

GLOBAL VALUE CHAIN PARTICIPATION OF AN INDONESIAN MODEST FASHION SME'S: A CASE STUDY FROM MALANG



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ABSTRACT

This study examines the participation of an Indonesian modest fashion SME in the global value chain. The research focuses on an Abaya-producing SME in Malang that has expanded its market to several international destinations. Data were collected through in-depth interviews, observation, and supporting documentation, and analyzed thematically. The findings show that the firm entered export markets gradually through digital platforms, exhibitions, and direct communication with overseas buyers. Its global value chain participation was strengthened by trust-based relationships, product adaptation, quality control, and continuous learning in export procedures. The study also finds that internationalization encouraged capability upgrading and created local economic benefits through the involvement of community-based workers. This case suggests that SME participation in global value chains can develop incrementally through adaptive learning, relational governance, and strong local production linkages.

Keywords : Global Value Chain; Modest Fashion; SME Internationalization; Uppsala Model

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INTRODUCTION

Micro, small, and medium enterprises (MSMEs) play a strategic role in the Indonesian economy as the dominant business group and an important source of employment and income generation (Tambunan, 2019). However, their strong domestic contribution has not been fully matched by their participation in international markets. This condition indicates that the challenge faced by Indonesian MSMEs is not only related to business survival and local competitiveness, but also to their ability to connect local production with broader export opportunities (Tambunan, 2019). In this context, the global value chain (GVC) perspective becomes important because it explains how firms participate in cross-border production and market networks through coordination, knowledge flows, upgrading opportunities, and market linkages rather than through export transactions alone (Global Value Chain Development Report, 2023).

This issue is particularly relevant in the modest fashion industry. Indonesia's modest fashion sector has shown strong growth and has become increasingly visible in global halal industry competition (Yuniastuti & Pratama (2023). At the same time, the sector continues to face major challenges in accessing international markets, meeting market needs, improving technology use in marketing, and strengthening competitiveness against other countries. These conditions suggest that Indonesian modest fashion MSMEs have significant opportunities to expand internationally, but such expansion requires adaptive capabilities in product quality, customer responsiveness, communication, and export management (Yuniastuti & Pratama, 2023). In the context of halal-oriented SMEs, export acceleration also depends on several success factors, including product competitiveness, market information, institutional support, and the readiness of business actors to engage with export procedures and international market requirements (Faisal & Apriliadi, 2021).

Previous studies have shown that MSME internationalization is often gradual, learning-based, and increasingly influenced by digital development. Recent literature reviews indicate that SME internationalization is shaped by knowledge acquisition, network relationships, and market commitment, while digitalization has become an increasingly important enabler of international expansion, especially by supporting visibility, communication, and access to foreign customers (Calheiros-Lobo et al., 2023; OECD, 2024; Rosyidah et al., 2023). In the Indonesian context, this issue is also reflected in the apparel sector. Nugroho (2022) found that Indonesian apparel SMEs can enhance export competitiveness through participation in global value chains, particularly when they improve access to market linkages, external inputs, and upgrading opportunities. These findings show that successful internationalization is not simply a matter of exporting products, but also of becoming embedded in broader value chain relationships that shape learning and competitiveness.

Despite these insights, limited attention has been given to how a single Indonesian modest fashion MSME actually moves from local production to export markets in practice. Existing studies have often focused on sectoral patterns, policy issues, systematic reviews, or multi-case comparisons, while fewer studies examine in depth how internationalization is developed through everyday business interaction, trust-building with buyers, product adaptation, and local production arrangements (Calheiros-Lobo et al., 2023; Nugroho, 2022). This gap is important because many MSMEs do not internationalize through large formal strategies, but through gradual and relational processes shaped by real business constraints and opportunities. This study addresses that gap by examining an anonymized modest fashion MSME based in Malang, East Java, that produces abaya products and has served several overseas markets, including

Malaysia, Singapore, Brunei, and Dubai. The case is important because it illustrates how a locally embedded small business can participate in export activities while maintaining community-based production practices.

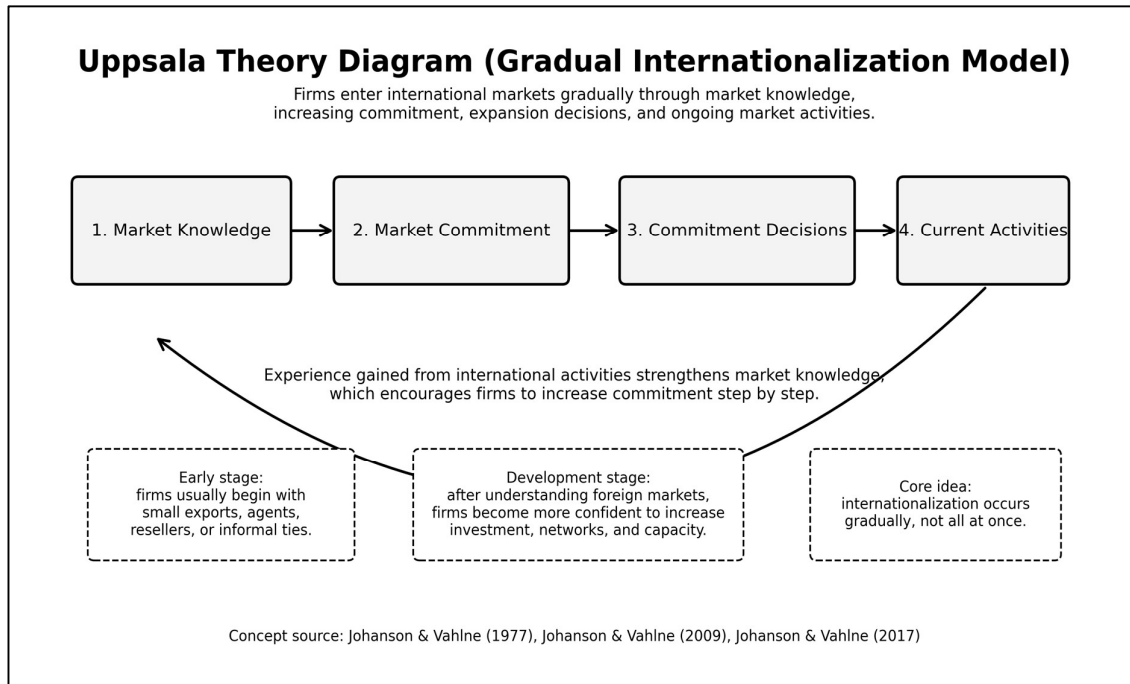
Therefore, this study aims to analyze the participation of an Indonesian modest fashion MSME in the global value chain through a qualitative case study. Specifically, the study explores how the firm entered export markets, coordinated with international buyers, developed business capabilities, and linked local production resources to international demand.

LITERATURE REVIEW AND RESEARCH FRAMEWORK

The global value chain (GVC) perspective explains how production, distribution, and market activities are organized across different actors and locations (Gereffi, et., al 2005). Rather than viewing export simply as a final transaction, the GVC perspective emphasizes how firms become connected to broader cross-border networks through coordination, specialization, and value-adding activities (Humphrey & Schmitz, 2002). In this framework, firms do not operate in isolation; instead, they participate in chains shaped by relationships with buyers, suppliers, logistics actors, and market intermediaries. For small and medium enterprises (SMEs), participation in the global value chain is important because it can provide access to international markets, information, knowledge, and opportunities for upgrading (Global Value Chain Development Report, 2023; Nugroho, 2022).

However, SME participation in GVCs is often uneven. Small firms commonly face structural constraints such as limited resources, lack of export knowledge, weak bargaining power, and dependence on external market channels (Nugroho, 2022). As a result, their position in the chain is shaped not only by internal capability, but also by the nature of coordination with external actors. In developing-country settings, this issue becomes even more relevant because SMEs frequently rely on informal market access, relational trust, and gradual learning to enter export markets (Tambunan, 2024). In this sense, SME participation in GVCs should be understood as a dynamic process that involves both internal adaptation and external linkages (Global Value Chain Development Report, 2023; Rosyidah et al., 2023).

In addition to the global value chain perspective, the internationalization process of SMEs can also be understood through the Uppsala model, which explains how firms gradually enter foreign markets through learning and increasing commitment (Johanson & Vahlne (2009) . This perspective is relevant because many SMEs, particularly in developing countries, do not internationalize through immediate large-scale expansion, but through a step-by-step process shaped by market knowledge, experiential learning, and repeated interaction with external actors. The model highlights that firms build international involvement incrementally as they gain confidence, develop market understanding, and strengthen their relationships with foreign partners (Johanson & Vahlne, 2009). In this sense, the Uppsala model complements the GVC perspective by explaining how SMEs build the capabilities and commitment needed to participate more actively in cross-border value chain relationships (Oliveira et al., 2018; Rosyidah et al., 2023). The following figure presents the main logic of the Uppsala model as a foundation for understanding the gradual internationalization of SMEs.



Source: Adapted from Johanson and Vahlne (1977, 2009, 2017)

Figure 1
The Uppsala Model of Gradual Internationalization

Governance in the global value chain

A key concept in global value chain (GVC) analysis is governance (Nugroho, 2022). Governance refers to the way relationships in the chain are coordinated, how requirements are communicated, and how standards are maintained among actors involved in production, distribution, and exchange. In recent GVC literature, governance is understood as an important mechanism that shapes how firms access markets, respond to lead-firm requirements, and improve their performance within cross-border production systems (Kresnawati, et.,al,2025). For SMEs, governance is especially relevant because participation in international markets often depends not only on product availability, but also on the ability to comply with buyer expectations, maintain coordination, and adapt to external demands (Global Value Chain Development Report, 2023; OECD, 2023).

For SMEs, governance is often relational in practice. Small firms commonly enter international markets through repeated interaction, communication quality, flexibility, and trust-building with buyers rather than through highly formalized and hierarchical arrangements (Lobo,et.,al,2023). In such situations, the continuity of export transactions is strongly influenced by the firm's ability to maintain credibility, delivery reliability, and responsiveness to customer requirements. This issue is highly relevant for Indonesian SMEs, including those in export-oriented sectors, because many firms still face limitations in scale, bargaining position, and formal market access, making relationship-based coordination especially important for sustaining international business participation (Nugroho, 2022; Tambunan, 2024).

In the context of modest fashion SMEs, governance provides a useful lens for understanding how export participation is maintained beyond initial market entry.

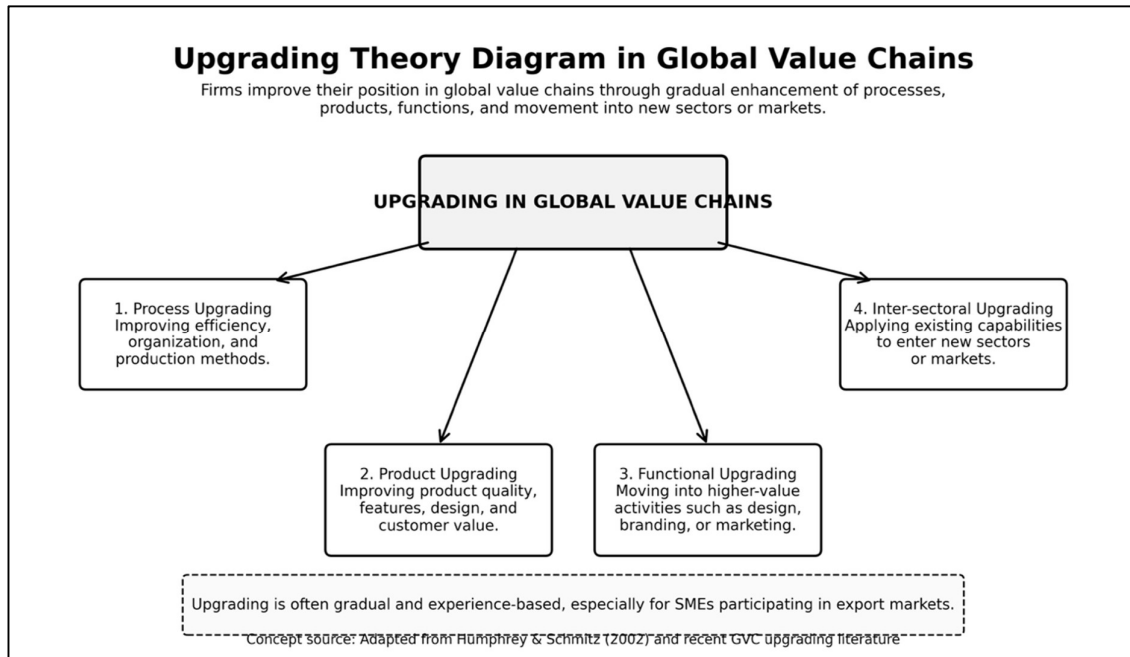
Customer preferences, service responsiveness, product consistency, and communication with overseas buyers may become decisive factors in sustaining repeat orders and strengthening business position in the chain (Johanson & Vahlne (2009). Therefore, governance should not be seen only as a structural feature of the value chain, but also as a practical process through which SMEs negotiate requirements, build trust, and improve their ability to remain connected to export markets (Global Value Chain Development Report, 2023; Nugroho, 2022)

Upgrading in SME internationalization

Upgrading is another important concept in the global value chain (GVC) literature because it explains how firms improve their position and competitiveness within cross-border production and market systems (Humprey and Schmitz, 2002). In recent discussions, upgrading is commonly understood as the improvement of processes, products, functions, and market reach that enables firms to generate greater value and respond more effectively to international demand (Nugroho, 2002). Within GVC participation, upgrading is not only associated with efficiency and product quality, but also with the ability of firms to strengthen knowledge, coordination, and innovation in response to external requirements and market change (Global Value Chain Development Report, 2023; ASEAN & OECD, 2022).

For SMEs, upgrading is often incremental and experience-based. Participation in export markets can expose firms to new quality standards, customer expectations, and competitive pressures that encourage learning and adaptation. In many cases, small firms do not upgrade through large technological investments, but through gradual improvements in communication, quality control, packaging, responsiveness, and market understanding. This pattern is especially relevant in developing-country contexts, where SMEs often rely on practical learning, market feedback, and relational interaction to improve their export performance and maintain international market access (Nugroho, 2022; Kresnawati et al., 2025).

In this sense, upgrading is closely connected to internationalization because export participation can function both as an outcome and as a driver of capability development (Kresnawati et al., 2025). As firms engage more actively in cross-border transactions, they are required to adjust their products, improve consistency, and respond to increasingly complex market demands. Therefore, upgrading should be understood not as a one-time transformation, but as a gradual process through which SMEs strengthen their ability to sustain participation in global value chains and expand their international market position (Global Value Chain Development Report, 2023; Nugroho, 2022). To further clarify the concept of upgrading in global value chain participation, it is important to distinguish the main forms through which firms improve their competitiveness and position in the chain. In the context of SMEs, upgrading often occurs gradually through improvements in processes, products, functions, and market expansion (Humprey & Schmitz., 2002). The following figure illustrates the main dimensions of upgrading as a foundation for understanding how SMEs strengthen their participation in international markets.



Source: Adapted from Humphrey and Schmitz (2002) and recent GVC upgrading literature

Figure 2
Main Dimensions of Upgrading in Global Value Chains

SME internationalization and gradual market entry

The internationalization of SMEs is commonly explained through the Uppsala perspective, which views international expansion as a gradual process based on learning and increasing market commitment. Johanson and Vahlne (2017) argue that firms usually begin with limited international exposure and then expand step by step as they accumulate knowledge and reduce uncertainty. This perspective is useful for understanding why many SMEs enter foreign markets incrementally rather than through immediate large-scale expansion.

In the context of developing-country SMEs, this gradual pattern often occurs through practical business channels such as personal networks, digital media, online marketplaces, exhibitions, and repeated buyer interaction. Such pathways are particularly relevant for SMEs in fashion-related industries, where visual communication, customer trust, and adaptive responsiveness are central. Therefore, the internationalization of modest fashion SMEs can be understood as a process that combines gradual learning with value chain participation. Firms do not simply move outward geographically; they also become embedded in cross-border relationships that shape standards, expectations, and opportunities for upgrading.

Research Framework

Based on the literature, this study views the internationalization of an Indonesian modest fashion SME as a process of participation in the global value chain. The framework assumes that export participation is shaped by four connected elements. First, the firm gains entry into international markets through accessible channels such as digital platforms, exhibitions, and direct buyer communication. Second, the sustainability of export participation depends on governance, especially trust-based coordination and responsiveness to buyer requirements. Third, participation in export activities

encourages upgrading in the form of improved product quality, communication, production organization, and market adaptation. Fourth, the firm's international activities remain connected to local production resources and community-based labor, showing that global participation can coexist with strong local embeddedness.



Source: Developed by the author for this study, 2026

Figure 3
Research Framework of the study

Accordingly, this study uses the GVC perspective to analyze how a modest fashion SME from Malang participates in export markets through the interaction of export entry pathways, governance, upgrading, and local production linkages. Because this study employs a qualitative case study design, it does not develop formal hypotheses. Instead, the framework is used as an analytical guide to interpret how the selected SME moved from local production to international market participation.

Table 1
Analytical dimensions of the research framework

Analytical dimension	Main focus
Export entry pathways	How the SME accessed international markets
Governance	How the SME coordinated with buyers and maintained trust
Upgrading	How export participation encouraged capability improvement
Local production linkages	How local resources supported international activities
GVC participation	How the SME became embedded in cross-border market relations

Source: Data analyzed by the author, 2026

METHOD

This study employed a qualitative approach with a single case study design (Yin, 2018). This design was chosen because the study aimed to obtain an in-depth understanding of how an Indonesian modest fashion SME participated in the global value chain through its export activities, buyer relations, capability development, and local production practices. A case study was considered appropriate because it allowed the researcher to explore the internationalization process in its real business context rather than reducing it to numerical indicators alone (Yin, 2018).

The scope of the study focused on one modest fashion SME located in Malang, East Java, Indonesia, specializing in abaya products. The enterprise was selected purposively because it had actual experience in export activities and had served several international markets, including Malaysia, Singapore, Brunei, and Dubai. The selected case was considered information-rich because it provided a concrete example of how a locally based SME developed export participation while maintaining a small-scale, community-

based production system. To protect business confidentiality, the name of the enterprise is not disclosed in this article.

The study used purposive sampling in selecting informant (Palinkas, 2015). Two key informants were involved because they had direct knowledge of the firm's export development and operational process. The first informant represented the business owner or key decision-maker who was directly involved in market development, communication with overseas buyers, and export-related decisions. The second informant represented the operational side of the business and provided information on production activities, order handling, and practical adaptation to export demand. A summary of the informants is presented in Table 2.

Table 2
Research Informants

Informant	Position	Main information contributed
Informant 1	Owner / key decision-maker	Export initiation, foreign market development, buyer relations, and business decisions
Informant 2	Operational support	Production process, order handling, product adjustment, and export-related implementation

Source: Data analyzed by the author, 2026

Data were collected through in-depth interviews, observation, and documentation. The interviews were semi-structured in order to allow the researcher to explore the process of export market entry, communication with overseas customers, adaptation to different market preferences, and responses to business constraints. Observation was used to understand the production setting and the firm's day-to-day export-related activities, while documentation was used to support and enrich the interview findings. In the earlier version of the study, these methods were also used to capture the export journey of the enterprise, including its use of WhatsApp, Instagram, exhibitions, and overseas customer interaction (Dicicco & Crabtree, 2006).

The data were analyzed using thematic analysis (Braun & Clarke, 2006). The researcher first organized the interview and field materials, then read them repeatedly to identify recurring patterns related to export participation. The relevant data were coded into several analytical categories, namely export entry pathway, governance and coordination, upgrading process, market adaptation, and local embeddedness. These categories were then interpreted using the global value chain perspective in order to explain how the enterprise moved from local production to export market participation.

To ensure the trustworthiness of the study, the researcher applied source triangulation by comparing interview data with observation and supporting documentation (Carter, et.,al, 2014). In addition, the interpretation was kept consistent with the research focus and the empirical evidence collected from the field. Ethical considerations were addressed by ensuring voluntary participation, maintaining informant confidentiality, and anonymizing the identity of the business throughout the article.

RESULTS AND DISCUSSION

Data Analysis

This study examines how an Indonesian modest fashion SME from Malang participated in the global value chain through export activities. The findings show that the firm's internationalization did not begin through a formal large-scale export strategy, but through gradual and relational processes. Export activities emerged from digital

exposure, marketplace interaction, exhibitions, and direct communication with overseas buyers. This pattern indicates that the firm entered international markets incrementally while simultaneously developing the capabilities needed to sustain its participation. To summarize the main findings, Table 3 presents the key analytical dimensions identified in this study.

Table 3
Main Findings of the Study

Analytical Dimension	Main Findings	Global Value Chain Interpretation
Export entry pathway	The firm entered foreign markets through WhatsApp, Instagram, exhibitions, and online marketplace exposure	Entry into the global value chain was facilitated by digital and relational channels
Governance and coordination	The firm maintained buyer trust through responsiveness, delivery reliability, and communication	Participation was supported by relational governance
Upgrading process	The firm improved product quality, export knowledge, communication skills, and adaptation to customer preferences	Export activities stimulated process and market upgrading
Local embeddedness	Production involved community-based workers and local labor support	Global participation remained rooted in local production networks
Constraints and learning	The firm faced competition, limited resources, and export procedural challenges	Constraints encouraged adaptive learning and capability development

Source: Data analyzed by the author, 2026

Export Entry Pathway

The findings show that the SME entered international markets through relatively accessible channels rather than through formal export institutions from the beginning. Initial foreign demand emerged through direct messages from overseas buyers, product visibility on Instagram, and participation in exhibitions. The use of digital platforms also played an important role in connecting local production to foreign customers. This finding suggests that digital communication reduced some of the entry barriers commonly faced by small firms in international markets.

This pattern reflects the gradual nature of SME internationalization. In line with the Uppsala perspective, the firm did not internationalize through immediate large-scale expansion, but through repeated exposure, learning, and increasing confidence in serving foreign markets. At the same time, this pathway also illustrates how global value chain participation may start from decentralized and relational access points rather than from highly formalized export structures. For a modest fashion SME, such channels were particularly important because product visibility, responsiveness, and buyer interaction directly influenced market expansion.

Governance and Buyer Coordination

Another important finding concerns the way the enterprise coordinated with overseas buyers. The data indicate that trust played a central role in sustaining export transactions. The business maintained regular communication with buyers, provided information on product progress, responded to customer needs, and paid close attention to delivery reliability. These practices helped the firm maintain customer confidence and encouraged repeat orders.

From a global value chain perspective, this pattern reflects relational governance. The continuity of exchange was not based merely on price competition, but on trust,

responsiveness, and the ability to meet buyer expectations. This is important for SMEs because their relatively small scale often limits their ability to compete through volume. Instead, they rely on relationship quality and service consistency. In this study, governance was built through practical coordination and repeated interaction, which allowed the firm to strengthen its position in export activities over time.

Upgrading and Capability Development

The findings also show that participation in export markets encouraged the firm to improve its capabilities. The enterprise learned how to manage product quality more consistently, understand overseas customer preferences, communicate across borders, and handle export-related procedures. The case demonstrates that internationalization was not simply about selling the same product abroad, but about adapting business practices to meet different market requirements.

This finding indicates that export participation functioned as a driver of upgrading. Process upgrading can be seen in the firm's greater attention to production consistency, product handling, and service reliability. Market upgrading is reflected in the firm's expansion from domestic sales to multiple foreign destinations. The study also suggests capability upgrading, as the enterprise became more confident in communication, more knowledgeable about export processes, and more adaptive in responding to buyer expectations. This supports the argument that small firms can strengthen their global value chain participation through gradual learning rather than through large-scale transformation at once.

Local Embeddedness and Social Impact

Although the enterprise participated in export markets, its production remained closely connected to the local community. The findings reveal that local workers and small-scale labor support played an important role in fulfilling production needs. This indicates that the firm's global market participation did not separate it from its local base. On the contrary, internationalization was supported by community-based production practices.

This result is significant because it shows that global value chain participation among SMEs can coexist with strong local embeddedness. In this case, local production linkages became a source of flexibility and resilience. The ability to involve neighborhood-based workers helped the enterprise respond to export demand while keeping the business manageable at a small scale. Therefore, the study suggests that SME internationalization can generate broader local benefits through employment opportunities and the activation of community-based productive networks.

Constraints and Strategic Learning

The final finding concerns the role of constraints in shaping the firm's internationalization process. The enterprise faced several challenges, including limited resources, competition from cheaper products, and the need to understand export procedures and different market preferences. However, these obstacles did not stop the internationalization process. Instead, they pushed the firm to become more adaptive and more careful in managing quality, communication, and customer satisfaction.

This finding shows that constraints can function as a source of strategic learning. In this study, challenges were not merely barriers, but also triggers for capability improvement. Exposure to foreign customers increased the firm's awareness of service standards and market diversity. Competition encouraged the business to differentiate itself through responsiveness and quality rather than price alone. Thus, the movement

from local production to export markets was shaped not only by opportunity, but also by the firm's ability to learn from operational pressures and convert them into stronger participation in the global value chain.

Overall, the findings indicate that the participation of this Indonesian modest fashion SME in the global value chain was built through five interconnected elements: accessible export entry channels, trust-based governance, incremental upgrading, local production embeddedness, and adaptive learning under constraint. These elements explain how a small business from Malang was able to connect local production with international market opportunities in a meaningful and sustainable way.

CONCLUSION AND SUGGESTION

This study concludes that the participation of an Indonesian modest fashion SME in the global value chain was developed through a gradual and relational internationalization process rather than through a formal large-scale export strategy. The case of the SME from Malang shows that export market entry was supported by digital exposure, exhibitions, and direct communication with overseas buyers. Its continued participation in international markets depended on trust-based governance, responsiveness to customer needs, consistent product quality, and the ability to adapt to different market preferences.

The findings also show that export activities encouraged process, market, and capability upgrading, particularly in communication, quality control, and export-related knowledge. At the same time, the study demonstrates that global value chain participation remained strongly connected to local production networks through the involvement of community-based workers. Therefore, this case confirms that SME participation in global value chains can emerge incrementally through adaptive learning, relational coordination, and locally embedded production practices.

This study suggests that modest fashion SMEs seeking to expand into export markets should strengthen their digital market access, maintain trust-based relationships with buyers, and continuously improve product and service quality. For policymakers and SME support institutions, greater assistance is needed in export training, digital market facilitation, and practical mentoring so that small firms can better connect local production capabilities with international market opportunities. Since this study focused on a single case, future research may examine multiple SMEs across different sectors or regions in order to provide broader comparative insights into how Indonesian SMEs participate in global value chains. Future research may apply business network theory to explain how relationships with buyers, partners, and value chain actors shape SME internationalization. It may also use dynamic capabilities theory to examine how SMEs sense opportunities, seize market potential, and reconfigure resources in response to global market changes. In addition, the resource-based view can help explain how internal capabilities, such as product innovation, design skills, export knowledge, and digital competence, support international competitiveness. A digital internationalization or technology adoption perspective is also important, as many SMEs now enter foreign markets through digital platforms, social media, and cross-border e-commerce.

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