

Another example came from a bank-based intermediary organisation. This bank specialises in assisting firms with internationalisation activities. One of its duties is to support SMEs that are unfamiliar with the formal procedures of international business:

We support the Ministry of Finance in delivering export training to the SMEs. We help them to familiarise themselves with the procedures and administration needed to conduct proper export activities. That includes how to make L/C, insurance, documents for specific type of goods, etc. We also explain the risks, such as their buyer not paying for their products as promised, or – in other words – scams and fraud. That often happens (EB).

A business intermediary representative shared how she had developed the entrepreneurial soft skills to deal with foreign buyers:

Besides equipping the SMEs with the 'how to' knowledge, our organisation also gives them the proficiency to correspond with overseas customers. How to negotiate, learn their business culture, maintain a professional relationship, etc. We hope that kind of soft skills can help them to enlarge their market and increase their sales (PK).

Additionally, one business intermediary reported encouraging the SMEs to exchange views and work with the local university to learn from academics:

There is an issue in business that we have figured out after all this time: people who do business do not know the theory, and the people who learn business theory never start a business. Hence, we initiated this knowledge-sharing between them, and the result is fantastic! They learn and collaborate with each

other to develop new understanding that can be implemented in real business practice (BIJ).

Unlike the government organisations that tend to lack knowledge, the intermediary organisations are able to deliver internationalisation knowledge, due to their entrepreneurial expertise. As shown in the interview data, good-quality entrepreneurial knowledge is useful for SMEs, clarifying their firm's position and what it needs to do to grow internationally. In summary, entrepreneurial-knowledge assistance from intermediaries is a valuable resource for SME internationalisation.

9.2.2.3. Business-practice Assistance

The final second-order theme in intermediary support is business-practice assistance. This differs from intermediary support in that its focus is practice, rather than knowledge and soft skills. For example, one participant explained that a business intermediary helped him to export his products to the overseas market:

I did not know anything about export or procedures. I only produced these products. I only sold them in a local market. Until one day, I met a Malaysian buyer who was interested in my bamboo products. Thankfully, the management of the local market where I usually supplied my products has an export programme. The local market management routinely dispatched to Malaysia, twice a year. So, I joined the programme to supply my buyer in Malaysia (J3AGC).

Business intermediaries also provide assistance with meeting the requirements of export regulations, as illustrated by another entrepreneur:

When we first delivered our products overseas, it was all trial and error. We were struggling with the administration to comply with all the regulations. In our search for the answers to overcome this problem – or at least make it easier – I participated in an SME curation contest. Our firm was selected to receive free support from a business consultant. Since then, we have become partners; they provide us with all the requirements to do exports (J2ARL).

One SME owner reported that she had received similar support from her network:

My products are mostly antique. Some are made from a typical rare wood; some are from animal bones and feathers; some others use natural resources, like pearl and silver. It is not easy to comply with all the export procedures because every material needs different licensing from different government authorities. It gives me a headache to think about the paperwork, not to mention that my buyers might want to mix products. Luckily, I know someone who specialises in export services. He gives assistance to my business by taking care of my administrative stuff and licensing from different government authorities. Once I have the paperwork from him, I can easily dispatch my products without any problems with customs and expedition (B3AKA).

In line with Balabanis (2000), this study found that intermediaries help SMEs by providing export- and import-related services, including market intelligence, identification of potential customers, and transaction financing:

It is our duty to serve SMEs or other firms doing export and import activities. Large firms usually know what they need to do. We simply follow what they ask us to assist with. It is different for SMEs; most of the time, we need to provide them with the information, such as market intelligence for certain countries – which countries have more demand for their particular products, which have the easiest procedures for entry. Then we can also arrange meetings with potential buyers, online and face-to-face. We act as a catalyst; the rest is up to them (EB).

Unlike the government organisations, intermediary organisations are able to support internationalisation business practice due to their existing expertise. As shown in the interview data, this good-quality business-practice assistance is useful for SMEs, clarifying their business position and how to grow their business in the international market. In summary, the business-practice assistance given by the intermediaries is valuable support for SME internationalisation.

9.2.2.4. Discussion

The findings on intermediary support generated three second-order themes – namely, coordination function, entrepreneurial-knowledge assistance, and business-practice assistance. Unlike government support, which is given via a top-down approach, intermediary support prioritises the SMEs' aspirations. However, this cannot be described as a bottom-up approach either, as the intermediary organisations and SMEs are on the same level. In fact, the business and entrepreneur organisations that act as intermediaries in this context are established by SME-owners. These findings contradict the extant literature that portrays intermediary organisations as separate from the SMEs (Francioni *et al.*, 2016; Cumming *et al.*, 2015; Hessels & Terjesen, 2010; Ojala, 2009; Eriksson *et al.*, 2006; Pittaway *et al.*, 2004; Balabanis, 2000). This study found that some SME-owners are involved in some of the operations of intermediary organisations. While not usually the case for private companies and banks, the business and entrepreneur organisations tend to comprise business activists, such as SME-owners and business consultants. Therefore, the intermediary organisations are better placed to assist the SMEs, as they understand their needs.

The interview data reveal that intermediary organisations frequently act as coordinators for SMEs, developing support programmes that suit their aspirations, including internationalisation. The assistance with entrepreneurial knowledge and business practice are a robust example of this. This study highlighted the value of SME-owners' active involvement in sharing knowledge and experience in the intermediaries' support process. For instance, they can develop training programmes for entrepreneurial skills, assist their members in international marketing and sales, facilitate knowledge-sharing, and invite professional exporters. The interviews also revealed that the intermediary organisations frequently provide business-practice assistance to the SMEs, helping them to develop their businesses in prospective markets by delivering goods internationally and identifying potential buyers overseas. The intermediaries' support programmes feel different to the ones delivered by the government, as the entrepreneurial-knowledge and business-practice assistance are delivered via a two-way approach – in contrast to the government's one-way approach that does not include SME perspectives.

The interviews revealed that the intermediaries' support stimulates SME internationalisation, which supports the findings of previous studies on this topic (Francioni *et al.*, 2016; Cumming *et al.*, 2015; Hessels & Terjesen, 2010; Ojala, 2009; Eriksson *et al.*, 2006; Pittaway *et al.*, 2004; Balabanis, 2000; Johanson & Vahlne, 1990). The intermediary organisations have established a robust institutional system for supporting SME-internationalisation activities, inviting the SMEs to understand their own needs and assisting them with facing their challenges. This demonstrates the importance of intermediary support in the informal institutions for assisting SME internationalisation.

The qualitative data indicate that informal institutions provide intermediary support in the form of mutual cooperation between SMEs and other independent organisations. There is a spirit of togetherness, which convinces the SMEs to work together in their pursuit of a common goal. They develop the entrepreneur associations and business intermediary organisations in order to have a legal entity when they need to do some business activity to help the SMEs. This then attracts independent organisations to join the movement. This type of intermediary support is easier to implement and has a direct, result-oriented objective, in contrast to the government support programmes that tend to be more formal and bureaucratic or formality (box-ticking) oriented.

The views expressed by entrepreneurs and business intermediaries provide a clear insight into one of the key institutional supports of SME internationalisation. As indicated, these sets of views are complementary. The views can be formed as a mutual business relationship, as part of the informal institutions, in the way of addressing some of the solutions in promoting internationalisation activities for SMEs. While Ojala (2009) positions the intermediary as a broker between the seller and the buyer, this study found that intermediaries are professional agencies that assist SMEs in their pursuits of internationalisation.

9.3. Informal or 'Shadow' Internationalisation

The final theme to emerge from the interviews with the SME owner-managers and entrepreneurs was 'informal' or 'shadow' internationalisation. This finding contributes to fulfilling the third research objective, by highlighting how formal and informal

institutional support affect SMEs' internationalisation activities at the national and subnational levels. This theme is concerned with the way SMEs respond to the institutional supports given in conducting their internationalisation activities. The SMEs' response might not be as intended by the formal institutions. In other words, this theme can also be perceived as a side-effect of institutional support, as seen from the SMEs' point of view.

Shadow internationalisation emerges from the direct or indirect impacts of institutional support from business intermediaries and government agencies. It involves SMEs driving their internationalisation using their knowledge and resources. Moreover, shadow internationalisation is part of the solution to the institutional barriers erected by unsupportive government systems.

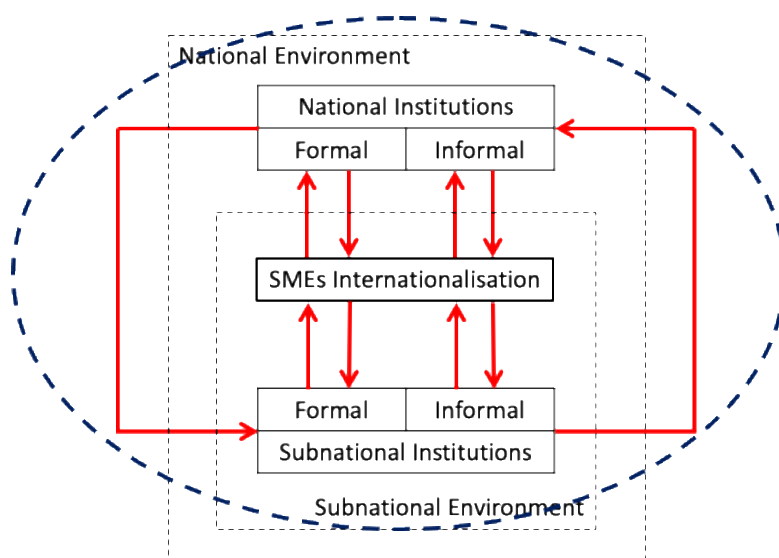


Figure 9.5. The position of 'informal' or 'shadow' internationalisation in the research framework

Coming back to the research framework, the theme of 'informal internationalisation' concerns the practices that SMEs employ to overcome the barriers to internationalisation. As a result, it has a similar framework to institutional barriers, as exhibited in Figure 9.5. Figure 9.5 shows that informal internationalisation has a comprehensive influence on every institutional element of internationalisation. The arrows associated with shadow internationalisation come from the formal institutions in the national and subnational levels of the environment, as well as from the informal

institutions in both levels, and vice versa as the SMEs respond to them. This theme is part of the formal and informal institutions that affect the SME-internationalisation process. This section explains the role of informal internationalisation in SME-internationalisation activity and shows how it fits into the research framework.

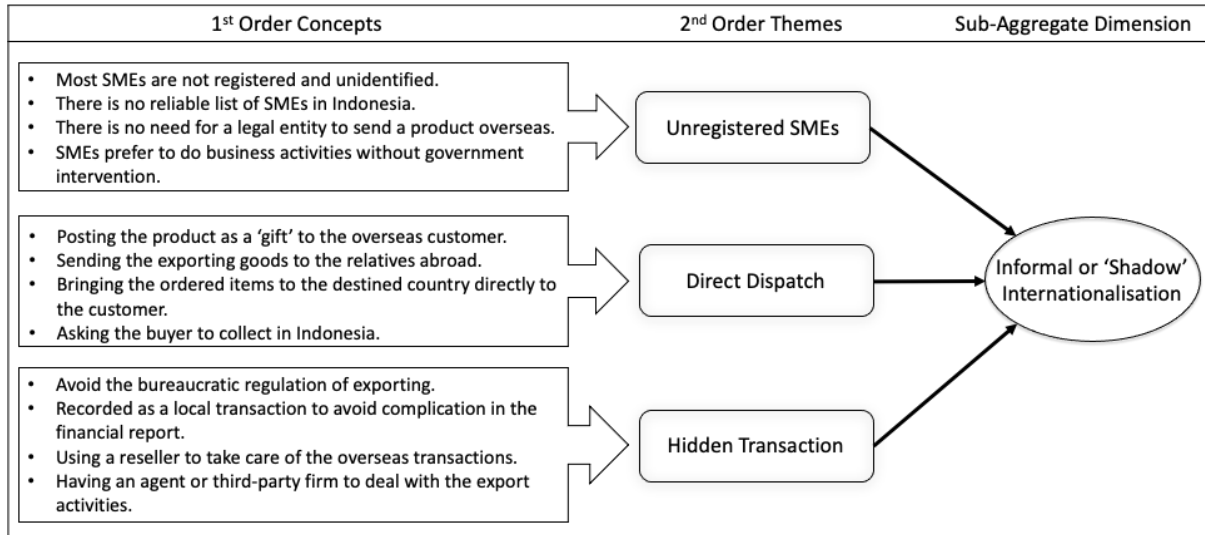


Figure 9.6. The data structure of informal or 'shadow' internationalisation

The theme of shadow is comprised of three second-order themes, as seen in Figure 9.6. They consist of two attributes: the first is the cause of informal internationalisation, which is shown to be unregistered SMEs; and the second is the direct dispatches and hidden transactions by which the informal internationalisation is performed.

9.3.1. Unregistered Small and Medium-sized Enterprises

Indonesian Law No. 20/2008 on 'Micro, Small and Medium Enterprises' regulates the utilisation of data banks (Article 10, verse a):

The business information aspect as referred to in Article 7 paragraph (1) letter c is aimed at:

- a. *(Central Government and Local Government) establish and facilitate the use of data banks and business information networks (Indonesian Law Number 20/2008, Article 10, verse a).*

Article 10 (verse a) of the law explains this terminology:

What is meant by 'data bank and business information network' are various business data centres and business information systems owned by the government or the private sector (Indonesian Law Number 20/2008, Explanation of Article 10).

However, this study found that the government does not include an SME database among its data banks. Many SMEs choose not to register their business, operating instead as unregistered SMEs. This was identified by a business consultant, who conducted an SME survey on behalf of the ministry:

I have travelled to many Indonesian regions to collect data from SMEs. I don't think it is possible for the government to have comprehensive data from SMEs. Why? Because most SMEs are not registered, unidentified; what you see as an SME today might not exist tomorrow, and suddenly the same person can have another SME business with a different name and product (ASC).

Although this quote is related to the SME database concerns cited in the previous section, it highlights that the root of shadow internationalisation is the unidentified SMEs operating as formal firms. The government agencies play an indirect role in this, and one acknowledged during an interview that there is no reliable list of SMEs in Indonesia:

We realise that we don't have a good database of SMEs in Indonesia. Therefore, we are now trying to build a comprehensive database for SMEs in Indonesia. We are hiring a consultant to collect the data and build the system (DPK).

As discussed previously, the consultant himself admitted that it is not possible to build this SME database. This is partly because it is not a requirement for an SME to have a legal entity, as explained by another business intermediary:

Anyone in this country can build a business and it does not have to be a proper legal entity. Everything can be arranged later. You can even use your own name without registering it with the authorities, when you start your own

business. You can also send your products overseas without a legal firm, just send it as a personal package (KD).

An SME owner may choose not to form a legal entity because they do not want the government to interfere with their business:

Every time I put an overseas transaction on my tax report, there are always differences between my calculations and the tax officer's calculations. I am tired of this. Not to mention the bureaucracy and the unclear regulations. That is why I built a new company to separate my local and international transactions. This new company is off the list. Overall, one thing that I want from the government is for it to stop interfering in our business. They know nothing about business, but they are taking advantage of our business (J3AYS).

This study found that unregistered SMEs are common; and this is often done to avoid government interference perceived to have no benefit for the business. As a result, it would not be possible to develop a complete list of SMEs in Indonesia. Therefore, the government struggles to deliver proper assistance to the SMEs and to fulfil the mandate of Indonesian Law No. 20/2008.

9.3.2. Direct Dispatch

Procedures for internationalisation are set in the Regulation of the Minister of Trade Number 13/M-DAG/PER/3/2012, concerning general provisions in the export sector. However, some SMEs are unwilling to comply with the regulation, finding it too complicated. Instead, they choose to avoid the regulations by engaging in informal internationalisation.

Two methods of informal internationalisation are highlighted in this study: direct dispatches and hidden transactions. The direct-dispatch method is often used by SMEs that wish to avoid the complicated procedures of formal export. Instead, they send their products directly to their overseas customers, using regular postage, as revealed by some participants:

Instead of following the bureaucratic regulations for exporting, I prefer to send my product as a 'gift' to my customers abroad. My jewellery is quite small, so I can easily send it using DHL or FedEx (J1AHJ).

Another SME owner explained how he engages family and friends abroad to help when conducting internationalisation:

Quite often, I use my friends and relatives' addresses to send my exported goods. That is the advantage of having family abroad. I found it simpler and easier, rather than having to follow formal regulations (J2ADL).

Involving family and friends in other countries is a common practice among internationalised SMEs:

I started selling my products abroad through my brother, who was studying in the US. He brought my products and sold them there. Once we had opened up in the market and found a network with other Indonesians, I started to send my products to them as if I were sending them to my relatives. In this way, I could avoid unnecessary formal regulation (S3APT).

Another way of employing the direct-dispatch method is to ask the buyer to collect the product from Indonesia:

We have plenty of foreign visitors every year. Some of them are businessmen who have an interest in our products and want to resell them in their countries. But I am not bothered with the export regulations. Therefore, I ask them to collect my products by themselves. The farthest I am willing to send my products is the port (A3APS).

This study found that direct dispatch is used by SMEs to overcome difficulties in complying with formal internationalisation procedures. Furthermore, this is one reason why there are very few exporting SMEs: many firms are technically doing export, but their activities are not recorded as such because they do not use the formal procedures. As a result, the government cannot gather accurate internationalisation data for the SMEs.

9.3.3. Hidden Transaction

The hidden-transaction method is equally important and serves the same purpose – namely, avoiding the bureaucratic procedures of exporting, particularly the Regulation of the Minister of Trade Number 13/M-DAG/PER/3/2012, which sets the general provisions for the export sector. However, this method focuses on the paperwork side, rather than the mechanics of delivery, as explained by one respondent:

I tried to find the simplest way of avoiding bureaucratic regulation, especially when doing export. One thing that I can do is to adjust my export transactions report to avoid tax payment (B3AKA).

Another participant added a similar concern:

I sell the product to an overseas counterpart, but I record it as a local transaction, not as an export. You have to put the exchange rate to calculate the tax of export income. The question is, which rate should I put? When I report my tax? When I receive the money? When I record the income? Every tax officer has their own interpretation of this. It is too messy. I record it as the local income instead. It is easier and cheaper (B3ASS).

Another way of hiding export transactions is by using a third-party to handle the arrangement:

I don't want to deal with complicated regulations and export procedures. In fact, I don't want to know about it. That's why I asked my agent to take care of it. I produce the products and ask them to collect it from here (J3ADR).

Similarly, another entrepreneur took advantage of his resellers to look after his overseas transaction:

Since you know that export procedure is quite complicated, let me tell you one thing I do to make it easier. I use resellers to take care of my overseas transactions. So, formally, my resellers are the ones who do the export, but I don't care as long as I can claim that my products are going international and the money flows to me (J1AHS).

This study found that the hidden transactions technique is employed by SMEs to overcome the challenges of the formal internationalisation procedures. Furthermore, this is one reason why there are such low numbers of exporting SMEs: many SMEs are technically doing export, but they avoid engaging with complicated procedures and limit their tax burdens by not reporting the activities. Moreover, agents and resellers might not be categorised as SMEs, while they are the parties formally conducting the export. As a result, the government is unable to obtain accurate data on SME internationalisation.

9.3.4. Discussion

The theme of 'informal' or 'shadow' internationalisation comprises three second-order themes – namely, unregistered SMEs, direct dispatches, and hidden transactions. These second-order themes concern the cause of informal internationalisation (i.e., unregistered SMEs) and the methods (i.e., direct dispatches and hidden transactions).

The data collected indicate that the operation of unregistered SMEs is strongly influenced by formal and informal institutions. From the perspective of the formal institutions, the government has an obligation to identify every SME in Indonesia, as stipulated in the law. However, a reliable list of SMEs is not available, as disclosed in the interviews. Some SMEs choose to stay off the government's radar to avoid the complicated bureaucracy and administration that are a consequence of involving formal institutions in their internationalisation activity.

Similarly, the methods of direct dispatches and hidden transactions are also strongly influenced by formal and informal institutions. As previously discussed, the government is bound by regulations on internationalisation activity. However, some SMEs find the regulation difficult to follow and seek out loopholes to avoid it.

Speaking in interviews, the SME-owners expressed that an unregistered firm is not an illegal firm, nor is one that does not comply with government regulations. They participants felt that not following the rules is not the same as breaking the law. This belief is supported by social norms and values, which assume that something is

acceptable to do as long as it does not harm others. These findings are in line with those of Shahid *et al.* (2017) regarding the informal economy, which indicate that unregistered firms and the avoidance of formality occur in response to procedural complication, low risk of detection, and cultural norms.

Another reason for unregistered SMEs and the use of direct-dispatch and hidden-transaction techniques that arose in the interviews was tax avoidance. Low tax morality, as an informal institution, also has a strong influence on internationalisation activity due to the distrust of government, as a formal institution. This is where informal institutions have a direct impact on formal institutions. This notion is supported by Shahid *et al.* (2017) as a product of the values and norms that characterise their society.

From the theoretical perspective, the interviews show that informal internationalisation can be linked to the entrepreneurial resilience theory (Bhamra *et al.*, 2011) and its implications for SME internationalisation (Dominguez & Mayrhofer, 2017). This informal internationalisation is evidence of the resilience of SME-owners and entrepreneurs, when faced with the hurdle of procedural complications. Although the government might be aware of this, it has not implemented policies to establish a robust institutional system to support SME-internationalisation activities, as suggested by Narooz and Child (2017), Stephan *et al.* (2015), and Senik *et al.* (2011). Instead, the interview findings indicate that some government agencies expect SMEs to comply with government guidance, even when it does not benefit the firms. This appears to be because the government agencies do not understand the SMEs and are focused solely on meeting their KPIs. As mentioned previously, this creates institutional uncertainty, which leads to political and economic institutions inconducive to SME-internationalisation activities, as explained by Njinyah (2018) and Turner *et al.* (2016). As a result, SMEs avoid interaction with the formal institutional support and choose to focus instead on their own internationalisation business plans.

However, the SME-owners or entrepreneurs acknowledged that, if their SMEs were unregistered, they could not participate in the government support programmes, some of which might be beneficial for their business processes. Likewise, by engaging in

direct dispatches and hidden transactions, the SMEs face the risk of not being recognised as internationalised, thus being unable to claim any incentives from the government's internationalisation support programmes.

As noted above, the national-level informal institutions that influence this shadow internationalisation activity include the social norms and values that promote unregistered SMEs as standard business entities rather than illegal ones. The evidence shows that society does not question the SME-owners and entrepreneurs about the legality of their business. The same norms and values also presume that direct dispatches and hidden transactions are usual business practices and not illegal. Society generally does not question SME-business activities, recognising that some owners prefer to avoid procedural complications and tax. At the subnational level, there is a general social value of opposition to government involvement in business activities. This evidence of informal institutions in the national and subnational level also supported in the interviews by presenting how the participants receive social support from their society. Society generally supports SMEs to grow their business internationally despite their business entity status (registered or not), and the fact that some of them are not complying with the formal internationalisation procedure, such as direct dispatch and hidden transaction.

In line with the explanation given in previous chapter, SMEs' business orientation was found not to play a role in whether the firms choose to engage in informal internationalisation or to use the formal procedures. Informal internationalisation is simply a loophole in the system. Again, this is evidence of the resilience of Indonesian SMEs, as expressed perfectly by one of the business owners:

Indonesian SMEs are not like start-up unicorns. Indonesian SMEs are more like a flock of cockroaches that are tough in the face of any storm. They have survived since ancient times. This is evidenced by the discovery of jug artefacts around the temple that are said to be a relic of the fast-food beverages produced by SMEs in the early Majapahit kingdom era (1293 CE) (J2BCN).

9.4. Conclusion

This chapter has fulfilled the third research objective:

Critically examine formal and informal institutional supports at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

This thesis found that formal and informal institutions affect SMEs internationalisation at the national and subnational levels through two type of supports: government support and intermediary support. To fulfilling the research objective, the thesis also found informal internationalisation as part of the solution to the institutional barriers erected by unsupportive government systems.

As has been noted, institutional asymmetry does not only occur between formal and informal institutions, it also arises among formal institutions and around access to institutional support. Surprisingly, institutional asymmetry can have unexpected benefits for SMEs, giving the opportunity to hunt for support from different government agencies. Additionally, the institutional support is not only coming from government agencies, but also from private companies and entrepreneur associations, which act as business intermediaries between the SMEs and the international market.

Another striking finding is that not all government support is helpful for the SMEs. In fact, some government agencies do not have sufficient knowledge to properly support the SMEs, and some firms find the 'support' to be a hindrance to their business. This is because some assistance is not genuinely intended to assist, but merely to meet the supporter's KPIs. The interviews also revealed that the government support is often ineffective due to the gap between the regulations and the SMEs' genuine needs. This study found that most SMEs welcome the help of the intermediaries, as professional agencies. In addition, SMEs are very creative business entities, able to create opportunities from every difficulty, and this enables them to find loopholes in the internationalisation regulation and use them to their own advantage. In this study, this practice is termed 'informal' or 'shadow' internationalisation.

In summary, the semi-structured interviews with SME owner-managers and entrepreneurs, government officials and policymakers, and business intermediaries and entrepreneur associations have facilitated a profound and thoughtful understanding of SME internationalisation in the emerging-market context. A number of prominent themes and categories have emerged from the findings of the qualitative data analysis, reflecting the knowledge, experience, and perceptions of the participants in the field. These themes and categories have been synthesised with the quantitative results to fulfil the research objectives; and this is concluded in the next chapter. This is followed by an explanation of the contributions to knowledge and practice that have emanated from this research, alongside the limitations of this study and the suggestions for future work.

Chapter Ten: Synthesis and Conclusion

10.1. Introduction

This chapter synthesises the key findings of this study, pulling together the empirical analysis chapters (Chapters Six to Nine) based on the methodology (Chapter Five) to make the research contribution described in the literature review (Chapters Two and Three). This thesis has investigated the role of home-country formal and informal institutions in SME internationalisation within the emerging-market context of Indonesia. Combining a number of analytical approaches, this study has identified the degree to which internationalisation activity at the SME level is influenced by the formal and informal institutions at the national and subnational levels. This thesis has presented the collection, analysis, and discussion of the secondary data from BPS-Statistics Indonesia, as well as the findings from in-depth, semi-structured interviews. Building on these data, this chapter synthesises the results of the quantitative and qualitative work to draw out the insights for the overall conclusion of the research.

This chapter begins with the key findings of this study and highlights their contributions to the research objectives. This is followed by an examination of the contributions of this research to the knowledge, including its implications for policy and practice. The limitations of the current study are then acknowledged and recommendations for future researchers are presented. Finally, a conclusion summarises the thesis.

10.2. Research Synthesis

10.2.1. Research Objectives

To begin, it is important to reiterate the research objective and show how this study has achieved it. The central topic of interest in this thesis was the role of home-country formal and informal institutions in SME internationalisation within an emerging-market context. The research was guided by the following research objectives:

1. Evaluate formal and informal institutional drivers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.
2. Evaluate formal and informal institutional barriers at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

3. Critically examine formal and informal institutional supports at the national and subnational levels that affect the internationalisation of small and medium-sized enterprises in the emerging-market context.

These research objectives have each been fulfilled in the previous chapters (Chapters Seven to Nine). The purpose of this chapter is thus to synthesise those answers into one coherent finding.

10.2.2. Summary of Major Findings

Institutional theory was chosen as an appropriate theoretical lens through which to view the role of home-country formal and informal institutions in SME internationalisation within an emerging-market context. Combining the findings of the quantitative secondary-data analysis and the qualitative in-depth semi-structured interviews (presented in Chapters Six to Nine), the major findings of this study are summarised as follows:

1. The correlation and regression analysis of the SME Profile 2015 survey data from BPS-Statistics Indonesia indicate that the relationship between internationalisation (export) and the other variables assessed in this study (SME type, SME age, education level, monthly profit, asset value, obstacle, partnership, support, general training, partnership with government organisation, support from government organisation, and training from government organisation) are mostly significant, even though they are considered to have a very low impact on export. While support and obstacle variables are the only variables that are considered as not significant, this result cannot be generalised since a more specific type of support, which is support from government organisations, is statistically significant. This variable's contribution in affecting export activities is however considered very low on SME-internationalisation activity in the Indonesian context.
2. Formal institutions are meant to support SMEs' business activities, including their internationalisation activity. However, this study found that formal institutions are generally perceived by SMEs as institutional barriers. The interview data reveal that, when translating laws into more detailed regulation to be implemented in different government agencies, the government frequently

creates inconsistencies, and as a result, different government officials and agencies interpret the same regulations differently. The SMEs also complained about the inconsistent and convoluted bureaucracy around tax and export regulations.

3. Informal institutions play a crucial role in influencing entrepreneurial behaviour and supporting SME-internationalisation activities. However, due to certain aspects of traditional culture and norms, informal institutions can also act as institutional barriers.
4. Both formal and informal institutions at the national and subnational levels can significantly influence SME-internationalisation activity. Therefore, more efficient integration of the institutions could help to eliminate the institutional barriers and achieve the internationalisation objectives, reducing risk in the process and improving internationalisation performance.
5. There is evidence that institutional asymmetry occurs not only between formal and informal institutions but also among formal institutions. The extant literature consistently relates institutional asymmetry to interactions between formal and informal institutions (Autio & Fu, 2015; Williams & Vorley, 2015; Pejovich, 1999). However, in this study, institutional asymmetry was also found between formal institutions. This was observed not only among government regulations in different organisations, but also between SMEs' perceptions of government regulations and the impact of those perceptions on SMEs' actions with respect to internationalisation. Institutional asymmetry is also found between the national- and regional-level regulations of a single government agency at different levels. The hurdle to synchronise policy, practice and the monitoring of support programmes as part of the implementation of government regulations is also evidence that institutional asymmetry does exist among different layers of government regulations. Institutional asymmetry can jeopardise government export-initiative programmes, making them ineffective and damaging the relationships between SMEs and government agencies, at the national and subnational levels. However, institutional asymmetry can also be used to the SMEs' advantage, allowing firms to seek out support from different government agencies.

6. Some of the entrepreneurs interviewed said that government support was merely a distraction from their business concerns. They felt that SMEs did not benefit from the government training programmes, as the implementation of the Indonesian Law Number 20/2008 on SMEs. Some suspected that the support was not delivered to genuinely assist the SMEs, but rather to meet the provider's own KPIs. In some cases, the support programmes were solely perceived as box-ticking exercises, or to satisfy a goal of enriching oneself through corruption. Additionally, entrepreneurs felt that the government at the national and regional levels created institutional uncertainty, weakening the political and economic institutions involved in SME-internationalisation activities. As a result, they argued that some aspects of the support given by the government did not have the expected impact on the SMEs. However, despite some perceptions of weaknesses with respect to government's initiatives for supporting SMEs, other firms did indicate that they appreciated the programmes and felt supported by them.
7. The SMEs believe that the business intermediary organisations and entrepreneur associations are professional agencies which answer their needs by assisting them when engaging an internationalisation. This study shows the importance of SME-owners' active involvement in the intermediary support process. The intermediary organisations frequently act as coordinators for SMEs, developing support programmes that align with the firms' aspirations and helping them to pursue internationalisation. This thesis has shown that informal institutions underpin intermediary support by promoting mutual cooperation among the SMEs and certain independent organisations. The intermediary organisations believe in the spirit of togetherness, a value that encourages SMEs to work together in pursuit of a common goal. The business intermediary organisations and entrepreneur associations, such as KADIN and ASEPHI, emerge as a result, providing legal standing to the firms for their business activities. This then attracts independent organisations with shared interests. This type of intermediary support is perceived as easier to implement, with direct and results-oriented objectives, rather than the government support programmes that tend to be more formal and bureaucratic.

8. This study has shown that SMEs are very creative and resilient business entities, able to create opportunities from their difficulties. This creativity is strongly influenced by both formal and informal institutions. The interviews revealed that some SMEs choose to avoid procedural complications by seeking out loopholes in the government regulation. Others choose to stay off the government's radar altogether to avoid complicated bureaucracy and convoluted administration. This study identified three techniques used by SMEs to access these loopholes: unregistered SMEs, direct dispatches, and hidden transactions. Social norms and values are equally important in this process, as they mean that the SMEs' use of loopholes is seen as standard business practice (rather than a criminal concern). Society understands that some SMEs prefer to avoid procedural complications and tax.

This thesis presents novel and surprising evidence. First, the thesis argues that not all government support is helpful to SMEs, as some agencies lack the required knowledge. In fact, some SMEs believe that this 'support' actually hinders their international business. Second, institutional asymmetry can occur among government agencies and even between the same government agency at the national and subnational levels. Third, institutional asymmetry can give unofficial benefits to SMEs, such as enabling them to obtain support from different government agencies at once. Finally, informal institutions support the SMEs by enabling them to seek out alternative solutions that avoid convoluted government regulations.

10.3. Research Contribution

This thesis has investigated the neglected issue of the role of formal and informal institutions at the national and subnational levels in SME internationalisation, with an emerging market as the research context (Khoury & Hitt, 2019; Williams & Vorley, 2015; Holmes et al., 2013; Schwens et al., 2011; Salimath & Cullen, 2010; Tonoyan et al., 2010). This not only enriches understanding of the SME-internationalisation process (Gankema *et al.*, 2000; Cavusgil, 1980; Johanson & Vahlne, 1977) and its drivers (Francioni *et al.*, 2016; Abebe & Angriawan, 2011; Leonidou *et al.*, 2007) and barriers (Cardoza et al., 2016; Roy et al., 2016; Rahman et al., 2015; Fayos Gardó et al., 2006; Leonidou, 2004; Moini, 1997; Kedia & Chhokar, 1986), it also contributes to

the extant literature on the interactions between formal and informal institutions in the same national environment (Khoury & Hitt, 2019; Williams & Vorley, 2015; Holmes et al., 2013; Schwens et al., 2011; Salimath & Cullen, 2010; Tonoyan et al., 2010). This is in contrast to a singular focus on the interactions between home and host-country institutions (Couper, 2019; Berry *et al.*, 2010) or the SMEs' business performance (Stoian *et al.*, 2017; Pascucci *et al.*, 2016; Maldifassi & Caorsi, 2014; Francis & Collins-Dodd, 2000), as explained in the literature review chapters.

This study is one of the first to apply institutional theory (North, 1990) to investigate institutional asymmetry (Williams *et al.*, 2017; Williams & Vorley, 2015) between formal and informal institutions in the SME-internationalisation process in an emerging-market context (García-Cabrera et al., 2016; Marano et al., 2016; Marinova, 2015; Roxas & Chadee, 2012; Salimath & Cullen, 2010; Kiss & Danis, 2008; Busenitz et al., 2000). The institutional theory was found to be sufficient to explain the interaction between the home-country formal and informal institutions at the national and subnational levels of the environment, in the context of SME internationalisation (Zhang *et al.*, 2017; Charoensukmongkol, 2016; Wengel & Rodriguez, 2006). Furthermore, this research has considered the impact of institutional asymmetry on the SME-internationalisation process (Autio & Fu, 2015; Williams & Vorley, 2015; Pejovich, 1999). Hence, this thesis enriches the literature on entrepreneurship and internationalisation studies and fills the identified knowledge gaps.

Combining a review of the extant literature and an empirical analysis, this research offers a distinct institutional perspective on SME-internationalisation activities (García-Cabrera et al., 2016; Marano et al., 2016; Marinova, 2015; Roxas & Chadee, 2012; Salimath & Cullen, 2010; Kiss & Danis, 2008; Busenitz et al., 2000), particularly in the emerging-market context (Zhang *et al.*, 2017; Hoskisson *et al.*, 2013; Tan, 2002). A novel contribution of this thesis is the empirical evidence of institutional asymmetry among government agencies and even between the same government agency at the national and subnational levels. Another surprising empirical finding is that informal institutions support the SMEs' pursuit of alternative solutions that avoid convoluted government regulations.

The following section explains how this thesis contributes to academic knowledge and details its implications for policy. Finally, it identifies the practical implications for SMEs and business intermediaries or associations.

10.3.1. Contributions to Knowledge

The focus of this study was chosen for three reasons. First, the bibliometric and systematic review study of Dabić *et al.* (2020) shows that most prior studies of SME internationalisation have focused on entry mode, human capital, networks, knowledge cognitive, promotion, geography, and technology. This has left a gap in the knowledge of the home-country institutional context, including legislation and culture as formal and informal institutions. Second, the extant literature does not consider formal and informal institutions at the national and subnational levels, despite how closely related they are and the extent to which they influence one another (Khoury & Hitt, 2019; Williams & Vorley, 2015; Holmes *et al.*, 2013; Schwens *et al.*, 2011; Salimath & Cullen, 2010; Tonoyan *et al.*, 2010). Third, Welter *et al.* (2017) and Aldrich and Ruef (2020) show that research into entrepreneurship has focused disproportionately on exotic, billion-dollar start-ups, neglecting the ordinary, everyday entrepreneurs. Therefore, this study was designed to contribute to knowledge of how formal and informal institutions affect internationalisation for ordinary, everyday entrepreneurs, such as those running SMEs.

Complementing the bibliometric and systematic review study of Dabić *et al.* (2020), this paper also included a review of the extant literature on SMEs and internationalisation activity. This literature presents insights into internationalisation drivers (Francioni *et al.*, 2016; Abebe & Angriawan, 2011; Leonidou *et al.*, 2007), internationalisation barriers (Cardoza *et al.*, 2016; Roy *et al.*, 2016; Rahman *et al.*, 2015; Fayos Gardó *et al.*, 2006; Leonidou, 2004; Moini, 1997; Kedia & Chhokar, 1986), the internationalisation process (Gankema *et al.*, 2000; Cavusgil, 1980; Johanson & Vahlne, 1977), entrepreneurs' characteristics and behaviours (Omri & Becuwe, 2014; Reid, 1981), business networks (Solano Acosta *et al.*, 2018; Stoian *et al.*, 2017; Pinho & Prange, 2016; Felzensztein *et al.*, 2015; Boehe, 2013; Coviello & Munro, 1997), internationalisation strategy (Ahmad, 2014; Bell *et al.*, 2004), and internationalisation performance (Stoian *et al.*, 2017; Pascucci *et al.*, 2016; Maldifassi & Caorsi, 2014;

Francis & Collins-Dodd, 2000). The findings of this literature review support those of Dabić *et al.* (2020), demonstrating that the academic focus in this area is limited.

With its comprehensive review of institutional theory and the empirical research on SME internationalisation, this study contributes to the literature on entrepreneurship and home-country formal and informal institutions (García-Cabrera *et al.*, 2016; Marano *et al.*, 2016; Marinova, 2015; Roxas & Chadee, 2012; Salimath & Cullen, 2010; Kiss & Danis, 2008; Busenitz *et al.*, 2000). This thesis adopts institutional theory as the theoretical lens through which to investigate the role of home-country formal and informal institutions in SME internationalisation within an emerging-market context. Second, unlike the previous studies, this thesis explores formal and informal institutions at the national and subnational levels, with participants who are ordinary, everyday entrepreneurs. Third, this thesis combines data from three types of interviews (with SME owner-managers and entrepreneurs, government officials and policymakers, and business intermediaries and entrepreneur associations), thereby employing triangulation to explore the phenomenon from various theoretical perspectives.

As a result, this thesis makes three key contributions to internationalisation and entrepreneurship knowledge. First, the extant literature does not consider formal and informal institutions at the national and subnational levels, despite how closely related they are and the extent to which they influence one another (Khoury & Hitt, 2019; Williams & Vorley, 2015; Holmes *et al.*, 2013; Schwens *et al.*, 2011; Salimath & Cullen, 2010; Tonoyan *et al.*, 2010). There is also a lack of knowledge regarding institutional asymmetry between formal and informal institutions, between the national and subnational levels of institutions, and among the same level or different levels of the same formal institution. As an institutional study conducted within a national environment, with diverse populations located among several subnational areas and operating under the same regulations, this study shows how formal and informal institutions affect entrepreneurship and internationalisation. Therefore, this thesis makes a valuable contribution to entrepreneurship studies by identifying how SME owner-managers and entrepreneurs view the institutional asymmetry in their internationalisation activities. On that premise, one important contribution of this thesis

is its explanation of how formal and informal institutions interact and potentially create institutional asymmetry at the national and subnational levels, thereby influencing SME internationalisation.

Second, this thesis builds on the conclusion of Welter *et al.* (2017) and Aldrich and Ruef (2020) that entrepreneurship research should pay more attention to everyday entrepreneurs, rather than billion-dollar start-ups. This thesis, therefore, extends the knowledge to include the context of formal and informal institutions and their influence on SMEs, as everyday entrepreneurs, and internationalisation activity.

Third and most importantly, this thesis applies entrepreneurial resilience theory (Bhamra *et al.*, 2011), with its implications for SME internationalisation (Dominguez & Mayrhofer, 2017), to identify the strategies employed by SMEs to overcome the hurdles of procedural complications and to show how informal institutions come into play. Based on these findings, the thesis makes another important contribution by showing how resilient SMEs are when facing these institutional barriers during the internationalisation process.

The following sections discuss each of those contributions in turn and link the findings to the literature.

10.3.1.1. Institutional Asymmetry at the National and Subnational Levels

This study contributes to entrepreneurship studies, with its use of SME internationalisation as the research context. To the best of the researcher's knowledge, this thesis is one of the first to study the interaction between formal and informal institutions in the national and subnational contexts of one country. This enriches the discussion of SME internationalisation as an entrepreneurial practice. This study links each theme to the institutional drivers and barriers associated with formal and informal institutions, showing how they interact with and influence the internationalisation of SMEs.

One of the key contributions of this thesis is its insights into misalignment between formal and informal institutions, often called 'institutional asymmetry' (Williams *et al.*,

2017; Williams & Vorley, 2015). This study clarifies the interaction between formal and informal institutions to show how institutional asymmetry occurs and affects the institutional support given to SMEs. Institutional theory and evidence from previous studies related to institutions show that institutional asymmetry often occurs in transition countries between central government regulations or laws and prevailing informal institutions in society (Williams & Vorley, 2015; Pejovich, 1999). Complementing the extant literature, this study illustrates that institutional asymmetry can occur within a government organisation, at the national and subnational levels, as well as between different government organisations.

This institutional asymmetry is discussed in Chapters Eight and Nine. The data reveal that the regional government operating at the subnational level must frequently make adjustments when implementing national-level regulation in their areas of operation. This study also included interviews with a representative of a government agency in the central headquarters and a representative of the same government agency at the provincial level. These participants gave very different answers to the same question during their interviews. Specifically, the government agency in the central headquarters understood that the regulation under discussion was applicable to multinational companies. However, the representative of the government agency at the provincial level applied the regulation to SMEs, where it might not be suitable.

This study also found that the government at the national and regional levels is not adopting policies that promote a robust institutional system to support SME-internationalisation activities, as suggested by Narooz and Child (2017), Stephan *et al.* (2015), and Senik *et al.* (2011). Rather, the data indicate that the government is creating institutional uncertainty (Njinyah, 2018), which leads to political and economic institutions that are inconducive to SME-internationalisation activities. This finding supports the conclusions of Turner *et al.* (2016), who argue that institutional uncertainty can delay the speed and reduce the effectiveness of business activities, resulting in profit decline and low productivity. The effects can include policy incoherence, corruption, excessive bureaucracy, arbitrary law enforcement, and monopolistic control. In short, the institutional asymmetry that occurs at the national

and subnational levels can, thus, have a negative impact on SME-internationalisation activity.

Another contribution of this study regarding institutional asymmetry is its provision of empirical evidence about the misalignment of institutional support between different government organisations. This thesis found that institutional asymmetry can jeopardise government export-initiative programmes, making them redundant and thus damaging the relationships between SMEs and government agencies, at the national and subnational levels. The study has shown that it is difficult for SMEs to engage with the programmes due to the institutional asymmetry that arises between government organisations. That asymmetry can prevent fair access to government support. As a result, the competition is unfair and envy arises between the SMEs. Additionally, the government organisations that deliver the support programmes attract bad reputations. There is evidence of unclear communication and poor coordination between departments in the government administration. As a result, government support at the national and regional levels is not a key driver of SME internationalisation. This finding contradicts those of Dunning and Lundan (2008), who argue that the government play a significant role in determining firms' performance, including in relation to internationalisation.

Williams and Vorley (2015, p. 841) argue that 'institutional asymmetry is defined as the misalignment between formal and informal institutions, with the formal being generally supportive of entrepreneurship and the informal, unsupportive'. However, this study found formal institutions to be unsupportive, with informal institutions generally more supportive. In some cases, SMEs could not accept government support programmes due to their prioritisation of the informal institutions. Instead, SMEs typically respond to institutional asymmetry between formal and informal institutions by avoiding the formal institutions and prioritising the informal.

The informal institutions, such as social norms and values, tend to be supportive of SME internationalisation. This study found that some community values and family norms help SMEs to grow in the international market. For instance, collectivist values mean that international brands are more accepted, signal better quality, and enjoy

greater consumer consumption. This research found that, at both the national and subnational levels, these values encourage SMEs to pursue international market opportunities to enhance their local image.

Although institutional asymmetry has negative effects on SME internationalisation, it can also offer occasional benefits to entrepreneurs. SMEs exploit the lack of coordination between government organisations, for instance, to obtain support from multiple government organisations that is actually intended for multiple firms.

In summary, this thesis enriches the extant literature on institutional asymmetry by providing additional evidence that this issue occurs both between formal and informal institutions and also among formal institutions. Additionally, this study also expands the literature on institutional asymmetry by showing how formal and informal institutions are perceived differently. Finally, this thesis provides evidence that institutional asymmetry is not always negative for entrepreneurs and can have positive effects.

10.3.1.2. Everyday Entrepreneurs and Internationalisation

The second key contribution of this thesis is its focus on ordinary entrepreneurs, rather than hugely successful start-ups, which is a focus recommended by Aldrich and Ruef (2020) and Welter *et al.* (2017). This thesis contributes to the extant literature by showing how everyday entrepreneurs are influenced by informal institutions, through their families and communities, in their perceptions of internationalisation activity. In addition, this thesis shows how SMEs address the influence of formal institutions in their everyday business activities, including the collisions of formal and informal institutions and the emergence of institutional asymmetry.

The findings of this research show how adaptative and flexible SMEs are when faced by institutional barriers to their internationalisation objectives. This thesis takes on the challenge posed by Welter *et al.* (2017) and Marano *et al.* (2016) to give more attention to the role of home-country formal and informal institutions and SMEs, as ordinary entrepreneurs, pursuing internationalisation objectives, thereby setting a broader context of purposes, reasons, and values, instead of a focus on wealth and job creation.

By investigating the role of home-country formal and informal institutions in SME internationalisation, this thesis contributes to the research on entrepreneurial dynamics at the bottom of the pyramid, enabling a more accurate picture of entrepreneurship and ordinary entrepreneurs.

10.3.1.3. Resilience Strategies for Overcoming Institutional Barriers

Another major contribution of this thesis is that it links formal and informal institutions and the entrepreneurial resilience theory (Bhamra *et al.*, 2011), with its implications for SME internationalisation (Dominguez & Mayrhofer, 2017). This study reveals that the SMEs' strategy to overcome the hurdle of procedural complication as part of the formal institutions in conducting internationalisation is evidence of how resilient the SME-owners or entrepreneurs are.

According to Bhamra *et al.* (2011), the extant literature on entrepreneurial resilience theory lacks empirical evidence, particularly in the context of SMEs. Additionally, Dominguez and Mayrhofer (2017) suggest that more research is needed to clarify the negative experiences of SMEs while conducting internationalisation activities and to show how their resilience enables them to overcome barriers. This thesis has taken up these challenges, showing how SMEs adjust their internationalisation strategies to overcome formal institutional barriers.

As discussed in the analysis chapters, SMEs face institutional barriers due to the government regulations (as formal institutions), in the form of complicated bureaucracy and convoluted administration. To avoid those procedural complications, many SMEs exploit loopholes in the regulation to facilitate more straightforward internationalisation activity. These loopholes include non-registration, direct dispatches, and hidden transactions. In this way, the SMEs prove themselves to be highly creative and resilient business entities, creating opportunities from their difficulties. This behaviour is closely linked to the role of informal institutions, as social norms and values are sympathetic to this use of 'creative solutions', typically perceiving the avoidance of formal institutions to be a normal business practice, rather than a criminal act.

To put it differently, this thesis contributes to the study of entrepreneurial resilience theory by showing that, from the perspective of informal institutions in the context of Indonesia, an emerging-market country, an unregistered firm is not considered to be an illegal firm, and likewise for firms not complying with government regulations. Society does not view 'not following the rules' as necessarily breaking the law. This belief is supported by social norms and values, which assume that actions are acceptable as long as they do not harm others. Webb *et al.* (2009) argue that what might be perceived as illegal by a formal institution might be seen as legitimate from the perspective of an informal institution. This is in line with the conclusions of Shahid *et al.* (2017), whose study of the informal economy found that unregistered firms and the avoidance of formality were associated with greater procedural complications, lower risk of detection, and cultural norms, as seen in this study.

Making another contribution to the literature on entrepreneurial resilience theory, this study explored how informal institutions perceive SME tax avoidance. Low tax morality, as an informal institution, has a strong influence on internationalisation activity and arises as an effect of distrust of government (a formal institution). This is where informal institutions have a direct impact on the implementation of formal institutions. This notion is also supported by Shahid *et al.* (2017) and Webb *et al.* (2009), who conclude that values and social norms can frame tax avoidance as legitimate, despite being illegal in the view of formal institutions.

In summary, this thesis enriches the extant literature on entrepreneurial resilience theory by providing further empirical evidence in the context of SME internationalisation. Additionally, this study applies entrepreneurial resilience theory to the context of formal and informal institutions. This thesis shows how informal institutions provide support for SMEs' resilience in overcoming institutional barriers erected by formal institutions. Finally, this thesis opens up a new perspective of the concepts of 'illegal' and 'legitimate' in the context of entrepreneurship study of the informal economy.

10.3.1.4. Other Empirical Contributions

In addition to those three key contributions, this thesis also makes a number of other empirical contributions. First, the findings on internationalisation motives, as institutional drivers, challenge the conclusion of Roxas and Chadee (2012) that informal institutions at the subnational level may not have the potential to inhibit the development of business entities. In fact, this study found that informal institutions play an important role in supporting SME internationalisation, and some community values and family norms help SMEs to grow in the international market. For example, social values encourage the SMEs to proactively seek international market opportunities. Furthermore, social norms mean that the legal status of the SMEs is rarely questioned, and firms are supported even when their international operation do not comply with government regulations.

Second, the findings on internationalisation resources as institutional drivers enrich the study of Manolopoulos *et al.* (2018), which examined how home institutional quality affects resource decisions and SME export performance. With its insights into the issue of raw materials, this study supports Gao *et al.* (2010), showing how formal institutions control the supply of raw materials through government policies at the national and subnational levels. This thesis strengthens the body of research on the role of home-country formal and informal institutions in SMEs' resource availability.

Third, the thesis highlights the value of a multi-method approach. With its quantitative and qualitative investigations and an explanatory sequential design, this thesis first presents a broader perspective of the issues, before conducting a qualitative analysis to produce in-depth insights.

10.3.2. Policy Implications

This thesis has some important implications for policymakers; and policymakers could apply the findings as valuable guidelines for evaluating their general support policy for SMEs and their internationalisation. First, this thesis argues that the government support programmes for the promotion of the internationalisation of Indonesian SMEs are ineffective for various reasons, such as institutional asymmetry; inconsistencies in the application of policy, practice, and monitoring; and the use of a top-down approach.

Chapter Nine describes several causes for the lack of impact of these government support programmes. This thesis found that the government, as the policymaker, does not provide clear guidance for translating its policies into practice, for the development of detailed regulation to be implemented in different regions, or for the monitoring of the effectiveness of the programmes, as part of the evaluation for improvement. This leads to ambiguity when executing the regulations and redundancy and lack of coordination between government agencies. The findings reveal that the regional government, operating at the subnational level, must frequently make adjustments to implement national-level regulation in their areas of operation. Therefore, government officials must consider coordinating with other government agencies to work together and better support one another, as intended by the law.

Second, there is no consistency between support programmes, the distribution of support to SMEs is often unfair, corruption is common in relation to financial aid, the support objectives are unclear, and there is no evaluation of the results. Hence, due to the government's top-down approach, the programmes very often do not provide the support that the SMEs actually need. Therefore, government officials need to become more aware of the requirements of the SMEs in their area of work, including the type of support that SMEs need and the delivery technique they can implement to ensure the support programmes are helping SMEs to grow in the overseas market.

Third, when translating national-level law into subnational-level regulation, policymakers need to be mindful of the characteristics of the SMEs in their area of work. This is especially true when the regulation concerns the delivery of support programmes, as this could prevent conflict arising among the SMEs and between the SMEs and the government agencies. The policymakers must also consider the informal institutions involved in the area. As implementations of formal institutional drivers, government export initiatives and other related support programmes must acknowledge the interests of the SMEs and their values and norms. If regulations do not accommodate social norms and values, conflict will inevitably arise between formal and informal institutions. Therefore, the government should not be solely focusing on its own KPIs, but also considering the institutional integration between the formal and informal institutions implementing the regulations.

Moreover, government organisations should deliver support that meets the needs of the recipient firms. The perceptions of the SME representatives interviewed was that this was not currently the case, and the support given is usually intended only to meet the departments' own KPIs, rather than the SMEs' objectives. This observation was reinforced by the fact that institutional asymmetry is not only occurring between formal and informal institutions, as commonly discussed in the literature, but also among the formal institutions and in the form of discrepancies in access to institutional support. This is evidence of unclear communication and poor coordination between the departments in the government administration.

Previous studies have reported that government support is positively associated with SME performance (Turner *et al.*, 2016; Mahajar & Yunus, 2006). The quantitative analysis in this study also found the relationship between government support in Indonesia and SME internationalisation is statistically significant. However, its contribution in affecting export activities is considered very low on SME-internationalisation activity in the Indonesian context. The qualitative analysis also supports this finding, as government support was generally perceived negatively by the SMEs. Therefore, these findings indicate that government support at the national and regional levels is not an important driver of SME internationalisation. This finding contradicts the conclusions of Dunning and Lundan (2008), who argue that government is a significant driver of firm performance, including in internationalisation. Correspondingly, this study highlights inconsistencies in the implementation of policy, practice, and monitoring of government support. Data in this study also indicate that the top-down approach is not conducive to developing a support programme that meets the needs of SMEs.

The SME representatives stated that, rather than accelerating the internationalisation process, the government internationalisation policy and support programmes were revenue- and time-consuming. More effective programmes would thus require less time and be customised to correct identified deficiencies (based on geographical location or type of industry). In national-level policy, the government support programmes should focus on general internationalisation opportunities, such as market intelligence and research, to assist SMEs in recognising their

internationalisation potential and executing proper strategies, with a focus on initial export. Policymakers could do this by promoting useful skills and knowledge, providing relevant overseas market information, and organising industry-specific or regional exporter associations to facilitate coaching and networking.

Overall, policymakers must ensure policy alignment – from the national to the subnational level and from practice to evaluation – and avoid employing a top-down approach to ensure it is providing adequate institutional support for SME internationalisation. The study findings also highlight the importance of informal institutions, which tend to be neglected by policymakers.

10.3.3. Practical Implications

10.3.3.1. Implications for Entrepreneurs and Owner-Managers of Small and Medium-sized Enterprises

This study provides evidence of the key institutional drivers of and barriers to SME internationalisation. The findings could be used by SME owner-managers and entrepreneurs as a set of benchmarks to identify the institutional drivers they need, the critical institutional barriers that could constrain their performance, and the type of institutional support that they require. The findings also have important implications for SME owner-managers and entrepreneurs.

First, the secondary-data analysis and semi-structured interviews provide strong evidence that the government support is not having a directly beneficial impact on the SME-internationalisation process. In fact, the qualitative data further revealed that dealing with these formal institutions can complicate and hinder the process. Therefore, it is important for SMEs to understand their business circumstances and seek out the support they need to develop, utilise, and leverage their internationalisation resources and capabilities. This study suggests that SMEs should seek assistance from business intermediaries, rather than the government.

Second, turning to the informal institutional context, SMEs must adapt to the norms and values of the area in which they are operating. Their business activities and perceptions of internationalisation should also be adjusted to comply with the informal

institutions. SMEs should proactively seek out government assistance for developing internationally, thereby integrating the informal institutions they have adopted with the formal institutions they could utilise.

In the sphere of influence of formal institutional context that SMEs cannot avoid, this thesis indicates that SME owner-managers and entrepreneurs are sufficiently resilient to react positively to adverse circumstances by being observant and proactively seek opportunities. The findings of this study indicate that well-established internationalised SMEs are able to make the most of their situation.

As explained above, this study concludes that SMEs should develop internationalisation strategies based on understanding of the formal institutions that govern them, the informal institutions within the area in which they are operating, and the institutional support that would benefit them. Moreover, SMEs should work with business intermediaries and entrepreneur associations to build a sense of community in response to the institutional barriers to internationalisation success.

10.3.3.2. Implications for Business Intermediaries and Entrepreneur Associations

This thesis also has important implications for business intermediaries and entrepreneur associations. The findings might be particularly beneficial for those involved in assisting SMEs with their internationalisation business activities, but they could also apply to general SME-business assistance.

As noted above, the SMEs representatives in this study perceive the intermediaries' support as beneficial for the internationalisation process, with government support generally perceived negatively. In short, SMEs put more trust in business intermediaries and entrepreneur associations than they do in the government. Therefore, these business intermediaries and entrepreneur associations should seek to build bridges between SMEs and the government. SMEs could be assisted in dealing with government bureaucracy and administration, as well as choosing the government support that would be most beneficial for them. Liaising with the government, business intermediaries and entrepreneur associations could make

suggestions as to the type of support that SMEs need and the best way to deliver this. The business intermediaries and entrepreneur associations could also show the policymakers which formal institutions were helping and which were hindering the SMEs' internationalisation activity. They could also make suggestions for revising the policies and regulations to make them more valuable and easier to follow.

The business intermediaries and entrepreneur associations could also make more of their roles in assisting SMEs by providing a support system in addition to the usual training, knowledge, and market opportunities. This support system could be in the form of private consultancy, business gathering, export coordination, or joint promotions for overseas exhibitions. The findings of this thesis highlight the importance of coordination between SMEs, and the business intermediaries and entrepreneur associations could play an important role in facilitating this. By invoking the informal institution of 'togetherness', the business intermediaries and entrepreneur associations could encourage SMEs to perform joint activities and help one another to pursue their common objectives.

10.4. Limitations and Recommendations for Future Research

This thesis has touched on a number of topics for future research into national- and subnational-level formal and informal institutions in the context of an emerging country. Different levels of analyses were conducted, as well as a combination of quantitative and qualitative investigations; and these analyses generated knowledge about the role of formal and informal institutions in an emerging country. However, it is important to acknowledge the limitations of this research. The first limitations encountered when conducting this thesis were matters of time, economic resources, and location; and the quality of the data also prevented certain analyses. The data for the quantitative analysis came from the Indonesia SME Profile for 2015. This was the latest dataset available from BPS-Statistics Indonesia at the time of writing. The dataset contains information on SME profiles in Indonesia, including the institutional support given and the internationalisation level, enabling national-level analysis (Chapter Six).

However, there are some concerns regarding this dataset. First, the detailed information on the SMEs' profiles is unreliable, as the qualitative analysis found that

the number of unregistered SMEs in Indonesia mean that it is not possible to compile a comprehensive dataset. Second, the dataset is not presented in the form of panel data, thus it cannot be linked back to the previous dataset to follow the development of specific SMEs. For instance, the dataset cannot reveal the changes in the internationalisation level of an SME or the different types of support it has received over time. Finally, the dataset does not provide detailed information about specific types of support or the reasons for an SME's decision to pursue internationalisation.

The use of a newer dataset from the Indonesia SMEs' profile would be a beneficial update, showing the effects of institutional support and whether contributions to the internationalisation process had increased. Furthermore, the use of a dataset able to reflect links between institutional support and internationalisation would be of great value. Additionally, primary-data collection using a survey questionnaire would be an ideal method for interrogating this phenomenon. This questionnaire could be designed to gather data for answering a specific research question – in contrast to secondary data, which is likely to have been gathered for a different objective.

In addition, the qualitative data in this thesis was gathered via in-depth, semi-structured interviews. Although this method allows for the collection of rich narratives, it is also prone to social desirability and retrospective biases (Lavrakas, 2008; Edwards, 1957). However, the current study focused on recent events and the interviewer maintained a supportive, neutral tone throughout the discussions, seeking to reduce this risk of bias. Although this could have implications for the quality of the results, the data are rich with evidence and examples of the participants' internationalisation activity. Thus, it is believed that social desirability and retrospective biases were effectively minimised.

On a separate note, analyses of other emerging-market countries or developed countries could illuminate how those institutions operate in different environments. The particular institutional drivers and barriers identified in this study could be country- or region-specific, and a more comprehensive view could reveal the institutional drivers and barriers that have the most substantial influences on SME-internationalisation outcomes.

Second, the business focus of this thesis is SME internationalisation. It is clear that institutional support from the government and business intermediaries has different impacts on the recipients. The institutional support reflects how formal and informal institutional phenomena are perceived by SMEs, especially during their internationalisation process. Future research could address different businesses or social focuses, such as the impact of formal and informal institutions on SME productivity and business collaborations.

Third, this research focuses solely on the handicraft industry; thus, it would be useful to explore other types of industries, such as manufacturing or services. Future researcher could also be more specific about the potential benefits of particular types of formal and informal institutions. Studies could look more closely at the development trajectories of different types of industries and the potential paths for improvements within those industries, in the institutional context.

Finally, future research could employ the research framework developed in this thesis, focusing on a specific part of it, re-assessing it, expanding it to include the influence of the host country, and so on. The framework could also be applied to the context of an institutional phenomenon to address the effects of a specific event or theory.

10.5. Conclusion

The thesis has answered the central research question and fulfilled all the three research objectives with reference to the theoretical foundations reviewed in the literature chapter. This study has investigated the role of home-country formal and informal institutions in SME internationalisation within an emerging-market context. Institutional theory was the theoretical lens applied for the investigation. The study comprised two sequential stages, namely quantitative secondary-data analysis and qualitative in-depth semi-structured interviews. The quantitative stage of this study utilised secondary data from the Microdata SME Profile 2015 developed by BPS-Statistic Indonesia. STATA software was used to analyse the dataset through correlation and regression analysis to test the relationship between the internationalisation variable (export) and other potentially influential factors (SME type,

SME age, education level, monthly profit, asset value, obstacle, partnership, support, general training, partnership with government organisation, support from government organisation, and training from government organisation). The qualitative phase of the thesis involved in-depth, semi-structured interviews with SME owner-managers and entrepreneurs, public policymakers, and business intermediaries to explore the role of home-country formal and informal institutions at the national and subnational levels in SME internationalisation, with thematic analysis conducted to interrogate the findings.

This study concludes that both formal and informal institutions at the national and subnational levels have strong influences on SME-internationalisation activity. However, the interaction between formal and informal institutions can lead to institutional asymmetry. Furthermore, institutional asymmetry not only occurs between formal and informal institutions, but also among the formal institutions. Although institutional asymmetry is generally perceived as negative, this research found that it can also have unofficial benefits for SMEs.

Another surprising finding of this thesis that enriches the entrepreneurship literature is that formal institutions are considered largely unsupportive of SME internationalisation, while informal institutions are generally supportive. This is contrary to previous research on this topic (Williams & Vorley, 2015; Dunning & Lundan, 2008). The SME representatives perceive government support to be a distraction from internationalisation activity, while the intermediary organisations are seen as professional agencies that provide valuable assistance.

This thesis broadens the extant entrepreneurship literature with its focus on everyday entrepreneurs, rather than billion-dollar start-ups, as suggested by Aldrich and Ruef (2020) and Welter *et al.* (2017). With this focus, the study is able to show that ordinary entrepreneurs are influenced in their perceptions of internationalisation activity by informal institutions, such as their families and communities.

Finally, this thesis shows that SMEs are highly creative and resilient in their efforts to overcome institutional barriers. This finding contributes to the extant literature on entrepreneurial resilience theory (Bhamra *et al.*, 2011) and its implications for SME

internationalisation (Dominguez & Mayrhofer, 2017). The findings of this study demonstrate that both formal and informal institutions strongly encourage SMEs' creativity, as firms seek to avoid procedural complications and find loopholes in government regulation. Likewise, this study highlights the importance of informal institutions for supporting this creativity, rather than condemning it as illegal or inappropriate.

In conclusion, this thesis has shown that the formal and informal institutions at the national and subnational levels of an emerging market country each have an impact on SMEs' internationalisation activities. The formal and informal institutions have different impacts, including both stimulating and inhibiting the process. Nevertheless, the study concludes that many SMEs have no desire to pursue internationalisation, despite the benefits that they could obtain from doing so.

Given the positive and negative effects of formal and informal institutions, their impact should be monitored to evaluate their contributions to SME internationalisation. Equally important, a holistic view is needed to monitor how SMEs perceive these formal and informal institutions that affect them. Thus, SMEs can utilise their business potentials and face any challenges they need to overcome as a new opportunity and strategy to embrace internationalisation from the dynamic institutional change in the region.

References

- Aaby, N. E. & Slater, S. F. (1989). Management Influences on Export Performance: A Review of the Empirical Literature 1978-88. *International Marketing Review*, 6(4).
- Abdullah, N. A. H. N. & Zain, S. N. M. (2011). The Internationalization Theory and Malaysian SmallMedium Enterprises (SMEs). *International Journal of Trade, Economics and Finance*, 2(4), 318–322.
- Abe, M., Troilo, M., Juneja, J. S. & Narain, S. (2012). *Policy Guidebook for SME Development in Asia and The Pacific*. Bangkok.
- Abebe, M. A. & Angriawan, A. (2011). The Internationalisation of Small and Medium-Sized Enterprises (SMEs): A Multi-Level Integrative Framework. *International Journal of Entrepreneurship and Innovation Management*, 13(3–4).
- Aberbach, J. & Rockman, B. (2002). Conducting and Coding Elite. *Political Science and Politics*, 35(4), 673–676.
- Acedo, F. J. & Galán, J. L. (2011). Export Stimuli Revisited: The Influence of the Characteristics of Managerial Decision Makers on International Behaviour. *International Small Business Journal*, 29(6), 648–670.
- Acs, Z., Åstebro, T., Audretsch, D. & Robinson, D. T. (2016). Public Policy to Promote Entrepreneurship: A Call to Arms. *Small Business Economics*, 47(1), 35–51.
- Acs, Z., Desai, S. & Hessels, J. (2008). Entrepreneurship, Economic Development and Institutions. *Small Business Economics*, 31(3), 219–234.
- Acs, Z. J., Morck, R., Shaver, J. M. & Yeung, B. (1997). The Internationalization of Small and Medium-Sized Enterprises: A Policy Perspective. *Small Business Economics*, 9(1), 7–20.
- Adler, P. S. (2012). PERSPECTIVE—The Sociological Ambivalence of Bureaucracy: From Weber via Gouldner to Marx. *Organization science (Providence, R.I.)*, 23(1), 244–266.
- Ahlstrom, D. & Bruton, G. D. (2002). An Institutional Perspective on the Role of Culture in Shaping Strategic Actions by Entrepreneurial Firms in China. *Entrepreneurship: Theory and Practice*, 53–70.
- Ahlstrom, D. & Ding, Z. (2014). Entrepreneurship in China: An Overview. *International Small Business Journal: Researching Entrepreneurship*, 32(6), 610–618.
- Ahmad, N. H. & Seet, P. (2009). Dissecting Behaviours Associated with Business Failure: A Qualitative Study of SME Owners in Malaysia and Australia. *Asian*

Social Science, 5(9).

- Ahmad, S. Z. (2014). Small and Medium Enterprises' Internationalisation and Business Strategy: Some Evidence from Firms Located in an Emerging Market. *Journal of Asia Business Studies*, 8(2), 168–186.
- Ahmed, F. U. & Brennan, L. (2019). An Institution-Based View of Firms' Early Internationalization: Effectiveness of National Export Promotion Policies. *International Marketing Review*, 36(6), 911–954.
- Aldrich, H. E. & Ruef, M. (2020). Scholars Should Study Everyday Entrepreneurs, Not Gazelles. *Entrepreneur and Innovation Exchange*, 10–12.
- Alvarez, R. (2004). Sources of Export Success in Small- and Medium-Sized Enterprises: The Impact of Public Programs. *International Business Review*, 13(3), 383–400.
- Amoako, I. O. & Lyon, F. (2013). 'We Don't Deal with Courts: Cooperation and Alternative Institutions Shaping Exporting Relationships of Small and Medium-Sized Enterprises in Ghana. *International Small Business Journal*, 32(2), 117–139.
- Andersen, O. (1993). On the Internationalization Process of Firms: A Critical Analysis. *Journal of International Business Studies*, 24(2), 209–231.
- Anderson, V., Boocock, G. & Graham, S. (2010). An Investigation into the Learning Needs of Managers in Internationalising Small and Medium-Sized Enterprises. *Journal of Small Business and Enterprise Development*, 8(3), 215–232.
- Anfara, V. A., Brown, K. M. & Mangione, T. L. (2002). Qualitative Analysis on Stage: Making the Research Process More Public. *Educational Researcher*, 31(7), 28–38.
- Arasti, Z., Zandi, F. & Bahmani, N. (2014). Business Failure Factors in Iranian SMEs: Do Successful and Unsuccessful Entrepreneurs Have Different Viewpoints? *Journal of Global Entrepreneurship Research*, 4(1), 1–14.
- Archer, M. (1995). *A Realist Social Theory: The Morphogenetic Approach*. Cambridge: Cambridge University Press.
- Archer, M. S. (2003). *Structure, Agency, and the Internal Conversation*. Cambridge: Cambridge University Press, 2003.
- Arranz, N. & de Arroyabe, J. C. F. (2009). Internationalization Process of Spanish Small Firms: Strategies, Transactions and Barriers. *International Small Business*

Journal, 27(4).

- Arshed, N., Carter, S. & Mason, C. (2014). The Ineffectiveness of Entrepreneurship Policy: Is Policy Formulation to Blame? *Small Business Economics*, 43(3), 639–659.
- Association of Exporters and Producers of Indonesian Handicraft. (2018). Crafina 2018 - From Natural Resources to Creative Product for Lifestyle. Retrieved October 14, 2018, from <https://asephi.com/events/crafina-2018/>
- Autio, E. (2005). Creative Tension: The Significance of Ben Oviatt's and Patricia McDougall's Article 'toward a Theory of International New Ventures'. *Journal of International Business Studies*, 36(1), 9–19.
- Autio, E. & Fu, K. (2015). Economic and Political Institutions and Entry into Formal and Informal Entrepreneurship. *Asia Pacific Journal of Management*, 32(1), 67–94.
- Babbitt, L. G., Brown, D. & Mazaheri, N. (2015). Gender, Entrepreneurship, and the Formal-Informal Dilemma: Evidence from Indonesia. *World Development*, 72, 163–174.
- Badan Ekonomi Kreatif. (2019). Kriya. Retrieved September 11, 2019, from <https://www.bekraf.go.id/subsektor/page/kriya>
- Balabanis, G. I. (2000). Service Affecting Export The Intermediaries' British Offerings : Example Services Offered by Export. *Journal of International Business Studie*, 31(1), 83–99.
- Bank Indonesia. (2015). Informasi Kurs.
- Barbero, J. L., Casillas, J. C. & Feldman, H. D. (2011). Managerial Capabilities and Paths to Growth as Determinants of High-Growth Small and Medium-Sized Enterprises. *International Small Business Journal*, 29(6), 671–694.
- Barney, J. B. (2007). *Resource-Based Theory: Creating and Sustaining Competitive Advantage* (D. N. Clark, Ed.). Oxford: Oxford.
- Bathelt, H. & Glückler, J. (2014). Institutional Change in Economic Geography. *Progress in Human Geography*, 38(3), 340–363.
- Baumol, W. J. W. J. (1990). Entrepreneurship: Productive, Unproductive, and Destructive. *Journal of Political Economy*, 98(5), 893–921.
- Belhoste, N., Bocquet, R., Favre-Bonté, V. & Bally, F. (2019). How Do SMEs Use Support Services during Their Internationalisation Process: A Comparative Study

- of French Traditional SMEs and INVs in Asia. *International Small Business Journal: Researching Entrepreneurship*, 37(8), 804–830.
- Bell, E., Bryman, A. & Harley, B. (2019). *Business Research Methods*. Oxford: Oxford University Press.
- Bell, J., Crick, D. & Young, S. (2004). Small Firm Internationalization and Business Strategy: An Exploratory Study of ‘knowledge Intensive’ and ‘Traditional’ Manufacturing Firms in the UK. *International Small Business Journal*, 22(1).
- Bell, J., McNaughton, R. & Young, S. (2001). ‘Born-Again Global’ Firms: An Extension to the ‘Born Global’ Phenomenon. *Journal of International Management*, 7(3), 173–189.
- Bell, J., McNaughton, R., Young, S. & Crick, D. (2003). Towards an Integrative Model of Small Firm Internationalisation. *Journal of International Entrepreneurship*, 1(4), 339.
- Berry, H., Guillén, M. F. & Zhou, N. (2010). An Institutional Approach to Cross-National Distance. *Journal of International Business Studies*, 41(9), 1460–1480.
- Bhamra, R., Dani, S. & Burnard, K. (2011). Resilience: The Concept, a Literature Review and Future Directions. *International Journal of Production Research*, 49(18), 5375–5393.
- Bhaskar, R. (1989). *Reclaiming Reality: A Critical Introduction to Contemporary Philosophy*. London: Verso.
- Bhaskar, R. (2014). *The Possibility of Naturalism: A Philosophical Critique of the Contemporary Human Sciences*. London: Routledge.
- Bianchi, C. & Wickramasekera, R. (2016). Antecedents of SME Export Intensity in a Latin American Market. *Journal of Business Research*, 69(10), 4368–4376.
- Bilkey, W. J. & Tesar, G. (1977). The Export Behavior of Smaller-Sized Wisconsin Manufacturing Firms. *Journal of International Business Studies*, 8(1), 93–98.
- Blundel, R. (2007). Critical Realism: A Suitable Vehicle for Entrepreneurship Research?, in: Neergaard, H. and Ulhoi, J. P. (Eds.), *Handbook of Qualitative Research Methods in Entrepreneurship*, (pp. 49–74). Cheltenham, UK: Edward Elgar Publishing.
- Boehe, D. (2013). Collaborate at Home to Win Abroad: How Does Access to Local Network Resources Influence Export Behavior? *Journal of Small Business Management*, 51(2), 167–182.

- Boettke, P. J. & Coyne, C. J. (2003). Entrepreneurship and Development: Cause or Consequence? *Advances in Austrian Economics*, 6, 67–87.
- Bosma, N., Hill, S., Ionescu-Somers, A., Kelley, D., Levie, J. & Tarnawa, A. (2020). *GEM - Global Entrepreneurshi Monitor*. London.
- Bourne, K. A. & Calás, M. B. (2013). Becoming ‘real’ Entrepreneurs: Women and the Gendered Normalization of ‘Work’. *Gender, Work and Organization*, 20(4), 425–437.
- BPS-Statistics Indonesia. (2015). *Profil Industri Mikro Dan Kecil*. Jakarta.
- BPS-Statistics Indonesia. (2017). *Profil Industri Mikro Dan Kecil*. Jakarta.
- BPS-Statistics Indonesia. (2019a). *Statistical Yearbook of Indonesia 2019* (Sub-directorate of Statistical Compilation and Publication, Ed.). Jakarta: BPS-Statistics Indonesia.
- BPS-Statistics Indonesia. (2019b). *National Income of Indonesia 2014-2018*. Jakarta.
- BPS-Statistics Indonesia. (2019c). *Produk Domestik Bruto Indonesia Menurut Pengeluaran 2014-2018*. Jakarta.
- BPS-Statistics Indonesia. (2019d). Dynamic Table of Export-Import Subjects. *BPS - Statistics Indonesia*. Retrieved November 19, 2019, from <https://www.bps.go.id/subject/8/ekspor-impor.html#subjekViewTab6>
- Braun, V. & Clarke, V. (2021). To Saturate or Not to Saturate? Questioning Data Saturation as a Useful Concept for Thematic Analysis and Sample-Size Rationales. *Qualitative research in sport, exercise and health*, 13(2), 201–216.
- Bruton, G. D., Ahlstrom, D. & Li, H. L. (2010). Institutional Theory and Entrepreneurship: Where Are We Now and Where Do We Need to Move in the Future? *Entrepreneurship: Theory and Practice*, 34(3), 421–440.
- Bruton, G. D., Ahlstrom, D. & Obloj, K. (2008). Entrepreneurship in Emerging Economies: The Research Go in the Future. *Entrepreneurship Theory and Praticce*, 32(January), 1–14.
- Bryman, A. (2006). Integrating Quantitative and Qualitative Research: How Is It Done? *Qualitative Research*, 6(1), 97–113.
- Buckley, P. J. (2011). The Theory of International Business Pre-Hymer. *Journal of World Business*, 46(1), 61–73.
- Buckley, P. J. (2015). The Contribution of Internalisation Theory to International Business: New Realities and Unanswered Questions. *Journal of World Business*,

51(1), 74–82.

- Busenitz, L. W., Gómez, C., Spencer, J. W., Busenitz, L. W. & Spencer, J. W. (2000). Country Institutional Profiles: Unlocking Entrepreneurial Phenomena. *Academy of Management Journal*, 43(5), 994–1003.
- Cardoza, G., Fornes, G., Farber, V., Gonzalez Duarte, R. & Ruiz Gutierrez, J. (2016). Barriers and Public Policies Affecting the International Expansion of Latin American SMEs: Evidence from Brazil, Colombia, and Peru. *Journal of Business Research*, 69(6), 2030–2039.
- Carney, M., Dieleman, M. & Taussig, M. (2016). How Are Institutional Capabilities Transferred across Borders? *Journal of World Business*, 51(6), 882–894.
- Cassetta, E., Monarca, U., Dileo, I., Di Berardino, C. & Pini, M. (2020). The Relationship between Digital Technologies and Internationalisation. Evidence from Italian SMEs. *Industry and Innovation*, 27(4), 311–339.
- Cateora, P. R., Gilly, M. C. & Graham, J. L. (2013). *International Marketing*. New York: McGraw-Hill Irwin.
- Cavusgil, S. T. (1980). On the Internationalization Process of Firms. *European Research*, 8(November), 273–281.
- Cavusgil, S. T. & Knight, G. (2009). *Born Global Firms: A New International Enterprise*. Business Expert Press.
- Cavusgil, S. T. & Zou, S. (1994). Marketing Strategy-Performance Relationship - an Investigation of the Empirical Link in Export Market Ventures. *Journal of Marketing*, 58(1), 1–21.
- Chan, C. M., Makino, S. & Isobe, T. (2010). Does Subnational Region Matter? Foreign Affiliate Performance in the United States and China. *Strategic Management Journal*, 31(11), 1226–1243.
- Chandra, A., Paul, J. & Chavan, M. (2020). Internationalization Barriers of SMEs from Developing Countries: A Review and Research Agenda. *International Journal of Entrepreneurial Behaviour and Research*, 26(6), 1281–1310.
- Charoensukmongkol, P. (2016). The Interconnections between Bribery, Political Network, Government Supports, and Their Consequences on Export Performance of Small and Medium Enterprises in Thailand. *Journal of International Entrepreneurship*, 14(2).
- Cheng, H.-L. & Yu, C.-M. J. (2012). Adoption of Practices by Subsidiaries and

- Institutional Interaction within Internationalised Small-and Medium-Sized Enterprises. *Management International Review*, 52(1), 81–105.
- Cheng, H. L. & Yu, C. M. J. (2008). Institutional Pressures and Initiation of Internationalization: Evidence from Taiwanese Small- and Medium-Sized Enterprises. *International Business Review*, 17(3), 331–348.
- Chetty, S. & Campbell-Hunt, C. (2004). A Strategic Approach to Internationalization: A Traditional Versus a 'Born-Global' Approach. *Journal of International Marketing*, 12(1), 57–81.
- Chetty, S. K. & Hamilton, R. T. (1993). Firm-Level Determinants Of Export Performance: A Meta-Analysis. *International Marketing Review*, 10(3), 26–34.
- Chiao, Y. C., Yang, K. P. & Yu, C. M. J. (2006). Performance, Internationalization, and Firm-Specific Advantages of SMES in a Newly-Industrialized Economy. *Small Business Economics*, 26(5), 475–492.
- Child, J., Hsieh, L., Elbanna, S., Karmowska, J., Marinova, S., Puthusserry, P., et al. (2017). SME International Business Models: The Role of Context and Experience. *Journal of World Business*, 52(5), 664–679.
- Child, J., Ng, S. H. & Wong, C. (2002). Psychic Distance and Internationalisation: Evidence from Hong Kong Firms. *International Studies of Management & Organization*, 32(1), 36–56.
- Ciriaci, D. (2014). Business Dynamics and Red Tape Barriers. *European Economy*, 532(September), 28.
- Corbin, J. M. & Strauss, A. (2008). *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory*. Los Angeles: Los Angeles: SAGE Publications Inc.
- Corley, K. G. & Gioia, D. A. (2004). Identity Ambiguity and Change in the Wake of a Corporate Spin-Off. *Administrative Science Quarterly*, 49(2), 173–208.
- Cornell, A., Knutsen, C. H. & Teorell, J. (2020). Bureaucracy and Growth. *Comparative Political Studies*, 53(14), 2246–2282.
- Costa, E., Lucas Soares, A. & Pinho de Sousa, J. (2017). Institutional Networks for Supporting the Internationalisation of SMEs: The Case of Industrial Business Associations. *Journal of Business and Industrial Marketing*, 32(8), 1182–1202.
- Costa, E., Soares, A. L. & De Sousa, J. P. (2016). Information, Knowledge and Collaboration Management in the Internationalisation of SMEs: A Systematic

- Literature Review. *International Journal of Information Management*, 36(4), 557–569.
- Couper, C. (2019). Institutional Bridging for SME High-Distance Internationalisation to China: A Contextualised Explanation. *Management and Organization Review*, 15(2), 307–340.
- Couper, C. C. (2015). Building Bridges Across Institutional Distance: Network Development and the Internationalisation of Scottish SMEs into China.
- Coviello, N. & McAuley, A. (1999). Internationalisation and the Smaller Firm: A Review of Contemporary Empirical Research. *Management International Review*, 39(3), 223–256.
- Coviello, N. & Munro, H. (1997). Network Relationships and the Internationalisation Process of Small Software Firms. *International Business Review*, 6(4), 361–386.
- Creswell, J. W. & Clark, V. L. P. (2018). *Designing and Conducting Mixed Methods Research*. Los Angeles: SAGE.
- Crick, D. (1995). An Investigation into the Targeting of UK Export Assistance. *European Journal of Marketing*, 29(8), 76–94.
- Crick, D. & Chaudhry, S. (1997). Small Businesses' Motives: The Effect of Internationalization. *Journal of Marketing Practice: Applied Marketing Science*, 3(3), 156–170.
- Cuevas, S., Mina, C., Barcenas, M. & Rosario, A. (2009). *Informal Employment in Indonesia*.
- Cumming, D., Fischer, E. & Peridis, T. (2015). Publicly Funded Business Advisory Services and Entrepreneurial Internationalization. *International Small Business Journal*, 33(8).
- Cunliffe, A. L. (2011). Crafting Qualitative Research: Morgan and Smircich 30 Years On. *Organizational Research Methods*, 14(4), 647–673.
- Czinkota, M. R. (1982). *Export Development Strategies: United States Promotion Policy*. New York: Praeger Publishers Inc.
- Dabić, M., Maley, J., Dana, L. P., Novak, I., Pellegrini, M. M. & Caputo, A. (2020). Pathways of SME Internationalization: A Bibliometric and Systematic Review. *Small Business Economics*, 55(3), 705–725.
- Danermark, B., Ekstrom, M., Jakobsen, L. & Karlsson, J. ch. (2001). *Explaining Society: An Introduction to Critical Realism in the Social Sciences*. London:

Routledge.

- Davidsson, P., Achtenhagen, L. & Naldi, L. (2006). What Do We Know about Small Firm Growth, in: Parker, S. C. (Ed.), *International Handbook Series of Entrepreneurship: The Life Cycle of Entrepreneurial Ventures*, (pp. 361–398). New York: Springer Science & Business Media.
- Davidsson, P. & Wiklund, J. (1997). Values, Beliefs and Regional Variations in New Firm Formation Rates. *Journal of Economic Psychology*, 18(2–3), 179–199.
- Dennis Jr, W. J. (2011). Entrepreneurship, Small Business and Public Policy Levers. *Journal of Small Business Management*, 49(1), 92–106.
- Descotes, R. M., Walliser, B., Holzmüller, H. & Guo, X. (2011). Capturing Institutional Home Country Conditions for Exporting SMEs. *Journal of Business Research*, 64(12), 1303–1310.
- Devos, J., Landeghem, H. Van & Deschoolmeester, D. (2012). Rethinking IT Governance for SMEs. *Industrial Management and Data Systems*, 112(2), 206–223.
- DiMaggio, P. & Powell, W. (1983). The Iron Cage Revisited: Institutionalized Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review*, 48, 147–160.
- Dochartaigh, N. Ó. (2012). *Internet Research Skills*. London: SAGE Publications Ltd.
- Dominguez, N. & Mayrhofer, U. (2017). Internationalization Stages of Traditional SMEs: Increasing, Decreasing and Re-Increasing Commitment to Foreign Markets. *International Business Review*, 26(6), 1051–1063.
- Doole, I. & Lowe, R. (2012). *International Marketing Strategy : Analysis, Development and Implementation*. London: Andover : Cengage Learning.
- Du, X. & Luo, J. H. (2016). Political Connections, Home Formal Institutions, and Internationalization: Evidence from China. *Management and Organization Review*, 12(1), 103–133.
- Dunning, J. (1958). *American Investment in British Manufacturing Industry*. London: George Allen & Unwin Ltd.
- Dunning, J. H. (2000). *Regions, Globalization, and the Knowledge-Based Economy*. Oxford: Oxford : Oxford University Press, 2002.
- Dunning, J. H. & Lundan, S. M. (2008). *Multinational Enterprises and the Global Economy*. Cheltenham, UK: Edward Elgar Publishing Limited.

- Durán-Herrera, J. J. & García-Cabrera, A. M. (2013). Crisis and MNEs as Institutional Entrepreneurs: An Analysis from a Co-Evolutionary Perspective, in: *9th Iberian International Business Conference*. Braga.
- Dwiyanto. (2011). *Reformasi Birokrasi Publik Di Indonesia*. Yogyakarta: Gadjah Mada University Press.
- Easton, G. (2010). Critical Realism in Case Study Research. *Industrial Marketing Management*, 39(1), 118–128.
- Edwards, A. L. (1957). *The Social Desirability Variable in Personality Assessment and Research*. New York: Holt, Rinehart and Winston, Inc.
- El-Gohary, H., Edwards, D., Eid, R. & Huang, J. (2013). Choice of Export Entry Mode by Developing Economies SMEs. *Journal of Economic and Administrative Sciences*, 29(2), 113–133.
- Elgin, C. & Oyvatt, C. (2013). Lurking in the Cities: Urbanization and the Informal Economy. *Structural Change and Economic Dynamics*.
- Eriksson, K., Hohenthal, J. & Lindbergh, J. (2006). Factors Affecting SME Export Channel Choice in Foreign Markets, in: *Relationship Between Exporters and Their Foreign Sales and Marketing Intermediaries*, (pp. 341–358).
- Ervits, I. & Žmuda, M. (2016). Comparative Study Of The Role Of Institutions In Shaping Inventive Activity In Mid-Range Emerging Economies. *Comparative Economic Research*, 19(4).
- Estrin, S., Korosteleva, J. & Mickiewicz, T. (2013). Which Institutions Encourage Entrepreneurial Growth Aspirations? *Journal of Business Venturing*, 28(4), 564–580.
- Estrin, S., Meyer, K. E., Nielsen, B. B. & Nielsen, S. (2016). Home Country Institutions and the Internationalization of State Owned Enterprises: A Cross-Country Analysis. *Journal of World Business*, 51(2), 294–307.
- Estrin, S. & Mickiewicz, T. (2011). Entrepreneurship in Transition Economies: The Role of Institutions and Generational Change, in: *The Dynamics of Entrepreneurship: Evidence from Global Entrepreneurship Monitor Data*, (pp. 181–208). Oxford: Oxford University Press, Incorporated.
- Estrin, S., Mickiewicz, T. & Stephan, U. (2013). Entrepreneurship, Social Capital, and Institutions: Social and Commercial Entrepreneurship Across Nations. *Entrepreneurship: Theory and Practice*, 37(3), 479–504.

- Faguet, J.-P. (2015). *Is Decentralization Good for Development? : Perspectives from Academics and Policy Makers* (J.-P. Faguet and C. Pöschl, Eds.). Oxford: Oxford : OUP Oxford, 2015.
- Fainshmidt, S., Judge, W. Q., Aguilera, R. V. & Smith, A. (2018). Varieties of Institutional Systems: A Contextual Taxonomy of Understudied Countries. *Journal of World Business*, 53(3), 307–322.
- Fatoki, O. O. & Asah, F. (2011). The Impact of Firm and Entrepreneurial Characteristics on Access to Debt Finance by SMEs in King Williams' Town, South Africa. *International Journal of Business and Management*, 6(8).
- Fayos Gardó, T., Calderón García, H. & Mollá Descals, A. (2006). Internationalization of SME Retailer: Barriers and the Role of Public Support Organizations. *International Journal of Retail & Distribution Management*, 43(2), 183–200.
- Felzensztein, C., Ciravegna, L., Robson, P. & Amorós, J. E. (2015). Networks, Entrepreneurial Orientation, and Internationalization Scope: Evidence from Chilean Small and Medium Enterprises. *Journal of Small Business Management*, 53(S1), 145–160.
- Fleetwood, S. (2005). Ontology in Organization and Management Studies: A Critical Realist Perspective. *Organization*, 12(2), 197–222.
- Flick, U. (2018). *Doing Triangulation and Mixed Methods*. London: SAGE Publications Ltd.
- Forsgren, M. (1989). *Managing the Internationalization Process*. London: Routledge.
- Fotopoulos, G. & Storey, D. J. (2016). Persistence and Change in Interregional Differences in Entrepreneurship: England and Wales, 1921–2011. *Environment and Planning A*, 49(3), 670–702.
- Francioni, B., Pagano, A. & Castellani, D. (2016). Drivers of SMEs' Exporting Activity: A Review and a Research Agenda. *Multinational Business Review*, 24(3), 194–215.
- Francis, J. & Collins-Dodd, C. (2000). The Impact of Firms' Export Orientation on the Export Performance of High-Tech Small and Medium-Sized Enterprises. *Journal of International Marketing*, 8(3), 84–103.
- Freytag, A. & Thurik, R. (2007). Entrepreneurship and Its Determinants in a Cross-Country Setting. *Journal of Evolutionary Economics*, 17(2), 117–131.
- Fritsch, M. & Mueller, P. (2007). The Persistence of Regional New Business

- Formation-Activity over Time - Assessing the Potential of Policy Promotion Programs. *Journal of Evolutionary Economics*, 17(3), 299–315.
- Fritsch, M. & Storey, D. J. (2014). Entrepreneurship in a Regional Context: Historical Roots, Recent Developments and Future Challenges. *Regional Studies*, 48(6), 939–954.
- Fritsch, M. & Wyrwich, M. (2014). The Effect of Regional Entrepreneurship Culture on Economic Development – Evidence for Germany. *Jena Economic Research Papers*, 014.
- G20. (2019). G20 Participants. *Ministry of Foreign Affairs of Japan*. Retrieved November 7, 2019, from <https://www.g20.org/>
- Gankema, H. G. J., Snuif, H. R. & Zwart, P. S. (2000). The Internationalization Process of Small and Medium-Sized Enterprises: An Evaluation of Stage Theory. *Journal of Small Business Management*, 38(4), 15–27.
- Gao, G. Y., Murray, J. Y., Kotabe, M. & Lu, J. (2010). A ‘Strategy Tripod’ Perspective on Export Behaviors: Evidence from Domestic and Foreign Firms Based in an Emerging Economy. *Journal of International Business Studies*, 41(3), 377–396.
- García-Cabrera, A. M., García-Soto, M. G. & Durán-Herrera, J. J. (2016). Opportunity Motivation and SME Internationalisation in Emerging Countries: Evidence from Entrepreneurs’ Perception of Institutions. *International Entrepreneurship and Management Journal*, 12(3), 879–910.
- Gashi, P., Hashi, I. & Pugh, G. (2014). Export Behaviour of SMEs in Transition Countries. *Small Business Economics*, 42(2), 407–435.
- Gaur, A. S., Kumar, V. & Singh, D. (2014). Institutions, Resources, and Internationalization of Emerging Economy Firms. *Journal of World Business*, 49(1), 12–20.
- GeoCurrents. (2016). Provinces of Indonesia. Retrieved July 18, 2017, from <http://www.geocurrents.info/gc-maps/geocurrents-maps-by-country/geocurrents-maps-of-indonesia>
- Gerschewski, S., Rose, E. L. & Lindsay, V. J. (2015). Understanding the Drivers of International Performance for Born Global Firms: An Integrated Perspective. *Journal of World Business*, 50(3), 558–575.
- Gioia, D. A. & Chittipeddi, K. (1991). Sensemaking and Sensegiving in Strategic Change Initiation. *Strategic Management Journal*, 12(6), 433–448.

- Gioia, D. A., Corley, K. G. & Hamilton, A. L. (2013). Seeking Qualitative Rigor in Inductive Research. *Organizational Research Methods*, 16(1), 15–31.
- Glaser, B. G. (1967). *The Discovery of Grounded Theory: Strategies for Qualitative Research* (A. L. Strauss, Ed.). New York: New York : Aldine de Gruyter, 1967.
- Glaser, B. G. (2017). *The Discovery of Grounded Theory: Strategies for Qualitative Research* (A. L. Strauss, Ed.). London, [England]: London, England .
- Gregory, G. D., Munch, J. M. & Peterson, M. (2002). Attitude Functions in Consumer Research: Comparing Value-Attitude Relations in Individualist and Collectivist Cultures. *Journal of Business Research*, 55(11), 933–942.
- Guest, G., Bunce, A. & Johnson, L. (2006). How Many Interviews Are Enough?: An Experiment with Data Saturation and Variability. *Field Methods*, 18(1), 59–82.
- Hair, J. F., Black, W. C., Babin, B. J. & Anderson, R. E. (2010). *Multivariate Data Analysis*. Upper Saddle River, New Jersey: Pearson Education Limited.
- Harbi, S. El & Anderson, A. R. (2010). Institutions and the Shaping of Different Forms of Entrepreneurship. *Journal of Socio-Economics*, 39(3), 436–444.
- Harvey, W. S. (2011). Strategies for Conducting Elite Interviews. *Qualitative Research*, 11(4), 431–441.
- Hashim, F. (2012). Challenges for the Internationalization of SMEs and the Role of Government: The Case of Malaysia. *Journal of International Business and Economy*, 13(1), 97–122.
- Hattori, H., Matsumoto, M., Tsuchiya, H., Iwai, K., Miyauchi, E., Takasaki, M., et al. (2015). *SMEs Powering Indonesia's Success National Growth Instruments*. Jakarta.
- Hechavarria, D. M. (2016). The Impact of Culture on National Prevalence Rates of Social and Commercial Entrepreneurship. *International Entrepreneurship and Management Journal*, 12(4), 1025–1052.
- Herepath, A. (2014). In the Loop: A Realist Approach to Structure and Agency in the Practice of Strategy. *Organization Studies*, 35(6), 857–879.
- Hessels, J. & Terjesen, S. (2010). Resource Dependency and Institutional Theory Perspectives on Direct and Indirect Export Choices. *Small Business Economics*, 34(2), 203–220.
- Hill, C. W. L. & Hult, G. T. M. (2019). *International Business: Competing in the Global Marketplace*. New York, NY: McGraw-Hill Education.

- Hodges, H. E. & Kuratko, D. (2004). *Entrepreneurship Theory Process and Practice*. Mason, Ohio: South-Western College Publication.
- Hodgson, G. M. (2007). The Revival of Veblenian Institutional Economics. *Journal of Economic Issues*, 41(2), 325–340.
- Hofstede, G. (2001). *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations*. Thousand Oaks, CA: Thousand Oaks, CA .
- Hofstede, G. (2011). Dimensionalizing Cultures: The Hofstede Model in Context. *Online Readings in Psychology and Culture*, 2(1), 1–26.
- Holgerson, M. J. (2017). Patenting Motives, Technology Strategies, and Open Innovation. *Management decision.*, 55(6), 1265–1284.
- Hollender, L., Zapkau, F. B. & Schwens, C. (2017). SME Foreign Market Entry Mode Choice and Foreign Venture Performance: The Moderating Effect of International Experience and Product Adaptation. *International Business Review*, 26(2), 250–263.
- Hollenstein, H. (2005). Determinants of International Activities: Are SMEs Different? *Small Business Economics*, 24(5), 431–450.
- Holmes, R. M., Miller, T., Hitt, M. A. & Salmador, M. P. (2013). The Interrelationships Among Informal Institutions, Formal Institutions, and Inward Foreign Direct Investment. *Journal of Management*, 39(2), 531–566.
- Hoskisson, R. E., Eden, L., Lau, C. M. & Wright, M. (2000). Strategy in Emerging Economies. *Academy of Management Journal*, 43(3), 249–267.
- Hoskisson, R. E., Wright, M., Filatotchev, I. & Peng, M. W. (2013). Emerging Multinationals from Mid-Range Economies: The Influence of Institutions and Factor Markets. *Journal of Management Studies*, 50(7), 1295–1321.
- House of Representative & President of The Republic of Indonesia. (2007). *Undang-Undang Republik Indonesia Nomor 17 Tahun 2007 Tentang Rencana Pembangunan Jangka Panjang Nasional Tahun 2005 – 2025*. Indonesia: Ministry of Communication and Information Technology.
- House of Representative & President of The Republic of Indonesia. (2008). *Undang-Undang No 20 Tahun 2008 Tentang Usaha Mikro, Kecil, Dan Menengah*. Indonesia: House of Representative Republic of Indonesia.
- Huggins, R. & Thompson, P. (2012). *Entrepreneurship and Community Culture: A*

- Place-Based Study of Their Interdependency. *Entrepreneurship Research Journal*, 2(1), 1–34.
- Hutchinson, K., Fleck, E., Lloyd/Reason, L. & Lloyd-Reason, L. (2009). An Investigation into the Initial Barriers to Internationalization: Evidence from Small UK Retailers. *Journal of Small Business and Enterprise Development*, 16(4), 544–568.
- International Labour Organization. (2010). *The Informal Economy in Indonesia: Size, Composition and Evolution*. Jakarta.
- Jackson, K. & Bazeley, P. (2019). *Qualitative Data Analysis with NVivo* (J. Seaman, Ed.). United Kingdom: SAGE Publications.
- Jafari Sadeghi, V., Nkongolo-Bakenda, J. M., Anderson, R. B. & Dana, L. P. (2019). An Institution-Based View of International Entrepreneurship: A Comparison of Context-Based and Universal Determinants in Developing and Economically Advanced Countries. *International Business Review*, 28(6), 1–16.
- Jin, B. & Jung, S. (2016). Toward a Deeper Understanding of the Roles of Personal and Business Networks and Market Knowledge in SMEs' International Performance. *Journal of Small Business and Enterprise Development*, 23(3), 812–830.
- Jin, B., Jung, S. & Jeong, S. W. (2018). Dimensional Effects of Korean SME's Entrepreneurial Orientation on Internationalization and Performance: The Mediating Role of Marketing Capability. *International Entrepreneurship and Management Journal*, 14(1), 195–215.
- Johanson, J. & Mattsson, L. G. (1986). International Marketing and Internationalization Processes — A Network Approach, in: Paliwoda, S. and Turnbull, P. W. (Eds.), *Research in International Marketing*. London: Croom Helm.
- Johanson, J. & Vahlne, J.-E. (1977). The Internationalization Process of the Firm-A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies*, 8(1), 23–32.
- Johanson, J. & Vahlne, J.-E. (2009). The Uppsala Internationalization Process Model Revisited: From Liability of Foreignness to Liability of Outsidership. *Journal of International Business Studies*, 40(9), 1411–1431.
- Johanson, J. & Vahlne, J. (1990). The Mechanism of Internationalisation. *International Marketing Review*, 7(4), 02651339010137414.

- Johanson, J. & Wiedersheim-Paul, F. (1975). The Internationalization of the Firm — Four Swedish Cases. *Journal of Management Studies*, 12(3), 305–323.
- Jones, M. V. & Casulli, L. (2014). International Entrepreneurship: Exploring the Logic and Utility of Individual Experience Through Comparative Reasoning Approaches. *Entrepreneurship: Theory and Practice*, 38(1), 45–69.
- Kahiya, E. T. (2013). Export Barriers and Path to Internationalization: A Comparison of Conventional Enterprises and International New Ventures. *Journal of International Entrepreneurship*, 11(1), 3–29.
- Kahiya, E. T. (2018). Five Decades of Research on Export Barriers: Review and Future Directions. *International Business Review*, 27(6), 1172–1188.
- Kahiya, E. T. (2020). Context in International Business: Entrepreneurial Internationalization from a Distant Small Open Economy. *International Business Review*, 29(1), 101621.
- Kalinic, I. & Forza, C. (2012). Rapid Internationalization of Traditional SMEs: Between Gradualist Models and Born Globals. *International Business Review*, 21(4), 694–707.
- Katsikeas, C. S., Leonidou, L. C. & Morgan, N. A. (2000). Firm-Level Export Performance Assessment: Review, Evaluation, and Development. *Journal of the Academy of Marketing Science*, 28(4), 493–511.
- Kaufman, H. (2015). *Red Tape, Its Origins, Uses, and Abuses* (P. K. Howard, Ed.). Washington, District of Columbia: Washington, District of Columbia : Brookings Institution Press, 2015.
- Kaufmann, D., Kraay, A. & Mastruzzi, M. (2010). *The Worldwide Governance Indicators: Methodology and Analytical Issues*. Washinton D.C.: The World Bank Development Research Group.
- Kedia, B. L. & Chhokar, J. (1986). Factors Inhibiting Export Performance of Firms: An Empirical Investigation. *Management International Review*, 26(4), 33–43.
- Kern, M., Paetzold, J. & Winner, H. (2021). Cutting Red Tape for Trade in Services. *The World Economy*, 00, 1–29.
- Ketkar, S. & Acs, Z. J. (2013). Where Angels Fear to Tread: Internationalization of Emerging Country SMEs. *Journal of International Entrepreneurship*, 11(3), 201–219.
- Keupp, M. & Gassmann, O. (2009). The Past and the Future of International

- Entrepreneurship: A Review and Suggestions for Developing the Field. *Journal of Management*, 35(3), 600–633.
- Khanna, T. & Palepu, K. G. (1997). Why Focused Strategies May Be Wrong for Emerging Markets. *Harvard Business Review*, 75(4), 41–51.
- Khoury, T. A. & Hitt, M. A. (2019). The Influence of Formal and Informal Institutional Voids on Entrepreneurship. *Entrepreneurship Theory and Practice*, 44(3), 504–526.
- King, N. & Brooks, J. (2019). Thematic Analysis in Organisational Research, in: Cassell, C., Cunliffe, A. L., and Grandy, G. (Eds.), *The SAGE Handbook of Qualitative Business and Management Research Methods: Methods and Challenges*, (pp. 219–236). 55 City Road, London: SAGE Publications Ltd.
- Kiss, A. N. & Danis, W. M. (2008). Country Institutional Context, Social Networks, and New Venture Internationalization Speed. *European Management Journal*, 26(6), 388–399.
- Kiss, A. N., Danis, W. M. & Cavusgil, S. T. (2012). International Entrepreneurship Research in Emerging Economies: A Critical Review and Research Agenda. *Journal of Business Venturing*, 27(2), 266–290.
- Kostova, T. (1997). Country Institutional Profiles: Concept and Measurement. *Academy of Management Proceedings*, 1997(1), 180–184.
- Krammer, S. M. S., Strange, R. & Lashitew, A. (2018). The Export Performance of Emerging Economy Firms: The Influence of Firm Capabilities and Institutional Environments. *International Business Review*, 27(1), 218–230.
- Kreiser, P. M., Marino, L. D., Dickson, P. & Weaver, K. M. (2010). Cultural Influences on Entrepreneurial Orientation: The Impact of National Culture on Risk Taking and Proactiveness in SMEs. *Entrepreneurship: Theory and Practice*, 34(5).
- Kuivalainen, O., Sundqvist, S., Saarenketo, S. & McNaughton, R. (2012). Internationalization Patterns of Small and Medium-Sized Enterprises. *International Marketing Review*, 29(5), 448–465.
- Lamotte, O. & Colovic, A. (2015). Early Internationalization of New Ventures from Emerging Countries: The Case of Transition Economies. *Management (France)*, 18(1), 8–30.
- Larimo, J. (2007). Different Types of Exporting SMEs: Similarities and Differences in Export Performance. *International Marketing Research*, 17, 17–62.

- Lavrakas, P. J. (2008). *Encyclopedia of Survey Research Methods*. Thousand Oaks, California: SAGE Publications Inc.
- Leitch, C., Hill, F. & Neergaard, H. (2010). Entrepreneurial and Business Growth and the Quest for a “Comprehensive Theory”: Tilting at Windmills? *Entrepreneurship Theory and Practice*, 34(2), 249–260.
- Leitch, C. M., Hill, F. M. & Harrison, R. T. (2010). The Philosophy and Practice of Interpretivist Research in Entrepreneurship: Quality, Validation, and Trust. *Organizational Research Methods*, 13(1), 67–84.
- Lembaga Pemeringkat Kredit UMKM. (2011). *Kajian Akademik Pemeringkat Kredit Bagi Usaha Mikro, Kecil Dan Menengah Di Indonesia*. Jakarta: Bank Indonesia.
- Leonidou, L. C. (1988). Export Initiation by Indigenous Manufacturers in a Small Developing Economy. *Spoudai*, 38(1–2), 63–78.
- Leonidou, L. C. (1995a). Export Stimulation: A Non-exporter’s Perspective. *European Journal of Marketing*, 29(8), 17–36.
- Leonidou, L. C. (1995b). Empirical Research on Export Barriers: Review, Assessment, and Synthesis. *Journal of International Marketing*, 3(1), 29–43.
- Leonidou, L. C. (2004). An Analysis of the Barriers Hindering Small Business Export Development. *Journal of Small Business Management*, 42(3), 279–302.
- Leonidou, L. C. & Katsikeas, C. S. (1996). The Export Development Process : An Integrative Review of Empirical Models. *Journal of International Business Studies*, 27(3), 517–551.
- Leonidou, L. C., Katsikeas, C. S., Palihawadana, D. & Spyropoulou, S. (2007). An Analytical Review of the Factors Stimulating Smaller Firms to Export: Implications for Policy-Makers. *International Marketing Review*, 24(6), 735–770.
- Leonidou, L. C., Katsikeas, C. S. & Samiee, S. (2002). Marketing Strategy Determinants of Export Performance: A Meta-Analysis. *Journal of Business Research*, 55(1), 51–67.
- Li, J., Liu, B. & Qian, G. (2019). The Belt and Road Initiative, Cultural Friction and Ethnicity: Their Effects on the Export Performance of SMEs in China. *Journal of World Business*, 54(4), 350–359.
- Li, T. (2018). Internationalisation and Its Determinants:A Hierarchical Approach. *International Business Review*, 27(4), 867–876.
- Lincoln, Y. S. & Guba, E. G. (1985). *Naturalistic Inquiry*. Newbury Park, California:

SAGE Publications, Inc.

- Lindsay, V., Ashill, N., Roxas, B. & Victorio, A. (2014). Entrepreneurial Orientation and Performance of Microenterprises in an Emerging Economy. *Journal of Strategic Marketing*, 22(7), 631–656.
- LiPuma, J. A., Newbert, S. L. & Doh, J. P. (2013). The Effect of Institutional Quality on Firm Export Performance in Emerging Economies: A Contingency Model of Firm Age and Size. *Small Business Economics*, 40(4), 817–841.
- Little, R. J. A. (2002). *Statistical Analysis with Missing Data*. Hoboken, New Jersey: John Wiley & Sons, Inc.
- Lohida, L. (2015). Analisis Komparasi Pegawai Pemerintah Dengan Perjanjian Kerja (Pppk) Dalam Paradigma Undang-Undang Nomor 5 Tahun 2014 Tentang Aparatur Sipil Negara. *Jurnal Civil Service*, 9(2), 45–53.
- Looi, K. H. (2013). Integrating Entrepreneurial Values and Export Intentions: A Theoretical Framework. *International Journal of Entrepreneurship and Small Business*, 20(3), 363–381.
- Love, J. H., Roper, S. & Zhou, Y. (2016). Experience, Age and Exporting Performance in UK SMEs. *International Business Review*, 25(4), 806–819.
- Low, M. B. & MacMillan, I. C. (1988). Entrepreneurship: Past Research and Future Challenges. *Journal of Management*, 14(2), 139–161.
- Ma, X., Ding, Z. & Yuan, L. (2016). Subnational Institutions, Political Capital, and the Internationalization of Entrepreneurial Firms in Emerging Economies. *Journal of World Business*, 51(5), 843–854.
- Ma, X., Tong, T. W. & Fitza, M. (2013). How Much Does Subnational Region Matter to Foreign Subsidiary Performance? Evidence from Fortune Global 500 Corporations' Investment in China. *Journal of International Business Studies*, 44(1), 66–87.
- Machmud, T. M. Z. & Siregar, R. N. (2010). Small and Medium Enterprises in Regional Production Networks: An Indonesian Case, in: *Integrating Small and Medium Enterprises (SMEs) into the More Integrate East Asia*, (pp. 334–373). Jakarta: ERIA.
- Mahajar, A. J. & Yunus, J. B. M. (2006). The Effectiveness of Government Export Assistance Programs on Malaysia Small & Medium Enterprises (SMEs). *Problems and Perspectives in Management*, 4(1), 58–71.

- Mair, J. & Marti, I. (2009). Entrepreneurship in and around Institutional Voids: A Case Study from Bangladesh. *Journal of Business Venturing*, 24(5), 419–435.
- Makhmadshoev, D., Ibeh, K. & Crone, M. (2015). Institutional Influences on SME Exporters under Divergent Transition Paths: Comparative Insights from Tajikistan and Kyrgyzstan. *International Business Review*, 24(6), 1025–1038.
- Maldifassi, J. O. & Caorsi, J. C. (2014). Export Success Factors of Small- and Medium-Sized Firms in Chile. *Journal of Small Business and Enterprise Development*, 21(3), 450–469.
- Manolopoulos, D., Chatzopoulou, E. & Kottaridi, C. (2018). Resources, Home Institutional Context and SMEs' Exporting: Direct Relationships and Contingency Effects. *International Business Review*, (August 2016).
- Manolova, T. S., Eunni, R. V. & Gyoshev, B. S. (2008). Institutional Environments for Entrepreneurship: Evidence from Emerging Economies in Eastern Europe. *Entrepreneurship Theory and Practice*, 32(1), 203–218.
- Marano, V., Arregle, J. L., Hitt, M. A., Spadafora, E. & van Essen, M. (2016). Home Country Institutions and the Internationalization-Performance Relationship: A Meta-Analytic Review. *Journal of Management*, 42(5), 1075–1110.
- Marino, L. D., Lohrke, F. T., Hill, J. S. & Weaver, K. M. (2008). E T & P Formation Intentions in an Emerging Economy : In Indonesia. *Entrepreneurship Theory and Practice*, 32(205), 157–183.
- Marinova, S. (2015). *Institutional Impacts on Firm Internationalization*. New York: Palgrave Macmillan.
- Martin, R. (2000). Institutional Approaches in Economic Geography, in: Sheppard, E. and Barnes, T. J. (Eds.), *A Companion to Economic Geography*, (pp. 77–94). Oxford, UK: Blackwell Publishing Ltd.
- Mason, C. & Brown, R. (2013). Creating Good Public Policy to Support High-Growth Firms. *Small Business Economics*, 40(2), 211–225.
- Matlay, H. & Fletcher, D. (2000). Globalization and Strategic Change: Some Lessons from the UK Small Business Sector. *Strategic Change*, 9(7), 437–449.
- Mawardi, M. K., Choi, T. & Perera, N. (2011). The Factors of SME Cluster Developments in a Developing Country: The Case of Indonesian Clusters. *ICSB World Conference Proceedings*, 1–28.
- McDougall, P. P. & Oviatt, B. M. (1999). International Entrepreneurship Literature in

- the 1990s and Directions for Future Research, in: Sexton, D. L. and Smilor, R. W. (Eds.), *Entrepreneurship 2000*, (pp. 291–320). Chicago, IL: Upstart Publishing.
- McEvoy, P. & Richards, D. (2006). A Critical Realist Rationale for Using a Combination of Quantitative and Qualitative Methods. *Journal of Research in Nursing*, 11(1), 66–78.
- McGahan, A. M. & Victor, R. (2010). How Much Does Home Country Matter to Corporate Profitability? *Journal of International Business Studies*, 41(1), 142–165.
- McSweeney, B. (2009). Incoherent Culture. *European Journal of Cross-Cultural Competence and Management*, 1(1), 22–27.
- Meyer, K. E., Estrin, S., Bhaumik, S. K. & Peng, M. W. (2009). Institutions, Resources, and Entry Strategies in Emerging Economies. *Strategic Management Journal*, 30(1), 61–80.
- Meyer, K. E. & Nguyen, H. V. (2005). Foreign Investment Strategies and Sub-National Institutions in Emerging Markets: Evidence from Vietnam. *Journal of Management Studies*, 42(1), 63–93.
- Mikecz, R. (2012). Interviewing Elites: Addressing Methodological Issues. *Qualitative Inquiry*, 18(6), 482–493.
- Miller, K. D. & Tsang, E. W. K. (2010). Testing Management Theories: Critical Realist Philosophy and Research Methods. *Strategic Management Journal*, 32(2), 139–158.
- Ministry of Cooperatives and SMEs. (2018). *Perkembangan Data Usaha Mikro, Kecil, Menengah (UMKM) Dan Usaha Besar (UB)*. Jakarta.
- Ministry of Finance Republic of Indonesia. (2013). *Perubahan Atas Peraturan Menteri Keuangan Nomor 68/PMK.03/2010 Tentang Batasan Pengusaha Kecil Pajak Pertambahan Nilai*. Indonesia: Ministry of Finance Republic of Indonesia.
- Ministry of National Development Planning/National Development Planning Agency Indonesia, BPS-Statistics Indonesia & United Nations Population Fund. (2018). *Indonesia Population Projection 2015-2045* (Subdirektorat Statistik Demografi, Ministry of National Development Planning/National Development Planning Agency Indonesia, and B.-S. Indonesia, Eds.). Jakarta.
- Ministry of National Development Planning of the Republic of Indonesia. (2019). *Rencana Pembangunan Jangka Menengah Nasional 2020 - 2024*.
- Minniti, M. (2008). The Role of Government Policy on Entrepreneurial Activity:

- Productive, Unproductive, or Destructive? *Entrepreneurship Theory and Practice*, 32(5), 779–790.
- Moini, A. H. (1997). Barriers Inhibiting Export Performance of Small and Medium-Sized Manufacturing Firms. *Journal of Global Marketing*, 10(4), 67–93.
- Molina-Azorín, J. F., López-Gamero, M. D., Pereira-Moliner, J. & Pertusa-Ortega, E. M. (2012). Mixed Methods Studies in Entrepreneurship Research: Applications and Contributions. *Entrepreneurship & Regional Development*, 24(5–6), 425–456.
- Morais, F. & Ferreira, J. J. (2019). SME Internationalisation Process: Key Issues and Contributions, Existing Gaps and the Future Research Agenda. *European Management Journal*.
- Morgan, R. E. (1997). Export Stimuli and Export Barriers: Evidence from Empirical Research Studies. *European Business Review*, 97(2), 68–79.
- Morgan, R. E. & Katsikeas, C. S. (1997a). Export Stimuli: Export Intention Compared with Export Activity. *International Business Review*, 6(5), 477–499.
- Morgan, R. E. & Katsikeas, C. S. (1997b). Theories of International Trade, Foreign Direct Investment and Firm Internationalization: A Critique. *Management Decision*, 35(1), 68–78.
- Mueller, P. (2006). Entrepreneurship in the Region: Breeding Ground for Nascent Entrepreneurs? *Small Business Economics*, 27(1), 41–58.
- Muralidharan, E. & Pathak, S. (2017). Informal Institutions and International Entrepreneurship. *International Business Review*, 26(2), 288–302.
- Murshed, S. M. (2018). *The Resource Curse*. United Kingdom: Agenda Publishing Limited.
- Musteen, M., Datta, D. K. & Butts, M. M. (2014). Do International Networks and Foreign Market Knowledge Facilitate SME Internationalization? Evidence From the Czech Republic. *Entrepreneurship: Theory and Practice*, 38(4), 749–774.
- Narayanan, V. K. & Fahey, L. (2005). The Relevance of the Institutional Underpinnings of Porter's Five Forces Framework to Emerging Economies: An Epistemological Analysis. *Journal of Management Studies*, 42(1), 207–223.
- Narooz, R. & Child, J. (2017). Networking Responses to Different Levels of Institutional Void: A Comparison of Internationalizing SMEs in Egypt and the UK. *International Business Review*, 26(4), 683–696.
- Nehrt, L. C., Frederick Truitt, J. & Wright, R. W. (1970). *International Business*

- Research: Past, Present and Future*. Bloomington, Indiana: Indiana University Bureau of Business Research.
- Nelson, R., Cohen, W. M. & Walsh, J. P. (2000). Protecting Their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not).
- Neter, J., Wasserman, W. & Whitmore, G. A. (1993). *Applied Statistics*. Michigan: Allyn and Bacon.
- Neuman, W. L. (2014). *Social Research Methods: Qualitative and Quantitative Approaches*. Essex: Pearson Education Limited.
- Njinyah, S. Z. (2018). The Effectiveness of Government Policies for Export Promotion on the Export Performance of SMEs Cocoa Exporters in Cameroon. *International Marketing Review*, 35(1), 164–185.
- Nkongolo-Bakenda, J. M., Anderson, R., Ito, J. & Garven, G. (2010). Structural and Competitive Determinants of Globally Oriented Small- and Medium-Sized Enterprises: An Empirical Analysis. *Journal of International Entrepreneurship*, 8(1), 55–86.
- Nordström, K. A. (1990). *The Internationalization Process of the Firm in a New Perspective*. Stockholm: Institute of International Business.
- North, D. C. (1989). Final Remarks-Institutional Change and Economic History. *Journal of Institutional and Theoretical Economics*, 145(1), 238–245.
- North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. New York: Cambridge University Press.
- North, D. C. (2005). *Understanding the Process of Economic Change*. New Jersey: Princeton University Press.
- Nuruzzaman, N., Singh, D. & Gaur, A. S. (2020). Institutional Support, Hazards, and Internationalization of Emerging Market Firms. *Global Strategy Journal*, 10(2), 361–385.
- OECD. (2001). *Businesses' Views on Red Tape: Administrative and Regulatory Burdens on Small and Medium-Sized Enterprises*. Paris, France: Paris, France : OECD, 2001.
- OECD. (2007). *OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes*. Paris.
- OECD. (2009). *Top Barriers and Drivers to SME Internationalisation*. Paris.
- OECD. (2010). Removing Barriers to SME Access to International Markets, in: *30th*

- Small and Medium Enterprises Working Group Meeting*, (pp. 1–218). Hong Kong: APEC Secretariat.
- Ojala, A. (2009). Internationalization of Knowledge-Intensive SMEs: The Role of Network Relationships in the Entry to a Psychically Distant Market. *International Business Review*, 18(1), 50–59.
- Okpara, J. O. (2009). Strategic Choices, Export Orientation and Export Performance of SMEs in Nigeria. *Management Decision*, 47(8), 1281–1299.
- Olejnik, E. & Swoboda, B. (2012). SMEs' Internationalisation Patterns: Descriptives, Dynamics and Determinants. *International Marketing Review*, 29(5), 466–495.
- Omri, W. & Becuwe, A. (2014). Managerial Characteristics and Entrepreneurial Internationalization: A Study of Tunisian SMEs. *Journal of International Entrepreneurship*, 12(1), 8–42.
- Oparaocha, G. O. (2015). SMEs and International Entrepreneurship: An Institutional Network Perspective. *International Business Review*, 24(5), 861–873.
- Ostrander, S. A. (1993). 'SURELY YOU'RE NOT IN THIS JUST TO BE HELPFUL': Access, Rapport, and Interviews in Three Studies of Elites. *Journal of Contemporary Ethnography*, 22(1), 7–27.
- Oura, M. M., Zilber, S. N. & Lopes, E. L. (2016). Innovation Capacity, International Experience and Export Performance of SMEs in Brazil. *International Business Review*, 25(4), 921–932.
- Oviatt, B. M. & McDougall, P. P. (1994). Toward a Theory of International New Ventures. *Journal of International Business Studies*, 25(1), 45–64.
- Pascucci, F., Bartoloni, S. & Gregori, G. L. (2016). Export Market Orientation and International Performance in the Context of SMEs. *Journal of Small Business and Entrepreneurship*, 28(5), 361–375.
- Paul, J., Parthasarathy, S. & Gupta, P. (2017). Exporting Challenges of SMEs: A Review and Future Research Agenda. *Journal of World Business*, 52(3), 327–342.
- Pejovich, S. (1999). The Effects of the Interaction of Formal and Informal Institutions on Social Stability and Economic Development. *Journal of Markets & Morality*, 2(2), 164–181.
- Pellegrino, J. M. & McNaughton, R. B. (2017). Beyond Learning by Experience: The Use of Alternative Learning Processes by Incrementally and Rapidly

- Internationalizing SMEs. *International Business Review*, 26(4), 614–627.
- Peng, M. W. (2003). Institutional Transitions and Strategic Choices. *Academy of Management Review*, 28(2), 275–296.
- Peng, M. W., Wang, D. Y. L. & Jiang, Y. (2008). An Institution-Based View of International Business Strategy: A Focus on Emerging Economies. *Journal of International Business Studies*, 39(5), 920–936.
- Pickernell, D., Jones, P., Thompson, P. & Packham, G. (2016). Determinants of SME Exporting: Insights and Implications. *The International Journal of Entrepreneurship and Innovation*, 17(1), 31–42.
- Piercy, N. (1981). Company Internationalisation: Active and Reactive Exporting. *European Journal of Marketing*, 15(3), 26–40.
- Pinho, J. C. & Prange, C. (2016). The Effect of Social Networks and Dynamic Internationalization Capabilities on International Performance. *Journal of World Business*, 51(3), 391–403.
- Pinillos, M.-J. & Reyes, L. (2011). Relationship between Individualist–Collectivist Culture and Entrepreneurial Activity: Evidence from Global Entrepreneurship Monitor Data. *An Entrepreneurship Journal*, 37(1), 23–37.
- Pittaway, L., Robertson, M., Munir, K., Denyer, D. & Neely, A. (2004). Networking and Innovation: A Systematic Review of the Evidence 200. *International Journal of Management Reviews*, 5–6(3–4), 137–168.
- Poncet, S. (2005). A Fragmented China: Measure and Determinants of Chinese Domestic Market Disintegration. *Review of International Economics*, 13(3).
- Pradhan, J. P. & Das, K. (2015). Regional Export Advantage of Rising Power SMEs: Analytics and Determinants in the Indian Context. *Critical Perspectives on International Business*, 11(3/4), 236–258.
- Prange, C. & Pinho, J. C. (2017). How Personal and Organizational Drivers Impact on SME International Performance: The Mediating Role of Organizational Innovation. *International Business Review*, 26(6), 1114–1123.
- Pratono, A. H., Saputra, R. S. & Pudjibudojo, J. K. (2016). The Social Capital and Firm Performance : Evident from Indonesia Small Businesses. *Journal of Economics and Financial Issues.*, 6(7), 47–50.
- President of The Republic of Indonesia. (2014). *Undang-Undang Republik Indonesia Nomor 7 Tahun 2014 Tentang Perdagangan*. Indonesia.

- Puffer, S. M., McCarthy, D. J. & Boisot, M. (2010). Entrepreneurship in Russia and China: The Impact of Formal Institutional Voids. *Entrepreneurship: Theory and Practice*, 34(3), 441–467.
- Puffer, S. M., McCarthy, D. J. & Jaeger, A. M. (2016). Institution Building and Institutional Voids. *International Journal of Emerging Markets*, 11(1), 18–41.
- Qomarani, L. N. (2020). Anomali Kehadiran Pegawai Pemerintah Dengan Perjanjian Kerja (PPPK) Dalam Cakrawala Kepegawaian Di Indonesia. *Jurnal Fakultas Hukum Unila*, 4(2), 95–110.
- Rahman, M., Uddin, M. & Lodorfos, G. (2015). Barriers to Enter in Foreign Markets: Evidence from SMEs in Emerging Market. *International Marketing Review*, 34(1), 68–86.
- Ransome, P. (2010). *Social Theory for Beginners*. Bristol: The Policy Press.
- Reid, S. D. (1981). The Decision-Maker and Export Entry and Expansion. *Journal of International Business Studie*, 12(2), 101–112.
- Reid, S. D. (1983). Firm Internationalization, Transaction Costs and Strategic Choice. *International Marketing Review*, 1(2), 44–56.
- Reynolds, P., Bosma, N., Autio, E., Hunt, S., De Bono, N., Servais, I., et al. (2005). Global Entrepreneurship Monitor: Data Collection Design and Implementation 1998–2003. *An International Journal*, 24(3), 205–231.
- Ribau, C. P., Moreira, A. C. & Raposo, M. (2018). SME Internationalization Research: Mapping the State of the Art. *Canadian Journal of Administrative Sciences*, 35(2), 280–303.
- Robinson, O. C. (2014). Sampling in Interview-Based Qualitative Research: A Theoretical and Practical Guide. *Qualitative Research in Psychology*, 11(1), 25–41.
- Robson, C. (2002). *Real World Research: A Resource for Social Scientists and Practitioner-Researchers*. Chicester, West Sussex: John Wiley & Sons, Inc.
- Rocha, H. O. & Sternberg, R. (2005). Entrepreneurship: The Role of Clusters Theoretical Perspectives and Empirical Evidence from Germany. *Small Business Economics*, 24(3), 267–292.
- Rodríguez-Pose, A. (2013). Do Institutions Matter for Regional Development? *Regional Studies*, 47(7), 1034–1047.
- Rolfe, G. (2006). A Critical Realist Rationale for Using a Combination of Quantitative

- and Qualitative Methods. *Journal of Research in Nursing*, 11(1), 79–80.
- Ross, A. G., Adams, J. & Crossan, K. (2015). Entrepreneurship and the Spatial Context: A Panel Data Study into Regional Determinants of Small Growing Firms in Scotland. *Local Economy*, 30(6), 672–688.
- Rosson, P. J. & Reid, S. D. (1987). *Managing Export Entry and Expansion: Concepts and Practice*. New York: Praeger.
- Rothenberg, A. D., Gaduh, A., Burger, N. E., Chazali, C., Tjandraningsih, I., Radikun, R., et al. (2016). Rethinking Indonesia's Informal Sector. *World Development*, 80, 96–113.
- Roxas, B. & Chadee, D. (2012). Effects of Informal Institutions on the Performance of Microenterprises in the Philippines: The Mediating Role of Entrepreneurial Orientation. *Journal of Asia-Pacific Business*, 13(4), 320–348.
- Roy, A., Sekhar, C. & Vyas, V. (2016). Barriers to Internationalization: A Study of Small and Medium Enterprises in India. *Journal of International Entrepreneurship*, 14(4), 513–538.
- Ruzzier, M., Hisrich, R. D. & Antoncic, B. (2006). SME Internationalization Research: Past, Present, and Future. *Journal of Small Business and Enterprise Development*, 13(4), 476–497.
- Saepulloh, R. (2017). Menpan-RB Akui Kompetensi ASN Masih Rendah. *Warta Ekonomi*.
- Safadi, R., Lattimore, R., Maher, J. & Legendre, C. (2009). *Globalisation and Emerging Economies: Brazil, Russia, India, Indonesia, China and South Africa*.
- Safari, A. & Chetty, S. (2019). Multilevel Psychic Distance and Its Impact on SME Internationalization. *International Business Review*, 28(4), 754–765.
- Sager, F. & Rosser, C. (2009). Weber, Wilson, and Hegel: Theories of Modern Bureaucracy. *Public Administration Review*, 69(6), 1136–1147.
- Salimath, M. S. & Cullen, J. B. (2010). Formal and Informal Institutional Effects on Entrepreneurship: A Synthesis of Nation-Level Research. *International Journal of Organizational Analysis*, 18(3).
- Sarte, P.-D. G. (2000). Informality and Rent-Seeking Bureaucracies in a Model of Long-Run Growth. *Journal of Monetary Economics*, 46(1), 173–197.
- Sartor, M. A. & Beamish, P. W. (2014). Offshoring Innovation to Emerging Markets: Organizational Control and Informal Institutional Distance. *Journal of International*

- Business Studies*, 45(9), 1072–1095.
- Saunders, M., Lewis, P. & Thornhill, A. (2016). *Research Methods for Business Students*. Essex: Pearson Education Limited.
- Sayer, A. (1992). *Method in Social Science: A Realist Approach*. London: Routledge.
- Sayer, A. (2000). *Realism and Social Science*. London: SAGE Publications Ltd.
- Schwartz, S. J., Weisskirch, R. S., Hurley, E. A., Zamboanga, B. L., Park, I. J. K., Kim, S. Y., et al. (2010). Communalism, Familism, and Filial Piety: Are They Birds of a Collectivist Feather? *Cultural Diversity and Ethnic Minority Psychology*, 16(4), 548–560.
- Schweizer, R. (2013). SMEs and Networks: Overcoming the Liability of Outsidership. *Journal of International Entrepreneurship*, 11(1), 80–103.
- Schwens, C., Eiche, J. & Kabst, R. (2011). The Moderating Impact of Informal Institutional Distance and Formal Institutional Risk on SME Entry Mode Choice. *Journal of Management Studies*, 48(2), 330–351.
- Schwens, C., Zapkau, F. B., Brouthers, K. D. & Hollender, L. (2018). Limits to International Entry Mode Learning in SMEs. *Journal of International Business Studies*, 49(7), 809–831.
- Scott, D. (2007). Resolving the Quantitative-Qualitative Dilemma: A Critical Realist Approach. *International Journal of Research and Method in Education*, 30(1), 3–17.
- Scott, W. R. (2014). *Institutions and Organizations: Ideas, Interests and Identities*. California: SAGE Publications, Inc.
- Secretariat General of the Ministry of Finance. (2020). Segarkan Energi UMKM. *Media Keuangan*, XV(158), 12–14.
- Sekaran, U. & Bougie, R. (2019). *Research Methods for Business: A Skill-Building Approach*. New York: Wiley.
- Senik, Z. C., Scott-Ladd, B., Entekin, L. & Adham, K. A. (2011). Networking and Internationalization of SMEs in Emerging Economies. *Journal of International Entrepreneurship*, 9, 259–281.
- Shahid, M. S., Rodgers, P. & Williams, C. C. (2017). Evaluating the Participation of an Ethnic Minority Group in Informal Employment: A Product of Exit or Exclusion? *Review of Social Economy*, 75(4), 468–488.
- Shaver, J. M. & Flyer, F. (2000). Agglomeration Economies, Firm Heterogeneity, and

- Foreign Direct Investment in the United States. *Strategic Management Journal*, 21(12), 1175–1193.
- Shi, W., Sun, S. L. & Peng, M. W. (2012). Sub-National Institutional Contingencies, Network Positions, and IJV Partner Selection. *Journal of Management Studies*, 49(7), 1221–1245.
- Silalahi, S. A. F. (2019). Pengembangan Kewirausahaan Untuk Pemberdayaan UKM Daerah, in: Suryana, A. (Ed.), *Pengembangan Kewirausahaan untuk Pemberdayaan Ukm Daerah*. Yogyakarta: Yayasan Pustaka Obor Indonesia.
- Simpson Jr., C. L. & Kujawa, D. (1974). The Export Decision Process : An Empirical Inquiry. *Journal of International Business Studies*, 5(1), 107–117.
- Sinkovics, R. R., Kurt, Y. & Sinkovics, N. (2018). The Effect of Matching on Perceived Export Barriers and Performance in an Era of Globalization Discontents: Empirical Evidence from UK SMEs. *International Business Review*, 27(5), 1065–1079.
- Slotte–Kock, S. & Coviello, N. (2010). Entrepreneurship Research on Network Processes: A Review and Ways Forward. *Entrepreneurship Theory and Practice*, 34(1), 31–57.
- Smallbone, D. (2016). Entrepreneurship Policy: Issues and Challenges. *Small Enterprise Research*, 23(3), 201–218.
- Smallbone, D., Piasecki, B., Venesaar, U., Todorov, K. & Labrianidis, L. (1998). Internationalisation and SME Development in Transition Economies: An International Comparison. *Journal of Small Business and Enterprise Development*, 5(4), 363–375.
- Smallbone, D. & Welter, F. (2012). Entrepreneurship and Institutional Change in Transition Economies: The Commonwealth of Independent States, Central and Eastern Europe and China Compared. *Entrepreneurship and Regional Development*, 24(3–4), 215–233.
- Smith, J. A. & Osborn, M. (2015). Interpretative Phenomenological Analysis as a Useful Methodology for Research on the Lived Experience of Pain. *British Journal of Pain*, 9(1), 41–42.
- Sobel, R. S. (2008). Testing Baumol: Institutional Quality and the Productivity of Entrepreneurship. *Journal of Business Venturing*, 23(6), 641–655.
- Solano Acosta, A., Herrero Crespo, Á. & Collado Agudo, J. (2018). Effect of Market Orientation, Network Capability and Entrepreneurial Orientation on International

- Performance of Small and Medium Enterprises (SMEs). *International Business Review*, 27(6), 1128–1140.
- Sousa, C. M. P., Martínez-López, F. J. & Coelho, F. (2008). The Determinants of Export Performance: A Review of the Research in the Literature between 1998 and 2005. *International Journal of Management Reviews*, 10(4), 343–374.
- Steel, P. & Taras, V. (2010). Culture as a Consequence: A Multi-Level Multivariate Meta-Analysis of the Effects of Individual and Country Characteristics on Work-Related Cultural Values. *Journal of International Management*, 16(3), 211–233.
- Steinhäuser, V. P. S., Paula, F. de O. & Macedo-Soares, T. D. L. van A. de. (2020). Internationalization of SMEs: A Systematic Review of 20 Years of Research. *Journal of International Entrepreneurship*, 19, 164–195.
- Stenholm, P., Acs, Z. J. & Wuebker, R. (2013). Exploring Country-Level Institutional Arrangements on the Rate and Type of Entrepreneurial Activity. *Journal of Business Venturing*, 28(1), 176–193.
- Stephan, U., Uhlander, L. & Stride, C. (2015). Institutions and Social Entrepreneurship: The Role of Institutional Voids, Institutional Support, and Institutional Configurations. *Journal of International Business Studies*, 46(3), 308–331.
- Stevenson, A. (Ed.). (2010). *Oxford Dictionary of English*. Oxford: Oxford University Press.
- Stoian, C. & Mohr, A. (2016). Outward Foreign Direct Investment from Emerging Economies: Escaping Home Country Regulatory Voids. *International Business Review*, 25(5), 1124–1135.
- Stoian, M. C., Rialp, J. & Dimitratos, P. (2017). SME Networks and International Performance: Unveiling the Significance of Foreign Market Entry Mode. *Journal of Small Business Management*, 55(1), 128–148.
- Stoica, O., Roman, A. & Rusu, V. D. (2020). The Nexus Between Entrepreneurship and Economic Growth: A Comparative Analysis on Groups of Countries. *Sustainability*, 12(3), 1–19.
- Styles, C. (1998). Export Performance Measures in Australia and the United Kingdom. *Journal of International Marketing*, 6(3), 12–36.
- Sudhir, K., Priester, J., Shum, M., Atkin, D., Foster, A., Iyer, G., et al. (2015). Research Opportunities in Emerging Markets: An Inter-Disciplinary Perspective from Marketing, Economics, and Psychology. *Customer Needs and Solutions*, 2(4),

264–276.

- Sui, S. & Baum, M. (2014). Internationalization Strategy, Firm Resources and the Survival of SMEs in the Export Market. *Journal of International Business Studies*, 45(7), 821–841.
- Sullivan, D. (1994). Measuring the Degree of Internationalization of a Firm. *Journal of International Business Studies*, 25(2), 325–342.
- Sumartono. (2009). *Sejarah Kebudayaan Indonesia: Seni Rupa Dan Desain*. Jakarta: Rajawali Pers.
- Tambunan, T. (2007). Entrepreneurship Development: SMEs in Indonesia. *Journal of Developmental Entrepreneurship*, 12(01), 95–118.
- Tambunan, T. (2008). SME Development in Indonesia with Reference to Networking, Innovativeness, Market Expansion and Government Policy, in: Lim, H. (Ed.), *SMEs in Asia and Globalization*, (pp. 99–131). Jakarta: ERIA Research Project Report 2007-5.
- Tambunan, T. (2009). *Export-Oriented Small and Medium Industry Clusters in Indonesia*. Jakarta: Emerald Group Publishing Limited.
- Tan, J. (2002). Culture, Nation, and Entrepreneurial Strategic Orientations: Implications for an Emergency Economy. *Entrepreneurship Theory and Practice*, 6(4), 96–111.
- Tarui, N. (2015). The Role of Institutions in Natural Resource Use, in: Balisacan, A. M., Chakravorty, U., and Ravago, M.-L. (Eds.), *Sustainable Economic Development: Resources, Environment, and Institutions*, (pp. 125–136). San Diego: Academic Press.
- The World Bank. (2018). *Logistics Performance Index Global Rankings 2018*. Washington D.C.
- The World Bank. (2019a). The World Bank In Indonesia. *The World Bank*. Retrieved November 7, 2019, from <http://data.worldbank.org/country/indonesia?view=chart>
- The World Bank. (2019b). GINI Index. *The World Bank Data*. Retrieved November 13, 2019, from <https://data.worldbank.org/indicator/SI.POV.GINI>
- The World Bank. (2020). World Bank Country and Lending Groups. *The World Bank Data*. Retrieved December 21, 2020, from <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

- The World Bank Group. (2012). *Interpretation Note on Small and Medium Enterprises and Environmental and Social Risk Management*. Washington D.C.
- The World Bank Group. (2020). *Doing Business 2020*. Washington D.C.
- Thomas, R. M. (2003). *Blending Qualitative and Quantitative Research Methods in Theses and Dissertations*. California: Corwin Press, Inc.
- Tonoyan, V., Strohmeyer, R., Habib, M. & Perlitz, M. (2010). Corruption and Entrepreneurship: How Formal and Informal Institutions Shape Small Firm Behavior in Transition and Mature Market Economies. *Entrepreneurship: Theory and Practice*, 34(5), 803–831.
- Trettin, L. & Welter, F. (2011). Challenges for Spatially Oriented Entrepreneurship Research. *Entrepreneurship & Regional Development*, 23(7–8), 575–602.
- Tukey, J. W. (1977). *Exploratory Data Analysis*. London: Reading, Mass. ; London etc. : Addison-Wesley.
- Turner, M., Sermcheep, S., Anantasirijkiat, S. & Srisangnam, P. (2016). Small and Medium-Sized Enterprises in Thailand: Government Policy and Economic Development. *Asia Pacific Journal of Public Administration*, 38(4), 251–269.
- United Nations. (2014). *UN Country Classification*. New York.
- Urbano, D., Aparicio, S. & Audretsch, D. (2019). Twenty-Five Years of Research on Institutions, Entrepreneurship, and Economic Growth: What Has Been Learned? *Small Business Economics*, 53(1), 21–49.
- Usunier, J.-C. & Lee, J. A. (2013). *Marketing Across Cultures*. Harlow, England ; New York: Pearson.
- Valdez, M. E. & Richardson, J. (2013). Institutional Determinants of Macro-Level Entrepreneurship. *Entrepreneurship Theory and Practice*, 37(5), 1149–1175.
- Varshneya, G., Pandey, S. K. & Das, G. (2017). Impact of Social Influence and Green Consumption Values on Purchase Intention of Organic Clothing: A Study on Collectivist Developing Economy. *Global Business Review*, 18(2), 478–492.
- Vartanian, T. P. (2011). *Secondary Data Analysis*. Oxford: Oxford University Press.
- Vatne, E. (1995). Local Resource Mobilisation and Internationalisation Strategies in Small and Medium Sized Enterprises. *Environment and Planning A: Economy and Space*, 27(1), 63–80.
- Veciana, J. M. & Urbano, D. (2008). The Institutional Approach to Entrepreneurship Research. Introduction. *International Entrepreneurship and Management Journal*,

- 4(4), 365–379.
- Verbeke, A. (2013). *International Business Strategy*. Cambridge: Cambridge University Press.
- Voigt, S. (2017). How to Measure Informal Institutions. *Journal of Institutional Economics*, 14(1), 1–22.
- Vozikis, G. S. & Mescon, T. S. (1985). Small Exporters and Stages of Development: An Empirical Study. *American Journal of Small Business*, 10(1), 49–64.
- Walliman, N. (2016). *Social Research Methods* (M. Steele, Ed.). London: SAGE Publications Ltd.
- Webb, J. W., Tihanyi, L., Ireland, R. D. & Sirmon, D. G. (2009). You Say Illegal, I Say Legitimate: Entrepreneurship in the Informal Economy. *Academy of Management Review*, 34(3), 492–510.
- Welter, F., Baker, T., Audretsch, D. B. & Gartner, W. B. (2017). Everyday Entrepreneurship—A Call for Entrepreneurship Research to Embrace Entrepreneurial Diversity. *Entrepreneurship: Theory and Practice*, 41(3), 311–321.
- Welter, F. & Smallbone, D. (2011). Institutional Perspectives on Entrepreneurial Behaviour in Challenging Environments. *Journal of Small Business Management*, 49(1), 107–125.
- Wengel, J. ter & Rodriguez, E. (2006). SME Export Performance in Indonesia After the Crisis. *Small Business Economics*, 26(1), 25–37.
- Wiedersheim-Paul, F., Olson, H. C. & Welch, L. S. (1978). Pre-Export Activity: The First Step in Internationalization. *Journal of International Business Studies*, 9(1), 47–58.
- Wignaraja, G. (2015). Factors Affecting Entry into Supply Chain Trade: An Analysis of Firms in Southeast Asia. *Asia and the Pacific Policy Studies*, 2(3), 623–642.
- Williams, C. C. & Shahid, M. S. (2014). Informal Entrepreneurship and Institutional Theory: Explaining the Varying Degrees of (in)Formalization of Entrepreneurs in Pakistan. *Entrepreneurship & Regional Development*, 5626(December 2015), 1–25.
- Williams, N. & Vorley, T. (2014). Economic Resilience and Entrepreneurship: Lessons from the Sheffield City Region. *Entrepreneurship and Regional Development*, 26(3–4), 257–281.
- Williams, N. & Vorley, T. (2015). Institutional Asymmetry: How Formal and Informal

- Institutions Affect Entrepreneurship in Bulgaria. *International Small Business Journal*, 33(8), 840–861.
- Williams, N., Vorley, T. & Williams, C. (2017). *Entrepreneurship and Institutions: The Causes and Consequences of Institutional Asymmetry*. London, [England]: Rowman & Littlefield International.
- Williamson, C. R. (2009). Informal Institutions Rule: Institutional Arrangements and Economic Performance. *Public Choice*, 139(3–4), 371–387.
- Wiranata, Y. A. & Nugrahanti, Y. W. (2013). Pengaruh Struktur Kepemilikan Terhadap Profitabilitas Perusahaan Manufaktur Di Indonesia. *Jurnal Akuntansi dan Keuangan*, 15(1), 15–26.
- Wright, M., Filatotchev, I., Hoskisson, R. E. & Peng, M. W. (2005). Strategy Research in Emerging Economies: Challenging the Conventional Wisdom. *Journal of Management Studies*, 42(1), 1–33.
- Wu, Y. (2014). How Do Institutions Matter to Cross-Border Merger and Acquisitions by Emerging Economy Multinationals in Developed Countries. , (June).
- Wyrwich, M. (2015). Entrepreneurship and the Intergenerational Transmission of Values. *Small Business Economics*, 45(1), 191–213.
- Xiao, S.-F. (2015). How Do Institutions Matter for the Internationalization of Emerging Economy Firms?: Evidence from China. *The Journal of International Trade & Commerce*, 11(6), 37–52.
- Xu, D. & Meyer, K. E. (2013). Linking Theory and Context: ‘Strategy Research in Emerging Economies’ after Wright Etal. (2005). *Journal of Management Studies*, 50(7), 1322–1346.
- Yan, Z. J., Zhu, J. C., Fan, D. & Kalfadellis, P. (2018). An Institutional Work View toward the Internationalization of Emerging Market Firms. *Journal of World Business*, 53(5), 682–694.
- Yeoh, P.-L. (2013). Internationalization and Performance Outcomes of Entrepreneurial Family SMEs: The Role of Outside CEOs, Technology Sourcing, and Innovation. *Thunderbird International Business Review*, 56(1), 77–96.
- Yeoh, P. L. & Jeong, I. (1995). Contingency Relationships between Entrepreneurship. *European Journal of Marketing*, 29(8), 95–115.
- Young, S., Hamill, J., Wheeler, C. & Davies, J. R. (1989). *International Market Entry and Development: Strategies and Management*. Hertfordshire, UK: Harvester

Wheatsheaf.

- Yunastuti, S. R. (2018). Analisis Sistem Pengelolaan Dan Hambatan Ekspor UMKM Di Indonesia.
- Zachariadis, M., Scott, S. & Barrett, M. (2013). Methodological Implications of Critical Realism for Mixed-Methods Research. *MIS Quarterly*, 37(3), 855–879.
- Zamawe, F. C. (2015). The Implication of Using NVivo Software in Qualitative Data Analysis: Evidence-Based Reflections. *Malawi Medical Journal*, 27(1), 13–15.
- Zhang, M., Gao, Q. & Cho, H.-S. (2017). The Effect of Sub-National Institutions and International Entrepreneurial Capability on International Performance of Export-Focused SMEs: Evidence from China and South Korea. *Journal of International Entrepreneurship*, 15, 85–110.
- Zhang, M., Lin, T., Wang, D. & Jiao, W. (2020). Filial Piety Dilemma Solutions in Chinese Adult Children: The Role of Contextual Theme, Filial Piety Beliefs, and Generation. *Asian Journal of Social Psychology*, 23(2), 227–237.
- Zimmerer, T., Scarborough, N. & Wilson, D. (2008). *Essential of Entrepreneurship and Small Business Management*. Upper Saddle River, New Jersey: Prentice Hall.
- Zou, S. & Stan, S. (1998). The Determinants of Export Performance: A Review of the Empirical Literature between 1987 and 1997. *International Marketing Review*, 15(5), 333–356.
- Zou, S., Taylor, C. R. & Osland, G. E. (1998). The EXPERF Scale : A Cross-National Generalized Export Performance Measure. *Journal of International Marketing*, 6(3), 37–59.

Appendices

Appendix 1 – Ethics Approval



Downloaded: 18/05/2018
Approved: 14/05/2018

Muhammad Anindita
Registration number: 160108846
Management School
Programme: Standard PhD, Full Time

Dear Muhammad

PROJECT TITLE: Assessing SMEs Internationalisation in Emerging Market Context. A Case Study of Indonesia
APPLICATION: Reference Number 016001

On behalf of the University ethics reviewers who reviewed your project, I am pleased to inform you that on 14/05/2018 the above-named project was **approved** on ethics grounds, on the basis that you will adhere to the following documentation that you submitted for ethics review:

- University research ethics application form 016001 (dated 08/05/2018).
- Participant information sheet 1037697 version 3 (20/04/2018).
- Participant information sheet 1034922 version 4 (20/04/2018).
- Participant consent form 1034919 version 3 (20/04/2018).

The following optional amendments were suggested:

i am still not clear about how many interviews will be conducted, can you please specify? i can't find the information on the form. the form is getting very long, and i suggested in my earlier review to avoid highlighting in detail all the interview questions to be asked. this is not necessary at this point. a better outline of the METHODS conducted would be helpful.

If during the course of the project you need to [deviate significantly from the above-approved documentation](#) please inform me since written approval will be required.

Yours sincerely

Lucy Bartrick
Ethics Administrator
Management School

Appendix 2 – Information Sheet



Assessing SMEs Internationalisation in Emerging Market Context A Case Study of Indonesia

PARTICIPANT INFORMATION SHEET

Researchers from the University of Sheffield are conducting a research project titled:

Assessing SMEs Internationalisation in Emerging Market Context A Case Study of Indonesia

'You are being invited to take part in a research project. Before you decide whether or not to participate, it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask us if there is anything that is not clear or if you would like more information. Take time to decide whether or not you wish to take part. Thank you for reading this information sheet.'

1. What is the project's purpose?

The research project is concerned with Small and Medium Enterprises (SMEs) internationalisation in Indonesia, and specifically what are the key factors that enable and constrain SME owners or managers in expanding their business overseas. We are interested in understanding both what the factors are and how they affect SMEs in doing international business. The project will run for 18 months starting in September 2018.

2. Why have I been chosen to take part?

This project involves undertaking a number of interviews with stakeholders, policymakers, entrepreneurs and owners or managers. You have been selected to take part in the research because of your role within the SME internationalisation ecosystem, and we are interested in your knowledge, insights and experiences about the SME internationalisation ecosystem and/or your experiences as an entrepreneur/SME owner or manager.

3. Do I have to take part?

It is up to you to decide whether or not to take part. If you do decide to take part, you will be given this information sheet to keep (and be asked to sign a consent form). You can still withdraw from participating at any time without any negative consequences. You do not have to give a reason.

4. What will happen to me if I take part?

Participation will involve an informal interview/discussion with Muhammad Surya Anindita, and it will last for up to one hour. The interview will take place at a time and place convenient for you. Everything you say

during the interview will be entirely confidential and it will not be attributable to you. The interview will involve you being asked a series of open questions. The questions will cover your views and experiences of the SME internationalisation ecosystem.

5. Will I be recorded, and how will the recorded media be used?

With your permission, we would like to record the interview by taking hand-written notes and by taking an audio recording. This will allow the conversation to be listened to again if needed. We will ask your permission and inform you when we have begun recording. The audio recordings made during this research will be used only for analysis and for illustration in conference presentations and lectures, but no other use will be made of them without your written permission. No one outside the project team will be allowed access to the original recordings - if you do not wish to be recorded, we will respect your wishes and proceed without recording.

6. Will my taking part in this project be kept confidential?

All the information that we collect about you during the course of the research will be kept strictly confidential and will only be accessible to members of the research team. You will not be able to be identified in any reports or publications unless you have given your explicit consent for this. If you agree to us sharing the information you provide with other researchers (e.g. by making it available in a data archive) then your personal details will not be included unless you explicitly request this.

7. What is the legal basis for processing my personal data?

According to data protection legislation, we are required to inform you that the legal basis we are applying in order to process your personal data is that 'processing is necessary for the performance of a task carried out in the public interest' (Article 6(1)(e)). Further information can be found in the University's Privacy Notice <https://www.sheffield.ac.uk/govern/data-protection/privacy/general>.

8. What are the possible disadvantages and risks of taking part?

We do not anticipate that there are any disadvantages or risks that may occur as a result of you participating in this research.

9. What are the possible benefits of taking part?

Whilst there are no immediate benefits to participants, it is hoped that the findings will inform policy and practise relating to developing the SME internationalisation ecosystems in Indonesia and enhance the SME business environment for entrepreneurs.

10. What will happen to the data collected?

Due to the nature of this research, it is very likely that other researchers may find the data collected to be useful in answering future research questions. We will ask for your explicit consent for your data to be shared in this way.

11. What will happen to the results of the research project?

The results of this project will be presented at academic conferences and will be published in research journals and doctoral thesis. If you wish to be given a copy of any reports resulting from the research, please ask us to put you on our circulation list.

12. Who is organising and funding the research?

This research is funded by the Indonesia Endowment Fund for Education (LPDP).

13. Who is the Data Controller?

The University of Sheffield will act as the Data Controller for this study. This means that the University is responsible for looking after your information and using it properly.

Further information, including details about how and why the University processes your information, how we keep your information secure, and your legal rights (including how to complain if you feel that your information has not been handled correctly), can be found in the University's *Privacy Notice* <https://www.sheffield.ac.uk/govern/data-protection/privacy/general>.

14. Who has ethically reviewed the project?

This project has been ethically approved via the University of Sheffield's ethics review procedure, as administered by Sheffield University Management School. The University's Research Ethics Committee monitors the application and delivery of the University's Ethics Review Procedure across the University.

15. What if something goes wrong?

If you feel that you have a concern or complaint in the first instance you should inform Muhammad Surya Anindita (msanindita1@sheffield.ac.uk). If the complaint relates to how your data has been handled, information about how to raise a complaint can be found in the University's Privacy Notice: <https://www.sheffield.ac.uk/govern/data-protection/privacy/general>. If you feel your complaint has not been adequately addressed at this stage you should contact the University of Sheffield's Registrar and Secretary to take your complaint further (see below), who will then escalate the complaint through the appropriate channels.

Thank you for taking the time to read this information sheet. This information sheet is for you to keep.

If you require further information about this research, please contact:

Muhammad Surya Anindita, Management School Doctoral Centre, 31 Claremont Crescent, University of Sheffield, UK. Tel: +44 (0) 7491233334, email: msanindita1@sheffield.ac.uk

Prof Tim Vorley, Management School, University of Sheffield, UK. Tel: +44 (0) 114 222 3486, email: tim.vorley@sheffield.ac.uk

Prof David Oglethorpe, Dean of the Management School, University of Sheffield, UK. Tel: +44 (0) 114 222 3364, email: d.oglethorpe@sheffield.ac.uk

Lucy Bartrick, Research Officer of the Management School, University of Sheffield, UK. Tel: +44 (0) 114 222 3445, email: l.e.bartrick@sheffield.ac.uk

Appendix 3 – Consent Form



Assessing SMEs Internationalisation in Emerging Market Context A Case Study of Indonesia

INTERVIEW RESEARCH CONSENT FORM

We are conducting research into SMEs internationalisation in Indonesia in accordance with the University of Sheffield's Research Ethics Policy. The researchers involved in the project are: Muhammad Surya Anindita (University of Sheffield), Dr Georgios Fotopoulos (University of Sheffield) and Professor Tim Vorley (University of Sheffield). Prior to conducting the research, you are asked to complete this consent form.

<i>Please tick the appropriate boxes</i>	YES	NO
Taking Part in the Project		
I have read and understood the project information sheet dated ____/____/____ or the project has been fully explained to me. (If you will answer No to this question please do not proceed with this consent form until you are fully aware of what your participation in the project will mean.)		
I have been given the opportunity to ask questions about the project.		
I agree to take part in the project. I understand that taking part in the project will include being interviewed. I agree for this interview to be tape-recorded. I understand that the audio recording made of this interview will be used only for analysis and that extracts from the interview, from which I would not be personally identified, may be used in any conference presentation, report or journal article developed as a result of the research. I understand that no other use will be made of the recording without my written permission and that no one outside the research team will be allowed access to the original recording.		
I understand that my participation is voluntary and that I can withdraw from the study at any time/before 1 March 2019; I do not have to give any reasons for why I no longer want to take part and there will be no adverse consequences if I choose to withdraw.		
How my information will be used during and after the project		
I understand my personal details such as name, phone number, address and email address etc. will not be revealed to people outside the project.		
I understand and agree that my words may be quoted in publications, reports, web pages, and other research outputs. I understand that I will not be named in these outputs unless I specifically request this.		
I understand and agree that other authorised researchers will have access to this data only if they agree to preserve the confidentiality of the information as requested in this form.		
I understand and agree that other authorised researchers may use my data in publications, reports, web pages, and other research outputs, only if they agree to preserve the confidentiality of the information as requested in this form.		
I give permission for the information that I provide to be deposited in the University of Sheffield's Google Drive under the account name of Muhammad Surya Anindita, so it can be used for future research and learning.		
So that the information you provide can be used legally by the researchers		
I agree to assign the copyright I hold in any materials generated as part of this project to The University of Sheffield.		

Name of Participant [printed]

Signature

Date

Name of Researcher [printed]

Signature

Date

If you require further information about this research, please contact:

Muhammad Surya Anindita, Management School Doctoral Centre, 31 Claremont Crescent, University of Sheffield, UK. Tel: +44 (0) 7491233334, email: msanindita1@sheffield.ac.uk

Prof Tim Vorley, Management School, University of Sheffield, UK. Tel: +44 (0) 114 222 3486, email: tim.vorley@sheffield.ac.uk

Prof David Oglethorpe, Dean of the Management School, University of Sheffield, UK. Tel: +44 (0) 114 222 3364, email: d.oglethorpe@sheffield.ac.uk

Lucy Bartrick, Research Officer of the Management School, University of Sheffield, UK. Tel: +44 (0) 114 222 3445, email: l.e.bartrick@sheffield.ac.uk

Appendix 4 – Interview Guideline

Table A4-1: Interview with the SMEs Owner-Managers or Entrepreneurs		Purpose/Research Question	Remarks
Section/Area	Interview Question		
1	<p>Can you tell me a little bit about your company? When was it established? Who founded it? How was it built?</p> <p>What kind of products/services do you have? What is your distinctive advantage?</p>	Background analysis	Introduction
2	<p>What does the company want to achieve? Whether to be a leader for all markets in the industry or just limited to certain markets only? Why do you choose that strategy and how successful is it?</p> <p>Who is your target market? Where are they located? How do you approach them? How do they perceived your product?</p> <p>What is the key success factor that you consider have an important role in your business success/achievement so far?</p>	Understand the main institutional factors that are affecting the performance of SMEs internationalisation at the national and regional level	<p>Ambition</p> <p>Market orientation</p> <p>Main success factor</p>
3	<p>Have you thought about expanding to a new market? Why, how, and where? To another segment or another area? Are you considering to expand overseas? Is it substantially different in expanding to a different part of Indonesia and expanding abroad? If so, in what way? How do you think about it?</p>	Understand the main institutional drivers for SMEs internationalisation at the national and regional level.	International orientation
4	<p>What are the critical issues you are facing to expand your business overseas? Internal and external.</p> <p>Is there any support from the external parties, such as government, business intermediaries or private institutions? Who are they and what form of support that has been given to the company?</p>	<p>Understand the main institutional barriers in the internationalisation process that SMEs have to overcome at the national and regional level</p> <p>Understand the institutional support to increase SMEs competitive advantage in the international market at the national and regional level</p>	<p>Internationalisation barriers</p> <p>Support given</p>

Table A4-2: Interview with the Policymakers and Business Intermediaries/Support Organisations/Entrepreneur Associations

Section/Area	Interview Question	Purpose/Research Question	Remarks
1	Can you tell me a little bit about your organisation and how it is related to SMEs?	Background analysis	Introduction
	What motivate your organisation to support SMEs?		
2	What kind of supports that your organisation does in helping SMEs?	Understand the institutional support to increase SMEs competitive advantage in the international market at the national and regional level	Supports given
	How did you determine what kind of supports that SMEs need? Did you do a survey or research first?		
	How will you evaluate the supports given? Is there any feedback from the SMEs?		
3	From your experience in supporting SMEs, what do you think the main drivers and main barriers they are facing to perform and expanding their business overseas? Internal and external.	Understand the main institutional drivers and barriers for SMEs internationalisation at the national and regional level.	SMEs' internationalisation drivers and barriers
4	Can you tell me some success stories from the SMEs that you have supported regarding their strive for success?	Understand the main institutional factors that are affecting the performance of SMEs internationalisation at the national and regional level.	SMEs' internationalisation performance

Appendix 5 – STATA Output: Correlation Analysis

	export	smetype	agesq	educat~l	monthl~t	assetv~e	obstacle
export	1.0000						
smetype	0.0620	1.0000					
agesq	0.0004	-0.0330	1.0000				
educationl~l	0.0444	0.1499	-0.2270	1.0000			
monthlypro~t	0.0576	0.2833	-0.0218	0.1090	1.0000		
assetvalue	0.0549	0.2688	-0.0114	0.1495	0.2387	1.0000	
obstacle	-0.0009	0.0448	-0.0161	-0.0058	0.0199	0.0144	1.0000
partnership	0.0258	0.1202	-0.0198	0.0292	0.0451	0.0490	-0.0107
support	0.0167	0.1115	-0.0178	0.0400	0.0532	0.0438	0.0476
generaltra~g	0.0316	0.0929	-0.0353	0.1010	0.0383	0.0543	0.0189
government~p	0.0199	0.0356	-0.0032	0.0352	0.0243	0.0636	0.0147
government~t	0.0058	0.1048	-0.0047	0.0263	0.0089	0.0059	0.0342
government~g	0.0287	0.0500	-0.0133	0.0665	0.0333	0.0395	0.0378
	partne~p	support	genera~g	govern~p	gover~rt	govern~g	
partnership	1.0000						
support	0.1635	1.0000					
generaltra~g	0.0895	0.2276	1.0000				
government~p	0.1304	0.0491	0.0593	1.0000			
government~t	0.0870	0.6251	0.2457	0.0547	1.0000		
government~g	0.0459	0.1780	0.7035	0.0596	0.2224	1.0000	

Appendix 6 – STATA Output: Regression Analysis

Source	SS	df	MS	Number of obs	=	58,286
Model	1.56834224	12	.130695187	F(12, 58273)	=	42.58
Residual	178.869585	58,273	.00306951	Prob > F	=	0.0000
				R-squared	=	0.0087
				Adj R-squared	=	0.0085
Total	180.437927	58,285	.003095787	Root MSE	=	.0554

export	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
smetype	.0075472	.0009245	8.16	0.000	.0057351	.0093592
agesq	1.25e-06	5.06e-07	2.47	0.014	2.58e-07	2.24e-06
educationle~l	.0013086	.0001888	6.93	0.000	.0009386	.0016786
monthlyprofit	1.29e-10	1.61e-11	7.99	0.000	9.74e-11	1.61e-10
assetvalue	7.25e-12	1.08e-12	6.73	0.000	5.14e-12	9.36e-12
obstacle	-.0005241	.0005299	-0.99	0.323	-.0015627	.0005144
partnership	.0027146	.0008147	3.33	0.001	.0011177	.0043115
support	.0021227	.0014103	1.51	0.132	-.0006415	.0048869
generaltraig	.0029846	.0015231	1.96	0.050	-7.52e-07	.0059699
governmentp~p	.0157668	.005587	2.82	0.005	.0048162	.0267174
governments~t	-.0049529	.0021882	-2.26	0.024	-.0092419	-.000664
governmentt~g	.0052157	.002083	2.50	0.012	.001133	.0092985
_cons	-.0099711	.0011435	-8.72	0.000	-.0122124	-.0077298