Strategic Planning and Innovation as Essential Determinants of MSMEs' International Performance: Evidence from Emerging Markets

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Abstract. The internationalisation of MSMEs in emerging markets faces complex challenges, yet understanding of the critical factors that influence their international performance is limited. This study aims to analyse the role of strategic planning and innovation as critical success factors in the international performance of MSMEs in emerging markets. Using a quantitative approach, a survey was conducted on 600 creative industry MSMEs in Indonesia, with data analysis using Structural Equation Modeling (AMOS). Results show that strategic planning and innovation have a significant positive influence on the international performance of MSMEs, with innovation acting as a key mediator. Management capability, market orientation and international business networks are identified as additional critical success factors. Market dynamics moderate the relationship between innovation and international performance, while the effectiveness of strategic planning varies by MSME size. The findings contribute to the development of an integrated model of MSME internationalisation and highlight the importance of a holistic approach in supporting MSME global expansion. Implications include recommendations for the development of integrated training programmes and policies that encourage innovation and facilitate access to international networks for MSMEs.

Keywords: MSMEs, internationalisation, innovation.

1. BACKGROUND

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the global economy, particularly in developing countries. In Indonesia, MSMEs contribute significantly to Gross Domestic Product (GDP) and employment. However, in the face of international competition in the digital era, MSMEs face increasingly complex challenges. Strategic planning and innovation are key success factors for MSMEs in navigating this dynamic business landscape. A recent study by Aviyanti and Widyastuti (2024) revealed that entrepreneurial and transformational leadership styles are highly influential in driving strategic planning, innovation management, and competitive positioning of MSMEs in Indonesia[2].

Globalisation and digitalisation have changed the way MSMEs operate and compete in international markets. Digital transformation is emerging as a critical factor to improve operational efficiency and market reach. Research shows that digital technology adoption and

innovation-oriented technology assimilation strategies have a positive impact on MSME performance (Sulistyo & Ayuni, 2020). However, not all MSMEs are successful in adopting digital technology. A study by Pratono (2021) found that technology orientation is not always positively correlated with MSME performance, suggesting complexity in the technology adoption process.

In this context, strategic planning becomes increasingly important. MSMEs that are able to integrate strategic planning with innovation tend to be more successful in international expansion. Research by Wijaya et al. (2022) shows that entrepreneurial orientation and entrepreneurial competence, which are important elements in strategic planning, have a positive influence on MSME performance through the mediation of innovation. This finding confirms the importance of developing strategic and innovative capabilities in improving the competitiveness of MSMEs in the global market.

However, MSMEs in developing countries like Indonesia still face capability gaps in strategic planning and innovation. Limited resources and knowledge are often the main obstacles. The study by Rahayu et al. (2023) identified that supply chain management practices and market orientation have a positive impact on MSME performance, with innovation as a moderating variable. However, implementation of these practices is still limited among Indonesian MSMEs, suggesting a gap that needs to be addressed.

These challenges are compounded by the complexity of the international business environment. MSMEs must adapt to different regulations, diverse consumer preferences, and fast-changing market dynamics. Recent research by Susanto and Meiryani (2023) emphasises the importance of relational capabilities and knowledge management in improving MSME innovation performance. They found that MSMEs that are able to build strong business networks and manage knowledge effectively tend to be more innovative and successful in international markets. These findings highlight the importance of a holistic approach in MSME strategy development and innovation to face the challenges of globalisation.

2. THEORETICAL REVIEW

While MSMEs have great potential for international expansion, their failure rate in entering the global market is still quite high. This is due to various factors, including gaps in strategic planning capabilities and innovation in MSMEs in developing countries. Recent research by Aviyanti and Widyastuti (2024) revealed that entrepreneurial and transformational leadership styles are highly influential in driving strategic planning and innovation management of MSMEs in Indonesia. However, a study by Kharel and Dahal (2020) showed

that MSMEs still face key challenges such as lack of skilled labour and funding issues, which hinder their ability to develop effective strategies and innovate in an international context.

The complexity of the challenges faced by MSMEs in adopting innovation practices is further exacerbated by the fast-changing dynamics of the global market. Sulistyo and Ayuni (2020) found that digital technology adoption and innovation-oriented technology assimilation strategies have a positive impact on MSME performance. However, not all MSMEs are successful in adopting digital technology. A study by Pratono (2021) revealed that technology orientation is not always positively correlated with MSME performance, suggesting complexity in the process of technology adoption and innovation. This underscores the importance of a more nuanced approach in understanding and addressing the innovation challenges faced by MSMEs.

Limited resources and knowledge are often the main obstacles for MSMEs in developing strong strategic planning capabilities. Wijaya et al. (2022) found that entrepreneurial orientation and entrepreneurial competence have a positive influence on MSME performance through the mediation of innovation. However, the implementation of these practices is still limited among Indonesian MSMEs. Rahayu et al. (2023) identified that supply chain management practices and market orientation have a positive impact on MSME performance, with innovation as a moderating variable. These findings highlight the gap between the theoretical understanding of the importance of strategic planning and innovation, and the practical ability of MSMEs to implement them in an international context.

This study aims to analyse the relationship between strategic planning and international performance of MSMEs, with a particular focus on the context of developing countries. A recent study by Wijaya et al. (2022) shows that entrepreneurial orientation and entrepreneurial competence have a positive influence on MSME performance through innovation mediation. However, research by Pratono (2021) found that technological orientation is not always positively correlated with MSME performance, suggesting complexity in this relationship. In light of these mixed findings, this study aims to clarify the relationship between strategic planning and international performance of MSMEs, taking into account various contextual factors that may influence the relationship.

The second objective of this study is to identify innovation factors that influence the success of MSMEs in the global market. Sulistyo and Ayuni (2020) found that digital technology adoption and innovation-oriented technology assimilation strategies have a positive impact on MSME performance. Meanwhile, Susanto and Meiryani (2023) emphasised the importance of relational capabilities and knowledge management in improving the innovation

performance of MSMEs. This research aims to integrate these various perspectives and identify the most critical innovation factors for MSME success in international markets, taking into account the unique characteristics of MSMEs in developing countries.

The third objective is to develop an integrative framework for improving MSME capabilities in the context of internationalisation. Aviyanti and Widyastuti (2024) revealed the importance of entrepreneurial and transformational leadership styles in encouraging strategic planning and innovation management of MSMEs. Meanwhile, Rahayu et al. (2023) identified that supply chain management practices and market orientation have a positive impact on MSME performance, with innovation as a moderating variable. Based on these findings, this study aims to develop a comprehensive framework that integrates aspects of leadership, strategic management and innovation to enhance the capabilities of MSMEs in facing the challenges of internationalisation.

Although research on MSMEs has been widely conducted, there are still limited empirical studies that examine the relationship between strategic planning and innovation in the context of MSMEs, especially in developing countries. The study by Aviyanti and Widyastuti (2024) revealed the importance of entrepreneurial and transformational leadership styles in driving strategic planning and innovation management of MSMEs in Indonesia. However, the study has not fully explored how strategic planning and innovation together affect the international performance of MSMEs. Meanwhile, Sulistyo and Ayuni (2020) found that digital technology adoption and innovation-oriented technology assimilation strategies have a positive impact on MSME performance, but did not specifically discuss how this relates to strategic planning in the context of internationalisation.

The lack of comprehensive research in developing countries on the integration of strategic planning and innovation in the context of MSME internationalisation is also an important gap. Wijaya et al. (2022) showed that entrepreneurial orientation and entrepreneurial competence have a positive influence on MSME performance through the mediation of innovation. However, this study has not explicitly considered aspects of strategic planning in an international context. On the other hand, research by Rahayu et al. (2023) identified that supply chain management practices and market orientation have a positive impact on MSME performance, with innovation as a moderating variable. Nonetheless, the study has not comprehensively integrated aspects of strategic planning and innovation in the context of MSME internationalisation.

There is a need for models that can be applied in various emerging market contexts, given the unique characteristics of MSMEs in these countries. Research by Susanto and

Meiryani (2023) emphasises the importance of relational capabilities and knowledge management in improving the innovation performance of MSMEs. However, the proposed model has not fully accommodated the complexity of challenges faced by MSMEs in an international context. Meanwhile, a study by Pratono (2021) found that technology orientation is not always positively correlated with MSME performance, indicating the need for a more comprehensive model that considers various contextual factors in strategic planning and innovation of MSMEs in the global market.

This research offers an important contribution by developing an integrated model of strategic planning and innovation for MSMEs in the context of internationalisation. A recent study by Khalikussabir et al. (2024) shows that product innovation, effective marketing strategies, and collaboration have a significant influence on the ability of MSMEs to enter the global market. However, the study has not fully integrated aspects of strategic planning with innovation. The model developed in this study fills this gap by combining elements of strategic planning, innovation, and contextual factors that influence the international performance of MSMEs.

The theoretical contribution of this research lies in the development of strategic management and innovation literature in the context of MSMEs. Aviyanti and Widyastuti (2024) revealed the importance of entrepreneurial and transformational leadership styles in encouraging strategic planning and innovation management of MSMEs in Indonesia. Meanwhile, Sulistyo and Ayuni (2020) found that digital technology adoption and innovation-oriented technology assimilation strategies have a positive impact on MSME performance. This research extends that understanding by exploring how strategic planning and innovation jointly influence the international performance of MSMEs, providing a new perspective in understanding the dynamics of MSMEs in international markets.

The practical implications of this research are highly relevant for policy makers and MSME actors. The study by Wijaya et al. (2022) shows that entrepreneurial orientation and entrepreneurial competence have a positive influence on MSME performance through the mediation of innovation. However, the implementation of these practices is still limited among Indonesian MSMEs. This research provides a framework that can be applied to improve the capabilities of MSMEs in facing the challenges of internationalisation. The findings of Rahayu et al. (2023) that supply chain management practices and market orientation have a positive impact on MSME performance, with innovation as a moderating variable, are also integrated in the developed model. This provides practical guidance for MSMEs to optimise their planning and innovation strategies in a global market context.

3. RESEARCH METHODS

Research Design

This research adopts a quantitative approach with a cross-sectional survey design. This design was chosen for its ability to collect data from a large sample at a single point in time, enabling the analysis of complex relationships between variables (Hair et al., 2021). This approach is in line with a recent study by Khalikussabir et al. (2024) which examined the factors affecting the international performance of MSMEs in Indonesia.

Population and Sample

The study population included all MSMEs registered in the creative industry category in all regions of Indonesia. From this population, a sample of 600 MSMEs officially registered in the creative industry category in Indonesia was selected using a stratified random sampling technique. This technique ensures proportional representation of various creative industry sub-sectors and MSME sizes (Sekaran & Bougie, 2020). Inclusion criteria included MSMEs that have been operating for at least 3 years and have orientation or experience in international markets.

Research Procedure

The research procedure was conducted systematically and structured through the following stages:

1) Instrument development: The questionnaire was developed based on constructs identified from current literature. Content validity was tested through an expert panel and pilot study.

2) Data collection: Data was collected through online and face-to-face surveys, following strict protocols to ensure high response rates and good data quality.

3) Data filtering and cleaning: The collected data were screened to ensure completeness and consistency, with missing data handled using multiple imputation techniques (Kline, 2016).

4) Data analysis: Conducted in two stages, namely descriptive and inferential analyses, using SPSS and AMOS software.

Data Analysis Technique

Data analysis was carried out using Structural Equation Modeling (SEM) with AMOS software. The choice of SEM is based on its ability to examine complex relationships between latent variables simultaneously (Hair et al., 2021). The analysis procedure includes:

1) Confirmatory Factor Analysis (CFA) to test construct validity and reliability.
2) Testing the measurement model to ensure a good fit before testing the structural model.
3) Path analysis to test the research hypothesis.

Model fit was evaluated using indicators such as CFI, TLI, RMSEA, and SRMR, with criteria recommended by Hu and Bentler (1999). Mediation effects were tested using a bootstrapping procedure, following the recommendations of Preacher and Hayes (2008). It is important to note that although SEM has power in testing complex relationships, some recent studies have shown insignificant results in certain contexts. For example, a study by Pratono (2021) found that technology orientation is not always positively correlated with MSME performance, suggesting the need for caution in the interpretation of results and consideration of contextual factors.

4. RESULTS AND DISCUSSION

The results of analysis using AMOS showed significant differences between Strategic Planning, Innovation, and Critical Success Factors on MSMEs' International Performance. Strategic planning has a strong positive influence on MSMEs' international performance, with a path coefficient of 0.42 ($p < 0.001$). This finding is in line with the research of Wijaya et al. (2022) which revealed that entrepreneurial orientation and entrepreneurial competence, as elements of strategic planning, have a positive influence on MSMEs' performance. However, this relationship is not always linear, indicating the complexity in strategy implementation in the context of MSMEs.

Innovation proved to be an important mediator between strategic planning and international performance, with an indirect effect of 0.18 ($p < 0.01$). This result strengthens Sulistyo and Ayuni's (2020) findings on the positive impact of digital technology adoption and technology assimilation strategies on MSME performance. Interestingly, the direct effect of innovation on international performance (0.35, $p < 0.001$) is stronger than its mediating effect, indicating the importance of innovative capabilities in the global expansion of MSMEs.

Critical Success Factors analysis identified three main factors that had a significant effect: management capability ($\beta = 0.39$, $p < 0.001$), market orientation ($\beta = 0.31$, $p < 0.001$), and international business network ($\beta = 0.28$, $p < 0.01$). These findings expand the

understanding of critical factors in MSME internationalisation, as revealed by Aviyanti and Widyastuti (2024) regarding the importance of entrepreneurial and transformational leadership styles.

Nonetheless, some results show differences with previous studies. Technology orientation, which is often considered a key factor, showed an insignificant influence on international performance ($\beta = 0.09$, $p > 0.05$). This is in line with Pratono's (2021) findings that technological orientation is not always positively correlated with MSME performance, suggesting the need for a more nuanced approach to technology adoption.

Multi-group analysis showed significant differences in the effect of strategic planning on international performance between micro- and small-medium-sized MSMEs ($\Delta\chi^2 = 7.82$, $p < 0.01$). Larger MSMEs tend to benefit more from formal strategic planning, while micro MSMEs rely more on flexibility and adaptability. These findings enrich the discussion on contingency theory in the context of MSMEs, as discussed by Rahayu et al. (2023).

Finally, the results revealed a significant moderating role of market dynamics on the relationship between innovation and international performance ($\beta = 0.24$, $p < 0.01$). In a highly dynamic market, the effect of innovation on international performance becomes stronger. These findings extend the understanding of dynamic capabilities theory in the context of international MSMEs, as proposed by Susanto and Meiryani (2023), which emphasises the importance of adaptive capabilities in a fast-changing business environment.

5. CONCLUSIONS AND SUGGESTIONS

This research makes a significant contribution to the understanding of the factors that influence the international performance of MSMEs in emerging markets, focusing on strategic planning, innovation and critical success factors. The main findings of this study are:

1) Strategic planning has a significant positive influence on the international performance of MSMEs, confirming the importance of a systematic approach to global expansion.

2) Innovation acts as a key mediator between strategic planning and international performance, suggesting that innovative capabilities are a vital component in transforming strategy into competitive advantage in global markets.

3) Critical success factors, especially management capabilities, market orientation, and international business networks, have a significant influence on the international performance of MSMEs.

4) Market dynamics moderate the relationship between innovation and international performance, emphasising the importance of flexibility and adaptability in a fast-changing business environment.

5) MSME size affects the effectiveness of strategic planning, with larger MSMEs tending to benefit more from formal planning.

The results of this study extend the theory of MSME internationalisation by integrating the perspectives of strategic planning, innovation, and dynamic capabilities in an emerging market context. The model developed provides a comprehensive framework for understanding the complexity of the MSME internationalisation process.

Based on the research findings, several suggestions can be made:

1) For MSME Actors:

   a. Adopt a more systematic strategic planning approach, while remaining flexible to accommodate global market dynamics.

   b. Increase investment in innovation, whether in products, processes or business models, as a key to improving international competitiveness.

   c. Actively build and utilise international business networks for market access and resources.

2) For Policy Makers:

   a. Develop an integrated training programme covering strategic planning, innovation management, and international networking skills for MSMEs.

   b. Provide incentives and support for MSME innovation activities, especially those orientated towards international markets.

   c. Facilitate MSME access to international business networks through partnership programmes and trade shows.

3) For Researchers:

   a. Conduct longitudinal studies to understand the evolution of MSME internationalisation capabilities over time.

   b. Expand the study to other developing sectors and countries to improve the generalisability of the findings.

   c. Integrate qualitative methods for in-depth exploration of the mechanisms behind observed relationships.

   d. Further investigate the role of digital technology and industry 4.0 in the internationalisation of MSMEs.

The implementation of these suggestions is expected to improve the effectiveness of MSME internationalisation strategies, promote inclusive economic growth, and strengthen the position of MSMEs in global value chains. Further research is needed to continue deepening the understanding of the complex dynamics of MSME internationalisation in the evolving era of globalisation and digitalisation.

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