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Institutions, Resources, Industry and SME internationalization – Perspective from an emerging African economy

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Abstract

This study highlights the often overlooked but important nature of the combined tripartite effect of institutional quality, firm-specific resources and industry conditions in understanding internationalization of small and medium-sized enterprises (SMEs), especially in the context of an emerging African economy. Institutional quality was assessed by government effectiveness and social network; organizational resources was measured by market orientation while industry conditions was captured by competitive intensity. Institutional theory, resource-based and dynamic capabilities view, and industry-based view were integrated to serve as the study's theoretical framework. 145 valid data samples were obtained from SMEs with export commitments in Nigeria. Confirmatory factor analysis was conducted while hierarchical moderated regression analysis was employed to test all hypothesized relationships. Findings showed that government institutional support does not directly influence SMEs' international performance, attesting to the institutional void paradigm. Nonetheless, social network significantly predicted SMEs' internationalization. Additionally, both market orientation and competitive intensity had a positive effect on internationalization; and positively strengthened the relationship between government effectiveness and internationalization. Further, CEOs' education was found to be germane for SMEs' internationalization. Implications are discussed.

Keywords Government effectiveness, Market orientation, Social network, Competitive intensity, International performance, Institutional void, Nigeria.

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Introduction

More small and medium-sized enterprises (SMEs) are now competing globally (Ahimbisibwe *et al.*, 2021; Dabić *et al.*, 2020) but their expansion into foreign markets depends on a number of influencing factors (Lahiri *et al.*, 2020). Internationalization of SMEs could be a function of firms' resources and capabilities (He *et al.*, 2016), or influenced by industry structure and conditions (Fernhaber *et al.*, 2007) or dependent on the peculiarity of the institutional environment (Hitt, 2016). However, employing a single strategy approach in understanding firms' internationalization may not provide a complete picture due to associated limitations of each perspective (Gao *et al.*, 2010). Thus, there have been calls for an integrative theoretical approach in explaining the internationalization of SMEs, especially in the context of emerging economies (Gao *et al.*, 2010; Lahiri *et al.*, 2020). This is fundamentally important because SMEs' internationalization could be a function of the interactive combination effects of all three approaches, that is, firm-specific capabilities, industry conditions and institutional environment, referred to as strategy tripod (Lahiri *et al.*, 2020; Peng *et al.*, 2009).

Further, although there has been an increase in internationalization activities among firms in emerging and transition economies in the last few years (Bahl *et al.*, 2021; Mukherjee *et al.*, 2021), still, not much is known about the internationalization behavior of firms in emerging African economies (Olaewaju, 2018). Particularly, studies concerning internationalizing firms from emerging economies in Africa have been few even though the region presents unique opportunities for theory-testing (Adomako *et al.*, 2019) and could serve as laboratory for building alternative paradigms (Barnard *et al.*, 2017). Also, the uniqueness of institutional environment in emerging economies presents a case for further analysis (Zoogah *et al.*, 2015). This is because institutions in emerging economies are quite more significant for international performance compared with those in developed economies as a result of institutional weaknesses due to unpredictability and constant variations (Hitt, 2016).

Consequently, from the perspective of an emerging African economy, this study responds to calls for an integrative approach to internationalization of SMEs (Gao *et al.*, 2010; Lahiri *et al.*, 2020). Country- and context-specific studies are especially important in understanding in-depth environmental and institutional peculiarities associated with internationalization of firms (Hitt, 2016). Thus, the strategy tripod perspective (Peng *et al.*, 2009) is relied upon to examine the interactive relationships between formal and informal institutions, industry conditions and firm-specific capabilities in explaining SMEs' internationalization. Government effectiveness (GE) is employed to represent formal institutions due to its visible role in providing legitimacy (He *et al.*, 2016); social network (SN) is a proxy for informal institutions because of the importance of informal relationships in many emerging African economies (Zoogah *et al.*, 2015); market orientation (MO) represents firm-specific capabilities while competitive intensity (CI) is used to reflect industry conditions.

A number of contributions are offered. One, institutional embeddedness of SMEs, as well as associated institutional quality and complexity do matter. Also very imperative is the prevailing industry conditions within which SMEs operate and the firm-specific capabilities they are able to build or develop. To the best of the authors' knowledge, this represents one of the first attempts to understand firms' internationalization in an emerging African country through a strategy tripod prism. Two, in emerging economies with institutional voids, SMEs tend to focus on building capabilities through informal relationships and having a better understanding of customers' needs and preferences. This enables them to compete and grow but quite importantly, it allows them to seek foreign market expansion. Despite resource constraints and related liabilities in emerging

economies, SMEs pursue international expansion objectives by proactively understanding foreign markets, gathering information about customers' preferences and using research skills to develop marketing solutions to customer needs. Three, international experience and education of managers of SMEs in emerging economies is germane to organizational commitment towards internationalization. The rest of the study is therefore structured as follows. The next section focuses on extant literature through strategy tripod perspective and develops requisite hypotheses. This is subsequently followed by explaining the methodology employed, presenting the findings and elaborating on the findings through discussions. The study concludes with theoretical and practical implications, as well as recommendations for future research.

Theoretical Framework and Hypothesis Development

Strategy Tripod Perspective

The strategy tripod perspective integrates three different theoretical frameworks in explaining organizational strategy and firm performance (Peng *et al.*, 2009; Su *et al.*, 2016). One, the resource-based and dynamic capabilities view, which argue that firms in possession of valuable resource endowments or capabilities are likely to have superior performances (Barney, 1991). Two, industry-based view, which allude to the importance of structure and conditions in the industry in which a firm operates. The prevailing industry conditions could constrain or provide incentive for firm performance (Porter, 1980). Three, institutional theory with emphasis on formal and informal institutional factors which provide legitimacy and rules of the games for firms (North, 1990). While both resource- and industry-based views were quite established as theories explaining organizational strategy; institutions were assumed to be background conditions without any direct influence on strategic actions of organizations due to their largely invisible roles in developed economies (Peng *et al.*, 2009). However, within the framework of emerging economies, institutions are a lot more prevalent and are not just crucial for firm performance but very pertinent for encouraging firms' international business strategies (Hitt, 2016). Thus, it has been canvassed that in analyzing and understanding organizational choices, especially in the context of emerging economies, studies should attempt to incorporate all three theoretical frameworks (Peng *et al.*, 2009; Su *et al.*, 2016). Strategy tripod perspective therefore serve as framework in this study because it guides understanding of SMEs' strategic choices in respect of their international performance, especially from an emerging country viewpoint. It also provides basis for comprehending the interactive combination effect of all three approaches incorporated within the study.

Formal Institutions

Government Effectiveness and Internationalization

Formal institutions help to enforce the duties of a business concern and are made up of legal and statutory rules, laws and regulations such as constitutions or acts of parliament (North, 1990). A crucial component of a country's formal institutions is GE (Roxas and Chadee, 2013). It refers to the ability of governments to independently and competently formulate and implement policies that guarantee enabling environments for businesses to thrive (Shu *et al.*, 2019). In emerging economies, governments' role is quite visible especially in the area of resource allocation, determining rules of the game and establishment of market-supporting institutions that could encourage SMEs to make strategic business choices (He *et al.*, 2016; Shu *et al.*, 2019). Through its actions, governments provide legitimacy and certainty for entrepreneurs and businesses to thrive in their international strategic choices.

Studies have shown that governments' involvement directly and positively influences firms' internationalization efforts (He *et al.*, 2016; Wang *et al.*, 2012). According to Wang *et al.* (2012), governments exert different institutional pressures on firms and this impacts their willingness and ability to internationalize. Thus, the inherent opportunities and limitations that firms are confronted with in terms of the internationalization strategies to pursue are hinged on GE, policies and affiliations (He *et al.*, 2016). Based on institutional theory and the argument that institutions provide legitimacy and rules of the games for firms (North, 1990); it is advanced that in an environment with strong GE, there is likely to be little or no ambiguity about how businesses should be conducted (Roxas and Chadee, 2013), thereby making internationalization a lot easier. Hence, it is postulated that GE should positively predict SMEs' internationalization. Thus:

Hypothesis 1: GE is positively related to SMEs' internationalization

Informal Institutions

Social Network and Internationalization

Unlike formal institutions which require codified policies and are usually articulated in written forms; informal institutions are unwritten product of a society's value system and are a function of patterns, beliefs and customs, which ultimately become norms that guide human and business behavior (Estrin *et al.*, 2013; North, 1990). A major element of informal institution in many emerging economies is SN (Zoogah *et al.*, 2015). It refers to managers' social ties and informal business relationships with other business actors in the community (Chetty and Holm, 2000; Ibeh and Kasem, 2011). SN is important for firms' international expansion because they provide information benefits in terms of knowledge of foreign market opportunities, referral trust and experiential learning (Zhou *et al.*, 2007). They are also important channels for obtaining critical resources and information (Chetty and Holm, 2000). In developing and emerging economies, studies show a positive effect of SN on internationalization (Ibeh and Kasem, 2011; Ibeh *et al.*, 2012). For instance, in a study of small medium software firms in Syria, Ibeh and Kasem (2011) acknowledged the significance of social and business networks in facilitating initial internationalization, including foreign market selection and firms' internationalization speed. Thus, within the context of an emerging African country such as Nigeria, it is postulated that SN should have a positive influence on SMEs' internationalization. It is therefore proposed:

Hypothesis 2: SN positively predicts internationalization of SMEs

Capabilities (Resources)

Market Orientation and Internationalization: Predictive and moderating effect

Over the last few years, MO has increasingly become a cardinal issue in organizational strategy (Hernández-Linares *et al.*, 2021). In the literature on MO, two dominant schools of thought have emerged (Acosta *et al.*, 2018). The first school argues that MO should be about organizational culture and behavior concerning orientation on customers, competitors and inter-functional coordination (Narver and Slater, 1990) while the other suggests it should be focused on basic processes involving intelligence generation and dissemination, as well as response design and implementation (Jaworski and Kohli, 1993). Irrespective of philosophical stance, both schools agree that MO is an organizational capability derived from a firm's ability to focus on customer preferences and the continuous improvement in its processes to respond to such preferences (Kumar *et al.*, 2011; Narver and Slater, 1990).

Studies on MO of large corporations have highlighted its importance for business profitability, firm performance and sustained competitive advantage (Jaworski and Kohli, 1993;

Kumar *et al.*, 2011). However, compared with big corporations and multinational enterprises, SMEs face resource constraints challenge and tend to struggle with strategic capabilities (Dabić *et al.*, 2020; Fernandes *et al.*, 2020). Further compounding this challenge for SMEs in emerging economies is the absence of market-supporting institutions (Hitt, 2016; Olarewaju, 2018). Regardless of the obstacles, and in line with the resource-based and dynamic capabilities view, SMEs that can develop MO capabilities are not only likely to have better profitability and firm performance (Baker and Sinkula, 2009; Barney, 1991) but could possibly have improved export sales (Acikdilli *et al.*, 2020; Kolbe *et al.*, 2022) and international performance (Fernandes *et al.*, 2020). In their study of Turkish SMEs, Acikdilli *et al.* (2020) submitted that MO had a direct positive effect on export performance. In respect of the foregoing, it is therefore posited that SMEs' MO should positively predict their internationalization. Consequently:

Hypothesis 3a: MO is positively related to SMEs' internationalization

In environments with strong GE, there will be consistent government policy direction and enforcement of procedures in government transactions (Kaufmann *et al.*, 2009) and such clear rules of the business game could allow firms to increase export sales and boost international performance (He *et al.*, 2016; Wang *et al.*, 2012). However, in emerging economies, formal institutions such as GE tend to be poor or weakly-enforced and this creates institutional voids (Hitt, 2016; Murithi *et al.*, 2019; Peng *et al.*, 2009; Zoogah *et al.*, 2015). As argued by Acosta *et al.* (2018), MO is a dynamic capability which SMEs can rely upon to generate intelligence on customers and have a better understanding of their preferences. Thus, it is advanced that in emerging countries, managers of SMEs who can develop MO could overcome the presence of institutional voids to achieve their internationalization objectives. Recent studies have attested to the moderating role of MO as it concerns the marketing capabilities or dynamic capabilities and firm performance relationship (Cacciolatti and Lee, 2016; Hernández-Linares *et al.*, 2021). Further, Wu and Nguyen (2019) found that MO can strengthen the predictive effect of dynamic service innovation capability on organizational performance and competitive advantage. MO could therefore have a moderating effect between institutional environment and internationalization. Consequently, it is hypothesized that in environments with institutional voids, SMEs' MO should, on the one hand, have moderating effect on the direct relationship between GE and internationalization, and on the other hand, strengthen the relationship between SN and internationalization. Hence:

Hypothesis 3b-c: MO moderates the relationship between b) GE and internationalization c) SN and internationalization

Industry

Competitive Intensity and Internationalization: Predictive and moderating effect

The degree of competition faced by an organisation within an industry is referred to as CI (Fuchs and Köstner, 2016; Jaworski and Kohli, 1993). There is a consensus that firms which operate in environments with little or no competition are likely to be comfortable as market leaders and may not necessarily worry about developing capabilities that could ensure improved organizational performance or international performance (Adomako *et al.*, 2021; Cui *et al.*, 2005; Martin and Javalgi, 2016; Porter, 1980). However, availability of close substitutes from other firms and increased intensity of competition does provide incentives for firms to constantly and continuously develop strategic capabilities in order to stay ahead of the competition (Porter, 1980; Su *et al.*, 2016). Based on the industry-based view and as argued by Porter (1980), environments with

intense competition is likely to witness availability of product alternatives, heavy investment in research and development, increased spending on advertisement, and intense price wars. Consequently, SMEs in environments with such intense competitive contexts tend to adapt their strategic efforts accordingly and this leads to improved export and international performance (Adomako *et al.*, 2021; Cadogan *et al.*, 2003; Fuchs and Köstner, 2016). Thus, it is postulated that SMEs confronted with intense domestic competitive rivalry in emerging countries are likely to explore new markets so as to stay ahead of competitors. It is therefore posited:

Hypothesis 4a: CI positively predicts internationalization of SMEs

Intense competition could be a positive omen for SMEs. A plethora of studies have found that strong domestic competitive rivalry could benefit SMEs, by enabling them to actively seek and explore opportunities in new foreign markets and improve international performance (Adomako *et al.*, 2021; Fuchs and Köstner, 2016; Martin and Javalgi, 2016). The moderating effect of CI on export and international performance therefore appear emphasized (Cadogan *et al.*, 2003; Cui *et al.*, 2005). However, the context of an emerging African country with prevalent institutional voids (Olaewaju, 2018) does provide alternative premise to test the moderating effect of CI on internationalization of SMEs. In environments with institutional voids, international expansion becomes a lot more difficult for SMEs (Hitt, 2016) but firms tend to adapt to the local market conditions to improve performance (Zoogah *et al.*, 2015). In such environments, firms may be able to overcome these voids by adapting their strategies to the intensity of the prevailing industry conditions to achieve firm internationalization (Adomako *et al.*, 2019). In their treatise on firms in an emerging African country, Adomako *et al.* (2019) found that CI strengthened the indirect relationship between institutional voids and internationalization of new ventures. Thus, it is hypothesized that in environments with institutional voids, CI should, on the one hand, have moderating effect on the direct relationship between GE and internationalization, and on the other hand, strengthen the relationship between SN and internationalization. Hence:

Hypothesis 4b-c: CI strengthens the positive effect of b) GE on internationalization c) SN on internationalization

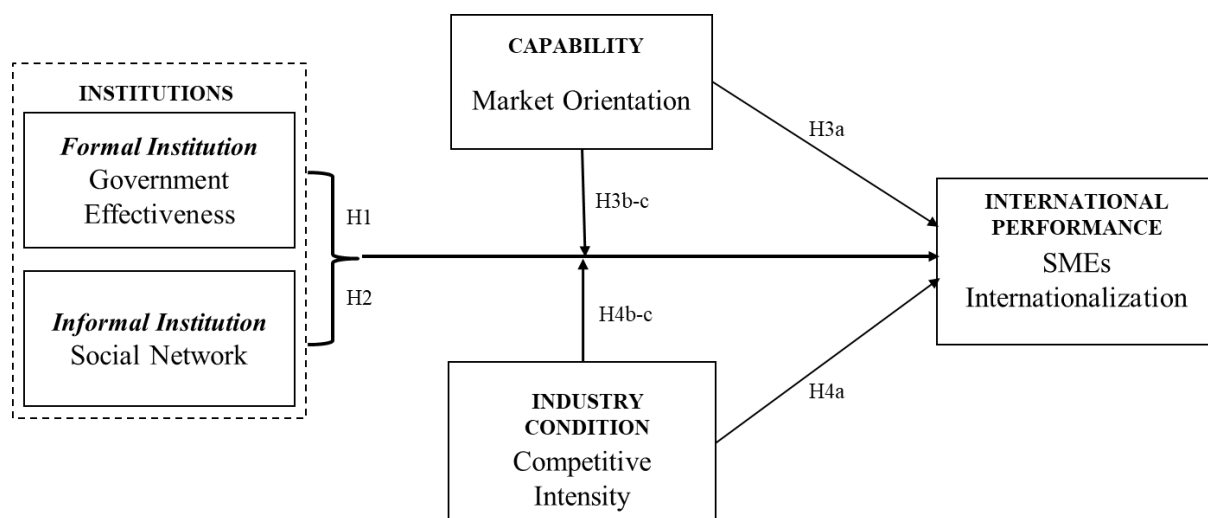


Figure 1: Research model

Methods

Research and Study Context

This study examined internationalization of SMEs through the prisms of institutions, resources/capabilities and industry conditions in the context of Nigeria, which is Africa's fastest growing emerging economy (World Bank, 2021). As at 2019, Nigeria remained Africa's largest country in terms of economic size measured by GDP (\$448 billion {current US\$}) and a population of 200 million people (World Bank, 2021). The country is defined by an abundance of small and medium-sized enterprises, individual propensity for entrepreneurship especially in the informal economy, resilience of its organizations, several competitive industries, seemingly weak and poorly-enforced formal institutions, and prevalence of informal institutions in many economic strata (Murithi *et al.*, 2019; Olarewaju, 2018; Uzo and Mair, 2014). These factors therefore provide justification for the choice of Nigeria in this study and offers an important context to understand SMEs' internationalization from a strategy tripod perspective.

Sampling and Data Collection

In line with previous studies on SME's internationalization (Acikdilli *et al.*, 2020; Fernandes *et al.*, 2020), consideration was given to firms with interest or commitment to exports. Since data gathering can be challenging in emerging African countries (Ibeh and Young, 2001), the study focused on SMEs with a reputation of doing legitimate business transactions with other parties. Priority was therefore given to indigenous Nigerian firms who are financial members of organized trade and commerce associations such as Lagos Chamber of Commerce and Industry (LCCI) and Manufacturers Association of Nigeria (MAN). These are foremost trade associations in Nigeria and have been employed by previous studies (Ibeh and Young, 2001; Olarewaju, 2018).

After an initial screening of the SMEs, 839 firms were invited to participate in the study in June 2019. 162 valid responses were received after a 3-month period which included reminders through phone calls and emails. The survey specifically targeted the CEO, owner and/or founder because they are deemed strategically conversant with all variables employed in this study, including their own internationalization activities. Thus, a screening question on respondent's position within the firm was included in the questionnaire. Additional screening questions in the survey included commitment to exports and percentage of total sales from exports or international operations. Based on the screening criteria, as well as removal of responses with missing information and data; a total of 145 responses were found useable and included in the final sample. The presence of non-response bias was examined through a t-test on key variables between early and late responses. This bias could lead to under- or overestimation of parameters (Podsakoff *et al.*, 2012). Non-response bias was not detected, since examinations revealed there was no significant difference in variables.

Variables and Measures

Dependent Variable.

The dependent variable, internationalization, was measured by 4-items adapted from the study by Zhang *et al.* (2015) to measure international performance. It was assessed on a 7-point Likert-scale (1 = strongly dissatisfied to 7 = strongly satisfied).

Independent Variables. The independent variables employed in this study are: GE which represented formal institutions, SN as proxy for informal institutions, MO was used to measure firms' capabilities while CI served to assess industry conditions. They were all measured on a 7-

point Likert scale (1 = totally disagree to 7 = totally agree). All respective items and their factor loadings may be observed in table II.

GE was a 6-item construct revised from Kaufmann *et al.* (2009) and Roxas and Chadee (2013). It was designed to capture institutional quality at the country-level as assessed through prevalent government practices. SN was assessed through a 4-item measure adapted from the study by Li *et al.* (2014). The measure conveyed managers' attitude towards informal relationship building. A 3-item construct adapted from Baker and Sinkula (2009) and Yayla *et al.* (2018) was employed to measure MO. It captured SMEs' capabilities in understanding and continuously improving on customer preferences. Finally, CI was assessed through 3 items adapted from previous studies (Jaworski and Kohli, 1993; Su *et al.*, 2016). It was designed to evaluate the degree to which SMEs within an industry faced strong competition.

Control variables. Due to the possibility of confounding effects, certain factors were included as control variables in the study to better explain results from the independent variables. Factors such as firm age, firm size, industry type and owners' education are considered as influencing firms' internationalization and were included in the study in line with previous studies (Olaewaju, 2018; Zhang *et al.*, 2015). Firm age was measured as number of years from firm's founding to 2019 while firm size was the logarithm of absolute number of employees employed by individual firms. Additionally, ten industries were combined and categorised into four. They were subsequently categorically coded as four dummy variables, since creating so many industry dummies could create degree of freedom constraints (Zhang *et al.*, 2016). Finally, CEO education was categorically measured by a two-step agreement scale asking business owners if they had any form of degrees awarded outside the owner's country (Hsu *et al.*, 2013).

Results and findings

Variables' Assessment

Although previously validated scales were employed to measure dependent and independent variables in this study, however, further validity and reliability of variables was confirmed through exploratory and confirmatory factor analysis (CFA) using maximum likelihood analysis on AMOS 25 software. The CFA results ($\chi^2_{(87)} = 175.64$, CFI = 0.92, TLI = 0.89, IFI = 0.93, NFI = 0.86, RMSEA = 0.08) were within acceptable limits (Fornell and Larcker, 1981). Only survey items with factor loadings above 0.70 were retained for the study (table II) while it was confirmed items loaded properly with other items in their respective latent constructs. Multicollinearity test was conducted through the variance inflation factor (VIF). The VIF values were between 1.09 and 1.61, far less than the recommended threshold of 10.00 (Hair *et al.*, 2018), indicative that multicollinearity violations is not a substantive concern.

Table 1.1: Correlation matrix, descriptives, multicollinearity test (VIF) and square root of AVE (bold diagonal)

	1	2	3	4	5	6	7	8	9	Mean	SD	VIF
1. Internationalisation	0.88									4.12	1.23	N/A
2. Govt. Effectiveness	0.03	0.81								2.82	1.15	1.09
3. Social Network	0.36***	0.09	0.77							5.22	0.96	1.38
4. Market Orientation	0.46***	0.17*	0.45***	0.79						4.80	1.06	1.57
5. Competitive Intensity	0.39***	0.21**	0.44***	0.50***	0.81					4.79	1.10	1.61
6. Firm Age	-0.02	0.02	0.07	-0.01	0.07	1				1.14	0.20	1.26
7. Firm Size	0.04	-0.04	0.05	-0.04	-0.12	0.42***	1			1.60	0.69	1.45
8. Industry	0.05	0.11	0.07	0.11	0.22**	0.05	0.10	1		2.58	0.75	1.09
9. CEO Education	0.28**	0.22**	0.14*	0.30***	0.22**	0.24***	0.36***	0.21**	1	1.57	0.50	1.41

*** p<0.01, ** p<0.05, * p<0.1; SD = Standard deviation; VIF = Variance inflation factor

Reliability and Validity of Variables

Internal reliability of variables was assessed through their respective Cronbach alpha (α) values. Values ranged between 0.83 and 0.93, all above the acceptable recommendations of 0.70 (Tabachnick and Fidell, 2019). This implied all variables had high item reliability. Further, composite reliability (CR) and average variance extracted (AVE) were employed to assess convergent validity of constructs. Convergent validity and high internal consistency of a latent construct is obtained when CR measures are above 0.70 and AVEs are above 0.50 (Fornell and Larcker, 1981). All variables were above the recommended threshold. Also, the square root of each latent construct's AVE was used to evaluate discriminant validity. According to Hair *et al.* (2018), discriminant validity is confirmed if the square root of the respective construct's AVE is greater than the respective variable's correlation coefficient values. The bold diagonal values in table I represent the obtained values of square root of AVEs and they are all greater than the respective variable's correlation coefficient values, suggestive of discriminant validity of each variable. Lastly, principal component extraction method and Varimax rotation was employed to conduct factor analysis (Kaiser-Meyer-Olkin=0.81; Bartlett's test of sphericity $\{\chi^2_{(190)}=1811.45, p<0.01\}$). Five distinct factors with eigenvalues greater than one were extracted and they accounted for 74.93% of the variance in the data.

Table 1.2 – Questionnaire items, reliability tests results and factor loadings

Variables / Items	Factor Loadings
Internationalisation {Cronbach's alpha (α) = 0.93, CR = 0.93, AVE = 0.77}	
Growth in overseas markets (IP1)	0.863
Market shares in overseas markets (IP2)	0.884
Profitability from overseas expansion (IP3)	0.906
Return on investment through overseas sales (IP4)	0.850
Government Effectiveness {Cronbach's alpha (α) = 0.89, CR = 0.92, AVE = 0.65}	
Government in Nigeria does not provide enabling environment for businesses to thrive (GE1) ^R	0.739
The policy direction of government is clear and consistent (GE2)	0.872
Government decisions are effectively implemented in Nigeria (GE3)	0.833
Government encourages businesses to thrive by providing cheap loans (GE4)	0.825
There is availability of information concerning business regulations (GE5)	0.770
Procedures in government transactions are not consistently enforced (GE6) ^R	0.776
Social Network (SN) {Cronbach's alpha (α) = 0.83, CR = 0.86, AVE = 0.60}	
My organisation does not enjoy good relationships with suppliers in our industry (SN1) ^R	0.793
Great emphasis is placed on understanding our buyers' needs (SN2)	0.767
Personal relationships with our suppliers and contractors are important to the firm (SN3)	0.758
We constantly invest resources in relationship building with top managers of our suppliers (SN4)	0.785
Market Orientation (MO) {Cronbach's alpha (α) = 0.86, CR = 0.83, AVE = 0.62}	
My company is able to use market research skills to develop effective marketing programs (MO1)	0.814
We are not able to track customer wants and needs effectively (MO2) ^R	0.741
My organisation is able to make full use of marketing research information (MO3)	0.806
Competitive Intensity (CI) {Cronbach's alpha (α) = 0.85, CR = 0.85, AVE = 0.65}	
Price competition is a hallmark of our industry (CI1)	0.768
Any action that a company took, others made a response swiftly (CI2)	0.865
One heard of a new competitive move almost regularly (CI3)	0.784

CR = Composite reliability; AVE = Average variance extracted; ^R = Reverse-coded

Common Method Variance

Self-reported surveys could be prone to common method variance because dependent and independent variables were obtained from respondents at the same time (Podsakoff *et al.*, 2012).

However, in order to reduce the possibility of this bias, a number of steps were taken. One, respondents were not made aware of the relationship between variables. The complexity associated with the conceptual model, especially with moderating effects made it less likely for respondents to theorize the proposed relationships as highlighted by Zhang *et al.* (2016). Two, individual survey items of dependent, independent and moderating variables were separated and randomly distributed throughout the survey. Three, respondents' anonymity and confidentiality of responses was guaranteed. Respondents were encouraged to freely complete the survey without consideration for what they thought could be right or wrong answers. Lastly, to examine the presence of this bias, a principal components factor test of all variables was conducted (Podsakoff *et al.*, 2012) and results showed common method bias is not a threat as no single factor accounted for more than 50% of variances (% of variance = 31.80%).

Results of hypotheses and findings

The hypothesized relationships were tested using hierarchical moderated regression analysis. The control variables were entered into the regression equation in model 1, all four predictor variables separately in models 2-4 but combined in model 5, interaction variables separately in models 6-7 while model 8 is the full model. The gradual and significant increment in R^2 (0.08 to 0.32) and adjusted R^2 (0.06 to 0.25) from model 1 through model 8 provides justification for inclusion of all variables in the model. Further, the significance of all results in models 1 to 7 remained the same in the combined model.

There was no support for H1, in respect of the hypothesis that GE is positively related to SMEs' internationalization ($\beta = 0.06$, $p > .10$). However, there was support for H2, which hypothesized that SN positively predicts internationalization of SMEs ($\beta = 0.42$, $p < .01$). In respect of H3a, support was found for the postulation that MO is positively related to SMEs' internationalization ($\beta = 0.42$, $p < .01$). Additionally, MO was found to moderate the relationship between GE and internationalization ($\beta = 0.14$, $p < .10$), which provided support for H3b. Nonetheless, no support was found for H3c, which posited that MO moderates the relationship between SN and internationalization ($\beta = 0.07$, $p > .10$). Furthermore, support was found for H4a and 4b on the respective hypotheses that CI positively predicts internationalization of SMEs ($\beta = 0.42$, $p < .01$) and does strengthen the positive effect of GE on internationalization ($\beta = 0.17$, $p < .10$). However, no support was found for H4c, which advanced that CI moderates the relationship between SN and internationalization ($\beta = 0.02$, $p > .10$). It is emphasized that neither MO nor CI strengthened the relationship between SN and internationalization. A plausible explanation is that SN significantly predicts internationalization by itself and therefore renders any other interaction effect with it insignificant. Finally, all control variables did not have any significant effect on SMEs' internationalization except owners with international education ($\beta = 0.76$, $p < .01$), which remained significant all through each model.

Table 1.3 – Results of hierarchical moderated regression analysis

Variables / Dependent Variable: Internationalisation	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Control Variables								
Firm Age	-0.46 (0.57)	-0.53 (0.54)	-0.37 (0.53)	-0.72 (0.54)	-0.57 (0.52)	-0.87 (0.53)	-0.58 (0.52)	-0.87 (0.54)
Industry	0.02 (0.14)	0.04 (0.13)	0.06 (0.13)	0.14 (0.13)	0.11 (0.13)	0.13 (0.13)	0.09 (0.13)	0.12 (0.13)
Firm Size (Employees)	-0.06 (0.17)	-0.07 (0.16)	0.05 (0.16)	0.12 (0.17)	0.09 (0.16)	0.13 (0.16)	0.09 (0.16)	0.13 (0.16)
CEO Education	0.76*** (0.23)	0.69*** (0.22)	0.41* (0.22)	0.52** (0.22)	0.42* (0.22)	0.45** (0.22)	0.42* (0.22)	0.44** (0.22)
Main Effects								
Govt Effectiveness [GE] (Formal Institutions) {H1}		0.06 (0.09)			0.10 (0.08)	0.12 (0.08)	0.11 (0.08)	0.13 (0.09)
Social Network [SN] (Informal Institutions) {H2}		0.42*** (0.10)			0.18 (0.11)	0.22** (0.11)	0.21* (0.12)	0.24* (0.12)
Market Orientation [MO] (Capability/Resource) {H3a}			0.47*** (0.10)		0.30*** (0.11)	0.29*** (0.11)	0.31*** (0.11)	0.30*** (0.11)
Competitive Intensity [CI] (Industry) {H4a}				0.42*** (0.09)	0.23** (0.11)	0.21* (0.11)	0.25** (0.11)	0.21* (0.11)
Interaction Effects								
MO*GE (Moderating Effect of MO on GE & Int) {H3b}						0.14* (0.08)		0.14* (0.08)
MO*SN (Moderating Effect of MO on SN & Int) {H3c}						0.07 (0.10)		0.01 (0.11)
CI*GE (Moderating Effect of CI on GE & Int) {H4b}							0.17* (0.09)	0.17* (0.09)
CI*SN (Moderating Effect of CI on SN & Int) {H4c}							0.02 (0.09)	0.01 (0.09)
Constant	5.99*** (0.89)	3.98*** (1.04)	2.99*** (1.01)	3.90*** (0.95)	2.35** (1.06)	2.74** (1.07)	2.02* (1.19)	2.59** (1.21)
Observations	145	145	145	145	145	145	145	145
R2	0.08	0.19	0.23	0.21	0.30	0.32	0.30	0.32
Adjusted R2	0.06	0.15	0.20	0.18	0.25	0.27	0.24	0.25
F-Stat	2.97**	5.05***	7.76***	6.74***	6.57***	5.80***	5.26***	4.76***

*** p<0.01, ** p<0.05, * p<0.1; Standard errors in parentheses

Discussion

An important part of the formal institutional environment in emerging economies is governments' interventions (Olawajun, 2018). The formal institutional environment represented by GE in this study had no significant relationship with SMEs' internationalization and thus, as presently constituted, it does not significantly influence internationalization in Nigeria. This finding attests to the argument that in emerging economies, formal institutions are usually missing, poor or weakly-enforced (Hitt, 2016; Peng *et al.*, 2009). In their study of institutions and organisational effectiveness in Africa, Zoogah *et al.* (2015) submitted that the relevance of formal institutions on organisational behavior may be limited because the formal economy does make up a small proportion of the entire economy. Governments' play a crucial role in emerging economies, particularly as it concerns resource allocation and providing frameworks for the establishment of market-supporting institutions that could encourage SMEs to make strategic business choices such as internationalization (He *et al.*, 2016; Wang *et al.*, 2012). However, as found in this study, rather than act as facilitators of efficient business operations and international performance of SMEs; governments appear to be a constraint. Murithi *et al.* (2019) had argued that governments in emerging African countries do not create a conducive economic and socio-political environment for businesses to thrive. Additionally, business environments in Africa are hampered by weak governance institutions and regulatory inefficiency (Murithi *et al.*, 2019). This creates unnecessary institutional pressures and hurdles for SMEs, imposes additional financial costs, impedes full market participation and constrains their ability to internationalize their activities.

Generally, the consensus among scholars is that in the absence of strong formal institutions in emerging economies, there is an overwhelming reliance on informal institutions (Hitt, 2016; Peng *et al.*, 2009; Zoogah *et al.*, 2015). This means informal institutions could substitute, complement or compensate for the absence of formal institutions (Zoogah *et al.*, 2015). Findings of this study supports this position as it was found that SMEs tend to rely on informal institutions such as SN to pursue their internationalization objectives, since the environment is seemingly characterized by inconsistent government policy directions concerning business regulations and procedures. In their multi-country analysis, Estrin *et al.* (2013) showed that institutional deficiencies significantly impeded entrepreneurs' growth aspirations, however, the study observed that belonging to local SN does reduce the negative impact of institutional voids on entrepreneurial ambitions (Estrin *et al.*, 2013). Similarly, Chetty and Holm (2000) acknowledged that by focusing on obtaining knowledge through informal network-building with other business actors, managers of SMEs can overcome institutional and internal barriers to internationalization. Thus, when managers of SMEs actively allocate and commit resources to building informal relationships with other business managers, they are making investments in knowledge, intellectual resources and relational capital (Ibeh and Kasem, 2011; Zhang *et al.*, 2016). This increases the potential internationalization value that managers may benefit through information and knowledge-sharing.

Additionally, the fundamental importance of MO as an organizational resource capable of influencing SMEs' strategic choices in regards to international expansion is highlighted through the findings of this study. The argument that MO is a crucial asset for SMEs concerning export sales and international performance (Fernandes *et al.*, 2020; Kolbe *et al.*, 2022) finds support from this research. Traditionally, SMEs face resource constraints and certain liabilities associated with size in the quest for international expansion (Ahimbisibwe *et al.*, 2021; Dabić *et al.*, 2020), however, these challenges could be overcome if SMEs choose to focus on proactively understanding foreign markets, gathering information about customers' preferences and using research skills to develop marketing solutions to customer needs. Particularly, findings show that

in the context of an emerging economy with formal institutional voids, SMEs could rely on MO to strengthen the predictive effect of weak institutional environment on their international performance. Thus, SMEs confronted with institutional voids could seek to develop firm-specific capabilities and internalize competences related to understanding customers and the market.

In regards to CI, findings showed that intense rivalry and competition within an industry is productively healthy for international expansion. As the study found, competitive industries do provide the stimulus for SMEs to stay engaged and develop competences for foreign markets in order to either keep up with competitors or stay ahead of them. In many cases, SMEs facing intense domestic competition are compelled to adapt, build and develop strategic capabilities that would enable them explore business opportunities outside their immediate environment. Also, this study found that in environments with institutional obstacles, SMEs are able to overcome these voids by adapting their strategies to the intensity of the prevailing industry conditions to achieve firm internationalization. This further provides support for the position that in emerging economies with institutional voids, CI can push SMEs towards international performance (Adomako *et al.*, 2019).

Lastly, CEO characteristics and demographics could be a factor in international performance (Hsu *et al.*, 2013; Ramón-Llorens *et al.*, 2017) and findings of a positive relationship between CEO education and internationalization in this study is an indication that owners of SMEs with international education are likely to be more committed to internationalization than those without international education. International experience through education in a foreign country provides a CEO with knowledge about procedural requirements of doing business in international markets and increases information processing abilities about foreign market operations (Hsu *et al.*, 2013; Ramón-Llorens *et al.*, 2017). Thus, in the context of an emerging African country, a valuable resource that could assist SMEs in overcoming institutional voids in their desire for foreign business performance is the international education of owners.

Conclusion

A major thrust of this study was to comprehend the internationalization of SMEs from a strategy tripod perspective, within the framework of an emerging economy. Apart from incorporating both formal and informal institutional environment into the model, consideration was also given to the predictive influence of firm's resources and capabilities, and industry conditions, represented by both MO and CI respectively. Formal institutions, as presently constituted, are not facilitators or enablers of international performance of SMEs. This is testament to the presence of institutional voids in many emerging economies, which present SMEs in such environments with numerous challenges. However, in the absence of strong formal institutions, SMEs are able to rely on social relationships, MO and competitive rivalry within their industries to thrive in foreign markets.

Theoretical and Managerial Implication

In explaining SME's internationalization, this study employed strategy tripod perspective as recommended in previous studies (Lahiri *et al.*, 2020; Su *et al.*, 2016) by integrating resource-based view (Barney, 1991), industry-based view (Porter, 1980) and institutional theory (North, 1990). The inclusion of all three approaches in the study is justified through the findings, which showed presence of formal institutional voids but predictive influence of informal institutions, firm-specific capabilities and industry conditions on SME's internationalization. Thus, while one or two theoretical approaches may have proven sufficient, however, a combination of all three perspectives allowed for a more thorough and in-depth understanding of SMEs' strategic choice in respect of internationalization, especially from the standpoint of an emerging African economy.

Further, SMEs face resource constraints challenge and tend to struggle with liability of smallness (Ahimbisibwe *et al.*, 2021; Dabić *et al.*, 2020). Managers of SMEs in emerging countries therefore need to concentrate on building informal social relationships and developing MO capabilities. The effect is two-fold. One, SMEs are able to survive, compete, perform and grow in environments with prevalent institutional voids. Two, in spite of institutional voids, SMEs are able to pursue their internationalization ambitions based on their ability to obtain critical information about foreign market opportunities from their SN and their capacity to continuously develop capabilities concerning customers' preferences and needs.

Research Limitations and Recommendations for Future Research

This study has a few limitations which could serve as avenues for further research. One, emphasis was on understanding context-specific predictors of SMEs' internationalization in one country. Although this permitted in-depth examination of variables influencing international performance, however, findings may not be generalized to other countries or regions. Future research could consider two or more countries in other emerging and/or developing economies. Also, a comparative study between developed and emerging economies along the strategy tripod perspective, for instance, provides future research avenues. Two, the results may have been influenced by the choice of selected institutional variables to represent formal and informal institutional environment, as well as choice of firm-specific capabilities and industry conditions. Future research may consider other forms of independent predictors to test this study's assumptions and propositions in predicting SMEs' internationalization.

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