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# Internationalization of Emerging Economy SMEs: A Tripod Approach

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## Abstract

Research suggests that internationalizing SMEs in the West enjoy far greater institutional support. There is, however, little understanding of the internationalization processes of emerging economies' SMEs (EESMEs) and yet they are notable contenders in international trade. Accordingly, this research draws from an integrated strategy tripod framework to develop new perspectives accounting for how Iranian-based EESMEs internationalize and compete in international markets. A comprehensive analysis of Iranian EESMEs' survey data revealed that, other than their owner's managerial perceptions of their industry, firm, and institutional constraints, international market knowledge (IMK) significantly moderated their internationalization strategies. Such understanding advances research on firm internationalization by pinpointing the central role of IMK in forming internationalization strategies by EESMEs in hard-to-reach contexts, which has implications for academic research and policy-making, leading to needed reform based on theory and practice.

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## Introduction

With the growing role of emerging economies in reshaping the global business landscape, interest in understanding the internationalization processes of emerging economies' SMEs (EESMEs) is rising. Research suggests that EESMEs are succeeding in international markets “without [having] the benefit of resource advantages, proprietary technology, or market power... [and] strategic assets such as core technologies and brand awareness” (Luo and Child, 2015: 379).

Although scholars have investigated the antecedents of SMEs' internationalization at the managerial, firm, and environmental levels (see Kuivalainen et al., 2012) in recent years, most studies have focused on individual or firm-level effects, with only some focusing on SMEs from emerging economies (e.g., Cho and Lee, 2018; Ismail and Kuivalainen, 2015; Penghua et al., 2020; Thai et al., 2022; Volchek et al., 2013, Volchek et al., 2013). These studies suggest that the process EESMEs follow for their internationalization can be fully explained only through a multi-level model. Thus, this study utilizes a multi-level perspective to explain how EESMEs integrate their generic resources with prevailing market conditions including institutional factors for their successful internationalization. We contend that the relationship between international market knowledge (IMK) and SMEs' internationalization may be contingent on industrial and institutional contexts.

To investigate the relationships of individual, firm, and environmental levels on EESME internationalization, we adopt and extend Peng et al.'s (2008) strategy tripod, which incorporates institutional theory, the industry-based view (Porter, 1980), and the resource-based view (Barney, 1991). This multi-level approach accounts for the international business activities of firms entering foreign markets and incorporates context as an essential explanatory variable for the strategic behaviors of EESMEs (Young et al., 2014). Although previous studies have used this framework to understand SME internationalization, they have eschewed the direct effects of two of the theoretical prongs of the tripod framework (e.g., Saikia et al., 2020; Torkkeli et al., 2019; Volchek et al., 2013, Volchek et al., 2013), which has resulted in a limited understanding of the interaction effects between the levels of analysis (e.g., Ashna et al., 2021; Penghua et al., 2020). Despite research calls for a more comprehensive model (see Meyer and Peng, 2005; Yamakawa et al., 2008) to better understand the multi-level drivers of EESMEs' internationalization, new research has yet to test such a model.

Consequently, this research advocates an integrative perspective that not only requires explicit considerations of institutional effects, but also their integration with resource-based and industry-based effects, responding to calls by Meyer and Peng (2005), Peng (2003), Peng et al. (2008), and Yamakawa et al. (2008). This research extends this theoretical approach to not only investigate such effects at each level of analysis on EESME internationalization, but also the interactive effects between levels of analysis, as encouraged by Peng et al. (2008), and Yamakawa et al. (2008), which helps to provide a broad and balanced view of the determinants of EESME internationalization.

To address the main research problem, we develop and test new hypotheses using 120 EESMEs from Iran. Iran is an emerging economy with many informal institutions and high uncertainties. To learn about the internationalization performances of Iran's EESMEs, we measured owner-manager perceptions with the expectation that they continuously analyze market conditions to align business processes to enhance performance (Jahanshahi and Brem, 2019). Thus, this research contributes to the literature on international business as follows.

First, it extends the tripod framework to develop a comprehensive model for elaborating process drivers that define EESME internationalization by incorporating firm, industry, and institutional factors. The study illustrates how resources, institutional, and industry factors influence the internationalization processes of EESMEs hard-to-reach contexts, and it pinpoints IMK as a critical resource that strengthens the influence of governmental policies on EESME internationalization in such contexts. Second, the outcomes of this research lend support for integrating context, through the strategy tripod, in the study of SME

internationalization. Using a multi-level tool to explore EESME internationalization introduces insights for hard-to-reach contexts that are underrepresented in the international business literature. Moreover, such a method enables better understanding of the differences between SMEs from developed and emerging economies, thus enriching the literature on international business by explaining contextual variations and their impact on SME internationalization. Third, our research outcomes have implications for academic research and policy making by initiating debate on firm internationalization and policy reform directed by theory and practice.

The article is structured as follows. First, we establish the theoretical foundations for the internationalization of SMEs and EESMEs. We explore the unique challenges and capabilities of EESMEs and incorporate the strategy tripod. Second, we present our hypotheses that explore the relationship between resources, industry, and institutional factors on the performance of EESME internationalization including moderating effects. Third, we present our research methods, from sample size to statistical models, and discuss the implications of our results. Finally, we discuss the study's contributions and avenues for further research.

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## Section snippets

### Internationalization of SMEs from emerging economies

Internationalization can be defined as the process of adapting a firm's operations to international environments (Calof and Beamish, 1995), geographically expanding a firm's network of relationships (Johanson and Vahlne, 2009), or a pattern of entrepreneurial behavior (Jones and Coviello, 2005). Although these definitions can apply across all types of SMEs, Kiss et al. (2012) argue that, despite increased research on the internationalization of SMEs, most studies have focused on developed...

### Hypotheses

In response to the call for an integrated approach (e.g., Meyer and Peng, 2005; Yamakawa et al., 2008), we adopt the strategy tripod, which is based on the premise that firm internationalization strategy is the result of specific industry, firm, and institutional conditions. The resource-based view asserts that the internal environment, particularly firm resources, is used to define firm strategy (Barney, 1991). The industry-based view states that industry forces determine firm market position...

### Methods

To test our hypotheses, we studied Iranian SMEs in the information and communication technology (ICT) sector, for three reasons. First, as an emerging economy, Iran has been under sanctions for the past 40 years. Despite sanctions and contextual constraints, managers of Iranian EESMEs have successfully maneuvered through the complexity of their multilevel context (firm, industry, institutions) to grow both domestically and internationally. Second, Iran has many SMEs; 85% of firms have <50...

### Results

The correlations of the variables are presented in Table 4. As expected, in our comprehensive model (Model 2), the factors showed statistically significant correlations with internationalization, except for IMK. The negative relationship between a firm's age and internationalization emphasized the tendency of younger firms to internationalize over older firms, consistent with prior studies that examined the internationalization of high-tech SMEs (Johnson, 2004; Kuivalainen et al., 2007)...

## Discussion

The goal of this study was to understand the factors that influence the way EESMEs formulate their internationalization strategies as they expand into competitive markets (Radulovich et al., 2018). Accordingly, the outcomes suggest that institutional variables have a more prominent role than industry and firm-level (resources) factors. Our results indicate that, unlike in developed economies where industry competition and firm resources have a significant effect on firm internationalization, in ...

## Conclusion

This study has identified some of the main drivers of EESMEs' internationalization at firm, industry, and institutional levels and examined their direct and interaction effects. Based on Peng et al.'s tripod framework the study integrated the institutional-based view with the industry- and resource-based views to develop a new theoretical model and new hypotheses. The study identified institutional-, industry-, resource-based factors through a theoretical lenses of SME internationalization and...

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