International Journal of Economics, Commerce, and Management

E-ISSN: 3047-9754
P-ISSN: 3047-9746

Research Article

The Impact of Innovation and Digitalisation on the Internationalisation Readiness of SMEs in Indonesia: A Resource-Based View Approach

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Abstract: MSMEs play a dominant role in the Indonesian economy, but their contribution to the international market remains relatively limited. This situation indicates that the readiness for internationalisation of MSMEs remains a significant issue, particularly in relation to innovation and digitalisation capabilities as strategic resources. This study aims to analyse the influence of innovation and digitalisation on the readiness for internationalisation of MSMEs in Indonesia using the Resource-Based View approach. The study employs an explanatory quantitative design with a survey approach involving 200 owners or primary managers of SMEs in East Java, selected via purposive sampling. Data were analysed using SEM-PLS. The results indicate that innovation and digitalisation have a positive and significant influence on the internationalisation readiness of SMEs. Digitalisation demonstrates a stronger influence than innovation. The structural model also exhibits adequate explanatory and predictive power. These findings confirm that internationalisation readiness is determined not only by market opportunities but also by the ability of SMEs to strategically manage innovation and digital technology. The implications of this study emphasise the importance of strengthening innovation and digitalisation capabilities as the foundation for formulating SME development strategies that are better prepared to enter international markets.

Keywords: Digitalisation; Innovation; Internationalisation Readiness; Resource-Based View; SMEs

Received: November 7, 2025
Revised: January 2, 2026
Accepted: February 27, 2026
Published: April 24, 2026
Curr. Ver.: April 24, 2026

1. Introduction

Micro, small and medium-sized enterprises hold a central position in Indonesia's economic structure. However, the significant role of SMEs in the domestic economy has not yet fully translated into global competitiveness. The fundamental issue is not merely low export participation, but also the uneven internal readiness of MSMEs to enter international markets sustainably. Consequently, the issue of MSME internationalisation must be addressed from the strategic readiness stage, not merely through final export achievements.

In recent years, digital transformation has changed the way MSMEs seek markets, interact with customers, and manage business operations. Digitalisation expands access to market information, reduces the cost of finding partners, and opens up cross-regional transaction channels through e-commerce, social media, and digital payments. Denicolai et al. (2021) demonstrate that digitalisation is a key growth pathway for SMEs, although its effects on internationalisation can be either synergistic or substitutive depending on the firm's context. On the other hand, Bargoni et al. (2024), through a systematic review, confirm that

the relationship between digitalisation and SME internationalisation is still evolving and not yet fully established.

In addition to digitalisation, innovation is also a key prerequisite for readiness for internationalisation. Innovation in products, processes, marketing, and business models helps SMEs build differentiation and enhance their ability to adapt to the preferences of foreign markets. Jean et al. (2024) found that business model innovation has a positive impact on the international performance of SMEs. This finding suggests that the renewal of value creation models plays a direct role in competitive ability within a cross-border environment.

The relationship between innovation, digitalisation, and internationalisation can be explained through the Resource-Based View. This perspective states that competitive advantage stems from resources and capabilities that are valuable, rare, difficult to imitate, and difficult to substitute. In the context of SMEs, these resources do not always take the form of physical assets, but also include knowledge, innovation capacity, organisational agility, and digital capabilities. Aïssaoui et al. (2025) emphasise that the assessment of resources for internationalisation decisions is contextual and influenced by both the institutional and cultural environment. Therefore, testing within the context of Indonesian SMEs remains relevant.

2. Literature Review

At the empirical level, the findings of previous research have not been entirely consistent. Dung and Dung (2024) demonstrated that digital technology and business model innovation play a significant role in the internationalisation of SMEs, but the non-linear effect of digital technology on internationalisation was not significant. Zhang et al. (2025) also indicate that digital platforms and internal digitalisation can drive SME internationalisation, but under certain conditions, internal digitalisation actually weakens the influence of commercial platforms. These differing results suggest that the effects of innovation and digitalisation need to be interpreted with greater caution, particularly at the readiness stage.

Given these circumstances, this study aims to analyse the influence of innovation and digitalisation on the internationalisation readiness of SMEs in Indonesia. Specifically, the study focuses on SMEs in East Java that have utilised elements of innovation and/or digitalisation in their business activities. The main contribution of this research lies in positioning internationalisation readiness as the primary endogenous construct and simultaneously testing innovation and digitalisation within a single Resource-Based View framework.

Table 1. Development of Research Hypotheses

Code	Hypothesis	Theoretical Framework	Supporting Sources
H1	Innovation has a positive effect on the internationalisation readiness of SMEs.	Innovation enhances differentiation, market adaptation, and the value of internal resources within the RBV framework.	Jean et al. (2024); Sipos et al. (2025)
H2	Digitalisation has a positive effect on the internationalisation readiness of SMEs.	Digitalisation expands access to information, process integration, and cross-regional market connectivity.	Denicolai et al. (2021); Bargoni et al. (2024); Zhang et al. (2025)

3. Research Method

This study employs an explanatory quantitative approach using a cross-sectional survey design. This design was chosen as the study aims to test causal relationships among latent constructs namely innovation, digitalisation, and readiness for internationalisation and to evaluate the model's predictive power. The selection of SEM-PLS aligns with the recommendations of Hair and Alamer (2022) and Ringle et al. (2023), who emphasise that PLS-SEM is suitable for predictive models, multiple latent constructs, and the simultaneous testing of structural relationships and measurement models.

The study population comprises all MSME operators in East Java who have utilised elements of innovation and/or digitalisation in their business activities, whether in product, process, marketing, or operational aspects. The sample consisted of 200 MSME owners or principal managers, selected using purposive sampling. Inclusion criteria included: the business is actively operating, has been in operation for at least two years, the respondent is

the owner or principal manager, the business utilises digital technology in its operations, and the business has a market orientation beyond the local area or maintains external business relationships.

The research instrument utilised a closed-ended questionnaire with a five-point Likert scale. The innovation variable was operationalised as the ability to implement updates to products, processes, marketing, and business models. The digitalisation variable was measured through the utilisation of digital technology for marketing, transactions, customer communication, operational management, and the use of digital information. The internationalisation readiness variable was measured through market information readiness, product adaptation readiness, external network readiness, operational-managerial readiness, and resource commitment readiness.

Data analysis was conducted in two stages. The first stage involved evaluating the measurement model through outer loading tests, Cronbach's alpha, composite reliability, average variance extracted, and HTMT. The second stage involved the evaluation of the structural model through tests of collinearity, path coefficients, the coefficient of determination, effect size, predictive relevance, and bootstrapping of 5,000 subsamples. Decision thresholds followed current PLS-SEM reporting practices as suggested by Hair and Alamer (2022) and Ringle et al. (2023).

Table 2. Operationalisation of Variables

Variable	Operational Definition	Dimension/Indicator	Scale	Conceptual Source
Innovation (X1)	The ability of MSMEs to implement relevant updates to products, processes, marketing, and business models.	Product innovation; process innovation; marketing innovation; business model innovation.	1–5-point Likert scale	Jean et al. (2024); Sipos et al. (2025)
Digitalisation (X2)	Level of digital technology utilisation in marketing, transactions, customer communication, operations, and business data.	Digital marketing; e-commerce; digital payments; digital record-keeping/operations; data utilisation.	Likert 1–5	Pingali et al. (2023); Faiz et al. (2024)
Internationalisation Readiness (Y)	Readiness of resources, knowledge, orientation, and organisational capabilities to systematically enter markets outside the local region.	Market information; product adaptation; external networks; operational readiness; resource commitment.	Likert 1–5	Aïssaoui et al. (2025); Denicolai et al. (2021)

4. Results and Discussion

The majority of respondents were from micro and small enterprises in the food and beverage, fashion, handicrafts, trade, and creative services sectors. The majority had been in business for over three years, and all respondents had utilised at least one form of digital technology in their business activities. These characteristics indicate that the sample aligns with the research focus, namely MSMEs that have begun to build innovation and digitalisation capabilities but have not yet been fully internationalised in practice.

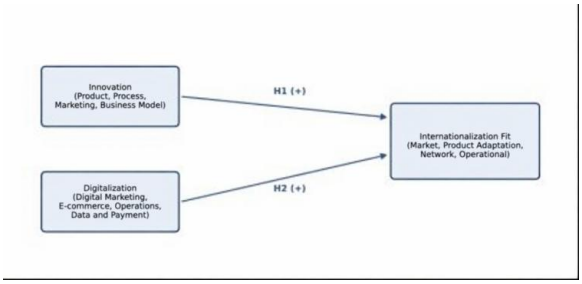

Figure 1. Conceptual Framework of the Research

Table 3. Results of the Measurement Model Evaluation

Construct	Indicator	Outer Loading	Cronbach's α	CR	AVE
Innovation	INV1	0.786	0.824	0.883	0.655
	INV2	0.842			
	INV3	0.801			
	INV4	0.785			
Digitalisation	DIG1	0.774	0.869	0.905	0.657
	DIG2	0.836			
	DIG3	0.861			
	DIG4	0.741			
	DIG5	0.811			
Readiness for Internationalisation	KI1	0.812	0.882	0.913	0.679
	KI2	0.758			
	KI3	0.872			
	KI4	0.844			
	KI5	0.824			

All indicators have outer loadings above 0.70, whilst Cronbach's alpha, composite reliability, and AVE for all constructs are above the recommended minimum thresholds. These results indicate that the measurement model has met the criteria for internal reliability and convergent validity.

Table 4. Discriminant Validity

Construct	Innovation	Digitalisation	Readiness for Internationalisation
Innovation	-		
Digitalisation	0.671	-	
Readiness for Internationalisation	0.742	0.781	-

The inter-construct values are below 0.85, so discriminant validity can be considered to have been met.

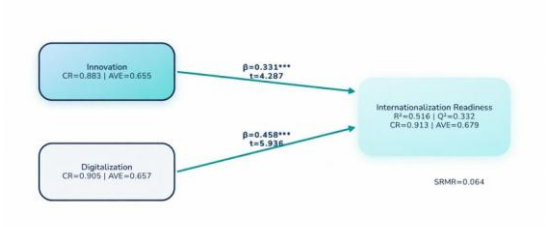

Figure 2. SEM-PLS Structural Model

The structural model examines the influence of two independent variables on Internationalization Readiness.

Innovation and Digitalization are hypothesized to positively affect Internationalization Readiness as follows:

a. Innovation has a significant positive effect on Internationalization Readiness ($\beta = 0.331$, $t = 4.287$, $p < 0.001$).
b. Digitalization has a significant positive effect on Internationalization Readiness ($\beta = 0.458$, $t = 5.936$, $p < 0.001$).

The model explains 51.6% of the variance in Internationalization Readiness ($R^2 = 0.516$), with a predictive relevance of $Q^2 = 0.332$. The model demonstrates good fit with SRMR = 0.064.

Table 5. Hypothesis Testing Results and Structural Model

Path	β	t-statistic	p-value	f^2	Decision	R^2	Q^2
Innovation -> Readiness for Internationalisation	0.331	4.287	<0.001	0.157	H1 accepted	0.516	0.332
Digitalisation -> Readiness for Internationalisation	0.458	5.936	<0.001	0.262	H2 accepted		

The bootstrapping results indicate that innovation and digitalisation have a positive and significant effect on the internationalisation readiness of SMEs. Digitalisation has a larger path coefficient than innovation. The R^2 value of 0.516 indicates that the variation in internationalisation readiness can be moderately explained by both exogenous variables, whilst the Q^2 value of 0.332 indicates adequate predictive relevance of the model. The SRMR value of 0.064 also indicates acceptable model fit.

Figure 3. Comparison of Path Coefficients

The first finding shows that innovation has a positive effect on internationalisation readiness. This result confirms that the ability to innovate in products, processes, marketing, and business models enhances SMEs' readiness to adapt their offerings and manage market demands beyond the local region. From a Resource-Based View perspective, innovation can be positioned as an internal capability that creates value and reduces competitive vulnerability. This finding aligns with Jean et al. (2024) and Sipos et al. (2025), who position innovation as a source of strategic advantage relevant to market expansion.

The second finding indicates that digitalisation has a positive and stronger influence on internationalisation readiness than innovation. This suggests that digital technology no longer functions merely as a promotional tool, but rather as strategic infrastructure for market intelligence, transaction efficiency, coordination of external relationships, and business process integration. This finding supports Denicolai et al. (2021), Bargoni et al. (2024), and Zhang et al. (2025), who emphasise the importance of digital platforms and digital capability for the internationalisation process of SMEs.

Nevertheless, the results of this study do not negate the existence of differing empirical evidence. Dung and Dung (2024) demonstrate that the non-linear effect of digital technology on internationalisation is not significant. Zhang et al. (2025) also found that, under certain conditions, internal digitalisation can weaken the influence of commercial platforms on internationalisation. Consequently, the impact of innovation and digitalisation cannot be assumed to be automatic. The effect is highly dependent on the quality of capability integration, market orientation, and the depth of digital technology utilisation.

Theoretically, this study extends the application of the Resource-Based View by positioning internationalisation readiness as a crucial mediating construct prior to actual international performance. These findings align with Aïssaoui et al. (2025), who emphasise that internationalisation decisions rely on the evaluation of internal resources and are highly context-dependent. In practical terms, the research results suggest that SME strengthening programmes should not stop at the adoption of basic technology, but need to guide SMEs towards the development of innovation capabilities, data utilisation, product curation, and the building of external market relationships simultaneously.

5. Conclusion

This study demonstrates that the internationalisation readiness of SMEs is shaped by strategic internal capabilities, particularly innovation and digitalisation. Both variables were found to have a positive and significant influence on internationalisation readiness, with digitalisation exerting a stronger effect. These findings confirm that readiness to enter international markets is determined not only by external opportunities but also by SMEs' ability to manage business renewal and digital technologies in an integrated manner.

Theoretically, the research findings reinforce the relevance of the Resource-Based View in explaining the readiness phase towards SME internationalisation. Practically, the results support the need for SME development strategies that position innovation and digitalisation as two key pillars. For future research, it is recommended to test longitudinal models and include mediating or moderating variables, such as entrepreneurial orientation, network quality, institutional support, or digital maturity, to provide a more comprehensive explanation of readiness for internationalisation.

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