

# The internationalization performance of Indonesian SMEs during COVID-19 pandemic: exploring a mediation model

Internationalization  
performance

763

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## Abstract

**Purpose** – Small and medium enterprises (SMEs) in emerging economies face significant challenges in formulating effective strategies to enter international markets, particularly amid uncertain conditions such as the COVID-19 pandemic. Consequently, there is a pressing need to examine the performance of these SMEs and evaluate their internationalization process. This study aims to examine the effects of international entrepreneurial orientation on the internationalization performance of SMEs and the mediating effects of organizational dynamic capability and organizational culture in Indonesia.

**Design/methodology/approach** – This study used a quantitative method with a survey approach by distributing questionnaires to 206 SMEs in Indonesia that have implemented internationalization practices. Partial least squares-structural equation modeling (PLS-SEM) was used to predict and estimate relationships.

**Findings** – This study finds that one of the SMEs' strategies to encounter the new normal era of COVID-19 is to improve their internationalization performance, especially by actively participating in international markets. The empirical results show that organizational dynamic capabilities and organizational culture are



proven to fully mediate the relationship between international entrepreneurial orientation and the internationalization performance of SMEs. Meanwhile, international entrepreneurial orientation does not directly affect SMEs' internationalization performance. This study confirms the mediating role of organizational dynamic capabilities and organizational culture in dynamic capabilities theory and their relevance to internationalization.

**Originality/value** – This study provides valuable insights and encourages owner-managers and policy-makers in emerging economies, particularly Indonesia, to develop organizational dynamic capabilities and organizational culture that align with the demands of internationalization.

**Keywords** Organizational culture, Dynamic capability, Emerging economy, International entrepreneurial orientation, Internationalization performance, SMEs internationalization

**Paper type** Research paper

## 1. Introduction

Globalization has brought about a dramatic impact on the opportunities and challenges faced by companies. Removing government barriers to protecting domestic markets and recent technological advances in manufacturing, transportation and telecommunications have allowed even small businesses to access customers, suppliers and partners worldwide (Wright and Dana, 2003). The emergence of the COVID-19 pandemic in early 2020 has triggered a series of unprecedented challenges for international businesses, as many countries swiftly implemented border closures and restrictive policies to contain the spread of the virus (Zahra, 2021). These measures have had profound and far-reaching impacts on global economic activities, with the SME sector being particularly hard-hit (Aldianto *et al.*, 2021). In response to the adverse effects of the pandemic, SMEs have demonstrated remarkable resilience and adaptability by implementing a diverse range of strategies to ensure their survival and continuity, including using technology to change services from offline to online, pivoting or model development and changing business models (Afrizon, 2020). The entrepreneurial orientation of SMEs could be used in navigating to seek new opportunities in new markets, including international markets as previous studies suggested (Paul and Rosado-Serrano, 2019; Buccieri *et al.*, 2021; Thukral and Jain, 2021).

There has been a trend of increasing internationalization among SMEs in the past decade, and the internationalization performance of SMEs has emerged as an essential topic for investigation (Ruzzier *et al.*, 2006). SMEs are increasingly seen as a driver of economic growth in emerging countries and operations into international markets could be considered one of the SMEs' initiatives to grow more. Emerging and developed economies have striking differences in factors, including technological, social, cultural and economic factors, which are important considerations for companies, especially the service sector, for internationalization (Rammal and Rose, 2014). Nonetheless, some scholars note that the internationalization of SMEs in emerging countries is not a dominant trend (Javalgi and Todd, 2011; Gupta and Batra, 2016; Rahman *et al.*, 2021) and the internationalization of SMEs still has received less attention (Bianchi and Wickramasekera, 2016). Alon *et al.* (2013) recommend that examining the internationalization of SMEs from emerging economies allows researchers to examine the boundary condition of existing theories in new contexts.

Previous studies have provided valuable insights by showing that the role of entrepreneurial orientation, which reflects the company's innovation, proactiveness and willingness to take risks (Lumpkin and Dess, 1996) for successful firm performance (Covin and Slevin, 1991; Zhou *et al.*, 2010; AlShehhi *et al.*, 2022). The relationship between entrepreneurial orientation – as a unidimensional construct – and various indicators of internationalization is generally found to have support for its effect (Zahra, 1991; Wiklund and Shepherd, 2005; Jantunen *et al.*, 2005). However, in the case of internationalization amid

global uncertainty and complexity due to COVID-19, the direct relationship between entrepreneurial orientation and company performance is considered insufficient to explain the new reality thereby requiring an appropriate mediation construct (Wu *et al.*, 2016). The company's ability to integrate, build and reconfigure internal and external competencies to meet the challenges associated with dynamic environments caused by crisis such as COVID-19 (Jafari-Sadeghi *et al.*, 2022), organizational dynamic capabilities are proposed to fulfill that role.

Organizational culture has been recognized as a significant driver of superior performance (Lumpkin and Dess, 1996; Wiklund and Shepherd, 2005; Schein, 2010). According to Zhang *et al.* (2014), culture plays a crucial role in the internationalization performance of SMEs from emerging economies. Although international SMEs have received much attention in the past decade, more investigation is called into their cultural orientations to expand overseas (Chebbi *et al.*, 2023). At the same time, international entrepreneurial culture is an embedded routine supporting superior internationalization performance aiming to learn and take advantage of international opportunities to find a niche market (Bucciari *et al.*, 2021). In particular, during the COVID-19 pandemic, the formation of SMEs' organizational culture should be dynamic to respond agilely to uncertainties and changes toward internationalization while still maintaining the core values and noble purpose of establishing SMEs. Thus, organizational culture could mediate between entrepreneurial orientation and the internationalization performance of SMEs (Ma and Cheok, 2022).

The SME sector in Indonesia provides a significant contribution by absorbing 96.92% of the total workforce. However, the COVID-19 pandemic had a significant impact on the exports of Indonesian SMEs, which only reached 14.37% (Indonesian Ministry of Cooperatives and Small and Medium Enterprises, 2021). To sum up, our study aims to fill the empirical and practical gaps from previous studies by examining the direct effect of international entrepreneurial orientation on the internationalization performance of Indonesian SMEs and the mediating effect of organizational dynamic capability and organizational culture during the COVID-19 pandemic. The theory of dynamic capabilities is adopted as a lens to investigate the dynamic nature of Indonesian SMEs' efforts to enter the international market amidst external shocks due to the COVID-19 pandemic. This study examines the factors that SMEs must consider when entering the global market under uncertain conditions.

The paper is outlined in five sections. Section 1 presents this research's background, problem formulation, aims and contributions. Section 2 describes theory and hypothesis development. Section 3 is the research method used, which includes sample, data collection, measurement and data analysis techniques. Section 4 presents our findings and discussion. Finally, the article ends with conclusions, implications, limitations and opportunities for future research directions.

## 2. Literature review and hypotheses development

### 2.1 Theoretical underpinning

This study uses the dynamic capability theory (DCT) as a point of departure to understand the internationalization process of the organization and its response to rapid changes in external environments. This theory provides a framework for determining if distinctive, difficult-to-replicate benefits may be created, maintained and improved (Teece *et al.*, 1997). Updating a company's competencies in response to quick changes in the industry environment constitutes dynamic capabilities. Schumpeter and Hausman (1994) and Teece *et al.* (1997) developed a DCT that provided valuable insights into organizations' dynamic nature and ability to adapt, innovate and seize opportunities in a rapidly changing economic landscape.

Compared to the resource-based theory (RBT), which emphasize the utilization of productive resource in a relatively stable environment (Priem and Butler, 2001), the DCT

leads enterprises to restructure or modify and integrate assets, process and structure to be congruent with the rapid changing environment (Teece *et al.*, 1997). Therefore, RBT cannot explain firm behavior and performance over time in a dynamic environment (Teece *et al.*, 1997). Teece (2012) then distinguished dynamic capabilities and ordinary capabilities. If the former enables a company to decide on the right things, such as making the right product for the right market in the future, the latter functions to do the things right, such as efficiently running the existing company's operating activities. Dynamic capabilities are based on the improvisation ability of companies amid uncertainty, and routines are the keyword for ordinary capabilities, which are repetitive action sequences rooted in mechanistic algorithms for how companies get things done (Teece, 2012).

### *2.2 International entrepreneurial orientation*

SMEs operating in emerging economies face the challenge of institutional complexity and resource constraints (Buccieri *et al.*, 2021) in the face of global market dynamism characterized by uncertainty and volatility (Van Tulder *et al.*, 2020). Entrepreneurship supports the ability to sense and seize opportunities in unpredictable markets (Huang *et al.*, 2014), including the international success of SMEs in emerging economies operating in uncertain markets (Javalgi and Todd, 2011). Internationalization is considered an act of entrepreneurship because it is a creative and proactive process of fetching opportunities outside the company's domestic market (Jantunen *et al.*, 2005) by developing networks through expansion, penetration and integration in the global market (Lehtinen and Penttinen, 1999). The internationalization process requires a radical change in strategy and corporate culture driven by a much higher intensity of competition in the open market mechanism. In addition to the competition, companies must also re-diagnose the global consumer behavior that has changed drastically due to the COVID-19 pandemic.

Exploring market opportunities in the international environment requires an innovative, proactive and risk-taking attitude (Zhou *et al.*, 2010), making the entrepreneurial orientation vital (McDougall and Oviatt, 2000; Knight and Cavusgil, 2004) defined international entrepreneurial orientation as a reflection of companies pursuing international markets innovatively and proactively. Some constructs of entrepreneurial orientation commonly used in previous studies are innovativeness, proactiveness and risk-taking (Covin and Slevin, 1991; Lumpkin and Dess, 1996). According to Lumpkin and Dess (1996), innovation is the tendency of companies to engage in and support new ideas, novelty, experimentation and creative processes that can result in new products, services or technological processes. Proactiveness shows the behavior of entrepreneurs to initiate actions to capture various emerging opportunities, while risk-taking is a commitment to a company's resources to venture into the unknown.

### *2.3 Organizational dynamic capability*

Dynamic capabilities denote the capacity to sense and seize opportunities and reconfigure resources and processes (Teece, 2007). Sensing is the capability to recognize, analyze and pursue opportunities across markets (Teece *et al.*, 1997), which reflects the ability to comprehend customers, competitors and the broader market environment. Seizing involves evaluating the design's available resources and potential approaches to attain market acceptability. In reaction to market changes, reconfiguration entails extending, modifying and recombining capabilities (Teece, 2012).

According to Pavlou and El Sawy (2011), dynamic capabilities are typically integrated into organizational processes and routines, allowing companies to adapt to changing market conditions, restructure their source bases, morph and customize and ultimately gain a

competitive advantage. Some scholars pointed out various elements of dynamic capabilities, such as ownership, deployment and enhancement (Luo, 2000); adaptive, absorptive and innovative capabilities (Wang and Ahmed, 2007); and exploitation and enhancement (Chebbi *et al.*, 2023). In a complete element, Pavlou and El Sawy (2011) proposed the four dynamic capabilities of sensing, learning, integrating and coordinating as sequential logic for reconstructing existing operational capabilities. Integrating capability assimilates individual knowledge with operational capabilities.

Teece (2007) considers knowledge integration as the basis of dynamic capabilities. Previous studies have strengthened DCT by investigating its relationship to internationalization (Peng and Lin, 2017). This theory emphasizes the significance of possessing change capabilities to adapt to a quickly changing international business environment. According to Teece (2012), dynamic capabilities enable an organization to “create, expand, or modify its resource base” in response to the dynamic environment in which it operates, including international market coverage. The willingness of a business to alter its attitudes, processes and resources is crucial to internationalization’s success (Mudalige *et al.*, 2021). The dynamic capacities approach is relevant to explaining internationalization, because it provides a new dimension and complements existing internationalization theory (Schweizer *et al.*, 2010).

SMEs in emerging economies contend with issues of scarce resources and legitimacy in global markets (Buccieri *et al.*, 2021); moreover, the COVID-19 pandemic has exacerbated these conditions. COVID-19 has brought significant changes in everyday life, including higher global interconnectivity due to the massive use of digital technology and new international trade opportunities. Dynamic capabilities can manifest in the best practices carried out by an organization, for instance, when it manages to survive despite facing severe external crises such as the COVID-19 pandemic (Eisenhardt and Martin, 2000). The dynamic capability perspective is promising in directing SME owners or managers to think strategically with global insights and act agile locally to reconfigure their resources. For example, they can strengthen the micro-foundations of dynamic capabilities in the context of internationalization (Teece, 2007), include the collective willingness of employees to learn about export mechanisms, establish new international networks, master foreign languages and other relevant know-how. Thus, this study highlights the importance of organizational dynamic capabilities in guiding the internationalization of SMEs amid the COVID-19 threat to achieving performance goals in international markets.

#### 2.4 Organizational culture

Organizational culture is vital for company development and growth. Deshpandé and Farley (1999) define organizational culture as a pattern of shared values and beliefs that help individuals understand organizational functioning and provide them with organizational behavior norms. An organization is a complex system in which organizational culture can be dynamically formed through the interaction of individuals with the system and with each other (Khan and Ahmed, 2019). Organizational culture can be analyzed at several levels:

- visible artifacts;
- espoused beliefs, values, rules and behavioral norms; and
- underlying basic assumptions (Schein, 2010).

According to Hofstede (1980), culture can be characterized by power distance, individualism, uncertainty avoidance and masculinity. Power distance refers to the level of employee and management behavior based on a perfect relationship between formal and informal planning actions. Individualism is the integration of individuals in the organization when

the distinction between organizational and personal interests has been perfectly matched. Uncertainty avoidance represents the tolerance of organizational members to uncertainty and ambiguity. Masculinity is cultural values that include competitiveness, assertiveness, materialism, ambition and power.

Culture is an important element that influences any organizational change (Nguyen and Waring, 2013), including successful entry into international markets. This study uses Hofstede's (1980) dimensions to measure organizational culture. The COVID-19 pandemic has caused large-scale social and economic shocks that have changed the organizational culture (Spicer, 2020), including, for example, the change in the workplace from physical workplaces to egalitarian virtual spaces that may narrow power distances. Organizational culture can positively or negatively influence every behavior in SMEs (Carmeli *et al.*, 2008). Thus, SMEs with less flexible cultures are less profitable and less likely to enter international markets.

### *2.5 Hypotheses development*

*2.5.1 International entrepreneurial orientation and internationalization performance of SMEs.* The DCT guides companies to deal with external environmental shocks in a “not-business-as-usual” manner (Tece, 2012). An entrepreneurial way of thinking must survive and thrive in such situations, including when new entry into the international market during a crisis or post-crisis period (Covin and Miller, 2014). Specifically, international entrepreneurial orientation is associated with risk-taking, innovation and being proactive (Covin and Slevin, 1991) to achieve strategic goals in international markets (Knight, 2001).

Previous empirical studies have found the effect of entrepreneurial orientation on improving organizational performance (Covin and Slevin, 1991; Lumpkin and Dess, 1996; Wiklund and Shepherd, 2005; AlShehhi *et al.*, 2022). However, several studies found that the relationship between the two variables was insignificant (Naldi *et al.*, 2007; Hoque, 2018). Entrepreneurial orientation studies also lead to improving the performance of SMEs in both domestic (Zahra, 1991) and international contexts (Covin and Slevin, 1991; Gupta and Batra, 2016; AlShehhi *et al.*, 2022).

This study focuses on the international entrepreneurial orientation of SMEs in Indonesia. SMEs in emerging economies still need help in pursuing international market opportunities, especially during the COVID pandemic with limited resources in an increasingly unstable business environment (Kuckertz *et al.*, 2020). According to Zahra (2021), international entrepreneurial orientation is needed as an effort to maintain entrepreneurship with core resources of skills and competencies. Entrepreneurial orientation is an essential prerequisite for companies to thrive in an increasingly competitive business environment and encourage SMEs to achieve internationalization performance in a global environment (Naldi *et al.*, 2007). Therefore, SMEs need to apply an international entrepreneurial orientation because it is a necessary process that helps them survive, compete successfully and improve their performance (Tece, 2007) in a global environment. Thus, this study proposes the following hypothesis:

- H1.* Internationalization entrepreneurial orientation has a significant and positive effect on the internationalization performance of SMEs.

*2.5.2 The mediating role of organizational dynamic capability and organizational culture.* The mechanism of the direct relationship between entrepreneurial orientation and performance is still a subject for investigation by some scholars due to the issue of the orientation–behavior gap (Kollmann and Stöckmann, 2014; Nofiani *et al.*, 2021). Rather than

actual entrepreneurial activity, international entrepreneurial orientation is considered a dispositional concept that describes the entrepreneurial frame of mind of a firm to enter international markets (Kollmann and Stöckmann, 2014; Zhou *et al.*, 2010), while internationalization performance is a behavioral expression (Falahat *et al.*, 2020). According to Weerawardena *et al.* (2007), a dynamic set of capabilities developed and maintained by internationally oriented entrepreneurs enables their enterprises to generate knowledge-intensive products and facilitates their accelerated market entry. Additionally, Buccieri *et al.* (2021) demonstrate that international entrepreneurial orientation as a characteristic of international entrepreneurial culture can build dynamic capabilities that support superior international performance in turbulent markets. Therefore, to fill this gap, it is necessary to explore certain activities that bridge the relationship between international entrepreneurial orientation and internationalization performance (Lim and Kim, 2020), which in this study, is organizational dynamic capability.

Organizational dynamic capability is a concept that is operationally derived from a dynamic capability perspective where companies are expected to be able to sense, seize and reconfigure internal and external competencies to respond to the dynamics of rapid environmental changes (Teece *et al.*, 1997). SMEs with an innovative, proactive mindset and a willingness to take risks will be ready to face the dynamics of disruption in the international external environment by developing dynamic organizational capabilities (AlShehhi *et al.*, 2022). SMEs also can have better communication and coordination skills to realize international business opportunities in new products and services development and introduction (Chebbi *et al.*, 2023). Having organizational dynamic capability also means that a firm establishes an R&D function to learn critically radical changes in the external environment and can integrate individual capabilities to become organizational capability in responding to them (Sprafke *et al.*, 2012). The consequence gained by the SMEs is better internationalization performance, such as increasing the number and variety of products accepted by the international market. Hence, it is hypothesized that:

*H2.* Organizational dynamic capabilities mediate the relationship between international entrepreneurial orientation and the internationalization performance of SMEs.

As stated earlier, the orientation–behavior gap in the relationship between entrepreneurial orientation and performance could be resolved by proposing mediating variables (Lim and Kim, 2020) such as organizational culture. Organizational culture represents a system of values and beliefs owned by an organization that is adjusted to the vision and mission to be achieved (Schein, 2010). In light of the dynamic capabilities perspective, organizational culture is the main ammunition to compete because of its unique nature and inimitability (Teece, 2012). The government has set various policies to reduce the spread of COVID-19, requiring companies to be able to adapt to these conditions. Organizational culture may be critical to a company's success by generating strong morale, behavior and commitment to company survival during the COVID-19 pandemic (Arabeche *et al.*, 2022), including expanding international market coverage. Building a strong and relevant organizational culture is one of the most effective ways to adapt to crisis conditions so that companies can still grow in times of high uncertainty.

An entrepreneurial orientation, aligned with organizational culture, can guide strategically to identify opportunities, expand business market coverage and grow commercial operations (Cuevas-Vargas *et al.*, 2019). However, it is vital to note that the traits of proactiveness, innovativeness, aggressiveness and risk-taking for international business exposure should not only be owned by the manager-owner of SMEs but also internalized in every employee as a shared system and values (Nguyen and Waring, 2013). This internalization can be done by re-adjusting

various firm artifacts and symbols (e.g. logo and tagline), symbolizing a new spirit in expanding into international markets. By doing these things, organizational culture can finally convert international entrepreneurial orientation into internationalization performance (Covin and Miller, 2014). Mudalige *et al.*, 2021) identified an international entrepreneurial orientation as a significant element of international SME culture that promotes dynamic capabilities for enhancing international performance. Engelen *et al.* (2014) highlighted the significance of organizational culture, arguing that it strongly influences employee attitudes and significantly contributes to organizational performance. Similarly, in international entrepreneurial orientation, organizational culture is essential for guiding entrepreneurial behavior and enhancing organizational performance (Peng and Lin, 2017). Thus, the proposed hypothesis is formulated as follows:

- H3. Organizational culture mediates the relationship between international entrepreneurial orientation and the internationalization performance of SMEs.

### 3. Methodology

#### 3.1 Approach and measurements of variables

The current study is intended to examine the role of international entrepreneurial orientation on the internationalization performance of SMEs as a response to the COVID-19 pandemic by incorporating organizational dynamic capabilities and organizational culture. In addition, the two variables (organizational dynamic capabilities and organizational culture) were investigated as mediating variables in the interaction of SMEs' international entrepreneurial orientation and performance. A quantitative method with a deductive approach is deployed by conducting a cross-sectional survey of the owner-manager of SMEs. Saunders *et al.* (2007) stated that deductive research begins with developing hypotheses and then designing research to test the theory.

International entrepreneurial orientation is an international entrepreneurial activity (Zhou *et al.*, 2010) that encapsulates enterprise-level processes, practices and decision-making styles (Lumpkin and Dess, 1996). This independent variable is measured using seven items by identifying SMEs' innovativeness, proactiveness and risk-taking of SMEs, adopted from Zhou *et al.* (2010) and Knight and Cavusgil (2004). Organizational dynamic capabilities represent an organization's ability to build, integrate and reconfigure valuable asset positions (Teece *et al.*, 1997; Eisenhardt and Martin, 2000). This variable acts as an intervening/mediator, measured using seven items identifying sensing and integrating capabilities adapted from the study by Teece *et al.* (1997) and Pavlou and El Sawy (2011). Organizational culture is defined as a set of shared values, beliefs and behaviors (Hofstede, 1980; Hayton *et al.*, 2002) within an organization that guides an organization's policies regarding employee management (Schein, 2010). Organizational culture acted as an intervening/mediator in this study. Eight questionnaire items were adapted from Hofstede's (1980) dimensions that had been adjusted to organizational level (Hofstede *et al.*, 1990; Wallace *et al.*, 1999). SMEs' internationalization performance covers an organization's whole performance when dealing with the internationalization process, which includes financial and non-financial indicators (Jantunen *et al.*, 2005; Falahat *et al.*, 2020). Five items – participation in international markets, sales growth, profits, market access and the development of international knowledge – were adopted from Jantunen *et al.* (2005) to measure SMEs' internationalization performance over the past three years.

All variables used in this study are measured using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). The English survey was translated and administered in the Indonesian language to help respondents understand the content of the



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survey. A pilot test was conducted to improve the structure and wording of the instrument to reduce the ambiguity. Internationalization performance

### 3.2 Sample and data collection methods

The population of this study is SMEs in Indonesia, of which a sample was selected using the technique of purposive sampling. Due to limited information regarding official data on the number of SMEs in Indonesia that have carried out international activities, a key informant approach (Kumar *et al.*, 1993) was used by contacting the head of the Indonesian export SME community to distribute the questionnaire to its members. The questionnaire was filled out by the representatives (e.g. business owners/managers or export managers) of the SMEs that have carried out export activities to foreign markets. The owner-manager is considered to represent the views of an SME organization as its management in Indonesia is a one-man show (Indarti and Langenberg, 2004). Moreover, according to Lukito-Budi *et al.* (2023), the role of owners especially in the SMEs' setting is very important because they act as a business leader over time. The survey was conducted from April to June 2021. In total, 287 respondents participated, and 206 questionnaires met the criteria for further analysis. Hair *et al.* (2014) provide valuable insights into the process of determining sample size in research studies by multiplying the number of question items with five as a practical guideline. Following this approach, the calculation results show that the minimum number of samples required for this study is 145 respondents; therefore, the number of respondents obtained in this study exceeds the number of samples required.

### 3.3 Measurement of data

To ensure the instruments' quality and test the proposed hypotheses, we set two models: a measurement model and a structural one. First, the measurement model was tested for convergent, discriminant validity and reliability. Convergent validity was measured based on outer loading and average variance extracted (AVE). Data processing results show that all outer loading values are  $> 0.70$  and AVE values are  $> 0.5$ , which met the expected standard score (Hair *et al.*, 2014). These results indicate that the latent variables proposed in this study have convergent validity. The instrument reliability test showed internal consistency as measured by Cronbach's alpha (Dijkstra and Henseler, 2015) and construct reliability (Chin, 1998; Hair *et al.*, 2014). The test results show that the value of Cronbach's alpha for all constructs is  $> 0.7$  and CR  $> 0.7$ . Based on these two evaluation parameters, the external model shows internal consistency. Table 1 shows the values for the outer loading, AVE, Cronbach's alpha and composite reliability (CR).

Discriminant validity was analyzed based on cross-loading and Fornell–Larcker. The test results show that the cross-loading value for each construct is greater than the other constructs, with the cross-loading value for each construct  $> 0.7$ . The Fornell–Larcker criterion also shows that the square root value of AVE for each construct is higher than the correlation value between the construct and other constructs in the model (see Table 2). Therefore, the model in this study has good discriminant validity. This study uses a threshold score for the variance inflation factor (VIF), which should not exceed 5 (Hair *et al.*, 2014). The results of this study indicate that the VIF criteria have been met, and thus, there is no multicollinearity problem (see Table 2).

Second, the structural model consists of the coefficient of determination ( $R^2$ ), and predictive relevance (Stone–Geisser  $Q^2$ ). Partial least squares – structural equation modeling (PLS-SEM) was used to test the structural model. This study also analyzed goodness-of-fit and SRMR to assess the model's fit.

Latent variables	Indicators	VIF	Outer loading	AVE	Cronbach's alpha	CR
Internationalization performance of SMEs	International market participation	2.340	0.846			
	Sales growth	1.926	0.809			
	Profitability	1.935	0.801			
	Market access	1.830	0.791			
	Development of know-how	1.902	0.810	0.659	0.871	0.906
	Developing ideas for new products for international markets	1.948	0.777			
	Receptive to innovative ways of exploiting international market opportunities	1.894	0.746			
	Continuous search for new export markets	1.964	0.764			
	Actively build relationships with suppliers or customers in international markets	2.259	0.818			
	Focused on opportunities than on international risks	2.143	0.797			
International entrepreneurial orientation	Tolerant to potential risks	1.957	0.769			
	Evaluate the opportunities that entail some international risk	1.893	0.770	0.605	0.891	0.914
	A hierarchy/authority	1.732	0.732			
	Provides information to employees regarding the company's development	2.095	0.767			
	A strong appeal to the international market	2.004	0.770			
	Formal management concept	2.170	0.744			
	Believe in collective decisions	2.133	0.770			
	Greater social mobility	2.083	0.773			
	Emphasizes equality, solidarity and quality of work life	2.060	0.730			
	Assertive, aggressive, competitive	2.220	0.796	0.578	0.896	0.916
Organizational culture	Scan the environmental changes to identify new business opportunities	2.121	0.788			
	Review on how environmental changes influence on customer	2.153	0.797			
	Review products to reassure fulfill the customer demand	2.288	0.804			
	Put a lot of efforts on the functions of new and existing products	2.094	0.781			
	Able to integrate individual capabilities to become organizational capability	1.602	0.710			
	Able to cope unexpected circumstances (environmental changes)	1.894	0.768			
	Better communication skills and coordinating capability	2.077	0.793	0.605	0.891	0.915

**Table 1.**  
Measurement of convergent validity and reliability  
**Source:** Table created by author

## 4. Result

### 4.1 Profile of small and medium enterprises

Our survey was completed by respondents representing their SMEs (59% as owners, the rest as directors or export managers). Most SMEs focused on consumer products (54%) as their export products. Most SMEs have an annual turnover of IDR300m–IDR2.5bn (91%), which are included in the small business category, with an estimated export sales value of less than 25% of the total turnover (42%), and interestingly eight SMEs have export sales of more than 75% of the total turnover. The study also identifies the estimated time between the year the business was founded and its first product export experience. We found that most SMEs have successfully exported their products in less than three years of business establishment (65%). One possible explanation is that current technological developments have given SMEs unlimited access to promote and market their products widely, and several market platforms in Indonesia have provided overseas market services and various social media that support online marketing. The international market coverage of most SMEs is Asia (65%), and only 1% of SMEs have reached the market in Africa (see Table 3).

### 4.2 Hypothesis testing

An updated approach beyond Baron and Kenny to testing a mediation model developed by Hayes was adopted (Hayes, 2009). Baron and Kenny's causal steps approach (Baron and Kenny, 1986) is considered among the lowest in power for testing intervening variable effects (Hayes, 2009). Hence, in this study, to be comprehensive and as recommended by Hayes (2018), we estimated and tested the indirect path simultaneously using bootstrap confidence intervals based on 5,000 bootstrap samples. Based on the results shown in Figure 1, organizational dynamic capability ( $\beta = 0.268$ ,  $t = 3.065$ ,  $p > 0.001$ ) and organizational culture ( $\beta = 0.272$ ,  $t = 3.866$ ,  $p > 0.05$ ) were found to have a significant role as a mediator of the relationship between international entrepreneurial orientation and the internationalization performance of SMEs. Meanwhile, international entrepreneurial orientation has no significant effect on the internationalization performance of SMEs ( $\beta = 0.002$ ,  $t = 0.023$ ,  $p > 0.1$ ). These findings support two of the three hypotheses (only *H1* is rejected) empirically supported. Thus, *H2* and *H3*, namely, organizational dynamic capabilities and organizational culture, fully mediate the relationship between international entrepreneurial orientation and the internationalization performance of SMEs. According to Zhou *et al.* (2010), if the direct effect shows that it is not significant, the indirect relationship with the mediator is identified as consistent with the hypothesized theoretical framework.

Moreover, a path analysis shows that international entrepreneurial orientation was found to have a positive and significant effect on organizational dynamic capability ( $\beta = 0.742$ ,  $t = 13.505$ ,  $p < 0.001$ ) and organizational culture ( $\beta = 0.696$ ,  $t = 13.314$ ,  $p < 0.001$ ), as shown in Figure 1.

Variables	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) Experience	1.562	0.920	1.000						
(2) Firm size	1.110	0.341	0.259	1.000					
(3) Industry type	1.810	0.885	-0.015	0.006	1.000				
(4) International entrepreneurial orientation	4.252	0.974	0.036	0.067	0.056	0.778			
(5) Internationalization performance	3.977	0.941	0.081	0.176	0.093	0.549	0.812		
(6) Organization culture	4.271	0.994	0.089	0.093	0.077	0.696	0.670	0.761	
(7) Organizational dynamic capabilities	4.040	0.917	0.087	0.097	0.130	0.742	0.663	0.742	0.778

**Table 2.**  
Result of  
discriminant validity  
(Fornell–Larcker)

Source: Table created by author

Descriptions	Total	%	Descriptions	Total	%
Respondent position			The estimated value of SME export sales from total turnover		
SME owner	121	59	Less than 25%	86	42
Director/manager	31	15	25%–50%	74	36
Export manager	54	26	51%–75%	38	18
Export products			More than 75%		
			Experience (length of years between business establishment and first export)		
Consumer products	111	54	Less than three years	134	65
Industrial products	72	35	3–7 years	49	24
Services	19	9	7–10 years	15	7
Other	4	2	More than 10 years	8	4
Annual turnover			International market coverage		
IDR300m–IDR2.5bn	187	91	Asia	134	65
IDR2.5bn–IDR50bn	19	9	Europe	45	22
			America		
			Australia		
			Africa		
				8	4
				2	1

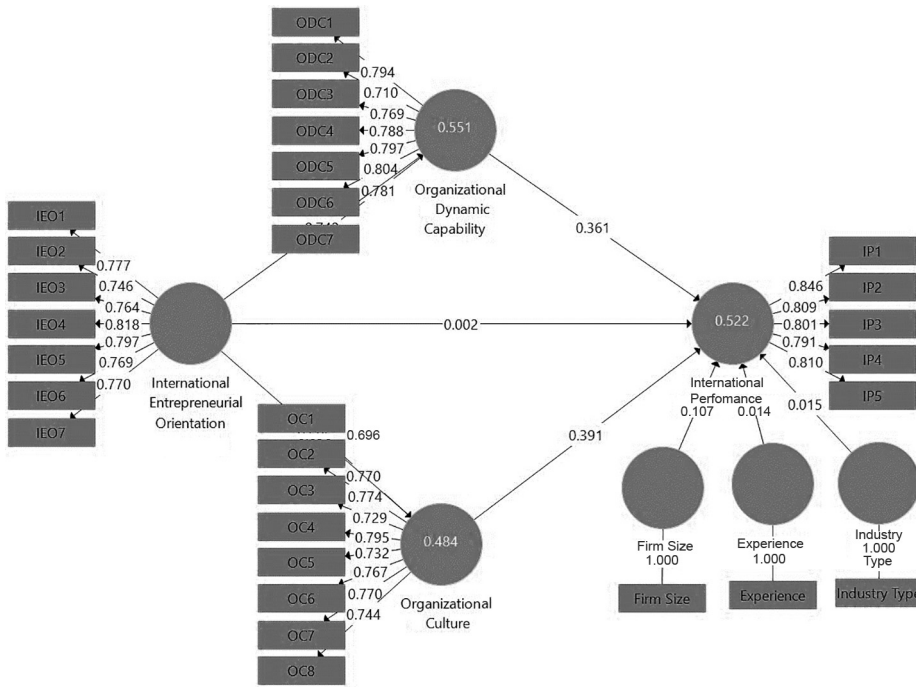
**Table 3.**  
Profile of SMEs

Source: Table created by author

The organizational dynamic capability was found to have a positive and significant effect on the internationalization performance of SMEs ( $\beta = 0.361$ ,  $t = 3.112$ ,  $p < 0.05$ ). Similarly, organizational culture has a positive and significant effect on the internationalization performance of SMEs ( $\beta = 0.391$ ,  $t = 4.141$ ,  $p < 0.001$ ). A summary of the path analysis is presented in [Table 4](#).

Furthermore, as shown in [Figure 1](#), the structural model explains 55.1% of the organizational dynamic capability ( $R^2 = 0.551$ ), 48.4% of the organizational culture ( $R^2 = 0.484$ ) and 52.2% of the internationalization performance of SMEs ( $R^2 = 0.522$ ). The coefficient of determination consists of three classifications which include 0.67 (substantial), 0.33 (moderate) and 0.19 (weak) ([Chin, 1998](#)); the findings show that the coefficient of determination in this model is a moderate classification. The predictive relevance of  $Q^2$  indicates how well the empirically collected data can be reconstructed ([Fornell and Cha, 1994](#)). The results of this study indicate the predictive relevance value of  $Q^2 > 0$  for organizational dynamic capability ( $Q^2 = 0.325$ ), organizational culture ( $Q^2 = 0.274$ ) and internationalization performance of SMEs ( $Q^2 = 0.325$ ) (see [Table 5](#)).

The bootstrap approach is based on resampling 5,000 subsamples, so there is no need for an assumption of normality ([Hair et al., 2014](#)). Based on the results of hypothesis testing, entrepreneurial orientation has no significant effect on the internationalization performance of SMEs. Thus, organizational dynamic capability and organizational culture fully mediate the relationship between entrepreneurial orientation and the internationalization performance of SMEs. This study also analyzed the strengths and weaknesses of the effect sizes. According to [Henseler \(2017\)](#), the recommended effect size for  $f^2$  scores ranges from  $f^2 \geq 0.35$  for a strong effect,  $0.14 < f^2 < 0.35$  for a moderate effect,  $0.02 < f^2 < 0.15$  for a weak effect and  $f^2 < 0.02$  for insubstantial effect sizes. There is a substantial effect on the



**Figure 1.**  
The result of hypotheses testing

**Source:** Figure is created by author

Parameters	Standardized coefficients	<i>t</i> -value	<i>p</i> -value	Conclusion	
IEO → IP	0.002	0.023	0.982	Rejected	Direct effect
IEO → ODC	0.742	13.505	0.000	Supported	
IEO → OC	0.696	13.314	0.000	Supported	
ODC → IP	0.361	3.112	0.002	Supported	
OC → IP	0.391	4.141	0.000	Supported	
<i>Mediating variables</i>					
IEO → ODC → IP	0.268	3.065	0.000	Supported	Full mediation
IEO → OC → IP	0.272	3.866	0.002	Supported	

**Notes:** ODC = Organizational dynamic capability; OC = Organizational culture; IEO = International entrepreneurial orientation; IP = Internationalization performance

**Source:** Table created by author

**Table 4.**  
Summary of path analysis

relationship of international entrepreneurial orientation to organizational dynamic capabilities ( $f^2 = 1.227$ ). The relationship between international entrepreneurial orientation and organizational culture ( $f^2 = 0.939$ ) also shows a strong effect. However, the study's results indicate an insubstantial effect of international entrepreneurial orientation on internationalization performance ( $f^2 = 0.000$ ). The relationship between organizational dynamic capability and internationalization performance demonstrates a weak effect ( $f^2 = 0.128$ ), similar to the effect of organizational culture on internationalization performance ( $f^2 = 0.094$ ) (see Table 6).

4.3 Additional analysis with control variables

To test the sensitivity of the study results, we used control variables to prevent bias in the calculation results. We use three control variables in this study: firm size, firm internationalization experience and type of industry. Firm size is measured based on the category of SMEs. Firm size shows a positive and significant effect to SME profitability (Serrasqueiro and Maças Nunes, 2008). Firm internationalization experience is measured by the number of years between the establishment of the firm and the first export. The length of experience in entrepreneurial practice can support the development of their entrepreneurial orientation (Kyrgidou and Spyropoulou, 2013). We also included industry-type variables to control for heterogeneity: consumer products (1), industrial products (2), services (3) and others (4). We include this dummy variable because specific competitive characteristics and aspects of each type of industry can affect the overall process and behavior of the firm (Bremmers et al., 2007). Based on the result of hypothesis testing, only firm size can control SMEs' internationalization performance. Most SMEs in this study are small scale, indicating that small-size firms are more flexible and agile in improving their internationalization performance. According to Dunne and Hughes (1994), small-sized firms try to grow faster to achieve economies of scale by allocating their resources more optimally.

4.4 Goodness-of-fit (GOF)

This study also analyzes goodness-of-fit (GOF) to ensure the tested model has a good fit and can explain empirical data (Tenenhaus et al., 2005). The standard GOF value is between 0 and 1, with the following criteria: 0.10 (small), 0.25 (medium) and 0.36 (large). The GOF was calculated using the geometric mean of the average communality (AVE value) and the average value of  $R^2$  (Tenenhaus et al., 2005). Based on the calculation results, the GOF index for this research model is 0.345, indicating that the model is fit and has moderate predictive ability.

**Table 5.**  
Stone–Geisser ( $Q^2$ )  
score

Variables	SSO	SSE	Q2 = (1 – SSE/SSO)
Experience	210.000	210.000	
Firm size	210.000	210.000	
Industry type	210.000	210.000	
International entrepreneurial orientation	1,470.000	1,470.000	
Internationalization performance	1,050.000	702.328	0.331
Organization culture	1,680.000	1,219.702	0.274
Organizational dynamic capabilities	1,470.000	992.340	0.325

**Source:** Table created by author

**Table 6.**  
The effect of control  
variables on the  
internationalization  
performance of SMEs

Parameters	Standardized coefficients	t-value	p-value	Conclusion
Firm size → IP	0.107	2.302	0.021	Supported
Experience → IP	–0.014	0.334	0.738	Rejected
Industry type → IP	0.015	0.227	0.782	Rejected

**Note:** IP = Internationalization performance  
**Source:** Table created by author

In addition, the study also tested the standardized root mean square residual (SRMR), the average index of standardized residues between the observed and hypothesized covariance matrices (Chin, 1998). The SRMR is a measure of the estimated model fit. A good model fits the SRMR criteria  $< 0.08$  and NFI  $> 0.9$  (Hu and Bentler, 1998). Table 7 shows that the SRMR of this research model is 0.078, which indicates that this research model has a good fit, while the chi-square of 762.277 and NFI of 0.796 are also measured.

Internationalization  
performance

### 5. Discussions

This study tested a conceptual model that proposed the effect of international entrepreneurial orientation on the internationalization performance and the mediating effects of dynamic capabilities and organizational culture with special reference to SMEs in Indonesia. Many studies have analyzed the relationship between entrepreneurial orientation, dynamic capability and internationalization performance (Knight and Cavusgil, 2004; Jantunen *et al.*, 2005). However, this relationship has yet to be studied much in the context of the internationalization of SMEs in emerging economies, particularly in Indonesia, and in the midst of turmoil caused by COVID-19.

Our study explicitly proposes three hypotheses, although we comprehensively analyzed all pathway relationships. Interestingly, this study found the significant role of two variables (organizational dynamic capability and organizational culture) in mediating the relationship between international entrepreneurial orientation and the internationalization performance of SMEs, and the empirical results show that it fully mediates. The results of this study indicate that in the context of SMEs in emerging economies, organizational readiness is required to design innovative processes, calculate risks, proactively develop market research and organizational culture flexibility that encourages international performance.

The study results show that international entrepreneurial orientation does not have a positive and significant direct effect on the internationalization performance of SMEs during COVID-19; hence, *H1* is not supported. This interesting finding contradicts several previous studies that state entrepreneurial orientation positively and directly improves internationalization performance (Covin and Slevin, 1991; Lumpkin and Dess, 1996; Jantunen *et al.*, 2005; Kollmann and Stöckmann, 2014; Monteiro *et al.*, 2019). SMEs are the sector most affected by the COVID-19 pandemic, resulting in a significant decline in the economic sector. During the COVID-19 pandemic, SMEs experience caution in risk-taking activities, given the negative interaction effect on firm performance when combined with market turbulence (Kraus *et al.*, 2012) Isichei *et al.* (2020) also revealed that risk-taking, a dimension of entrepreneurial orientation, has no significant effect on performance. Based on data from the Global Entrepreneurship Monitor (2021), the impact of Indonesian entrepreneurship on international market coverage is still shallow, ranking 36 out of 43

Goodness of fit	Estimated model
SRMS	0.078
d_ULS	2.822
d_G	0.713
Chi_Square	762.277
NFI	0.796

Source: Table created by author

Table 7.  
GOF model

countries. The findings of this study indicate that Indonesian SMEs are still not ready to take risks of COVID-19. They may cause the low international market coverage of SMEs in Indonesia.

We confirm the mediating role of dynamic organizational capabilities in the relationship between international entrepreneurial orientation and internationalization performance, which supports *H2*. During the COVID-19 pandemic, people's purchasing power has decreased due to the high unemployment rate. The COVID-19 pandemic requires business actors to apply an entrepreneurial orientation with characteristics of being innovative, taking risks and being proactive (Covin and Slevin, 1991; Lumpkin and Dess, 1996). Innovation and being proactive in entrepreneurial orientation will encourage companies to improve their dynamic capabilities in dealing with environmental changes due to the COVID-19 pandemic. Thus, the commitment of SMEs to carry out business transformation through business expansion globally significantly improves environmental sensing capabilities, renewal and flexibility. This behavior would have a significant positive effect on increasing the internationalization performance of SMEs.

Monteiro *et al.* (2019) revealed that dynamic capabilities play a role in the relationship between international entrepreneurial orientation and internationalization performance. The results of this study indicate that the path from international entrepreneurial orientation to dynamic capabilities can improve internationalization performance, rather than the direct path from international entrepreneurial orientation to performance (Martin and Javalgi, 2016). In particular, these findings support the notion that "dynamic capabilities are considered transformers for converting resources into improved performance" (Lin and Wu, 2014, p. 407) Knight and Cavusgil (2004) argue from the DCT perspective that international entrepreneurial orientation can be seen as a dynamic capability because it leads to successful entry into new markets. The COVID-19 pandemic has forced SMEs to transform their business toward digitalization; this is advantageous because it can expand their market coverage. According to Indarti and Langenberg (2004), one of the success factors of SMEs is their ability to access technological advances. Thus, it is unsurprising that almost 64% of SMEs in this study have made export sales within the three years of their business establishment. SMEs in Indonesia have taken advantage of their sensing and integration capabilities in response to technologies. Technology media has opened broad access for SMEs to develop their business without national borders through various online platforms.

The findings of this study also show that organizational culture has a significant mediating effect on the relationship between international entrepreneurial orientation and internationalization performance, so *H3* is empirically supported. Organizational culture also plays a significant role as a mediator of the relationship between international entrepreneurial orientation and the internationalization performance of SMEs. Schein (2010) reveals that organizational culture is a pattern of basic assumptions created, discovered or developed by certain groups as learning to overcome problems of external adaptation and internal integration that are official and well implemented. The organizational culture of SMEs in Indonesia shows that they have a hierarchy/authority in managing their business and actively providing information to employees about company developments. The work culture has become more flexible, where they seek to expand their social mobility by emphasizing equality, solidarity and quality of work life during COVID-19. Although developing organizational culture is a complex and time-consuming process, it benefits SMEs to survive environmental changes (Jantunen *et al.*, 2005).

The external business environment is likely to evolve and get more complex, and these conditions can be particularly challenging when companies are involved in multiple foreign markets. When companies try to improve organizational culture by focusing on foreign markets, internationalization performance improves (Zhang *et al.*, 2014). Therefore, international



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entrepreneurial orientation is the right way to direct organizations to improve their internationalization performance. The results of this study support the findings of Shehu and Mahmood (2014) that the relationship between entrepreneurial orientation and performance is significantly mediated by organizational culture. Organizational culture is slightly different; management needs levers to influence rapid change to deal directly with environmental contingencies (Zhang *et al.*, 2014), including international entrepreneurial orientation. Thus, international entrepreneurial orientation encourages flexibility of organizational culture to improve internationalization performance.

Internationalization  
performance

779

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## 6. Concluding remarks, limitations and future research directions

This study makes several theoretical and practical and academic contributions to the internationalization of SMEs in emerging markets. First, this research is theoretically significant by confirming the theoretical concepts of dynamic capability (Tece *et al.*, 1997; Teece, 2007) and organizational culture (Hofstede, 1980; Hayton *et al.*, 2002; Schein, 2010) in setting relationships to develop and empirically test an integrative model of internationalization performance of SMEs. Second, this study focuses on the mediating effect of organizational dynamic capabilities and organizational culture on the relationship between international entrepreneurial orientation and the internationalization performance of SMEs. Third, this empirical study was conducted in the context of SMEs in Indonesia as an emerging economy. This investigation fills a gap in an under-researched area of the literature on the internationalization of SMEs in emerging countries (Zhang *et al.*, 2014), particularly in Indonesia. Therefore, in response to the calls of Jantunen *et al.* (2005) and a more recent (Falahat *et al.*, 2020; Thukral and Jain, 2021; Chebbi *et al.*, 2023) for a study on the internationalization of SMEs, this study offers a unique setting for a better understanding of the internationalization performance of SMEs during COVID-19 pandemic.

As the practical implications, SMEs in Indonesia should develop their business in the global market to seize new opportunities amid the COVID-19 pandemic. The organization's dynamic capabilities and organizational culture should be managed properly as the main driver in promoting internationalization performance. International market development requires SMEs to ensure the right organizational culture to adapt skillfully to the environmental changes that occur due to the COVID-19 pandemic. The ability to build and maintain a specific culture within the organization supports the response to environmental turbulence due to the COVID-19 pandemic. In addition, it is found that no effect between international entrepreneurial orientation on internationalization performance, indicating that SMEs in Indonesia should encourage international entrepreneurial orientation as an essential factor in the success of internationalization performance. SMEs in emerging economies are playing a more significant role in international trade than ever before. Thus, SMEs in emerging economies in foreign markets have the capabilities described in this study to internationalize and succeed overseas. This condition has practical implications that institutional policies (both public and private, and all stakeholders related to the development of the internationalization of SMEs) are needed to encourage an international entrepreneurial orientation that includes innovation, proactiveness and risk-taking. Another practical implication is the focus on establishing a conducive organization and increasing organizational capacity, considering that the results of this study indicate that organizational readiness is a success factor in improving the internationalization performance of SMEs.

This study has several limitations that can be directions for future research. *First*, using cross-sectional data can be considered a limitation of this study. Nevertheless, it is possible to justify making causal inferences despite the cross-sectional nature of the data when the explanatory variables can be assumed to remain substantially unchanged over time. Future

research may consider using longitudinal data in examining the moderators of the sustainability of the internationalization performance of SMEs. *Second*, this study only measures at the organizational level so that further research opportunities can be carried out by testing multilevel units of analysis. *Third*, the current study does not focus on a specific sector; some sectors in emerging economies (e.g. furniture, food processing, and cosmetics) may have different degrees of internationalization. Thus, further studies can be conducted by examining specific sectors' internationalization performance.

In line with research suggestions from Zhang *et al.* (2014), this study suggests future studies to expand the research by considering factors specific to SMEs in emerging economies, such as institutions, political economy, business infrastructure and general level of economic development. In addition, future research should consider complementary views, such as institutional theory, to improve the explanation of the internationalization performance of SMEs in emerging economies.

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