

Examining the Moderating Effect of Environmental Dynamism on the Relationship between firm Innovativeness and International Performance of Indonesian SMEs

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Abstract—This paper outlines a conceptual framework on how innovativeness can affect international performance. It is intended to portray how small and medium entrepreneurs (SMEs) in Indonesia enhance their innovativeness in order to compete and perform in international market. As SMEs involved in international business activities often experience unfamiliar and unpredictable environments, they are expected to face various challenges concerning governments' rules and regulations, competitive pressures and consumers' demands in foreign markets. Thus, this paper will also focus on the implication of environmental dynamism on Indonesian SMEs innovative efforts and international performance. The proposed framework will highlight the antecedents and consequences of SMEs innovativeness when the dynamism is high in foreign business environment. This study is part of on-going PhD research on international performance. Theoretical population is related to international performance and the study population associated to Indonesian SMEs' international performance. The study will be utilizing quantitative method to seek reliable responses and data collection would be used by mail survey. The interrelationships between the variables, theoretical and managerial implications of such perspective are further discussed. The findings from the study expected to expose the interrelationship between innovativeness, international performance and environmental dynamism, which specifically intended to help Indonesian SMEs to enhance their performance in international market.

Keywords—firm performance; Indonesian SMEs; SMEs; innovativeness; environmental dynamism

I. INTRODUCTION

International entrepreneurship still become one of the main focus on global economy. It is proven by the significant attention given towards international entrepreneurship is constantly high from time to time, both from academicians and practitioners. International entrepreneurship itself defined as a combination of willingness to be innovative, risk-seeking, performing proactive and aggressive behaviours that can make them compete in the new international market [1,2]. Those

combination are also well-known as the entrepreneurial orientation elements. In referring to previous studies, entrepreneurial orientation is important in terms of improving firm's performance [3-6], it is because, by implying EO, a firm can become a market oriented firm by concentrate on customers' need; while still keep eye on what's competitors' offering [6-8] in the market. Innovativeness, as one of the entrepreneurial orientation element that claimed as the main critical factor to also improve firm's performance [9-12]. Based on the elaborations above, this study will be focus on investigate the effect of innovativeness towards international performance.

Even though innovativeness claimed as one of the main factor to enhance international performance, previous study suggested that entrepreneurial firm should also consider environmental factor into their business strategy to achieve the excellent international performance, because it is founded that environmental factor is the major factor that can determine the firms' performance [13,14]. Thus, to cover all the possibilities might occur in SMEs internalization process, this study will adopt environmental dynamism as the moderator towards the relationship between innovativeness and international performance.

The next section will be the review of literature on innovativeness, environmental dynamism and international performance. Section 3 will be encompassed the hypotheses and proposed conceptual framework. Following by the method of this paper, and last section will be a conclusion of this paper.

II. LITERATURE REVIEW

A. Innovativeness

Innovativeness is appraised as one of the main keys and the most important thing to be learned based on the last two decades of business situation [15]. He convey that it boost the development of the country's economic. A previous study complement his study by asserts innovativeness as a creative solutions for firm's problems and needs [16]. It is because

innovativeness has an ability to recognize the opportunities in the market [17,18], and it could entangles to lead for new products by promoting and supporting a new ideas, experimentation and creative process.

The using of innovativeness as a measurement on international performance is still be in place. Several latest study which examine the international performance in any scope seems concerned on this relationship. Proven by a study on examining the international performance of SMEs in Nigeria [19], a study on examining the entrepreneurial innovativeness on SMEs performance [20], and a study on supply chain and innovativeness coordination [21], which still using innovativeness as a measurement of international performance.

Besides looking on how the importance of innovativeness in improving international performance globally, to fulfil one of the purposes of current study which is to investigate the circumstances of Indonesian SMEs, seeing the current state of Indonesian SMEs is also a compulsory. Based on the current situation, international entrepreneurship in Central Asia countries [22], Southeast Asian Nation (ASEAN), and as well as Indonesia have received significant attention [23]. As for Indonesia, an empirical findings Tambunan stated that Indonesia even ranks first among ASEAN countries that has the most entrepreneurs [24]. This could then suggest a possibility of having more Indonesian expanding their business abroad.

However, the total number of Indonesian international entrepreneurial firms only represent approximately 1.58 percent from the total population of Indonesia [25,26], meanwhile, the ideal proportion of the entrepreneurs' percentage in a developing country in Asia has to at least fulfil 2 percent of the total population [26]. Based on this figure, the current number shows that there are still not enough entrepreneurs in Indonesia [25].

According to the situation of Indonesian SMEs as decomposed above, and also discern on how importance innovativeness in gaining international performance, it can be conclude that to enhance international performance, international SMEs ought to be innovative in international market. The reason is, the importance of innovative behaviour on SMEs is could be one of the way to makes the situation better [9], and firms that possess innovative behaviour will easily gain the knowledge to capture opportunities in the market. It is also claimed that innovativeness could increase the flexibility of firms in developing new ideas [27], which will lead to the increase in firms' performance [28]. Moreover, innovativeness behaviour also could portrays the predisposition to engage the creativity and experimentation through the introduction of new products through research and development process [29]. On top of that, being innovative can help international entrepreneurial firms to seize greater profits [30].

B. Environmental Dynamism as the Moderator

Besides looking on innovativeness and international performance relationship on international SMEs performance, this paper also highlight about environmental dynamism that

could moderate those interrelationship. The best explanation of environmental dynamism is conveyed by previous studies who discussed that environmental dynamism as an uncertain condition of an environment which is faced by firms who lay their resources in that particular environment [31,32].

Environment are disputed as one of the main critical factor in organizational and strategic management [31,33]. The reason is because, environmental factor is determine as one of the key factors to be considered when firms' want to develop their organizational strategies [32-34]. Moreover, because of the importance of environmental condition in international business settings, it is stated that including environmental factors are common for the development of entrepreneurial business strategy. Based on elaboration above, thus, it is considered very appropriate to assign environmental dynamism as a moderator in this study [28]. The existence of environmental dynamism is revealed based of the extreme competition that occurs in the market [34].

On top of all, it confirms that environment factor is one of the major factor that can determine the firms' performance [14]. It further claims that various variables are hypothesized that influence the relationship between entrepreneurial process and performance [33]. Since environmental factor is deemed as the key factor during the formation of strategies for a firm to be successful in the market, hence, environmental dynamism is deemed appropriate to moderate the relationship between entrepreneurial process (innovativeness on this study) and performance. It is because, environmental dynamism might cause entrepreneurs to render decisions under uncertain circumstances which has negative effect on international performance [33, 35].

III. METHOD

This study is part of on-going PhD research on international performance. Theoretical population of this study is related to international performance and the study population is associated to Indonesian SMEs' international performance. The study will be utilizing quantitative method to seek reliable responses and data collection would be used by mail survey. Therefore, the hypotheses will be tested further based on the gathered data from a sample of Indonesian SMEs which operate in various sectors. By contemplating the previous study [36] and referring to Inpres No. 10 1998 on SMEs criteria, the respondents of this study will be complying some certain criteria below:

- The SMEs should have not more than 500 employees.
- The length of internationalization is not more than 5 years.
- Last, their assets should not exceed Rp 10.000.000, 00 (ten billion rupiah) and the business should owned by Indonesian.
- The key criteria for respondent selection are Indonesian exporters of products whose appertain the requirements above.

In terms on analysis side, this study will further adopt some statistic software, namely, Statistical Package for the Social

Sciences (SPSS) version 24 and Structural Equation Modelling (SEM) - Partial Least Squares (PLS), to get the scientific and objective result on how innovativeness, environmental dynamism and international performance could interrelated towards Indonesian international SMEs.

IV. HYPOTHESES DEVELOPMENT AND PROPOSED CONCEPTUAL FRAMEWORK

A. Hypotheses Development

After perceived of the weightiness of innovativeness behaviour towards performance, this study is fascinated in paying deeper attention to how innovativeness can enhance the performance, especially the international performance of SMEs in Indonesia. Several previous studies proved there is a good relationship between innovativeness and international performance.

A study reveals that innovativeness has a direct relationship with firm's performance [12]. Similarly, in the study about the impact of innovativeness on international performance [10], it is found that innovativeness and international performance have a strong significant relationship between them. In the same vein, another previous studies [33, 37] also revealed that innovativeness has a positive influence on international performance. In view of all that has been mentioned so far, one may suppose that innovation is recognized as an important factor to improve firms' international performances, so that the hypothesis is formulated as follow:

H1: There is a positive relationship between Indonesian entrepreneurial firms' innovativeness and their international performance.

In the other hand, through the review of the literature on previous studies, environmental dynamism seems not contribute a positive relationship towards the relationship between innovativeness and international performance. Since previous popular studies [33,35] pointed out that environmental dynamism might cause entrepreneurs to render decisions under uncertain circumstances which has negative effect on international performance, the hypothesis for the interrelationship between innovativeness, environmental dynamism and international performance, the hypothesis proposed is:

H2: There is a positive relationship between Indonesian entrepreneurial firms' innovativeness and their international performance.

B. Proposed Conceptual Model

Figure 1 portrays the proposed model of innovativeness towards international performance. The model also shows environmental dynamism as a moderator of the relationship between innovativeness and international performance. The

variables denoting the model and their interrelationships are exhibited below:

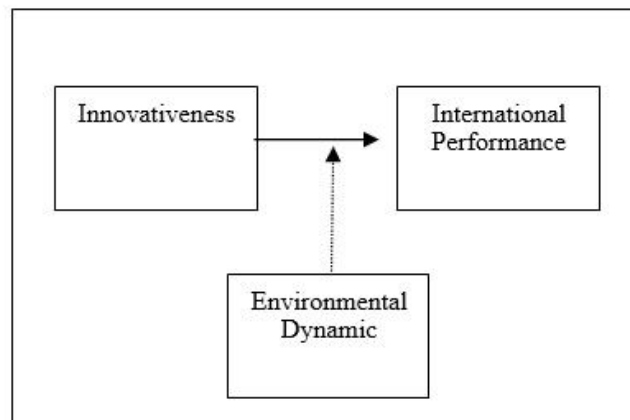


Fig. 1. A conceptual framework of innovativeness towards international performance.

V. CONCLUSION

Based on previous studies [9,10-12,17,28], innovativeness claimed as one of the most important thing to enhance international performance. But in contrast, environmental dynamism revealed as turbulence in business environment that could interfere the international performance [14, 31,33-35]. Based on explanation of the relationships elaborated, this paper intends to verify the interrelationships between innovativeness, environmental dynamism and international performance on Indonesian SMEs settings. Therefore, the beginning section of this paper mentioned about the innovativeness and international performance relationship. Then, the next section explains about how environmental dynamism could affect its relationship.

By considering the literature review decomposed above and due to the condition of Indonesian international SMEs recently, the main objectives of this study are:

- To investigate the interrelationship between innovativeness, environmental dynamism and international performance of Indonesian SMEs
- To develop a conceptual model which cover innovativeness, environmental dynamism and international performance relationship.

Since this study is part of on-going PhD research, to fulfil the objectives of this paper, a designed questionnaire has been outlined which cover all the variable stated above (innovativeness, environmental dynamism and international performance). The questionnaire will be the instrument of the survey which intend to be tested in the process of the research. The targeted respondents are Indonesian international SMEs. The list of population is obtained from Directory of Indonesian Exporter 2015, which published by Indonesian Ministry of Trade. Besides expected to expose the interrelationship between innovativeness, environmental dynamism and international performance, the findings of this study also

intended to practically help Indonesian international SMEs to enhance their performance in international market, and moreover could motivate the domestic Indonesian SMEs to go abroad, by studying what should they prepare and consider before internationalize their business.

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