



Internationalization of Small and Medium Enterprises in Indonesia: Towards Integrative Policy Approach of Competitiveness and Connectivity

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Abstract

The paper focuses on the policy analysis influencing the internationalization of small and medium sized enterprises (SMEs) engaged in cultural and creative industries (CCIs) in Indonesia. Three approaches of internationalization are explored in this study: the market knowledge approach, the network approach and the international entrepreneurship approach. This article attempts to figure out internationalization as a process starting from the creating of favorable preconditions to the strengthening stage based on the interrelationship among those approaches. The purpose of this article tries to combine the important dimensions proposed by each approach towards an integrative policy approach based on the concept of competitiveness and connectivity. The conceptual model of integrated policy in this study contributes to resolve inefficiency issue as the main gap in the existing strategic policy on SME internationalization in Indonesia; enhance integrative policy analysis literature and propose a more integrated strategic policy for promoting internationalization.

Keywords: Internationalization; SMEs in Cultural and Creative Industries (CCIs); Integrated Policy Model; Indonesia.

Introduction

Small and medium enterprises (SMEs) are very crucial in improving national GDP and contribute significantly to the increase of employment rate of a country. In Indonesia, creative economy contribution to GDP increased from 525.96 trillion to 852.24 trillion (an average increase of 10.14% per year) in the period of 2010-2015. This value contributes to the national economy ranging from 7.38% to 7.66%, which is dominated by three sub sectors, namely culinary with 41.69%, fashion 18.15%, and craft 15.70%. The three largest export destination states of the creative economy commodity in the year 2015

are United States (31.72%), Japan (6.74%), and Taiwan (4.99%). The creative economy sector has grown by 2.15% in the period of 2010-2015 and workers can be absorbed in this sector is 15.9 million people in 2015. On the other hand, four Indonesian cities such as Surakarta, Bandung, Yogyakarta and Pekalongan are included as UNESCO's Creative Cities Network for design and arts. This has become the positive steps in consolidating the role of the culture in the country's development. As an archipelagic state, cultural diversity has become the most potential resources in CCIs.

However, the level of competitiveness of SMEs engaged in CCIs needs to be improved. The level of competitiveness of SMEs engaged in Cultural and Creative Industries (CCIs) in Indonesia is still low. Indonesia has the lowest rate of the Global Creative Index compared to other ASEAN states such as Malaysia, Singapore, Philippines, Vietnam and Thailand.

Indonesia ranked at 116th in the GCI with a score of 0.202.

Table 1. The level of competitiveness of SMEs

Rank	Country	Technology	Talent	Tolerance	Global Creativity Index
3	Malaysia	24	69	101	0.455
9	Singapore	7	5	23	0.896
52	Phillipines	54	65	53	0.487
80	Vietnam	45	104	73	0.377
82	Thailand	38	84	105	0.365
115	Indonesia	67	108	115	0.202

Source: Ministry of Economy and Creative Economy 2014

The low level of GCI is partly due to various determinants such as human resources, institutional framework, infrastructure and technology, raw material, industry, finance and marketing.

Table 2. Determinants of the CGI level

No.	Determinants of Creative Economy	Score
1.	Industry	5.3
2.	Raw Material	4.5
3.	Marketing	4.5
4.	Infrastructure and Technology	4.4
5.	Creative human resources	4.3
6.	Institutional framework	4.2
7.	Finance	3.5

Sources: Ministry of Economy and Creative Economy 2014

This table demonstrates that most of the determinants of creative economy competitiveness in Indonesia still low, particularly in finance sector (3.5). In fact, Indonesian SMEs involved in export trade are still considered as the early stage model of internationalization process.

This low competitiveness of SMEs in creative economy is mostly due to the various restraints faced. In general, the constraints faced by SMEs engaged in CCIs due to several factors: (1) weakness in access to finance; (2) weakness in the institutional structure; (3) weakness in infrastructure and technology; (4) the lack of access to international market due to limitation in building network/linkage; (5) lack of creative human resources; (6) the lack of raw material; (7) high level of global business competitiveness; (8) size of companies and (9) government policies. (Ministry of Economy and Creative Economy, 2014) Although many strategic policies had been promulgated by government, many of them are ineffective. The absence of integrative policy framework with regard to internationalization process led to fragmented policy model that is more sectoral and allocative. On the other hand, the internationalization process needs comprehensive support policy measures on local, national, and international levels. For this reason, it is necessary to develop regulative policies towards the internationalization of SMEs that strengthen market structure of SMEs and change market behavior to promote internationalization process.

The purpose of this study is to contribute to the development of knowledge by proposing a conceptual model of integrated policy. The integrated policy model attempts to understand the internationalization of SMEs engaged in CCIs as a process, starting from 'pre-condition' stage to 'strengthening' phase. The first phase involves the mapping of the SMEs in CCIs through identifying SWOT analysis in order to provide the best possible and exact policy measures. The next phase involves policy measures that are established to support capacity building and financial support of the SMEs. The top level would be the encouragement of policy measures to encourage linkage or network between MNEs and SMEs through joint venture or sub contract in order to support internationalization. This model

is directed to resolve inefficiency issue as the main gap in the existing policy. This paper also calls attention to ways in which Indonesian SMEs in CCIs can become competitive in international market sphere.

Previous research demonstrated that internationalization is a crucial strategic alliance for developing SMEs in global era.¹ The major important element in internationalization is how to create linkage through strategic policy framework that will overcome information barriers, enabling SMEs to becoming more attractive partners and to benefit from partnership and encouraging MNEs to forge linkage with local enterprise² In order to internationalize the cultural and creative industries, government policy has a huge influence, in order to develop precondition and create strategic policy and institutional framework that support and strengthen SMEs in CCIs.³ Internationalization of SMEs has emerged as the focal point of government policy, in this situation government should provide strategic measures that create favorable and conducive environment for developing SMEs in cultural and creative sectors. In this sense, the government should provide conducive environment for the emergence of business linkage between small and large enterprises through partnership.

The research on integrated policy framework about the strengthening of SMEs in CCIs in Indonesia is very limited. Until now, there is not many references of policy measures related to internationalization of SMEs in CCIs through the establishment of linkage and subcontracting strategies. The number of references of internationalization mostly concerns with general issues. Therefore, this study is interesting to be explored, considering the results can be very important and provide a significant contribution to the development of SMEs in cultural and creative sectors. The first issue of internationalize SMEs in CCIs is to provide favorable

¹ Mohibul Islam Masum & Alejandra Fernandez, 'Internationalization Process of SMEs: Strategies and Methods' (*divaportal*).

² Myra Hodgkinson, 'Managerial Perceptions of Barriers to Becoming a "Learning Organization"' (2000) 7 *The Learning Organization* [156] <<https://www.emerald.com/insight/content/doi/10.1108/09696470010335872/full/html>>.

³ European Union, 'Working Group of EU Member States Experts' (2012).

precondition in order to promote linkage between small and large enterprise.

This paper focuses on strategic policy framework in different policy levels and stages in Indonesia. The research statements are as follows:

1. The importance of linkage in the internationalization of SMEs in CCIs in Indonesia.
2. The gap of the existing internationalization policy of SMEs in CCIs in Indonesia.
3. The level analysis for the creation of precondition and strengthening policies for the development of SMEs in CCIs.
4. The establishment of integrated policy framework for the internationalization of SMEs in CCIs.

This study contributes to the logical development progression starting from policy measures creating favorable conditions for CCIs development, following with strategies targeting to strengthen the SMEs in CCIs. This includes some elements such as strategic alliances institutional framework, strategic policies measures, networks and clusters.

Following the introduction, this paper is structure as follows: section two concerns with several existing research and theories related to internationalization policy. Section three is concerned with the research methodology to analyze research questions and demonstrating the systematic analysis process. Section four involves in the research findings. Section five is dealing with the analysis and discussion of research findings. Finally, section six and seven are conclusion and recommendations.

Literature Review

Interrelationship Among the Internationalization Theories

Internationalization of SMEs is basically based on three theories, which include: (1) Uppsala model; (2) Network approach and (3) entrepreneurship behavior.⁴ The ‘uppsala’ model is a form of theory that explains how a company

⁴ Raquel Menese, ‘A Dynamic Approach to the Development of International New Ventures’ (2012) <wps.fep.up.pt/wps/wp454.pdf>.

gradually strengthens its participation in the global market.⁵ This is also known as a stage model. The fundamental assumption of the Uppsala model is that there is a reciprocal affect of market knowledge and market commitment. This also means that the amount of knowledge of foreign markets and operations is influenced by the amount of commitments of resources in foreign market and vice versa⁶ Based on the network theory, export-oriented of SMEs will be achieved through the creation of linkage between MNEs and SMEs such as joint venture, licensing (licensing) or franchise. 'Network approach' theory emphasizes on the importance of network creation in an effort to realize internationalization. Despite the fact that to a certain extent the network theory attempts to challenge the uppsala model, both theories are inherently related to one another. All firms in a market are considered to be embedded in one or more network through linkages to their suppliers, sub-contractors, customers and other market actors.⁷ The international entrepreneurship theory is another important theory that strongly correlates with actions that are entrepreneurial such as risk taking, innovativeness, pro-activeness, competitive aggressiveness and autonomy. International entrepreneurship has been confined to a combination of innovative, proactive and risk seeking behavior that crosses national borders and is intended to create value in organization.

This study does not look at those theories separately from each other, but rather refers to how to integrate those three approaches in the internationalization process. These three theories strongly influence the internationalization behavior of SMEs. These three theories are interrelated with each other. The integrative approach to the three theories of internationalization has not received major attention from various

⁵ J Johanson and G Mattson, 'Internationalization in Industrial Systems-A Network Approach in Global Competition', *Prince Bertil Symposium at the Institute of International Business, Stockholm School of Economics, London: Croom Helm, cop* (1988). In Pervez N Ghauri and Peter J Buckley, *The Internationalization of the Firm: A Reader* (Academic Press 1993). In Loretta Battaglia, Daniela Corsaro and Alessandra Tzannis, 'The Role of Networks in the Internationalisation of a SME: The Case of an Italian Company', *22nd Industrial Marketing and Purchasing Group Conference, Milano, September* (2006).

⁶ Battaglia, Corsaro and Tzannis (n 5).

⁷ *ibid.*

studies related to the internationalization of SMEs.⁸ Market knowledge and market commitment need a strong local and foreign business relationship or linkage. This business relationship also embedded a strong international entrepreneurial behavior/ activities and experience.⁹ SMEs can reach international market opportunity if they are supported by strong international entrepreneurship. On the other hand, international entrepreneurship also needs to be backed by local and foreign business relationship (network/linkage) in order to get access to international market opportunities.

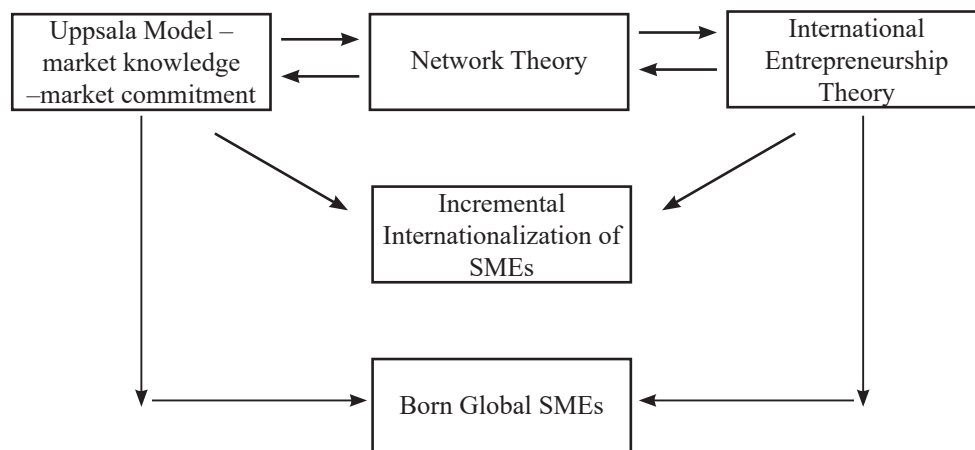


Figure 1. Interrelated of internationalization theories

One of the greatest complexities within these theories in supporting internationalization of SMEs is its fragmented character. Therefore, since the proposed integrated policy model attempts to look at internationalization of SMEs as a process, it detaches from its fragmented character. In this context, it argues that the internationalization of SMEs should be examined in a broader sense and on the basis of the complementary and interrelated basis of these three theories. The long term effect of this model is that it can promote a fundamental basis towards the achievement of born global SMEs. The integrative approach towards those three theories shows the interrelationship between the value of competitiveness which

⁸ Audur Hermannsdottir, 'Theoretical Underpinnings of the Internationalization Process' (2008) < ibr.hi.is/sites/ibr.hi.is/files/w0802.pdf, p.>.

⁹ Mohibul Islam Masum & Alejandra Fernandez (n 1).

is exemplified from the international entrepreneurship and connectivity that is demonstrated from the network theory and Uppsala theory. At the implementation level, the value of competitiveness and connectivity must be adopted in strategic policy at the macro level, meso level and micro level. This relates to the integrated approach to policy analysis that will be explored in the next section.

The Need of Integrated Approach to Policy Analysis in the Internationalization of SMEs in CCI

While the proliferation of various approaches is used as the underlying theories of the SMEs internationalization, some studies advocates to implement an integrative framework.¹⁰ The integrated framework for policy analysis is very influential to the formulation of sound policy strategies in the internationalization of SME. This approach can fill gap by providing a comprehensive approach to policy change and reforms processes and may equip crucial guidance to figure out how and why policy choice are made and implemented. The proliferation of political economy analysis which is considered as paramount to the formulation of sound policy strategies leads to this study. The forcible intention to conduct this study is mainly because of the proliferation of research on the political economy analysis.¹¹ The enhancement of competitiveness and connectivity or network is significantly influenced by economic policies.¹²

This research will increase the level of efficiency, competitiveness and connectivity as the fundamental driving force behind the internationalization of SMEs. The study promoted by OECD.¹³ Demonstrates the relationship between

¹⁰ Asian Development Bank, 'Integrating SMEs into Global Value Chains Challenges and Policy Actions in Asia' (2015) <<https://www.adb.org/sites/default/files/publication/175295/smes-global-value-chains.pdf>>.

¹¹ 'The International Bank for Reconstruction and Development/The World Bank, Problem Driven Governance and Political Economy Analysis, Good Practice Framework, Improving the Competitiveness of SMEs through Enhancing Productive Capa' (UNCTAD, 2009) <unctad.org/en/Docs/iteteb20051_en.pdf>.

¹² Sibel Ahmedova, 'Factors for Increasing the Competitiveness of Small and Medium- Sized Enterprises (SMEs) in Bulgaria' (2015) 195 *Procedia - Social and Behavioral Sciences* [1104] <<https://linkinghub.elsevier.com/retrieve/pii/S1877042815036344>>.

¹³ OECD, 'OECD Economic Survey' (2016).

strategic policies and the internationalization of SMEs. There are some features of the integrated framework for policy analysis: (1) it can recognize the presence of any crucial points within the policy reform such as the pressure between national and international levels, conflicting pressure within public agencies. The lack of strategic alliances between political (at macro level), policy (at meso level) and technical areas (at micro level); (2) It allows identification of gap of policy occur between what is planned and what is implemented; (3) it recognizes the fundamentally political character of the implementation phase of policy reform (macro level).¹⁴ The integrated policy analysis also explores how political economy and other informal institution influence the entire policy process. The need of integrated policy framework arises in line with the amount of interest of research in fragmented approach to the internationalization of SMEs. It can be identified that there is still an existing gap of government policy in the development of SMEs. This is reasonably due to fragmented policy approach. Although the number of SMEs that successfully penetrate the global market is very low, an integrated approach to internationalization process needs to be established. This integrated approach starts from the basic level of mapping the SMEs in CCIs; the middle level is to provide support of capacity building such technology support/mentoring and financial assistance; at the top level, policy measures that encourage the establishment of linkage between MNEs and SMEs needs to be established in local, national, regional or even international. This involves the establishment of 'performance requirement measures' in the international/regional investment agreement including Free Trade Agreement (FTA). This also includes a model of government policy in various forms of regulatory measures, incentives and facilities that can support the internationalization of SMEs in the form partnership between the small (SMEs) and large enterprises (MNEs). This policy must be provided at the early stage in order to promote favorable environment for the development of SMEs in CCIs.

¹⁴ Alonso González-Cabello and David R Bellwood, 'Local Ecological Impacts of Regional Biodiversity on Reef Fish Assemblages' (2009) 36 *Journal of Biogeography* [1129] <<https://onlinelibrary.wiley.com/doi/10.1111/j.1365-2699.2008.02065.x>>.

The need of integrated policy framework arises in line with the more interests of research to identify the internationalization of SMEs through joint partnership strategy between SMEs and MNEs in order to spill over their skills and knowledge for capacity building.¹⁵ At the top level of strengthening the internationalization of SMEs, it is essential to encourage linkage between MNEs and SMEs in CCIs and favorable government measures in regional level of FDI (Foreign Direct Investment) in the sphere of AEC (ASEAN Economic Community).¹⁶

Research conducted by OECD (OECD, 2005) demonstrated the importance of 'linkage' between SMEs and MNEs in the Foreign Direct Investment (FDI) scheme in order to promote internationalization of SMEs. Research was differentiated by the level of analysis of government policy to enhance the capabilities of SMEs and internationalization strategy through a set of policy measures to encourage the MNEs to engage in partnership with SMEs. This includes home country measures in support of MNEs and SMEs linkage.

From the existing model, researcher is making a framework of the development of SMEs in cultural and creative industries. Based on the presumption that internationalization of SMEs in CCIs is a process, its development strategy should comprise the integrated process of internationalization and 'linkage engine' starting from creating precondition and strengthening CCIs.¹⁷ The creation of favorable environment in the internationalization of SMEs in the form of partnership or joint venture model of business has been very crucial. In order to avoid fragmented policies in the level of national and regional, it is important to create preconditions on local, regional and national level for developing SMEs in CCIs.¹⁸ This strategy needs both 'action based' through the establishment of strategic alliances of all different stakeholders from the government, business community and non-

¹⁵ OECD, 'Encouraging Linkages between Small and Medium Sized Companies and Multinational Enterprise, An Overview of Good Policy Practice' (2005) <<https://www.oecd.org/investment/investmentfordevelopment/35795105.pdf>>.

¹⁶ Siow Yue Chia, 'The Asean Economic Community: Progress, Challenges and Prospects' (2013).[440].

¹⁷ European Union (n 3).

¹⁸ *ibid.*

governmental sectors to create an integrated strategy for the internationalization of SMEs in CCIs and ‘policy/rule based’ approaches through the establishment of policy measure to create favorable environment for CCIs. The critical element of internationalization of SMEs in CCIs is how to create and develop linkage between MNEs and SMEs in an entire process or stages (connectivity). This research is using descriptive study. The process includes the policy stages commencing from establishment of strategic alliances and institutional framework (action based) until the establishment of policy measures (rule based/policy based).

Competitiveness and Connectivity: Towards an Integrative Approach

The integrative approach to the concept of competitiveness and connectivity is fundamentally based on the integrated approach to the three internationalization theory (stage theory, network theory and international entrepreneurship theory). In other words, the concept of competitiveness and connectivity is built on the foundations of these three theories as a unity. This study does not detach from the three major approaches of the internationalization of SMEs, namely the stage theory, the network theory and the international entrepreneurship theory. Despite the fact that those theories remain embedded some limitations, their contributions are still prominent. The integrated approach to those three approaches can build a solid foundation of the SME internationalization. The integrated approach to those three prevalent theories essentially point out two basic values on internationalization process: competitiveness and connectivity. These concepts have not yet been explored by many researchers. Many studies mostly view those three theories of internationalization in a separate way and they do not figure out the basic underlying concept upon those approaches as a whole. Therefore, it shall be worthwhile to find an integrated framework combining the contributions of those three theories by taking into account specifically the basic underlying values such as competitiveness and connectivity. From the perspective of enriching the previous research on the SMEs internationalization, it will provide in this article to integrate the essential concept of the internationalization theories towards an integrative approach to the concept of competitiveness and connectivity.

The Concept of Competitiveness and Connectivity

The basic notion of competitive and connectivity can be traced its origin from the ADB report (2015).¹⁹ Not many of researchers undertake study by combining these two concepts of competitiveness and connectivity in an integrative way. This research can enrich the method of the SMEs internationalization. Several research attempt to develop a theory based on the prominent concept of connectivity. The Global Value Chains theory is basically established on the notion of competitiveness and connectivity. The research conducted by UNCTAD (2005) identified the importance of competitiveness through enhancing the productive capacity of SMEs. Porter (2008) identified ‘dual double diamond’ theory as a new model to assess national competitiveness of countries with high international connectivity. In his research, Porters (1990) associates the notion of competitiveness with strategic position. The theory of Porter focus on territorial categories and the measurement of the performance of economies as the basis of regional economy. Further, Porter asserts that the competitiveness of nations also build upon their economic creativity which is measured using technology index²⁰ In this context, Porters basically associates the concept of competitiveness and connectivity as an integrated proposition. Whereas Krugman²¹ conveyed the notion of territorial competitiveness as a dangerous obsession by providing three different elements. Krugman²² points out that competitiveness is mostly driven by the rate of productivity growth. Majority of the research, however, strongly provoke the paramount importance of the integrative approach to competitiveness and connectivity.²³ Therefore, acting

¹⁹ ‘Asian Development Bank (ADB)’ (2019) <<https://theaseanpost.com/article/asean-growth-slower-forecasted>> accessed 15 June 2021.

²⁰ UNCTAD, ‘International Investment Agreements Navigator’ (*United Nations*) <<https://investmentpolicy.unctad.org/international-investment-agreements/by-economy>> accessed 23 March 2022.

²¹ Paul Krugman, ‘Competitiveness: A Dangerous Obsession’ (1994) 73 *Foreign Affairs*. [28]. <<https://www.jstor.org/stable/10.2307/20045917?origin=crossref>>.

²² *ibid.*

²³ Xinlu Qiu, Marcelo Cano-Kollmann and Ram Mudambi, ‘Competitiveness and Connectivity in Design Innovation: A Study of Norwegian Furniture Industry’ (2017) 27 *Competitiveness Review: An International Business Journal*. [533]. <<https://www.emerald.com/insight/content/doi/10.1108/CR-03-2017-0025/full/html>>.

as two essential notions of internationalization of SMEs, the competitiveness and connectivity are actually indispensable for each SMEs.²⁴ The notion of competitiveness also closely link to the concept of competitive advantage which is very crucial in strategic management studies.²⁵ Its concept confines to that of comparison and rivalry because it is usually viewed as the level of asymmetry or differential among enterprises based on any comparable determinants that lead one enterprise to compete better than its rivals. In this context, a competitive advantage confines to the level of competition within enterprises. The level of competitiveness can be measured from the competence of the enterprises compare to other competitors.²⁶ The level of competitiveness of the enterprise can be revealed from its competence to design, produce and market products superior to those offered by competitors, in which case the superiority position can be measured from various elements such as price, quality, technology innovation, etc.²⁷ Another study confines competitiveness to firm competitiveness based on its efficiency and effectiveness, whereas others refer it to product competitiveness, production efficiency, financial position and organization effectiveness.²⁸ Similarly, Altenburg et.al. (1998) claims that “enterprise competitiveness is the ability to sustain a market position by, inter alia, supplying quality products on time and at competitive prices through acquiring the flexibility to respond quickly to changes in demand and through successfully managing product differentiation by building up innovative capacity and an effective marketing system”.

The notion of connectivity comprises physical connectivity, software connectivity, connectivity to financial sector and connectivity to private sector such

²⁴ Ramon Casadesus-Masanell and Joan E Ricart, ‘Competitiveness: Business Model Reconfiguration for Innovation and Internationalization’ (2010) 8 Management Research: Journal of the Iberoamerican Academy of Management [123] <<https://www.emerald.com/insight/content/doi/10.1108/1536-541011066470/full/html>>.

²⁵ Donatella Depperu & Daniele Cerrato, ‘Analyzing International Competitiveness at the Firm Level: Concepts and Measures, Available at Quaderni Del Dipartimento Di Scienze’ (*dipartimenti.unicatt*, 2005).

²⁶ *ibid.*

²⁷ *ibid.*

²⁸ Ahmedova (n 12).

as private public partnership.²⁹ The physical connectivity includes infrastructures. The software connectivity covers government policies, institutions, procedures, capacities and systems.³⁰ The concept of connectivity also comprises any economic integration in the form of Free Trade Agreements (FTA), International Investment Agreement and regional or international cooperation in order to promote production network or linkage between SMEs and MNEs as well as Global Value Chain (GVC).³¹ The connectivity also confines to the network approach providing that the internationalization of enterprises is driven by establishing relationship with partners in foreign networks and international integration.³² The concept of connectivity also includes social network which has a significant contribution to the internationalization process.³³ Other researcher describes the concept of connectivity to both inward (level of import) and outward (level of export) since they can cultivate linkage between firms in international market sphere.³⁴ Other author define the notion of connectivity as business network which has a great impact on the firm's internationalization process.³⁵

The Approach of Competitiveness and Connectivity: Towards an Integrative Approach

Basically, SMEs internationalization is a process involving competitiveness which also include the concept of 'systemic competitiveness' (UNCTAD and

²⁹ Stephen P Groff, 'Strengthening Connectivity for Enhanced Competitiveness in Southeast Asia, Presented at the OECD Southeast Asia Regional Forum: Fostering Regional Competitiveness and Sharing the Benefit of Sustained Growth' (2014) <<https://www.adb.org/news/speeches/strengthening-connectivity-enhanced-competitiveness-southeast-asia-stephen-p-groff>>.

³⁰ *ibid.*

³¹ Hank Lim and Fukunari Kimura, 'The Internationalization of Small and Medium Enterprises in Regional and Global Value Chains' (2010).

³² Battaglia, Corsaro and Tzannis (n 5).

³³ Lianxi Zhou, Wei-ping Wu and Xueming Luo, 'Internationalization and the Performance of Born-Global SMEs: The Mediating Role of Social Networks' (2007) 38 *Journal of International Business Studies* [673] <<http://link.springer.com/10.1057/palgrave.jibs.8400282>>.

³⁴ Denice Welch and others, 'Network Analysis of a New Export Grouping Scheme: The Role of Economic and Non-Economic Relations' (1996) 13 *International Journal of Research in Marketing* [463] <<https://linkinghub.elsevier.com/retrieve/pii/S0167811696000237>>.

³⁵ Maria Elo, *SME Internationalisation from a Network Perspective, An Empirical Study on a Finnish-Greek Business Network* (Åbo : Åbo Akademi University Press 2005).

connectivity. Internationalization of SMEs involves a set of elements such as access to finance, capability, productivity, networks, etc. However, the linkage between competitiveness and connectivity in the SMEs internationalization process is rarely formally defined. Therefore, a more integrative policy approach to competitiveness and connectivity is urgently needed to accelerate SME internationalization as well as increasing business performance. In this study, the value of competitiveness confines to strategic policy to increase capacity building, physical infrastructure, creative business incubation and access to finance. The notion of connectivity associated with series of factors such as how to create strategic alliances institutional framework, awareness raising information services, strategic policies measures and network or clusters. The approach based on the integrated concept of competitiveness and connectivity promotes an integrative view on internationalization of SMEs engaged in CCIs by taking into account the most influential elements in various approaches above. The integrative approach to competitiveness and connectivity through integrated policy analysis establishes a more efficient and effective strategic policy at macro, meso and micro level on the SME internationalization. The SMEs empowering strategic capability and knowledge in international market could not pass through global market without the arrangement of strategic favorable environment on cultivating or establishing connectivity in global market. The linkage arranged in network could promote and cultivate production network between SMEs and large firms (MNEs). The strong capability associated with the establishment of connectivity will help SMEs to foster their competitiveness in order to internationalize their economic activities. The level of connectivity, especially the financial connectivity to financial institution is also dominant for SMEs to increase their competitiveness in foreign market. Other form of connectivity such as economic integration through the establishment regional or international trade/investment agreement are of Free Trade Agreement or International Investment Agreement reduce the market distance between SMEs and large firms (MNEs) in the process of internationalization. This connectivity

will increase the linkage between SMEs and MNEs in the form of production network and export level. An integrated policy approach to competitiveness and connectivity values may identify and eliminate potential tensions/gap or conflicts of policy between local and international level in the internationalization process. Both the competitiveness and connectivity are a prominent element in describing the internationalization. Basically, SMEs in network need highly specialized capability as a competitive value that are necessary for its existence in the production network or level of export.

In spite of its competence, SMEs may not be able to actively participate in foreign market if it is not supported by favorable environment or conducive precondition that open up large opportunity for building network/linkage with foreign enterprises or production network globally. The connectivity factor or network relationship in the SME's internationalization has become the most influential strategy for cultivating international market.³⁶ This is reasonable since the SMEs have many limitations in terms of capital, market knowledge, etc. compared to large enterprises (MNEs). The capitalization of their resources and competence to make value of experiential knowledge gained by the SMEs may useless if it is not supported by favorable or conducive precondition or environment. It seems hard for the SMEs to compete with MNEs in foreign market. Therefore, the creation of connectivity through any policy measures plays a prominence role in the process of internationalization of SMEs. On the one hand, it is true that SMEs may not be able to engage in international market if they do not have the competence (low level of competitiveness). Although SMEs have high competitive value, on the other hand, they will not be able to take part in international markets if they are not supported by high connectivity levels, such as economic integration policy, 'performance requirements' policy such as local content, joint venture etc. From this perspective, the interrelationship between competitiveness and

³⁶ Nicole Coviello and Hugh Munro, 'Network Relationships and the Internationalisation Process of Small Software Firms' (1997) 6 *International Business Review* [361] <<https://linkinghub.elsevier.com/retrieve/pii/S0969593197000103>>.

connectivity in the internationalization process can be regarded as a crucial factor. The international entrepreneurship theory describes the importance of competitive value of the enterprises associated with its market competence or capability of the entrepreneur.³⁷ Identified some determinants sources for SME internationalization including connectivity such as network intensity, and competitiveness in the form of managerial and manufacturing contexts. The Global Value Chains through international subcontracting is mostly impacted by the integrated value of competitiveness and networking (connectivity). SME will not be able to play a role in the international and regional market if it does not have competitive value/ advantage. The notion of connectivity and competitiveness basically concerns three nature of the SMEs: the environment, organizational and the enterprise. The SME's internationalization is not a simple process since it involves a process of integrating both competitive value - such as product competitiveness, production efficiency, financial position and organization effectiveness – and interconnected sources of networking (connectivity) consisting of government institutions, business partners and personal/social networking.³⁸ The strong interrelationship between the organizational/productive capability (competitive value) and international networking will facilitate SMEs internationalization in global market.

Research Methodology

Research Design: Integrated Approach to Policy Analysis

This research uses a descriptive study. This study attempts to integrate the level of competitiveness and connectivity in SME internationalization process. Integrative conceptual model based on these two concepts are proposed

³⁷ Louis Raymond, François Bergeron and Sam Blili, 'The Assimilation of E-business in Manufacturing SMEs: Determinants and Effects on Growth and Internationalization' (2005) 15 *Electronic Markets* [106] <<http://www.tandfonline.com/doi/abs/10.1080/10196780500083761>>.

³⁸ Gillian Sullivan Mort and Jay Weerawardena, 'Networking Capability and International Entrepreneurship' (2006) 23 *International Marketing Review* [549] <<https://www.emerald.com/insight/content/doi/10.1108/02651330610703445/full/html>>.

to accelerate internationalization of SMEs. This model uses the variables of competitiveness and connectivity that influence the degree of internationalization of SME. This research identifies and investigates the competitiveness orientation and connectivity or network in influencing internationalization of SMEs. It is based on SMEs internationalization policy programs through an integrated approach to competitiveness and connectivity as the determinant factors. This model is implemented for research areas of SME internationalization in Indonesia. This research will identify internationalization policy programs on the basis of both competitiveness and connectivity. It is based on the presumption that internationalization is a process and the internationalization policy should then comprise the entire process of internationalization incorporating policy identification, evaluation, and implementation.

The strategic policy is characterized based on the policy level of analysis comprising macro level, meso level and micro level. The actions are categorized as the application of internationalization policy which is classified based on the policy content comprising the degree of connectivity (strategic alliances institutional, awareness raising information services, strategies policy measures, network and cluster) and the level of competitiveness (capacity building, physical infrastructure, creative business incubation, access to finance) They present as prominent variables of the implementation of SME internationalization policies. The objective of internationalization policy based on the integrative approach of competitiveness and connectivity is to provide supportive measures or policies to increase the number of SME involved in export and production network (global value chains). Government policies are then differentiated by unit of analysis, that is micro and macro level. At micro level, government programs as the impact of policy reform will be identified. In this level, SME is categorized as an individual in which case each SME needs certain circumstances for internationalization, such as access to finance, capacity building, technology skill. The internationalization policy at the micro level encompasses programs to increase the SMEs skills and capability such as programs related to market access, access to finance

and programs related to an incubator and mentorship. At the meso level, the policy implementation will be explored. In this level, SME is categorized as an enterprises or structural organizational who cultivate competitive advantage and involve in global economic chains through internationalization process. The meso level comprises two distinct notions. Not only it confines to local systems, both policies and supporting institutions but it also refers to the interaction of various level of institutions in the formation and implementation of policies and programs.

At macro level, the basic platform of national and international policy will be identified. The prominent factors of SME internationalization at macro level are various of competitive and connectivity incentives that affect the internationalization (education, infrastructure, culture) The policy sources implemented in this study are described from national/government policies related to international policy, which are implemented by related ministries. Moreover, the sources are then identified based on the unit analysis of internationalization policy proposed. From a policy perspective, macro policies in internationalization policy comprises policies and measures that are needed to ensuring a conducive environment for increasing foreign market such as open investment, open market, physical infrastructure, access to finance or venture capital, simplifying investment and business procedure, providing incentives for increasing SME production network, market friendly measures for increasing competitiveness and connectivity. In this study, this integrated model is also known as 'systemic internationalization' model which is characterized by two important features. First, it stresses the importance of the integrated policy analysis at macro, meso and micro level. Second, the most prominent factor of systemic internalization is the linkage or interconnectedness related stakeholders or institutions at the various level and their alliance in the formation and implementation of policies and programs.

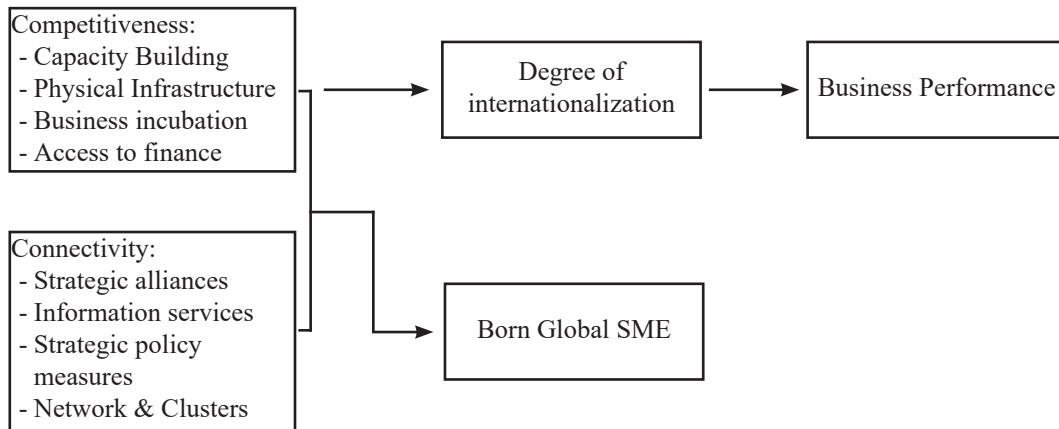


Figure 2. Research Conceptual Framework

The objective of this study is to analyze the extent to which policies and programs of the Indonesian government responds to and support the SMEs internationalization comprising an integrative approach of competitiveness and connectivity which is also known as ‘systemic internationalization.’ This study demonstrates whether the policy created by national level is supportive and complies with the proposed conceptual model. The sources analyzed in this study are as follows, at the basic platform of general policy is from the 1945 Constitution 1945; National Long Term Development Plan - the Law No. 17 of 2007 on RPJP 2005-2025; Presidential Regulation No. 2 of 2015 (RPJMN 2015- 2019); Nawa Cita (9 Priorities Agenda) as proposed by the President Jokowi. At the formulation phase, legal sources are identified from regulation/legislation. Based on the Law No. 12 of 2011 on the Formation of Law, the product of regulation comprises Law, Government Regulations, Presidential Regulation, Presidential Decree, and Presidential Instruction. At the delegated legislation, legal sources are identified from ministry or government programs related to internationalization of SMEs engaged in CCIs. Then, the legal sources are identified, classified in a group as categorization proposed and critically analyzed.

Main Objective	Variables Categories	Determinants	Policy Stage	Legal Sources
Internationalization of SMEs in CCIIs	Competitiveness	Capacity Building	The Platform of General Policy	1945 Constitution
		Physical Infrastructure		Nawa Cita (The Nine Priorities Agenda)
		Business Incubation		National Long Term Development Plan
		Access to finance		
	Connectivity	Strategic alliances	Basic Regulation	UU, PP, Perpu, Keppres, Inpres
		Information Services		National Medium Term Development (2015-2019) and (2020-2025)
		Strategic Policy Measures Network and Cluster	Strategic Plan and Policy program	Strategic Plan of SMEs internationalization
				Policy Packages
Techniques	Integrated policy analysis			

Figure 3. Research Design

1. Model Conceptual

The conceptual model

Integrated policy model in this study is based on the interrelated of internationalization theory such as uppsala theory, network or linkage, and the entrepreneurial behavior. This integrated policy model which is also known as ‘systemic internationalization’ can be illustrated as follows:

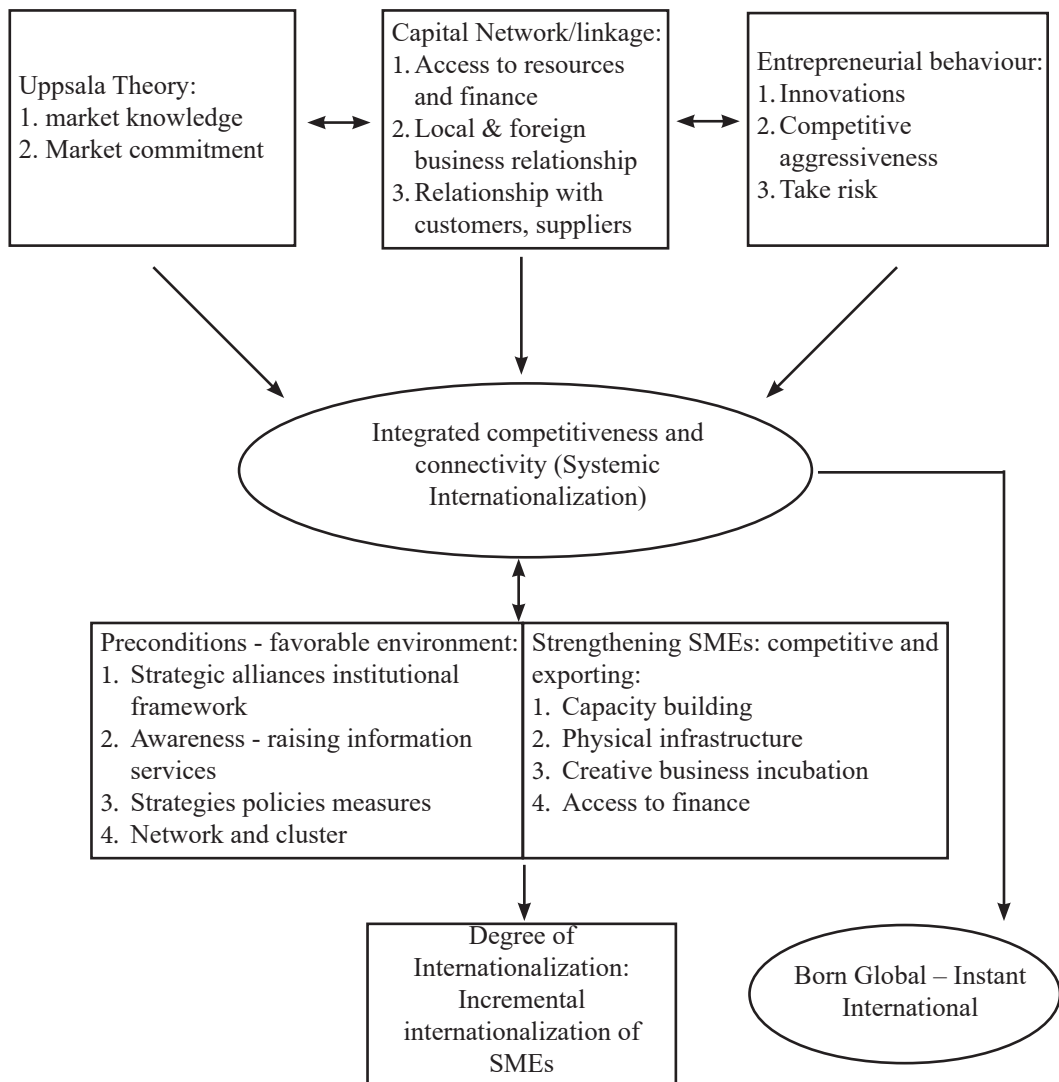


Figure 4. Integrated Policy Model (Systemic Internationalization Model)

In the proposed model, the entrepreneurial behavior, market knowledge/commitment and network/linkage in terms of local and foreign business relationship are related to each other to construct precondition or favorable environment for internationalization of SMEs engaged in CCI and strengthening SMEs in order to increase global competitiveness. Born global SMEs is the long term achievement of the internationalization process. Uppsala model defined as a market knowledge which can be increased through current economic activities and then firms commit more resources into that particular market. Network or linkage is defined that the source of market knowledge is often local and foreign business relationships. The

entrepreneurial behavior is defined as the fact that market knowledge comes from the entrepreneurial behavior or economic activities of individuals and firms, often through the opportunity seeking behavior of the entrepreneurs.³⁹ Important essence is that a significant level of market knowledge can be gained from the previous international business experience of their current economic activities. The network or linkage element can also give access to various sources of information and at the same time it can spillover an entrepreneurial firm with innovation and gain international business experience to build an international market commitment. In this context, the internationalization of SMEs engaged in CCIs may implement the three theories and combine them together to provide the best strategic policy for internationalization process starting from the establishment of favorable precondition for internationalization of SMEs to the strengthening SMEs to be more competitive in international market. Theories of internationalization can be used as a guide to formulate strategic policy to SME's internationalization. The combination of these three theories can promote a fundamental basis for the achievement of born global SMEs as the long term achievement.

The interrelationship between the level of competitiveness associated with connectivity factors is very crucial in SME internationalization process. In principle, the integrative model on the basis of these two determinants i.e. competitiveness and connectivity' is also exemplified in the notion of 'systemic internationalization.' The positive link between the increase of SME internationalization and the implementation of systemic approach has been asserted by Yip, Biscarri & Monti⁴⁰ (1999) Based on their studies on 68 of US Small and Medium Enterprise, it is claimed that the implementation of 'systematic internationalization' model can positively increase business performance of firms.

³⁹ Mohibul Islam Masum & Alejandra Fernandez, 'Internationalization Process of SMEs: Strategies and Methods' <<http://www.diva-portal.org/smash/get/diva2:121500/FULLTEXT01.pdf>>.[139].

⁴⁰ George S Yip, Javier Gomez Biscarri and Joseph A Monti, 'The Role of the Internationalization Process in the Performance of Newly Internationalizing Firms' (2000) 8 *Journal of International Marketing* [10] <<http://journals.sagepub.com/doi/10.1509/jimk.8.3.10.19635>>.

Not only does this model encompass the importance of international market access, but it also emphasizes the need of enterprise competitiveness. Accordingly, the fundamental basis of hypothesis: the level of competitiveness and connectivity impact on the degree of internationalization since it involves firm's performance or productivity, product quality, market knowledge and commitments. Production network has a significant correlation to the establishment of global value chains as part of internationalization process. The global value chains have increased the linkage between SMEs and MNEs through subcontracting process or outsourcing mechanism. The production network can also build strong position in the market with large enterprises to gain technology transfer and market knowledge. This also means that the increase of internationalization through production network can also maximize business performance of the enterprise through the process of transfer of technology and knowledge.

The significant correlation between competitive advantage - product and enterprise competitiveness – and network on creating international linkage between SMEs and MNEs through export, licensing, franchise, outsourcing, etc. The proliferation of information technology and the establishment of economic integration strategy through trade and investment liberalization significantly contribute to create strong incentive to productive process. Globerman affirms that a modern corporate model is an interconnectedness between 'network based' and 'core competencies' associated with strategic sourcing and partnering.⁴¹ The relationship between high level of competitiveness, strong commitment to international market, and integration to various economic integration opportunities has a dramatic contribution to the acceleration of SMEs internationalization. OECD study (2013) shows a significant correlation between competitiveness and connectivity in the global value chain. In this research, competitiveness value is characterized as core capacities comprising dynamic capability, higher innovation capability, design and marketing capability, technology capability and higher efficiency processing ability.

⁴¹ Steven Globerman, 'Global Value Chains: Economic and Policy Issues' [2011] SSRN Electronic Journal <<http://www.ssrn.com/abstract=2179533>>.

Not only does dynamic capability concern with organizational structure and firm specific skills, but it also refers to network or connectivity factor. This construction exemplifies the strong correlation between competitiveness and connectivity in building firm's capacities leading to internationalization speed. which sufficient evidence that the degree of there is an intense linkage between core capacities or competitiveness – dynamic capability, innovation capability, design and marketing, technology capability, efficiency process capability – and network and business performance leading to the achievement of internationalization speed.

The approach of competitiveness and connectivity not only depend on the firm's internal competence but also take into consideration the external favorable or conducive environment. In this context, SMEs internationalization process relies on both the level of enterprise's competitiveness and the strategic alliances including strategies policy and measures in order to create favorable environment. Exporting and Foreign Direct Investment (FDI) has become the two major strategic measures to increase internationalization.⁴² The major hypothesis in this study is that both the degree of competitiveness and connectivity have significant impact on the level of internationalization. Further, the level of internationalization affects the business performance of SMEs.

Research Findings

The figure 3 below highlights the conceptual framework of the internationalization of SMEs engaged in CCIs in Indonesia. At the macro level, the concept of the welfare state under Article 33 of the 1945 Constitution serves as the fundamental platform of the development of SME in Indonesia. This fundamental political economy advocates the guidance for government to develop their strategic policies and programs to promote democratic economy (people's economy) as mandated by the Constitution. The objective of promoting 'people's economy'

⁴²Jane W Lu and Paul W Beamish, 'The Internationalization and Performance of SMEs' (2001) 22 Strategic Management Journal.[565]. <<https://onlinelibrary.wiley.com/doi/10.1002/smj.184>>.

(*ekonomi kerakyatan*) was then adopted in the vision and mission of the current Indonesian President (Joko Widodo) which is expressly incorporated in the NAWA CITA (9 Priorities Agenda). The fundamental policies at macro level - which is also known as agenda setting – shall become the underlying basis of any regulations at the formulation stage. Under this vision, basic regulations and the development policy plan must adopt the fundamental policy platform. The figure (5) below shows the general policy platform regarding SMEs internationalization in Indonesia.

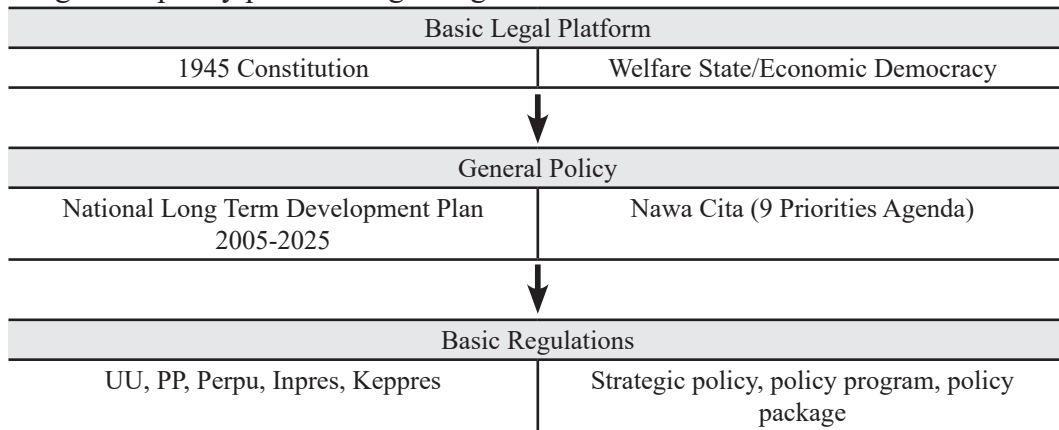


Figure 5. The Platform of General Policy on Internationalization of SMEs (Conceptual Framework)

At the formulation and implementation stages, each of policy instruments (measures) and regulations products on SMEs internationalization are identified and grouped based on various variable to increase both the competitiveness and connectivity of SMEs. Variables used to analyze the achievement of SMEs internationalization of ‘systemic internationalization’ comprises five elements: (1) improving the capacity of human resources (capacity building), (2) increasing marketing capabilities; (3) financial access and extending the fund scheme; (4) increasing access to technology; (4) promoting activity; (5) increasing physical infrastructure. These five determinants factors of ‘systemic internationalization’ are further elaborated through policies, actions and programs conducted not only by MoCSME but also other related ministries and institutions. ⁴³The micro-level is the level of the individual in the organization. (Jeurissen, 1997) This mostly refers to

⁴³ ‘This Includes Coordinating Ministry for the Economy, the Coordinating Ministry for the Social Welfare, Ministry of Industry, Ministry of Finance’.

the formulation and implementation stages that can be identified from products of regulation and related ministries programs. Some government programs at micro level supporting the five determinants as proposed above are shown as follows (table 2).

Table 3. SMEs Internationalization On The Basis Of Integrative Approach Of Competitiveness And Connectivity (Systematic Internationalization Model)

Variables	Policy Formulation	Policy Programs	Ministries and Institutions	Objective
Capacity building	-The Law No. 20 of 2008 on Micro, Small and Medium Enterprises.	-	- MoCSME	1. Improve the competitiveness of SMEs and encourage to become independent enterprise
	-Presidential Instruction No. 6 of 2007	-Entrepreneurship Student Creativity Program (Program Kreativitas Mahasiswa/ Kewirausahaan/ PKMK)	-University & Directorate General of Higher Education, Ministry of Education and Culture	2. Encouraging entrepreneurship development through Education program -the establishment of new enterprises
	-Presidential Instruction No. 6 of 2009	-Entrepreneurial education in special school – vocational high school (Sekolah Menengah Kejuruan/ SMK)		
	-Regulation of MoCSME No. 18 of 2015	-Training and the establishment education curricula		
		-National Program for Community Empowerment (NPCE)	-Ministry for the Social Welfare; Ministry of Finance and Minister of Home Affairs	3. Increase SMEs management & organizational skills (capacity building)
		-Life skill training; Entrepreneurship Education for People; Vocational.	-Minister of Education and Culture	-Increase the number of entrepreneurs
	-Socialization and business plan competition for youth	-Ministry of Youth and Sport		

		-Socialization, training and knowledge tranfer	-Ministry of Industry	
	-Regulation of MoCSME No. 9 of 2013	-Integrated Business Service Centre (IBSC) in district and city level	-MoCSME	-improve capacity and competitiveness
	-Regulation of MoCSME No. 2 of 2008	-Business Development Service Provider (BDSP)	-MoCSME	-identify the need and problems of SMEs in local region (SMEs Assistance institution)
Inter firm networking		-Foster Parents (FP) program (limited to automotive and heavy industry sectors)		
Access to finance	-The Law No. 1 of 2013 on Microfinance Institution	-Microfinance Institution	-MoCSME	-increase the number of microfinance -the establishment Authority Financial Services
	-Regulation of MoCSME No. 8 of 2006		-MoCSME	
	-Regulation of MoCSME No. 30 of 2007 on Enhancing Financial Institution for SMEs	-Savings and Loans Cooperative Institution -Venture Capital Institution	-MoCSME	
	-Regulation of Coordinated Ministry for the Economy No. 9 of 2015 on the Implementation of People's Business Credit Program	-Supporting Financial assistance programs	-Minister of Economy & MoCSME	-distribute financial assistance

-Regulation of MoCSME No. 1 of 2014 on the Guidelines of Implementation of Social Assistance for Developing SMEs	-Revolving Fund Management Agency (<i>lembaga Pengelola Dana Bergilir/ LPDB</i>)	-MoCSME -Ministry of Finance	
-Regulation of Bank of Indonesia No. 3 of 2001 on Micro Credit Project	-Financial facilities: mentoring guarantee, assurance business premises, access to bank	-MoCME & Ministry of Finance	
-Presidential Decree No. 98 of 2014 on Licensing for SMEs	-People’s Business Credit Program (<i>Kredit Usaha Rakyat/KUR</i>)	-Bank of Indonesia -Guarantor institution (PT Askrand), Perusahaan Umum Jaminan Kredit Indonesia (Perum Jamkrindo) -Bank	-to empower SMEs -improve access to finance
-policy package stage III (October 2015)	-venture capital, consortium of industry financing and KUR (<i>Kredit Usaha Rakyat/ People’s business credit</i>) for SMEs		

Access to Technology	-Presidential Regulation No. 27 of 2013 on Development of Business Incubator	-Business Incubator program -Technology Incubator	-Minister of Research and Technology -Minister of Communication and Informatics -Indonesian Institute and Science -the Agency for the Assessment and Application of Technology	-increase the number of business incubator
	-Presidential Regulation No. 69 of 2014 on Indonesia Broadband Expanding Plan	-Broadband Expanding Plan		-to expand broadband throughout Indonesia -increase broadband access
	-Government Regulation no. 35 of 2007 on Allocating Partial Revenue of	-Allocating Partial Revenue of Business Entities		

	Business Entities for Increasing the Capacity of Innovation and Technology			
Promotional Activity	-the Law No. 20 of 2008 regarding MSMEs	-Indonesian Trade Promotion Center (ITPC)	-Ministry of Trade -Directorate General for National Export Development	-promoting SMEs in international market
		-Exhibition for SMEs (Indonesian Cultural Products Week, Indonesian Fashion Week (IFW) -Trade Expo Indonesia (TEI) -SMESCO Festival	-Indonesian Chamber of Commerce (KADIN) -Private sector and MNCs, NGO -the Association of SMEs -intellectual community (university) -MoCSME -Minister of Tourism -Minister of Trade -Minister of Industry -Minister of Finance	
	-Regulation of MoCSME No. 19 of 2016 -Regulation of Ministry of Finance No. 159 of 2007	-SMESCO Indonesia Company -Marketing Services Agency for SMEs and Cooperatives (<i>Lembaga Layanan Pemasaran Koperasi/LPP-KUKM</i>)	-MoCSME -Ministry of Finance	-National Trading House for SMEs
Enhancing marketing capability (network and Clusters)	-Presidential Instruction No. 6 of 2007	-One Village One Product (OVOP) program	-MoCSME -Ministry of Industry -Central Bank of Indonesia (BI)	-increase production network Through sub contract -increase the linkage between MNEs and SMEs

At the meso level, policy interaction and policy implementation creating conducive or favorable environment to the SMEs internationalization are identified and categorized based on those five variables. This includes various policy measures and incentives intended for increasing the SMEs internationalization. In the process of SMEs internationalization, the meso level confines to the interaction between

macro level and micro level, to what extent they interact in order to promote and achieve the basic policy objectives. Therefore, not only does meso level interact with the level of the organization, but it also has interplay with the structure and culture. In this context, to what extent the national government respond and supportive to the macro level and micro level of the SMEs internationalization will become the major policy analysis at meso level. Accordingly, this includes government policies on how to create a favorable or conducive environment in the process of SMEs internationalization. For example, the establishment of policy measures focusing on the establishment of linkage between MNEs and SMEs at local, regional and international spheres. The establishment of policy measures focusing on the establishment of linkage between MNEs and SMEs at local, regional, and international demonstrates the policy implementation at meso level. The promotion of 'economic integration' through the creation of international/regional investment and trade agreements can bridge between macro and micro level of policy on the SMEs internationalization. The incorporation of 'performance requirement measures' in international investment agreement (IIA) can set up a favorable environment for creating partnership through the incorporation of 'performance requirement measures' such as joint venture or subcontracting strategies in order to create linkage between MNEs and SMEs in CCIs.

This integrated approach to macro, meso and micro policy level can support the internationalization of SMEs in Indonesia. How the fundamental platform of democratic economy (people's economy) and national welfare at the macro level interact with the micro level policy is also depended upon the emergence of favorable or conducive environment. The lack of 'economic integration' policy at meso level will inhibit the policy implementation at macro and micro level. This circumstance demonstrates the interlinkage between policies at macro, meso and micro levels in order to achieve the SMEs internationalization. This integrated policy model embedded a concept of 'systemic integration'.⁴⁴ Therefore, the

⁴⁴ Ronald Jeurissen, 'Integrating Macro, Meso and Micro Levels in Business Ethics' (1997) 4 Ethical Perspectives.[246].

major analysis of this study is the integration of micro, meso and macro-levels in the SMEs internationalization process which is also known as ‘systematic internationalization’.

The policies are filtered and determined based on the variables of internationalization policy and target. This can be noted from table 4 below.

Table 4. Government Policy of the internationalization of SMEs at Pre-condition stage (meso level)

Related Institutions	Policy program	Target
Ministry of Cooperative and SMEs	RPJP - National Development Plan 2005-2025	1. creating competitiveness of SMEs in international sphere
Ministry of Industry	SMESCO (Small and Medium Enterprises and Cooperative)	a professional service facilitate business partners to produce world-class flagship products high quality and promote the Indonesian SMEs to local business partners as well as international.
Ministry of Cooperative and the Indonesian Export Financing Institution (LPEI)	Financial assistance for export	Increase the export competitiveness of SMEs
Minister of Cooperative and SMEs (Government Regulation No. 46/2013)	1. Income Tax incentive for SMEs 2. Research and Development support 3. Branding 4. Technology support 5. Transportation system 6. Market access and tariff negotiation through regional and international trade agreement (WTO)	Increase competitiveness of the SMEs
Regional Cooperation	ASEAN Small and Medium Enterprise Agencies Working Group (SMEWG) (The ASEAN secretariat, 2015) -ASEAN Economic Community (AEC) – ASEAN strategic Action Plan for SME Development (2010-2015) -ASEAN Policy Blueprint for SME Development (2014)	Increasing networking

Badan Koordinasi Penanaman Modal/ BKPM (Investment Coordination Agency)	Presidential Regulation No. 44 of 2016 on List of Business Fields Closed and Business Fields Open with Conditions to Investment - Business fields open with the requirement of the business, reserved for Small and Medium Enterprises and Cooperatives, required partnership, and business fields that are required certain conditions, such as capital ownership, specific location and specific licensing.	increase Indonesia's regional competitiveness and encourage greater foreign direct investment, whilst maintaining protections for domestic businesses of a certain size
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Discussion

In this study, there is still gap in government policies and legislation with regard to the internationalization of SMEs at macro, meso and micro levels. First, the existing fragmented policy measures have made them inefficient. One of which is that the policy measures established at the top level of stage – macro level - cannot be implemented by the SMEs due to the lack of finance and capacity (skills).⁴⁵ Unsuccessful policies and strategies for developing SMEs engaged in CCIs in Indonesia is also caused by the absence of clear understanding of the specific characteristics of the CCIs in the regions. In this context, the absence of mapping studies has led to the gap between political strategies and the appropriate strategy supporting CCIs due to the lack of awareness among policy makers. Institutional strengthening programs of cooperatives and business climate development programs that can strengthen the SME market structure and change the behavior of SMEs is still inadequate. Mostly, government policies only impact on performance improvement and capacity of SMEs through improved government bureaucracy, however have not been able to be regulative to encourage increasing SME market share and changing behavior of market participants to prepare themselves toward the internationalization process.⁴⁶

⁴⁵ Isti Raafaldini Mirzanti, Togar M Simatupang and Dwi Larso, 'Mapping on Entrepreneurship Policy in Indonesia' (2015) 169 *Procedia - Social and Behavioral Sciences* 346 <<https://linkinghub.elsevier.com/retrieve/pii/S1877042815003560>>.

⁴⁶ Indra Cahyadi, 'Challenges of Internationalization of Indonesia's SMEs Toward ASEAN Economic Integration' (2015) 20 *Kajian DPR* 129.

Second, the fragmented and sectoral regulations demonstrate the lack of strategic alliances and institutional framework. The lack of interaction (strategies alliances) between policies – meso level – has led to inconsistency or even in-conflict policies. There must be an integrated strategy and coordination from all different strategy from the government, business community and non-governmental sectors because SMEs in CCIs are by nature inter-disciplinary which combine culture and economy and many other connected areas such as innovation, education etc.⁴⁷ Awareness raising strategy has not yet been established due to the absence of networking association or national umbrella program for all CCI related awareness raising activities among policy makers. In other words, the strategic policy incorporated in many regulation has not been able to raise awareness of the importance of SMEs in boosting economic development.

The data above shows that policy which so far only solves the SMEs problems partially, but not implemented cross-field so that there is overlap and burden SME business activities. Further, government policy in the empowerment of SMEs tends to be a short-term oriented, so the true root cause of SMEs is rare unsolved. Some other regulatory policies are also directed to have direct impact on the development of SMEs businesses. The policy measures that create positive impact required by the Indonesian SMEs includes prohibition of export of raw materials such as rattan, reduction or elimination of tariffs, extensive performance requirement measures in order to promote linkage between MNEs and SMEs.⁴⁸ This includes policy measures with regard to supporting the development of local entrepreneurs, seeking to enhance productive capacity, increasing employment, increasing human resource capacity and training, research and development, including of new technologies, technology transfer and other benefits of investment through the use of specified requirements on investor made at the time of the establishment or acquisition of the Investment and applied during its operation.

⁴⁷ European Union (n 3).

⁴⁸ Battaglia, Corsaro and Tzannis (n 5).

Conclusion

From this study, it can be concluded that the proposed conceptual model internationalization of SMEs provides a comprehensive integrated policy framework. This model highlighted two important variables competitiveness and connectivity levels in the basic notion of 'systematic internationalization' aimed at increasing the degree of SMEs internationalization. The concept of 'systemic integration' in the SMEs internationalization needs an integrated approach to macro, meso and micro level of policy. In the case of Indonesia, the study found that most of variables is accomplished by the government policies and regulation. However, integrated approach to competitiveness and connectivity has not yet been adopted in macro, meso and micro levels interdependently. Consequently, SME in Indonesia is still undergoing typical obstacle both organizational (internal factor) as well as external factor i.e. less conducive business environment.

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HOW TO CITE: Fifi Junita, Yuniarti, Intan Innayatun Soeparna and Resistensia Kesumawardhani, 'Internationalization of Small and Medium Enterprises in Indonesia: Towards Integrative Policy Approach of Competitiveness and Connectivity' (2023) 38 *Yuridika*.