An Assessment Determination on
The SMEs International Performance
As A Competitive Advantage in Indonesia

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Abstract

The competitive advantage of small and medium enterprises (SMEs) has been identified as a key topic for scholars studying SME internationalization. Even though firm competitive advantage has long been discussed as a determinant of international performance, few studies have examined the determinants of firm competitive advantage and their potential mediating role in the relationship between organizational capabilities and SMEs' international performance. As determinants of competitive advantage for exporting SMEs, there are four hypotheses of crucial export capabilities (market intelligence, product innovation, price, and marketing communications). The results of SEM with Smart PLS on a sample of 100 active exporting Indonesian SMEs show that three of these characteristics lead to competitive advantage. The main conclusion of this research will be useful for SMEs and startups who want to explore prospects in foreign markets.

Keywords
Export Capability, Competitive Advantage, SMEs internationalization

1. Introduction
In Indonesia, small and medium companies (SMEs) play an essential role in both economic growth and job. Despite the growing importance of emerging countries in global commerce, 34 OECD member countries continue to contribute 5662 percent of the value of global merchandise exports between 2010 and 2018. (ITC, 2019). Large corporations, as opposed to small and medium-sized businesses, are better suited to capitalize on trade possibilities (SMEs). For example, SMEs in the United States, Switzerland, the Netherlands, the United Kingdom, China, and Japan contribute at 30-38 percent of total national exports (Hammers and Stamps, 2010). SMEs contribute much more to exports in emerging countries. SMEs in ASEAN member countries, for example, only donate with an average of 23% of overall exports (Wignaraja, 2012; Yoshino and Wignaraja, 2015). Similarly, in Indonesia, the percentage of SMEs (including micro-companies) in overall exports is quite limited, given the fact that they are the primary source of business establishment, employment opportunities, and added value production. SMEs account for around 99.99 percent of total business entities, generate more than 97 percent of job possibilities, and contribute over 60 percent of Indonesia's GDP (Indrawan, 2019). On the other hand, despite a consistent increase in the total value of Indonesia's annual exports, the share of SMEs in non-oil and gas exports has continued to fall, from around 18.5 percent in 2005-2007 to 16.9 percent in 2008-2010, and then to 15.4 percent between 2011 and 2013. (Ministry of Cooperatives and SMEs, 2015). In 2017, SMEs accounted for 97.3 percent of all business establishments in Indonesia, contributing 37 percent of the country's GDP and 66 percent of total employment. Because exporting allows SMEs to increase their market coverage, the Indonesian government enthusiastically promotes SMEs to explore the overseas market for possible company growth. This has never been an easy task, though. To compete with other industry players around the world, SMEs must gain a competitive advantage. The majority of the research on export performance has focused on the links between capabilities and performance, but few studies have looked at the impact of organizational capabilities on competitive advantage. Further, research on the determinants of international success yielded mixed results when it came to the effects of competencies on firm performance (Beleska-Spasova, 2014). The internationalization environment is complicated, a step-by-step understanding of whether inconsistent capability-performance results are due to some organizational capabilities failing to provide competitive advantages has likely been neglected. Because firm competitive advantage and business performance

are two distinct concepts, and because most studies have only looked at capability-performance correlations, further research on the capability-competitive advantage relationship is needed (Kaleka, 2002; Lu et al., 2010).

1.1 Research Objectives
The objective of this study is to measure the international performance of SMEs. To achieve the research objectives, the following objectives are formulated as follows:
1. To analyze inconsistent findings on the ability-performance relationship possibly due to the omission of mediator variables such as competitive advantage.
2. To measure critical capabilities that can help export SMEs build a strong competitive advantage.
3. To measure competitive advantage serves as a link between these qualities and the international success of SMEs.
4. To explore the critical capabilities that lead to competitive advantage will help SMEs assess their readiness to enter international markets.

2. Literature Review
In the literature, the importance of competitive advantage for a firm's performance has been extensively studied (Barney, 1991; Grant, 1991; Porter, 1985). An exporting firm must attain specific advantages to compete in international markets, which must be desirable and unusual (Lee and Liu, 2018). To analyze the sustainability of a firm's competitive advantage, four criteria have been proposed: durability, transparency, transferability, and replicability (Grant, 1991). A firm's capabilities, according to the Resource-Based View (RBV) are complicated (Barney, 1991). In other words, to express it another way, capabilities can be a source of competitive advantage if they are long-lasting, ambiguous, non-transferable, and difficult to duplicate. Even though the majority of studies on capabilities focused on the relationship between organizational capabilities and firm performance in the absence of competitive advantage, some authors have discussed the impact of marketing capability and competitive advantage in 324 manufacturing firms. There was a link between marketing capability and competitive advantage. Weerawardena (2003). Others, such as Zou et al. (2003), investigated the relationship between four capabilities and export financial performance, finding that distribution, communication, and product development capacity all are positively related to export financial performance, but not including pricing ability Kamboj et al. (2015) evaluated the links between marketing capability, competitive advantage, and firm performance. Researchers, such as Rua et al. (2018), studied the role of competitive advantage in mediating the links between entrepreneurial orientation, intangible resources, and absorptive capacities. The financial and strategic performance of SMEs can be used to assess their international performance. (Falahat et al., 2018; Silva et al., 2017; Popa et al., 2018). Competitive advantages can be used to predict how well SMEs perform internationally (Rua et al., 2018). Beleska- Spasova (2014) summarized the following factors of international performance: management traits and perceptions, export strategy, marketing mix, export expertise, export knowledge, business connections, firm characteristics, export, and domestic market features. Refers to the concept that competitive advantage and international performance are two distinct ideas. This report will look into the important capabilities related to the competitive advantage that can drive SMEs' international performance, as well as if competitive advantage can perform as a link between these capabilities and international SMEs. Based on the RBV, capabilities are resource configurations that are valued, unique, inimitable, and non-substitutable, and so provide a competitive advantage. Based on the findings of Pham et al. (2017), There are identified four key competencies that we believe can help to export SMEs gain a competitive advantage and mediate the links between these capabilities and their international performance. The research model is depicted in Figure 1

2.1. Exporting SMEs' Capabilities and Competitive Advantage
Market intelligence capability refers to a company's ability to forecast market developments and respond with marketing measures as a result (Day, 1994; Pham et al., 2017). According to Day (1994), market intelligence implies understanding the competitors, consumers, and other company stakeholders, and it allows you to get a competitive advantage by taking advantage of market opportunities. Market intelligence improves an entrepreneur's ability to recognize and utilize external opportunities, which may encourage internationalization (Mishra and Zachary, 2015). Competitive advantage on market information management, organizational learning, and intellectual capital (Colomo-Palacios et al., 2011, 2014; Vătămănescu et al., 2016) may improve firms' performance through the deployment of market intelligence capability. Companies are increasingly investing in information technologies in an attempt to optimize their market intelligence skills (Carayannis et al., 2018; Soto-Acosta et al., 2014, 2018).

Exporting SMEs are inexperienced with international market conditions. In these conditions, market intelligence capabilities may have a significant impact on SMEs' international performance by allowing them to establish competitive advantages to deal with problems encountered during the internationalization process (Evangelista and Mac, 2016). Taking these arguments into account, the following hypotheses are proposed:

H_1: There is a relationship between market intelligence capability and competitive advantage for exporting SMEs.

Many research has revealed positive correlations between organizational innovation and firm success (Leal-Millán et al., 2016; Martinez-Conesa et al., 2017; Meroo-Cerdán et al., 2008; Popa et al., 2017; Soto-Acosta et al., 2016b). A company's competitiveness is determined by its capacity to develop and generate innovative and unique products, especially when operating in international markets. A company's ability to produce, change, or reinvent its product offerings in ways that match client needs is referred to as the product innovation capability (Pham et al., 2017; Weerawardena, 2003; Zou et al., 2003). When offering new products, product innovation capabilities reduces time to market (Sok and Cass, 2011). Kaleka (2002) discovered that product innovation capabilities lead to product advantage as a result. As a consequence, product innovation capability can be important and rare, and it can provide a competitive advantage when it enables a company to adapt to changing customer needs (Yang and Ju, 2018).

These assumptions are combined into the following hypothesis:

H_2: Product innovation capability and competitive advantage are positively related to exporting SMEs.

The ability of a company to determine prices based on a balanced examination of expenses, competition, and customer expectations is known as pricing capability (Dutta et al., 2003). Companies with stronger pricing capabilities may gain a competitive edge by enabling better client offers (Hofer et al., 2019; Katsikeas, 1994). There are few studies on pricing capability, but they imply that firms with greater pricing flexibility can provide the best value for money. The majority of the studies found that a company's pricing power leads to a competitive advantage considering the low costs than its competitors (Vorhies and Morgan, 2005; Pham et al., 2017; Zou et al., 2003). Hence, the second hypothesis states that exporting SMEs' product innovation capabilities and competitive advantage are related.

H_3: There is a positive relationship between exporting SMEs' pricing capability and competitive advantage.

The ability of a company to develop, manage, and deploy its marketing communication program is referred to as marketing communication capability (Pham et al., 2017; Zou et al., 2003). According to Kamboj et al. (2015), a firm with marketing capability outperforms those focusing simply on operational capabilities in terms of financial performance. According to Ahmadi et al. (2014), marketing communication assisted a new technology company in India in demonstrating its product benefits. The capacity to distinguish product offerings from competitors through a well-executed marketing strategy can provide value. Marketing communication capabilities allow businesses to better identify, connect, and serve their target markets, resulting in improved business success (Hao and Song, 2016; Takahashi et al., 2016). Marketing communication skills may aid firms in gaining a competitive advantage, particularly for exporting firms that can balance national and worldwide communication programs (Weerawardena, 2003).

These predictions are reflected in the following hypotheses:

H_4: There is a positive relationship between exporting SMEs' marketing communication capability and competitive advantage.

2.2. Exporting SMEs' competitive advantage and SMEs' international performance

The specific value of a product or service in which a company can outperform its competitors is referred to as a competitive advantage (Porter, 1985). Offering low-cost or differentiated products or services, for example, can help a company become more competitive (Kaleka, 2002). Despite Porter's (1985) assertion that low cost and differentiation are mutually exclusive notions, Kaleka and Morgan (2017) discovered that many firms attempt to obtain both a price and a product advantage at the same time. Their research found that achieving both a price and a product advantage improves international performance. The majority of prior studies have found that competitive advantage is positively related to firm performance. (Kamboj et al., 2015; Rua et al., 2018; Zou et al., 2003). Meanwhile, such as Chelliah et al. (2010), found no significant effect of competitive advantage on SME internationalization. As a response, more research is conducted, particularly for SMEs, to confirm the relationship between competitive advantage and international performance.

H_5: There is a positive relationship between SMEs' competitive advantage and SMEs' international performance.

Although studies on the determinants of international performance have produced mixed results regarding the effects of capabilities on firm performance (Beleska-Spasova, 2014), recent research suggests that omitted mediator variables such as competitive advantage may be a possible cause of the mixed findings on the capability-

performance relationship (Rua et al., 2018). As a reason, we argue competitive advantage mediates the relationship between exporting SMEs' capabilities and international performance.

These expectations are contained in the following hypotheses:

H_6: Competitive advantage mediates the relationship between SMEs' market intelligence capability and SMEs' international performance.

H_7: Competitive advantage mediates the relationship between SMEs' product innovation capability and SMEs' international performance.

H_8: Competitive advantage mediates the relationship between SMEs' pricing capability and SMEs' international performance.

H_9: Competitive advantage mediates the relationship between SMEs' marketing communication capability and SMEs' international performance.
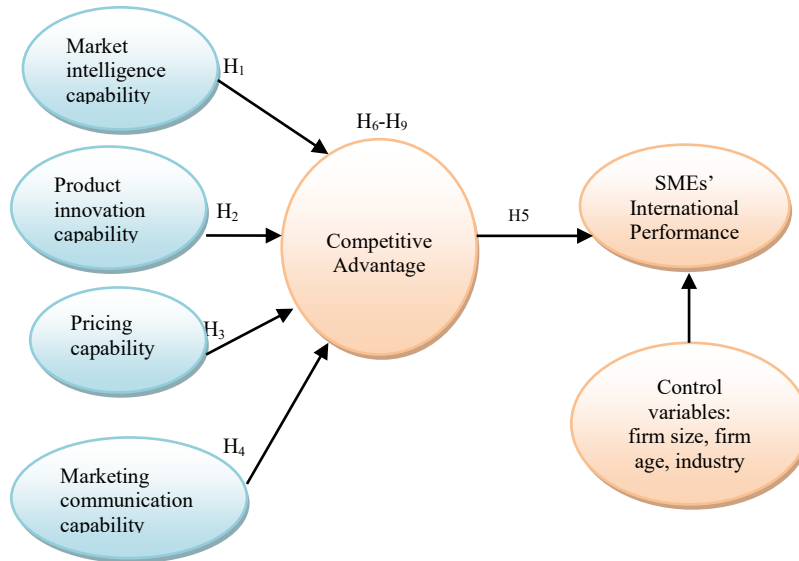

Figure 1. The proposed model

3. Methods

The organizations chosen for this study are Indonesian SMEs whose export. The person in charge of the company's effort, usually the export manager is the decision-maker who is the target of the survey. To ensure that the sample includes SMEs that are active and export frequently, only firms that generate at least 25% of their income from export are examined (Falahat et al., 2018). The study used the Indonesia Economy and Trade directory as a sampling frame (bps.go.id). In totality, a final dataset of 100 Indonesian SMEs actively exporting was collected and analyzed in 2020 - 2021.

3.1. Measures of variables

Construction based on a though literature research, measurement items were introduced. Operationalizations tested in prior studies were employed to assist cumulative research. Measures were operationalized as multi-item constructs and assessed using a point Likert scale ranging from strongly disagree (1) to strongly agree (5). There are two components to the survey questionnaire. Part 1 was made up of questions about variables, whereas part 2 was made up of questions about company information. Construction descriptions and related indicators are shown in table 1. Based on the scale developed by Falahat et al., a construct was created to measure the international performance of SMEs (2018). A total of eight criteria were revised to assess the international performance of SMEs. Kaleka and Morgan (2017) established a ten-item scale to operationalize market intelligence capabilities, product innovation capabilities, pricing capabilities, and marketing communication skills, whereas Pham et al. (2017) developed a scale to operationalize competitive advantage.

3.2. Measurement Model

Structural Equation Modeling (SEM) is used for the measurement, validation, and testing of structural models. SEM is particularly effective for evaluating complex models and including latent variables. In particular, the application of the approach used is Smart PLS (Ringle et al., 2015). Different approaches were used to assess the data set's unidimensionality and reliability. The degree to which items are devoid of random error and, as a result, produce consistent results is measured by construct dependability.

4. Results and Discussion

The composite reliability (CR) index and the average variance extracted (AVE) index were used to calculate measure reliability in this study. Both indices outperformed the evaluation requirements on all metrics, with the CR index scoring 0.7 and the AVE index scoring 0.5. The consistency of various constructs is assessed using convergent validity. Many of the values in table 1,2,3 were within the required range, suggesting internal consistency, reliability, and convergent validity. Fornell and Larcker's (1981) criterion, that the square root of AVE for each construct (diagonal elements of the correlation matrix in table 4) should be greater than the absolute value of inner construct correlations, was used to assess discriminant validity – the extent to which different constructs diverge from one another.

This condition was met by all constructions, implying that the items had greater variance with their constructs than with other constructs. The Heterotrait-Monotrait Ratio of Correlations (HMTM) was also employed to verify discriminant validity (Henseler et al., 2015). HTMT value greater than 0.85 indicates a problem with discriminant validity. All of the constructs' HTMT values were less than 0.85, as indicated in table 5. In conclusion, these tests indicated that discriminant validity did not pose a significant threat in this research. The methods section should describe the procedures used and include sufficient information (such as subjects and measurements) so that a reader can evaluate the credibility of results and interpretation in the light of possible methodological limitations.

Table 1. Measurement Model Result (Competitive advantage)

	Decsription of items Competitive advantage	Mean	SD	Outer Loading	CR	AVE
CA_1	Our cost	3.37	0.965	0.770	0.907	0.507
CA_2	Our selling price	3.45	0.908	0.808		
CA_3	Product quality	4.07	0.746	0.763		
CA_4	Packaging, branding, and unique product design	3.83	0.807	0.815		
CA_5	Product or change a product by the requirements/wants of the consumer.	4.15	0.690	0.849		
CA_6	Product accessibility	3.81	0.835	0.622		
CA_7	Technical assistance and after-sales servicing are available		0.837	0.591		
CA_8	Delivery speed and reliability	3.90 3.80	0.703	0.683		
CA_9	Customer feedback on service quality	3.92	0.640	0.54		
CA_10	Overall satisfaction with service provided to customers	3.90	0.669	0.587		

Source: The data was processed (2021)

Table 2. Measurement Model Result (Company's Competitive Capabilities)

	Description	Mean	SD	Outer loading	CR	AVE
	Market intelligence capability				0.956	0.818
MI_1	The ability to quickly understand changes in export market regulations	3.65	0.863	0.877		
MI_2	The ability to detect changes in export consumers' preferences promptly	3.74	0.831	0.920		
MI_3	The ability to pick up on changes in competitors' plans immediately	3.43	0.882	0.908		
MI_4	The ability to collect on changes in distribution networks quickly.	3.60	0.900	0.905		
MI_5	The capacity to quickly acquire changes in demand and preferences in export markets.	3.65	0.882	0.908		
	Marketing communication capability				0.971	0.900
Mkt_1	The ability to design and implement effective export marketing communication strategies.	3.48	0.860	0.942		
Mkt_2	The ability to launch marketing communication strategies for export markets.	3.40	0.886	0.949		
Mkt_3	The ability to plan and execute export marketing communication campaigns.	3.45	0.889	0.957		
Mkt_4	The ability to skillfully use marketing communication programs	3.50	0.908	0.942		
	Product innovation capability				0.952	0.871
PI_1	The ability to modify products to fulfill the needs and tastes of export markets.	3.93	0.850	0.913		
PI_2	Ability to create new products/services for international markets.	3.87	0.878	0.940		
PI_3	The ability to manage new product development for export markets successfully	3.86	0.873	0.944		
	Pricing capability				0.954	0.842
Price_1	The ability to make pricing adjustments in export markets.	3.82	0.871	0.920		
Price_2	The ability to react promptly to pricing measures taken by export competitors.	3.75	0.885	0.930		
Price_3	In terms of price considerations, the ability to effectively respond to client needs.	3.85	0.810	0.928		
Price_4	The ability to communicate pricing information to customers effectively.	3.84	0.835	0.888		
	SMEs'International performance				0.956	0.739

Source: The data was processed (2021)

Table 3. Measurement Model Result (Company's Competitive Capabilities)

	Description	Mean	SD	Outer Loading
Perf_1	Profits from foreign sales	3.74	0.818	0.776
Perf_2	Export sales	3.70	0.890	0.890
Perf_3	Contribution of export sales to total sales	3.85	0.861	0.828
Perf_4	Extending the scope of our market coverage.	3.74	0.963	0.901
Perf_5	Entering new market segments in international market	3.60	0.989	0.880
Perf_6	Creating a presence for the goods on the international market.	3.64	0.950	0.898
Perf_7	Improving knowledge on international markets	3.74	0.768	0.878
Perf_8	Acceptance of the product by customers promptly.	3.63	0.867	0.812

Source: The data was processed (2021)

Table 4. Discriminant Validity (Fornell-Larcker Criterion)

	CA	Perf	MIL	Mkt	Price	PI
CA	0.711					
Perf	0.325	0.859				
MI	0.480	0.400	0.904			
Mkt	0.470	0.416	0.756	0.947		
Price	0.509	0.314	0.610	0.653	0.917	
PI	0.475	0.312	0.667	0.593	0.663	0.932

Source: The data was processed (2021)

The square root of the AVE is represented by the diagonal numbers in bold, whereas the off-diagonal figures are correlations.

Table 5. Discriminant Validity (Heterotrait-Monotrait Ratio (HTMT)

	CA	Perf	MI	Mkt	Price	PI
CA						
Perf	0.350					
MI	0.518	0.422				
Mkt	0.500	0.433	0.792			
Price	0.554	0.331	0.646	0.685		
PI	0.518	0.333	0.713	0.627	0.699	

Source: The data was processed (2021)

The hypothesis y tested was by using PLS-SEM. A complete bootstrap configuration was used with samples, the substitution of the mean for missing values, and a two-tailed test to test hypotheses. Market intelligence, product innovation, and pricing capability are all positively associated with a competitive advantage, as seen in table 6, supporting hypotheses H_1 to H_3. Hypothesis H_5 was confirmed since competitive advantage was strongly associated with SMEs' international performance. Hypothesis H_4 received no support, indicating that there is no significant link between marketing communication and competitive advantage. The Variance Inflation Factor (VIF) was used to explore issues with multicollinearity. Table 6 shows that multicollinearity was not a concern among the exogenous

latent constructs, as all VIF values were less than 5. As a result, multicollinearity is not a concern in this research. To assess the mediating effects, the bootstrapping approach was used. In the PLS-SEM context, this is the most suggested method for testing mediation (Hair et al., 2014; Zhao et al., 2010). Table 7 shows the indirect linkages as well as the outcomes of the hypothesis testing. The statistical analysis found no evidence to support hypotheses H_6, H_7, or H_9. Findings, on the other hand, revealed that competitive advantages mediate the association between pricing capabilities and SMEs' international performance, confirming hypothesis H_8. The research model explained 44.0 percent of competitive advantage variance and 23.0 percent of SMEs' international performance variance based on R square results. As a result, the model's predictive relevance fulfilled the rule of thumb of $Q^2 > 0$. (Hair et al.,2014).

Table 6. Structural relationship and hypothesis testing

Paths	Std. Beta	Std. Error	t-value	VIF	R-square	Decision
H1: MI → CA	0.150	0.087	1.724*	2.850	0.440	H1 Supported
H2: PI → CA	0.144	0.083	1.739*	2.236		H2 Supported
H3: Price → CA	0.254	0.081	3.156	2.21		H3 Supported
H4: Mkt → CA	0.106	0.091	1.16	2.722		H4 Not supported
H5: CA → Perf	0.327	0.06	5.48	1.007	0.230	H5 Supported

Source: The data was processed (2021)

Table 7. Mediation effect testing

Paths	Std. Beta	Std. Error	t-value	Decision
H6: MI → CA → Perf	0.049	0.031	1.578	H6 not supported
H7: PI → CA → Perf	0.047	0.030	1.584	H7 not supported
H8: Price → CA → Perf	0.083	0.030	2.76	H8 supported
H9: Mkt → CA → Perf	0.035	0.032	1.079	H9 not supported

Source: The data was processed (2021)

6. Conclusion and Recommendation
6.1. Conclusion
Market knowledge, product innovation, and pricing capabilities are three important capabilities that contribute to a competitive advantage for Indonesian exporting SMEs, according to the findings. In other words, the ability of Indonesian exporting SMEs to adapt to market intelligence, innovate on their products to seize market opportunities, and offer reasonable prices supports their competitive advantage. This study helps to understand the factors that influence SMEs' worldwide performance. It reflects the fact that exporting SMEs rely on both product and cost advantages. Furthermore, The findings revealed that only pricing capability has a direct impact on SMEs' worldwide performance. This emphasizes the importance of pricing capability in achieving international success. As a result, while product innovation may provide a competitive edge, a reasonable price may be required to leverage product innovation. The findings show that marketing communication competence has little effect on competitive advantage for Indonesia exporting SMEs, contradicting the findings of Pham et al (2017). This could be explained by the fact that Pham et al. (2017) conducted their research in the United Kingdom, whereas ours is focused on Indonesia exporting SMEs.

6.2. Recommendation

Several things can be recommended in this article. Compared to other capacities, some of these companies may focus less on marketing communications. This could be because Indonesia exporting SMEs prefer to invest in product and process innovation over marketing communication programs. Only capabilities that are valued, unique, inimitable, and non-substitutable can be a source of competitive advantage, according to the firm's RBV. Research results reveal the four basic useful qualities for competitive advantage that are consistent with this idea. In this way, the findings of this study add to previous research on the relationship between organizational competence, competitive advantage, and international performance. This study highlights entrepreneurs and policymakers engaged in organizational capability development by examining four critical capabilities as predictors of competitive advantage for the performance of SMEs worldwide. The findings show that market intelligence, product innovation, and marketing communication capabilities are insufficient to achieve acceptable results in international markets. Parallel to attempt to create market intelligence and product innovation capabilities for competitive advantages, exporting companies must not neglect their pricing capability to enhance their international performance. Continuous process improvement cost control and the removal of needless operational inefficiencies could be some strategies for improving pricing capabilities.

There are some limitations to this research. First, consider three general competitive advantages of Kaleka (2002), which are limited to price, product, and service. As a function, the impact of other potential competitive advantages that may apply to exporting SMEs has been ignored. Second, this study mainly focused on the direct relationship between capabilities and competitive advantage, disregarding any potential interrelationships between the four skills. Researchers may consider expanding the model in future studies by researching the determinants of each competence or exploring new capabilities (such as networking capability, digital capability, etc.) that may contribute to SMEs' international competitiveness. Future researchers could indeed explore the interrelationships between capacities. Researchers could also consider conducting a comparison study between low- and high-intensity exporters.

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