**The effect of home country characteristics on the internationalization of EMNEs: The moderating role of knowledge stock**

# Abstract

This paper examines the effect of home country characteristics on the internationalization of emerging market multinational enterprises (EMNEs). Drawing on the institution-based view (IBV), we argue that institutional, political, and social characteristics will positively relate to the internationalization of EMNEs. Further, drawing on the knowledge-based view (KBV), we also argue that a firm’s knowledge stock (KS) will positively moderate the aforementioned relationship. Our research setting involves the incorporation of primary data collected from Iranian multinational enterprises (MNEs) operating in the food and beverage industry. The results provide support for the hypotheses that home country characteristics positively impact the international growth of EMNEs but this does not lead to their further expansion. Also, supported was the hypothesis that EMNEs' knowledge stock positively moderates the relationship between home country characteristics and their international growth. These findings not only contribute to current knowledge about the drivers of EMNE’s internationalization but also stress the idiosyncratic role of home country institutions and the impact of knowledge-specific capabilities on the internationalization of EMNEs, their international growth, and expansion.

**Keywords:** Home country, emerging market multinational enterprises, knowledge stock, innovation, Iran

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# 1. Introduction

In the past two decades, there has been a sharp increase in the number of studies focusing on the internationalization of multinational enterprises from emerging countries (EMNEs) (e.g., Ayden, Tatoglu, Glaister, & Demirbag, 2020; Gaur & Delios, 2015; Parthasarathy, Momaya, & Jha, 2017; Paul & Gupta, 2014; Yaprak, Yosun, & Cetindamar, 2018; Yeoh, 2011). This shift towards examining the internationalization process in the EMNE context is attributed to two important factors. The first factor refers to the *dynamic capabilities* (Teece, Pisano, & Shuen, 1997) and *resource-specific assets* (Barney, 1991) that EMNEs are in a position to leverage in their home location (e.g., abundance of natural resources, relatively skilled and low-wage workforce, the experience of operating in idiosyncratic environments, among others). Such resources and capabilities are considered to be instrumental for the successful internationalization of EMNEs (Bianchi, 2009) even though they tend to tap into foreign locations as a way to acquire critical resources and assets that are not available in their home location (Deng, 2009). The second factor refers to the *location-specific characteristics* and *institutional idiosyncrasies* that tend to affect (or shape) EMNEs’ internationalization strategy (Peng, Wang, & Jiang, 2008). Concerning the latter, the extant literature points towards a range of location-specific characteristics such as the role of distance (e.g., cultural, administrative, geographic, economic) between the home and the host location (e.g., Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Gaffney, Karst, & Clampit, 2016; Satta, Parola, & Persico, 2014), as well as the effect of host location characteristics on EMNE internationalization, such as the role of market openness (e.g., Borda, et al., 2017); market size (e.g., Buckley et al., 2007); and the institutional/political context (Kaynak, Demirbag, & Tatoglu, 2007).

Typically, emerging markets (EMs) are characterized by wide-ranging institutions (Mingo, Junkunc, & Morales, 2018) that are either poor or inefficient, or both (Rottig, 2016). Because of this, EMNEs tend to learn from their domestic complexities as they become more knowledgeable firms (Guo, Jasovska, Rammal, & Rose, 2018). This allows them to deal with increased inefficiencies when compared to their developed multinational enterprise (DMNE) counterparts (i.e., the learning driver), or when seeking new opportunities and better conditions in foreign, more advanced markets, thus escaping their home country environment (HCE) towards finding more favorable conditions overall (i.e., the escape driver). However, despite this understanding, the competitive advantages that EMNEs leverage as they are shaped by their home country context remain under-researched (Ramamurti, 2009). It is, therefore, vitally important to examine how an EMNE’s HCE impacts its internationalization, as this will help us to develop a more nuanced understanding of this issue.

Our study, drawing on both the institution-based view (IBV) and the resource-based view (RBV), suggests that there are three home country characteristics, namely, the institutional, political, and social characteristics, that play a crucial role in the internationalization of EMNEs. We argue that a supportive institutional environment, a favorable political context, and an advanced level of social networking and support in the home country can facilitate the foreign growth and expansion of EMNEs. Further, drawing on the knowledge-based view (KBV) of the firm, we also argue that the existence of firm-specific capabilities, and specifically the level of knowledge stock (KS) of the firm (i.e., innovation, management, and marketing capabilities) positively moderates the relationship between the HCE and the foreign growth and expansion of EMNEs. Therefore, consistent with this argument, we believe that besides the home country characteristics, firm-specific factors and industry dynamics will also play an important role in determining EMNE internationalization. Overall, this study aims to develop our existing knowledge on EMNE internationalization by providing answers to the following research questions:

1. *To what extent do institutional, political and social home country characteristics influence the internationalization of EMNEs?*
2. *In what way does EMNEs’ internationalization lead to their further foreign growth and expansion?*
3. *How does the existence of knowledge stock affect the relationship between the home country characteristics and the internationalization of EMNEs?*

Our study’s contribution is two-fold. First, it contributes to the EMNE internationalization literature by theorizing and empirically showing that home country support in the institutional, political, and social context acts as an influential and decisive factor in facilitating EMNEs’ foreign growth and expansion. Through the employment of a survey questionnaire distributed to EMNEs originating from a country with a strong theocracy (i.e., Iran), we provide empirical evidence to show the critical role of HCE on EMNEs’ internationalization. MNEs from Iran come from a country where Islamic Sharia law is widely practiced and where there are vast differences in the level of political rights and civil liberties including the economic status of nations (Melewar, Turnbull & Balabanis, 2000). Accordingly, these differences can have a major impact on a firm’s internationalization, depending on the business and economic environment of the MNE’s home country and the role of the government. Despite a plethora of studies available on EMNE internationalization, not many studies have examined the international strategies of EMNEs from theocratic states. Hardly any research is available that examines the internationalization of Iranian EMNEs. Therefore, our study examines Iranian firms operating in the food and beverage industry, with a focus on those who are mostly manufacturers exporting their products, as this is one of the typical routes for internationalization for EMNEs.

Second, our study contributes to advancing our understanding of the effect of HCE on EMNE internationalization by adopting a holistic approach. So far, existing research has focused on the specific characteristics of the HCE, such as the political context (e.g., Duran, Kostova, & van Essen, 2017), governmental control (e.g., Hennart, Sheng, & Carrera Jr., 2017), promotional and monitoring policies (e.g., Luo, Xue, & Han, 2010), among others. Thus, it has predominantly taken an institution-based view (IBV), with so far limited attempts to combine this with the potential direct or moderating role of firm-specific characteristics, as these stem from the RBV and the KBV of the firm. For instance, Barney (1991) argues that a firm’s resources serve as a vital source of competitive advantage. However, as tangible resources offer decreasing advantages, organizations must turn towards leveraging intangible assets (Whitehill, 1997). In recent years, the extant literature on organization studies has taken the view that knowledge is the most strategic resource for any organization (McEvily & Chakravarthy, 2002). While, on the one hand, international business (IB) scholars have acknowledged that the internal knowledge reservoir of an MNE is essential for its internationalization (Casillas et al., 2009), on the other hand, knowledge is also dependent upon institutions as it reflects an understanding of how a country’s institutional system operates (Lu, Tsang, & Peng, 2008). As institutions vary across societies, nations, and cultures, the competitive advantage enjoyed by a firm in one country because of the possession of knowledge may not necessarily be legitimate or useful in another country (Lu et al., 2008). How MNEs utilize their internal knowledge created in the home or host country institutional environment will largely dictate how they build their competitive advantage and this will subsequently have an impact on their international growth and expansion. Hence, we argue that integrating both the IBV and the RBV in the same research questions can help us to more effectively understand the relationship between home country characteristics and EMNE internationalization. Our study addresses this important gap in the existing literature and adopts a more comprehensive approach to the study of this under-researched area, both theoretically and empirically.

Returning to the context of Iran, it is an important contextual setting, as published research available on the internationalization of Iranian small and medium-sized enterprises (SMEs) is very limited (Ghanatabadi, 2005). As one of the growing EMs, Iran continues to operate as a command economy, given that its main source of revenue, oil, is used as an instrument of state monopoly (Gheissari, 2009) and is the main source of financing physical and social infrastructure in the country (Emami & Adibpour, 2012). In terms of politics, Iran has had a persistent tradition of authoritarian rule that has resulted in a totalitarian regime, with no recognition of individual freedoms and rights, and with the state having maximum authority (Mahmood, 2006). Furthermore, being a theocratic state, religion plays a major role and serves as the foundation for Iran’s political system (Rieffer-Flanagan, 2013). As a result, Iran’s constitution, its society, and its cultural, social, political, and economic institutions are shaped by Islamic principles and traditions (Mahmood, 2006).

Our study considered the central role played by SMEs in Iran’s current economic prosperity, even though the global financial crisis severely undermined the country’s economic strength. The World Trade Association (WTO) listed 89 main food and beverage manufacturers located in major industrial cities. Iran has a strong food and beverage market in the entire Middle East that is growing due to a growing population. The World Bank's (2017) data show that Iranian food exports made up approximately US$1.65 billion and imports amounted to approx. US$1.84 billion, which results in an overall export product share of 1.56 and an import share of 3.57. Furthermore, in 2017, Iran was ranked sixth of all the Islamic nations in terms of their food and beverage market (European Commission Report, 2017). The Iranian government has outlined an ambitious 20-year outlook plan where it intends to achieve 100 million tonnes production capacity and aims to export Iranian food worth US$6.5 billion by 2025 (European Commission, 2017). However, despite this growth, the context of Iran as an emerging market has largely been neglected in the international business (IB) literature. Given the enormous potential of this emerging market (Soltanifar, Ajdari, & Ansari, 2018) and the need to gain a better understanding of the process of internationalization of SMEs from Iran (Ghanatabadi, 2005), we have chosen to make this research setting our focus.

In the next section, we discuss the literature on home country characteristics and their effects on the EMNEs’ internationalization process. Further, we review the literature on the moderating role of KS as well as on the innovation, management, and marketing capabilities of MNEs to develop a set of hypotheses in the EMNE context. We then discuss the sampling and the data collection techniques employed in our quantitative study and subsequently present the measures and the analysis of the results. We finally conclude our paper by presenting a detailed discussion of the results and findings whilst also articulating the contribution of our study to the literature on EMNE internationalization.

# 2. Home country characteristics and EMNE internationalization

## 2.1 Positive determinants of EMNE internationalization

There has been a lot of research interest in the question of whether or not there are unobserved characteristics that could be distinctive to EMNEs. These could be characteristics related to their respective home countries (Aharoni, 2014; Cuervo-Cazurra, 2012; Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018; Dunning, Kim, & Park, 2008; Godley, 2014; Narula & Kodiyat, 2016; Ramamurti, 2012; Rugman, 2010). For example, research has looked at home country characteristics such as corruption and political risk to explain the internationalization phenomenon (Cuervo-Cazurra, 2006; Cuervo-Cazurra, 2016; Cuervo-Cazurra & Genc, 2008; Del Sol & Kogan, 2007; Garcia-Canal & Guillen, 2008; Govindarajan & Ramamurti, 2011; Holburn & Zelner, 2010; Hoskisson, Wright, Filatotchev, & Peng, 2013; Luo & Wang, 2012; Panibratov & Michailova, 2019). On the one hand, IB scholars stress that the immobile ownership advantages of EM can be viewed as beneficial to the home country. This indicates that factors such as price competition are not an appropriate competitive advantage, and neither is latecomer status or weak home institutions (Gammeltoft, Barnard, & Madhok, 2010). However, on the other hand, the knowledge of challenging the home country environment is considered to be a strong advantage of EMNEs in the global market (Cuervo-Cazurra & Genc, 2008). There is also evidence to show that the complexity and integration of global markets decrease the role of home country-specific national characteristics (Lee, Chen, & Chang, 2014). Based on this literature, we focus on three main components of the HCE, that is, the *institutional*, *political,* and *social* characteristics. These characteristics of the HCE are determined based on the diversifying features of particular countries, which can be viewed as positive determinants of EMNE internationalization.

### 2.1.1. Institutional characteristics

Institutional characteristics play an important role in the internationalization of MNEs. Strong institutions can provide legal protection of firm assets, as well as systematic professional skill formation and innovation environment to support international expansion (Wan & Hoskisson, 2003). They can also promote the individual and organizational-level global mindset that helps MNEs to accelerate their international expansion (Gaffney, Cooper, Kedia, & Clampit, 2014). However, institutional voids and unexpected changes to regulatory policies in emerging countries encourage companies to invest abroad to avoid constraints (Luo & Tung, 2007; Peng et al., 2008). Weak institutional systems, however, could be seen as a unique advantage for EMNEs as they gain experience from institutionally weak home market contexts and consequently learn to cope with institutional inefficiencies in other international markets with similar or even more extensive institutional idiosyncrasies (Aulakh, 2007; Cuervo-Cazurra, 2006; Khanna & Palepu, 2004). For instance, a study conducted by Luiz, Stringfellow, and Jefthas (2017) found that African EMNEs engage in both institutional complementarity and substitution during their internationalization, as they first seek similar marks by playing to their strengths to reduce institutional uncertainty but later pursue an institutional diversification strategy to minimize their exposure to institutional risk. Therefore, the experience in managing home country institutional complexities and familiarity in terms of dealing with difficult conditions are likely to reduce the challenges EMNEs have to confront during their internationalization process (Cuervo-Cazurra & Genc, 2008).

Taking an IBV, the current study incorporates three home country components, i.e., a home country’s 1) *trade policy* 2) *foreign policy* and3) *small to medium enterprise (SME) support policy*. We argue that trade policy can create opportunities for domestic firms aiming to internationalize their activities. For example, trade policies such as tariffs, quotas, import barriers, entry and license fees, and costs of protecting intellectual and property rights can all favor local businesses (Arregle, Miller, Hitt, & Beamish, 2013) as they determine the extent of market regulation and openness (He & Cui, 2012) which eventually enhances an MNE’s ability to export or invest abroad. Knill (2005, p.764) also argues that there are “diverging rather than converging policy developments across countries”, i.e., trade policy is one of the most diversifying features of each country. Another component is foreign policy, which can be considered as a facilitating factor in terms of enabling both home country and domestic firms to retain power in the international arena. For example, governments in EM can bargain on behalf of firms to help them become national champions in the global business scene (Luo et al., 2010; Ramamurti, 2001; Rodrigues & Dieleman, 2018). As an example, Chinese investments in the infrastructure and extractive industries in Africa and Brazil are associated with a favorable foreign policy between China and the associated foreign market (Li, Newenham-Kahindi, Shapiro, & Chen, 2013; Shapiro, Vecino, & Li, 2017). Accordingly, home governments can shape EMNE strategic intent and internationalization by providing resource flows through financial resources, state ownership, or asset-accumulation mechanisms via promotional measures (Angulo-Ruiz, Pergelova, & Wei, 2019). At the same time, foreign policy is tied with foreign policies of other countries and aims to support public interest (Smith, 1996).

The third and final component is the SME support policy. Smallbone and Welter (2001) mention the strong influence that government decisions have on SMEs' activities and underline the necessity for governments to create a usable and supportive infrastructure for SMEs, opportunities for partnership with ‘international donors’, the elimination of corruption, and the development of favorable registration procedures. They also draw attention to the importance of government assistance programs like export assistance to promote successful international activities of SMEs (Shamsuddoha, Ali, & Ndubisi, 2009). Governments can also stimulate inward flows, especially in technology and direct investments that will become the basis for SMEs to export later (Korhonen, Luostarinen, & Welch, 1996). For example, importing activities may include foreign trips to engage in negotiations on foreign operational modes, negotiation with suppliers, and so on (Korhonen et al., 1996). As a result, home country government support can be viewed as ‘capability-enhancing mechanisms’ that can limit losses that might occur due to firms’ lack of prior international experience (Lu, Liu, Wright, & Filatotchev, 2014). It can be a significant stimulus to take risks in foreign market entries (Luo & Tung, 2007). While we do know a lot more about the internationalization activities of SMEs in general (Lu & Beamish, 2001; Ruzzier, Hisrich, & Antoncic, 2006) and SMEs from emerging markets (Cardoza & Fornes, 2011; Senik, Scott-Ladd, Entrekin, & Adham, 2011), we know hardly anything about the internationalization of SMEs from Iran (Ghanatabadi, 2005).

Interestingly, a study conducted by Ciravegna, Lopez, and Kundu (2014) comparing the internationalization of Latin American SMEs versus Italian SMEs, found that despite significant differences in their country of origin (i.e., one being an SME from an emerging economy and the other from a developed country), they pursued somewhat similar internationalization approaches, yet they were different in their specific strategies. Based on this conclusion, Ciravegna, Lopez, and Kundu (2014) argue that the size, wealth, and institutional development of the country where firms are based may be less influential on SME internationalization than other factors, such as whether the firm is an SME or another type of firm, or the type of industry in which they operate. While this may be true for the Ciravegna, Lopez, and Kundu (2014) study, it is not generalizable to all SMEs. Therefore, it is important to obtain a better understanding of the process of internationalization of Iranian SMEs to find out how they differ from SMEs from other emerging economies.

### 2.1.2. Political characteristics

Although a wide range of existing studies identifies political characteristics as the political regime and the level of freedom that characterize a country, our study adopts a wider approach. We view political characteristics as a jigsaw puzzle comprising political, cultural, and geographic characteristics, including *national representation*, *cultural acceptance,* and *geographical suitability*. We believe these characteristics are important constituents of a country’s political environment. Regarding national representation, the country of origin effect is one of the most popular themes currently being discussed in the IB literature. The country of origin effect explains customer preferences based on the reputation of the country and how this affects the brand, the corporate image, and the reputation of the firm in the eyes of prospective consumers (Bilkey & Nes, 1982). Nevertheless, it is widely accepted that cultural values, which form part of cultural acceptance, are seen as a “necessary condition for economic growth” (Hofstede & Bond, 1988, p. 18). Finally, geographical suitability is another political characteristic of MNE activity. Scholars like Gallup, Sachs, and Mellinger (1999, p. 212) underline the importance of considering basic geographic realities and argue that “by neglecting geographic variables, we may overstate the role of policy variables in economic growth and neglect some deeper obstacles”. Although the Uppsala model has, to a great extent, explained the gradual penetration of MNEs into neighboring foreign markets (Johanson & Vahlne, 1997), extant research is increasingly questioning the stages model. For example, there is the case of Chinese firms investing in culturally and geographically distant countries to leverage global competitive advantages (Barkema & Vermeulen, 1997; Lee et al., 2014; Ragozzino, 2009). Likewise, EMNEs acquire culturally and geographically distant firms to fill in the gaps in strategic assets as a quick way to update their firm-specific capabilities.

To conclude, we believe these characteristics are important constituents of a country’s political environment. The national representation of a country’s origin reflects its national image, and this can be easily observed in the corporate image (Gotsi, Lopez, & Andriopoulos, 2011) or brand image (Diamantopoulos, Schlegelmilch, & Palihawadana, 2011; Koubaa, 2008) of organizations originating from that country. Cultural acceptance refers to a nation’s cultural norms and values and these make an important contribution towards economic growth and development. Finally, geographical suitability is another important contributor. Policy barriers within a country, the differences in local cultures, and the geographic location all contribute towards its distinctiveness (Buckley & Ghauri, 2004).

### 2.1.3. Social characteristics

The current study perceives social characteristics as an amalgamation of network characteristics and dynamics in the home country. There are three dimensions related to home country social characteristics, namely *business alliances*, *business networks,* and *competition*. Alliance formation allows a firm to enter a foreign market by itself or by allying with another firm (domestic or international) to minimize investment risk and enhance competitive advantage (Tse, Pan, & Au, 1997). The firm-specific ownership advantages of EMNEs extend beyond firm capabilities to include relational assets that are derived from home country network ties (Yiu, Lau, & Bruton, 2007), while, home country competition can predict the profitability of a firm as higher competition may lead to lower profitability and vice versa (Cherchye & Verriest, 2016).

There are differences between EMNEs and DMNEs as far as social characteristics are concerned. First of all, unlike MNEs which internationalize to widen their customer segment, EMNEs expand by following their existing client base (Aulakh, 2007). They tend to create connections with local firms and benefit from deep integration into host country economies. For instance, Ertug, Cuypers, Noorderhaven, and Bensaou (2013) explain EMNEs’ preferences as an opportunity to decrease the home country effect by leveraging a previously established relationship with partners or business alliances. Through this approach, “reverse knowledge and technology flow back to the home country” (Herzer, 2011, p.772). The second and most significant driver of MNEs is home market competition. Porter (1998) emphasizes the influence of location on the competition. While DMNEs expand to gain access to natural resources or widen target audiences and customers due to their relatively small home market (Cuervo-Cazurra & Genc, 2008; Padilla-Perez & Nogueira, 2016), EMNEs follow their customer demands and internationalize due to increasing competition in the home market, as well as to overcome technological gaps and late mover disadvantages (Aulakh, 2007).

The aforementioned home country institutional, political, and social effects on the internationalization of EMNEs represent the suggested home location characteristics and that form part of the HCE. However, the effect of these home country institutional, political, and social characteristics on the growth and expansion of EMNEs has remained an under-researched agenda and requires further investigation.

## 2.2. Growth

Growth of EMNEs through internationalization can stem from a wide range of factors (Awate, Larsen, & Mudambi, 2012; Estrin, Nielsen, & Nielsen, 2017; Gaffney et al., 2014; Jain, Celo, & Kumar, 2019; Thakur-Wernz & Samant, 2019). For instance, a study conducted by Madhok and Keyhani (2012) investigated the internationalization of EMNEs that used competitive catch-up as a mechanism for building their capability to internationalize and seek opportunities for internationalization. Their research was based on the premise that the existence or failure of an EMNE in a foreign market can be linked to the deficiency of resources available and competitive advantage to access resources abroad. Our assumptions about the relationship between growth and the components of HCEs are based on arguments from studies such as Ayyagari, Demirgüç-Kunt, & Maksimovic (2011), who examined the interconnections between firm growth and the level of institutional development of the country, and Canning and Pedroni (2004) whose research demonstrated how the infrastructure of competitive markets without externalities can influence the growth of a firm. Although these studies discuss the internationalization of EMNEs in terms of their growth and expansion, they do not pay attention to their links with HCEs. To address this gap in the current literature, we argue that the qualities of institutional, political, and social characteristics in the home location are significant determinants of EMNEs’ foreign growth. We hypothesize that:

***H1.*** *The home country institutional, political, and social characteristics will positively relate to the international growth of Iranian EMNEs.*

## 2.3. Expansion

Expansion in international markets involves three main components: *sales channel*, *brand equity,* and *local capability* (Craig & Douglas, 2000). A study conducted by Chang (1995) explains why the local capability-based expansion of a firm can be linked to its learning from earlier market entry experiences. Another research study conducted by Gabrielsson (1999) found that the use of an efficient sales channel was an optimal option for international expansion. Brand equity in the context of expansion refers to customer preferences for one brand over others; this increases the value of the company (Slotegraaf & Pauwels, 2008; Yoo & Donthu, 2002). A higher equity brand provides higher returns on investments made into marketing activities by the company (Slotegraaf & Pauwels, 2008) and, when discussed from the viewpoint of IB, a higher equity brand is also dependent upon the linkage between the brand resource and the customer context (Uggla, 2004). Brand equity, therefore, when linked with development in the home market, justifies appropriate channels of distribution and forms an essential part of the characteristics of the home country which acts as a useful resource for penetrating foreign markets (Rugman & Verbeke (2004). These studies, while discussing expansion in the context of firm internationalization, also allude to the political characteristics of the home country. They do not focus on all three characteristics of HCE as one construct; nor do they explain the expansion of EMNEs outside their home country. Hence, we hypothesize that:

***H2.*** *The home country institutional, political, and social characteristics will positively relate to the international expansion of Iranian EMNEs.*

***H3.*** *The Iranian EMNEs’ international growth will lead to their further international expansion.*

## 2.4. The moderating role of knowledge stock

Knowledge stock (KS) is a collection of experience-based knowledge accumulated over time, which has been captured, organized, reused, and transferred within a company (Dierickx & Cool, 1989; Lin, 2007). KS provides directions for future exploration and affects a firm’s ability to recognize market trends and opportunities as its absorptive capacity is shaped by prior KS experience (Jantunen, 2005; Wu & Shanley, 2009). Furthermore, the opportunity of using KS as a competitive advantage for MNEs lies in their ability to use locally created knowledge worldwide (Gupta & Govindarajan, 2000; Kogut & Zander, 1992; Schlegelmilch & Chini, 2003). KS is, thus, an asset for every company and a potential source of competitive advantage (Jantunen, 2005). It allows the MNEs to quickly adapt to new competitive environments by leveraging existing capabilities simultaneously with acquiring new ones (Marsh & Stock, 2006). However, to produce KS, a firm first needs to develop important organizational capabilities to identify new opportunities and to respond adequately to new challenges using innovation, management, and marketing capabilities (Grant, 1995; Schlegelmilch & Chini, 2003).

Knowledge stock and innovation capability are inextricably linked as new idea generation requires knowledge utilization and knowledge sharing within an organization to improve its innovation activity (Jantunen, 2005; Lam, 2000; Lin, 2007). The prior experiences of a firm in a particular market can facilitate its innovative capability (Wu & Shanley, 2009). The innovation capability of an EMNE includes the mechanisms it applies to utilize knowledge retained from prior projects for innovating new products or processes to adapt to a foreign market (Marsh & Stock, 2006). However, Jantunen (2005) and Teece et al. (1997) have argued that a critical requirement of knowledge-based competitive advantage is to reconfigure the asset base and processes continuously. Although innovative capabilities can produce the necessary knowledge for entering a new market, the management capabilities component of knowledge stock aims to apply that existing knowledge in a new dynamic environment. Management capabilities in the context of EMNEs include responsiveness to market knowledge, strategic flexibility, and reconfiguring capabilities (Jantunen, 2005; Kogut & Kulatilaka, 2001; Teece et al., 1997). Finally, marketing capability refers to the connection between the firm and its consumers in the foreign market (Knight & Cavusgil, 2004). For EMNEs, marketing capability may imply procedural types of knowledge as ‘know-how’ that strongly depends on the cultural context and facilitates the fulfillment of expectations of the recipient unit by MNEs (Schlegelmilch & Chini, 2003).

To conclude, we argue that innovation capability, management capability, and marketing capabilityare all inextricably linked to the KS of EMNEs. For example, innovation capability allows EMNEs to generate new ideas to enhance their innovation activities while, management capability allows them to configure their host country market strategy, local market responsiveness, and internal capabilities. Finally, the marketing capability of EMNEs helps them to align their previous marketing experience with customer expectations in the new market. These three elements significantly impact the KS reserve of EMNEs in their host country environment, thereby helping them to achieve a competitive advantage. Therefore, based on this rationale, we conjecture the following two hypotheses:

***H4.*** *The Iranian EMNEs’ knowledge stock will positively moderate the relationship between the home country institutional, political, and social characteristics and their international growth.*

***H5.*** *The Iranian EMNEs’ knowledge stock will positively moderate the relationship between the home country institutional, political, and social characteristics and their international expansion.*

# 3. Method

## 3.1. Sample and data collection

The research sample selection was subjective due to the simple random sampling strategy adopted by the choice of the large population of producers that have internationalized in the food and beverage industry outside of Iran which helps to avoid the confusing impacts of inter-industry bias and improves the generalizability of the findings. The sampling frame included the official Iran Business Directory concentrating on self-governing producers at the headquarters (HQ) level, including branches and non-subsidiaries. For each organizational unit, a minimum of five early respondents was invited to participate in this study. They were senior executives, proprietors, and directors with positions such as top management, business directors, and senior manager. Eng and Spickett-Jones (2009) and Podsakoff, MacKenzie, Lee, and Podsakoff (2003) state that to reduce common method bias, data should be compared from a minimum of two sets of respondents in a firm. Subsequently, a pilot survey was conducted with 74 experts with experience of working for MNEs in the food and beverage industry in Iran. The survey respondents were informed that the main purpose of the study was to provide managers with new insights about effective ways to improve the growth and expansion of an EMNE outside its home country. The first version of the survey instrument was assessed by five academics, who were leading experts familiar with the topic area. They evaluated both the content and the validity by employing judging procedures (Bearden, Netemeyer, & Mobley, 1999; Zaichkowsky, 1985). The academics were asked to comment on the appropriateness of the measurement items and check the clarity of the wording. Their recommendations were then incorporated. The academics were asked to comment on the significance of each statement and to specify which measurement items should be retained (Hair, Tatham, Anderson, & Black, 2006). The questionnaire was translated from English into Persian by independent translators, and then from Persian back into English to guarantee accuracy (Brislin, 1970). Based on these assessments, several items were modified, deleted, or added to the main survey. In the second stage, 1027 questionnaires were sent using convenience sampling to employ easily accessible late respondents. In total, 514 usable (completed) questionnaires were processed and analyzed. The World Trade Organization (WTO) enabled the survey by publicizing the current study in their communication with manufacturing members.

We controlled for the demographic profile of each MNE, such as the location (i.e., the location of the business in the foreign country), age (i.e., firm’s years of operation in the country), diversification (i.e., the number of separate business units in the firm), and performance (i.e., the value of sales to control for the performance effect). The sample size can counter the risk of subjective bias since this might be expected to balance across the respondent population. There was no significant difference when comparing the demographic profile of respondents between the early and late respondents. The majority of manufacturers (57.8%) were large enterprises with more than 250 employees, 27.2% were small and medium-sized firms with fewer than 250 employees, and 15% of the respondents were representatives of small-sized companies with less than 50 employees. 36.2% of the companies were active businesses with between 30 and 40 years in the home country and the majority reports 5 to 10 overseas business units (44.6%). Their business activities in the foreign countries are mainly located in capital cities (67.7%) with populations of over 1 million (83.1%). Most of the respondents were male (89.9%) aged between 35 and 44 (26.8%) and 25.7% were aged between 45 to 54. A high percentage (36.6%) of the respondents were junior managers holding a postgraduate or even higher degree (e.g., doctorate) (55.8%).

(Insert Table 1 here)

## 3.2. Measures

This study employed multiple-item measures in all the constructs anchored on a seven-point Likert-type scale ranging from (1) strongly disagree to (7) strongly agree. It was used to provide satisfactory properties that are related to the underlying distribution of responses towards the HCEs. Most of the measurement items were modified from the previous literature whenever applicable. The study adapted and employed specifically relevant HCE measures rather than conventional HCE measures. Discussions with the WTO on MNE’s HCEs and the survey pilot influenced the development of three main characteristics for investigation: (i) institutional characteristics (IC), (ii) political characteristics (PC), and social characteristics (SC).

The item measurement for the research constructs of interest was constructed based on established scales from prior studies and had been proven to be psychometrically sound (Churchill, 1979; Hair et al.,2006). *Institutional* characteristics (IC) were measured using three constructs: *trade policy* (Ali & Crain, 2001; Bailey, Goldstein, & Weingast, 1997; Knill, 2005; Mansfield, Milner, & Rosendorff, 2000; Scheve & Slaughter, 2001; Tinbergen, 1952), *SME support policy* (Gengatharen & Standing, 2005; Gibb, 1993; Hallberg, 2000; Smallbone & Welter, 2001; Zhu, Wittmann, & Peng, 2012), and *foreign policy* (Bailey et al., 1997; Cour-Thimann & Winkler, 2012; Ikenberry, 1988; Mankoff, 2009; Smith, 1996). The variable *political* characteristics (PC) were measured using the following three constructs: *national representation* (Castells, 2003; Kurunmäki, 2000; Rodan, 2016), *cultural acceptance* (Hofstede & Bond, 1988; Inglehart, 1997; Michelsen, 2001), and *geographical suitability* (Gallup et al., 1999; Lattimore, 1938). *Social* characteristics (SC) were measured in terms of *business alliances* (Eisenhardt & Schoonhoven, 1996; Samiee, 2008; Sivadas & Dwyer, 2000) *business networks* (Kwon & Wen, 2010; Zhou, Wu, & Luo, 2007; Zimmer, 1986), and *competition in the home market* (Fernández‐Kranz & Santaló, 2010; Porter, 1998; Zhou et al., 2007).

Statements used for the variable growth (GTH) of an organization referred to the *respondents’ opinions about their company's profits* (Edvardsson, Johnson, Gustafsson, & Strandvik, 2000; Terrill & Middlebrooks, 2000; Toms, 1998), *infrastructure* (Canning & Pedroni, 2004; Esfahani & Ramı́rez, 2003; Koh, 2006), and *job creation* (Ayyagari et al., 2011; Davis, Haltiwanger, & Schuh, 1996). The variable expansion (EX) measured the perceptions of the respondents towards the *companies’ sales channels* (Al-Obaidi & Gabrielsson, 2002; Gabrielsson, 1999; Gabrielsson & Gabrielsson, 2011; Gabrielsson, Kirpalani, & Luostarinen, 2002), *brand equity* (Shocker, Srivastava, & Ruekert, 1994; Slotegraaf & Pauwels, 2008; Uggla, 2004; Yoo & Donthu, 2002), and *local capability* (Chang, 1995; Ernst & Kim, 2002; Hennart, 2009). Finally, we included the variable knowledge stock (KS), reflecting the extent of an organization’s *innovation capabilities* (Lin, 2007; Marsh & Stock, 2006; Wu & Shanley, 2009), *management capabilities* (Foss & Pedersen, 2004; Jantunen, 2005; Kogut & Zander, 1992), and *marketing capabilities* (Jantunen, 2005; Schlegelmilch & Chini, 2003; Vorhies & Morgan, 2005; Wu & Shanley, 2009).

# 4. Analysis and results

The initial item measurements were subject to a series of factor and reliability investigations as initial assessments of their performance within the sample. The study employed a two-step approach based on the recommendation by Anderson and Gerbing (1988). Initial exploratory factor analysis (EFA) was run for each set of constructs and achieved the theoretically expected factor solutions. Additionally, EFA provided the initial reliability examination by removing the measurement with item-scale correlation near zero and multiple loadings (Churchill, 1979). EFA was employed to examine interrelationships among large numbers of variables, determine the factor structure of measures (Tabachnick & Fidell, 2007), and describe the variables in terms of their common underlying factors (Hair et al., 2006). In total, 18 items were examined using EFA to contribute to six theoretically recognized constructs. The consistency of each component with its relevant items was measured using Cronbach’s alpha (.825 through .941) and the findings confirmed that the items in each factor were internally consistent (Nunnally, 1978).

A Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (.822 > .6) revealed that the association among the items is statistically substantial and is appropriate for EFA to deliver a parsimonious set of factors (Tabachnick & Fidell, 2007). Bartlett’s test of Sphericity indicates that the correlation among the measurement items is higher than .3 and is suitable for EFA (Hair et al., 2006). The rotated component matrix of the scale for which the findings show that the items loaded on seven factors (.821 and .953) satisfied the minimum criteria for factor loadings (Churchill, 1979; Hair et al., 2006). The finding of EFA shows that the items fit within the theoretical factor structures.

(Insert Table 2 here)

Analysis of moment structure (AMOS) 21.0 statistical software was used to test the validity and reliability of the measures employing a confirmatory factor analysis (CFA) that combined each of the factors measured by reflective indicators (Anderson & Gerbing, 1988). The model fit was assessed for overall fitness by referring to the fit indices as recommended by Byrne (2001), Hair et al. (2006), and Tabachnick and Fidell (2007). So, the comparative fit index (CFI) and the root mean square error of approximation (RMSEA) provided sufficient unique information to evaluate a model (Hair et al., 2006). Based on the criteria, the CFI (.946>.90) specify good fit and the root mean squared approximation of error (RMSEA) (.076<.08) is an incremental index that evaluates the fit of a model with the null baseline model (Garver & Mentzer, 1999l; Hair et al., 2006). CFI is considered an improved version of the NFI index (Hair et al., 2006; Tabachnick & Fidell, 2007). The Tucker-Lewis index (TLI), also known as the non-normed fit index (NNFI), compares the χ2 value of the model to that of the independence model and takes the degrees of freedom for the model into consideration (Byrne, 2001; Hair et al., 2006; Tabachnick & Fidell, 2007). Thus, the results show that the factors were nomologically valid (Steenkamp & Trijp, 1991).

Incremental fit index (IFI), TLI, normed fit index (NFI), and relative fit index (RFI) were .973, .966, .949, and .916 respectively. Also, the goodness-of-fit index (GFI) was .920. All the indexes were greater than the recommended threshold of .90 (Hair et al., 2006), and each criterion of fit, therefore, specified that the suggested model’s fit measurement was satisfactory. Finally, the adjusted goodness-of-fit index (AGFI) was .886. Values ranging from .80 to .89 were indicative of a reasonable fit (Hair et al*.,* 2006).

The construct reliabilities are above the minimum threshold of .6 (Bagozzi & Yi, 1988). At .862 or higher, the average variance extracted (AVE) exceeds the .5 benchmark (Fornell & Larcker, 1981). Table 3 outlines the descriptive statistics and Pearson correlation between all variables included in this study. Table 3 (on the next page) outlines the descriptive statistics and Pearson correlation between all variables included in this study.

According to the standardized parameter approximations for the hypothesized associations between the constructs, the results provide support for H1 (HCEs on firm international growth, *β*=.428, *t*=6.226). In addition to the hypothesized effects, guided by the respondents’ perceptions, the relationship between HCEs and firm international expansion (H2 *β*=.144, *t*=1.866, *p*=.062) was not statistically significant, and thus the hypothesis was not accepted (see Figure 1). The results demonstrate that the relationship is suggestively different from 0 at the .05 importance level and that it may not be chiefly effective. The regression path between international growth and expansion (H3) shows a significant positive relationship between these two variables (*β*=.189, *t*=3.361). H4 is supported as the results show that KS has a positive and significant effect on the relationship between the HCEs and international growth. Finally, H5 examined whether the impact of the HCE on international expansion is moderated by KS. The results indicate a negative and insignificant coefficient. We are thus not in a position to support H5. The validated structural model is illustrated in Figure 1 (on the next page).

# 5. Discussion and implications

In H1 and H2, we proposed that the HCE is positively related to the international growth and expansion of Iranian EMNEs. Through the employment of a multidimensional survey instrument, we took into consideration several *institutional* characteristics that potentially influence the internationalization of EMNEs. We focused on a variety of institutional characteristics, i.e., the *home country’s trade policy*, *SME-support policy*, and *foreign policy*, and aimed to cover as much institutional heterogeneity as possible. In the same vein, we suggested that *political* characteristics such as *national representation*, *cultural acceptance,* and *geographical suitability* in the home country will also shape EMNEs’ international growth and expansion. And, finally, we argued for a positive effect of the home country’s *social* characteristics, like *business alliance*, *networks,* and *competition*, on the internationalization of EMNEs. Our findings support the view that a favorable institutional, political, and social regime can facilitate foreign growth, but not expansion. This finding reinforces the view that home country characteristics do not relate only to governmental support and the effectiveness of the political system of a country, but are also linked to the wider institutional, political and social character and idiosyncrasies of the country and can influence EMNE growth internationally.

The H2 result is intuitively related to H3 and the finding that Iranian EMNEs’ international growth leads to their further international expansion. We discussed earlier how the home country environment (HCE) and the way that is structured can support the international activities of EMNEs in terms of growth orientation, but at the same time, it is not in a position to open up new market-related channels leading to further international expansion. We argued that for the second condition to hold, MNEs need to have jointly developed firm-specific capabilities that can further leverage home country support on growth and trigger international expansion from within. Unless firms are in a position to grow endogenously, home country support is not sufficient for further expanding their international operations. As such, EMNEs need to consider leveraging institutional, political, and social support from the home country to grow their business internationally, and then also utilize their firm-specific capabilities towards expanding to other international locations.

(Insert Table 3 here)

(Insert Figure 1 here)

In H4 and H5, we conjectured that the knowledge stock of Iranian EMNEs positively moderates the relationship between the HCE and international growth but not the EMNEs’ further expansion. We hypothesized that the role of resources and capabilities of the MNE can be seen as an under-researched phenomenon as far as the relationship between home country characteristics and firm international growth and expansion is concerned. Accordingly, we tested the moderating role of the firm’s KS, namely, *innovation*, *management*, and *marketing capabilities*, on the relationship between home country characteristics and EMNEs’ foreign growth and expansion. Although a supportive, efficient, and facilitating home country institutional, political and social context can induce international growth of EMNEs, we hypothesized that an equally important role in that direction is played by the resources and capabilities EMNEs hold. Our findings support the view that KS positively moderates the relationship between home country characteristics and EMNE international growth. We also found that EMNEs can further grow internationally by leveraging the supportive home country context through the simultaneous utilization of valuable resources and knowledge-specific assets. However, this does not apply in the case of international expansion. Similar to our finding concerning H2 and the role of the HCE on international expansion, our findings failed to support the view that KS positively moderates the relationship between the HCE and international expansion. Our findings, therefore, reinforce the view that EMNEs’ international expansion is a more complicated phenomenon than that of international growth. As H3 results show, international expansion cannot be achieved until EMNE grows to a proper level. EMNEs aiming to further expand abroad will need to develop or acquire additional capabilities and assets apart from that of KS. Access to *financial assets*, *tangible assets*, and the development of *human resources* accrued through the growth of the firm are all imperative factors potentially leading to further international expansion.

## 5.1 Implications for theory

Our study examined the impact of home country institutional, political, and social characteristics on the internationalization of EMNEs. This study is important as past research has only selectively examined HCEs on the internationalization of MNEs. They have either tended to focus on aspects such as a home country’s level of development, its institutional and political system, economic size, or the degree of openness (e.g., Angulo-Ruiz, et al., 2019; Barkema, Bell, & Penning, 1996; Chung & Beamish, 2005; Delios & Henisz, 2003; Meyer, Estrin, Bhaumik, & Peng, 2009; Voss, Buckley, & Cross, 2014); or they have compared the effects of the distance between the home and the host countries on an MNE’s international expansion (e.g., Ang, Benischke, & Doh 2015; Ghemawat, 2001; Johanson & Vahlne, 1977; Luo & Shenkar, 2011). Some have even paid attention to the impact of home country characteristics on innovation and foreign expansion of MNEs (e.g., Cuervo-Cazurra, 2006; Cuervo-Cazurra & Genc, 2008; Del Sol & Kogan, 2007; Garcia-Canal & Guillen, 2008; Govindarajan & Ramamurti, 2011; Holburn & Zelner, 2010; Hoskisson et al., 2013; Luo & Wang, 2012). Although several studies have highlighted the important role of home location characteristics on the internationalization of firms, their focus has mainly remained on conceptualizing and theorizing, rather than on empirically examining which home location characteristics are influential in that direction (e.g., Cuervo-Cazurra, 2016; Luo & Tung, 2007; Yamakawa, Peng, & Deeds, 2008).

According to Ramamurti (2009), the competitive advantages that EMNEs leverage as they are shaped by their home country context remains an under-researched issue. And, scholarly research on the dynamic process of EMNE’s international activities interacting with home country [and host country] institutions still seem to be in its infancy (Chidlow, Wang, Liu & Wei, 2021). While, some of the unique features of EMNEs, besides their country of origin, may also stem from the nature of their industry, the stage of the internationalization, the global context at the time of internationalization, or their prior international experience (Ramamurti, 2012). There is a lack of understanding regarding the basis for an EMNE’s ability to grow and expand internationally. A study conducted by Luiz, Stringfellow, and Jefthas (2017) found that African EMNEs engage in both institutional complementarity and substitution during their internationalization, as they first seek similar marks by playing to their strengths to reduce institutional uncertainty, but later pursue an institutional diversification strategy to minimize their exposure to institutional risk. Therefore, based on the distinct pressures of the institutional environment, EMNEs determine their strategic choices in their internationalization (Kumar, Singh, Purkayastha, Popli & Gaur, 2019). The results of this study indicate that Iranian EMNEs depend on their HCE and, specifically, use its institutional, political and social characteristics to facilitate foreign growth but not international expansion. They do this by relying on their home country institutional policies for support during the early stages of internationalization, leveraging their country of origin image for promoting international growth, and utilizing an augmented and well-connected business network in the home country, to deal with the potential costs stemming from the increasing levels of liability of foreignness and the negative effects associated with internationalization. The findings support more recent research that shows that the development of institutions in the home country can have an impact on the MNE’s degree of internationalization (Ahsan, Sinha, & Srinivasan, 2020). For instance, in the case of Iranian EMNEs, home country institutions can certainly propel the foreign growth of these MNEs while the HCE can act as a buffer to the constraints stemming from internationalization thereby easing and facilitating the growth process at the international level. Furthermore, there is also strong support for the argument that different home country characteristics have different impacts on internationalization outcomes (Angulo-Ruiz et al., 2019). For instance, the different aspects of home country diversity, be its institutions, competitors, consumers or business networks enables EMNEs to experience and learn the differences that exist between developed and underdeveloped institutions and it is this understanding that EMNEs gain from their HCE which can assist them in their international growth (Pattnaik, Singh & Gaur, 2020) Our findings further add to this growing understanding of how an EMNE’s home country characteristic impacts its internationalization.

While previous studies researching the effect of home location characteristics on the internationalization of firms have examined important aspects of the IBV, such as the home country’s structural reforms (e.g., Cuervo-Cazurra, 2008), political context (e.g., Duran et al., 2017), governmental control (Hennart et al., 2017), and promotional and monitoring policies, etc. (e.g., Luo et al., 2010), they neglect to integrate and simultaneously examine a wider set of institutional, political and social characteristics related to the RBV, that all together can more comprehensively explain a home country’s institution-related effects on the internationalization of MNEs. This integrated understanding of the IBV and RBV to explain the HCE’s effect on internationalization is important to provide a holistic understanding. At the same time, the vast majority of studies have neglected to focus on potentially critical moderating firm-specific characteristics stemming from the RBV and KBV of the firm. In particular, an EMNE’s ability to gain a competitive advantage during internationalization by relying on its reservoir of knowledge has not been sufficiently explored (Guo et al., 2018; Lynch & Jin, 2016; Rui, Zhang & Shipman, 2016). We found, in this study, that besides taking support from their HCE, Iranian EMNEs also rely on their knowledge stock. This provides them with a competitive advantage in the host country and further aids in international growth. Specifically, Iranian EMNEs not only rely on their internal knowledge reservoirs (like innovation, management, and marketing capabilities) but they are also able to leverage and exploit them to gain firm-specific advantages, besides the benefits gained from a supportive HCE. This is particularly important as weaknesses in HCE can constrain the international growth of EMNEs (Narula & Kodiyat, 2016). Accordingly, the results of our study highlight the important role of firm-specific resources and capabilities and show how, when combined with location-specific characteristics, they can play a moderating role in international growth of MNEs even though it is not enough to facilitate further expansion. A recent study by Omokaro-Romanus, Anchor and Konara (2019) has also shown that firm-specific advantages as accumulated coupled with home country factors as well as regional host-market factors were key determinants of the motivations and location patterns in the internationalization process of Nigerian MNEs. Hence, we conclude that firm-specific resources and capabilities, even when combined with home country characteristics, have some but limited impact on MNE internationalization.

## 5.2 Implications for policy and practice

Our study has important implications for policy and practice, the first and foremost being the impact of home country characteristics that EMNEs use to engage in internationalization. While, in this sample of Iranian MNEs, we found that the institutional, political, and social characteristics all facilitated the international growth of EMNEs, emerging markets can vary significantly in their HCE. For example, emerging markets are characterized by weak and fluid institutions, including institutional voids, which result in institutions either not working well or being completely absent. This affects their political, legal, and social characteristics (Doh, et al., 2017). As a result, EMNEs are motivated to invest abroad as they seek institutional escape from the unfavorable or weak institutional conditions (or voids) in their HCE and thus are more interested in operating in other institutional environments (Cuervo-Cazurra and Ramamurti, 2014). Given that not all emerging markets have a favorable HCE, EMNEs must not only look internally towards their firm-specific resources and capabilities but should also continue to look externally to see how they can benefit from leveraging the institutional, political, and social characteristics of the host country to seek competitive advantages. This will enable EMNEs to create new opportunities for achieving international growth and expansion.

The second implication concerns the role of KS in facilitating EMNE internationalization. We found that Iranian EMNEs relied on their KS as a key component of their internal resources and capabilities. Not only did the KS have a positive relationship with the home country characteristics, but it also helped MNEs in their international growth, as these MNEs shared internal knowledge across organizations resulting in knowledge synthesis. However, as the results have shown, relying solely on internal knowledge for internationalization is not a sustainable strategy for further expansion internationally. EMNEs will, therefore, need to place importance on creating and absorbing local (i.e., host country) knowledge and reverse diffuse it back to their home country. This will allow EMNEs to become more agile and innovative (Batsakis, 2016; Pereira et al., 2019), and compete more efficiently and effectively on the global stage, thereby aiding their international expansion. Furthermore, this will also enable MNEs to build upon already accumulated KS inside the firm (Hutzschenreuter & Matt, 2017). This accumulation of knowledge will further assist the MNEs in their internationalization process (Eriksson et al., 2016).

## 5.3 Limitations of the study

As with all empirical research, this study has some limitations that depend on the deliberate and unconscious choices made, as choosing to study something implies that something else will be missed out (Ghanatabadi, 2005). The first limitation is that this study chose to focus on the internationalization strategies of EMNEs that come from the emerging market of Iran. Although Iran serves as an important research setting for this study, it is also an unusual emerging market, being a theocratic state where religious ideologies can have a major impact on government institutions and economic policies. Therefore, the findings on the effect of home country characteristics on the internationalization of Iranian EMNEs, including the moderating role of KS, may be taken as an unusual case given its context. Another key focus of this study was to examine the internationalization of SMEs. There is a lack of published studies on the internationalization of SMEs. These firms are different from MNEs, as they are typically smaller in size and have limited resources and capabilities (e.g., knowledge stock, capital, technology, etc.) when compared to their large counterparts. Accordingly, there is a question surrounding the wider generalizability of the findings and how far-reaching conclusions can be drawn based on the results of this study. Finally, another limitation concerns the application of the methodology, as the analyses and interpretation of the data were mostly based on quantitative methods and there was no emphasis on data triangulation. This limited the validity and reliability of the findings.

## 5.4 Future research directions

The limitations discussed above should be noted to extend the present study. One of the principal ways through which researchers can extend this study is by conducting more research on the Iranian EMNE context. For example, researchers can compare the effect of home country characteristics on internationalization between Iranian SMEs and other, larger MNEs. Furthermore, as our sample was limited to the food and beverage manufacturing SMEs from Iran who are internationalizing via exporting to foreign countries, we hope that future studies will expand on this by examining data from other industry sectors in Iran. Moreover, researchers can also conduct broader comparative studies comparing Iran with other emerging markets. Conducting such studies will go a long way in enhancing the generalizability of this topic area. This study also found that the home country characteristics had an impact on the international growth of EMNEs but not on their international expansion. This is an important area for future research given the complexity surrounding the internationalization process. Another future direction is to examine the effect of HCEs on the internationalization of EMNEs using a variety of theoretical approaches, as this will add to our understanding of this phenomenon. And, finally, the employment of a mixed-methodology that incorporates qualitative research including interviews from multiple respondents will allow researchers to provide a more holistic insight into the effect of HCEs on EMNE internationalization approaches.

# 6. Conclusion

To summarize, our study makes a strong contribution to the existing knowledge regarding the effect of HCEs on the internationalization of EMNEs. More particularly, through an examination of a diverse range of characteristics that have not been examined previously, using the contextual setting of MNEs from Iran, we show that home country institutional, political and social characteristics all have an impact on an EMNE’s international growth but not necessarily on its international expansion. Furthermore, the resources and capabilities of an EMNE, such as its KS, also moderately influence its foreign growth activities and provide further support to the EMNE's home country factors. Our use of the RBV and IBV frameworks allowed us to provide an integrated and enhanced understanding of EMNEs’ internationalization.

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Table 1 Demographic profile of the respondents compared with the main population figures (N=516)

|  |
| --- |
| **RESPONDENT PROFILE** |
|  | **N** | **%** |  | **N** | **%** |
| **Age** |  |  | **Current position** |  |  |
| Under 25 | 46 | 8.9 | Chief Executive | 97 | 18.9 |
| 25-34 | 79 | 15.4 | Senior Manager | 130 | 25.3 |
| 35-44 | 138 | 26.8 | Middle Manager | 99 | 19.3 |
| 45-54 | 132 | 25.7 | Junior Manager | 188 | 36.6 |
| 55 and Over | 119 | 23.2 | **Degree** |  |  |
| **Gender** |  |  | High school | 66 | 12.8 |
| Female | 52 | 10.1 | Undergraduate | 161 | 31.3 |
| Male | 462 | 89.9 | postgraduate and above | 287 | 55.8 |
| **COMPANY BACKGROUND** |
| **No of Employees** |  |  | **The number of separate business units of the firm** |
| 1-50 employees | 77 | 15.0 | 1-5 | 108 | 21.0 |
| 50-250 employees | 140 | 27.2 | 5-10 | 235 | 45.7 |
| 250-above | 297 | 57.8 | 10-15 | 122 | 23.7 |
| **Number of years the firm has operated in the home country** | 15-20 | 49 | 9.5 |
| 1-5 Years | 104 | 20.2 | **Has the firm diversified into another business to enter a foreign market** |
| 5-10 Years | 25 | 4.9 | Yes | 68 | 13.2 |
| 10-20 Years | 32 | 6.2 | No | 446 | 86.8 |
| 20-30 Years | 120 | 23.3 | **Location of the business in the foreign country** |
| 30-40 Years | 186 | 36.2 | Region | 77 | 15.0 |
| 40-50 Years | 47 | 9.1 | Capital | 348 | 67.7 |
| **Number of years the firm has operated in the foreign country** | Province | 46 | 8.9 |
| 1-5 Years | 175 | 34.0 | All | 43 | 8.4 |
| 5-10 Years | 229 | 44.6 | **Population at the location** |  |
| 10-20 Years | 102 | 19.8 | over 1 million population | 427 | 83.1 |
| 20-30 Years | 8 | 1.6 | 250,000 to 1 million | 87 | 16.9 |

**Table 2 Factor loadings, descriptive statistics and reliabilities**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Factor loading** | **Mean** | **Std. deviation** | **Cronbach's alpha** | **AVE** | **Construct reliability** |
| **Institutional characteristics (IC)** |  |  |  | **.933** | **.862** | **.721** |
|  | Trade policy (ICTP) | .852 | 5.4416 | 1.40782 |  |  |  |
|  | SME support policy (ICSP) | .859 | 5.4261 | 1.42362 |  |  |  |
|  | Foreign policy (ICFP) | .874 | 5.4416 | 1.40644 |  |  |  |
| **Political characteristics (PC)** |  |  |  | **.940** | **.893** | **.728** |
|  | National representation (PCNR) | .874 | 5.3949 | 1.56149 |  |  |  |
|  | Cultural acceptance (PCCA) | .921 | 5.3755 | 1.51312 |  |  |  |
|  | Geographical suitability (PCGS) | .883 | 5.3327 | 1.52696 |  |  |  |
| **Social characteristics (SC)** |  |  |  | **.874** | **.908** | **.715** |
|  | Business alliances (SCBA) | .821 | 5.5117 | 1.44855 |  |  |  |
|  | Business networks (SCBN) | .858 | 5.5506 | 1.42464 |  |  |  |
|  | Competition in home market (SCCH) | .829 | 5.2763 | 1.42982 |  |  |  |
| **Growth (GTH)** |  |  |  | **.915** | **.908** | **.732** |
|  | Profits (GTHP) | .882 | 5.2724 | 1.41963 |  |  |  |
|  | Infrastructure (GTHI) | .928 | 5.5759 | 1.32125 |  |  |  |
|  | Job creation (GTHJC) | .915 | 5.5195 | 1.29047 |  |  |  |
| **Expansion (EXP)** |  |  |  | **.941** | **.939** | **.738** |
|  | Sales channel (EXSC) | .930 | 5.5409 | 1.45742 |  |  |  |
|  | Brand equity (EXBE) | .953 | 5.5856 | 1.43524 |  |  |  |
|  | Local capability (EXLC) | .933 | 5.5292 | 1.44965 |  |  |  |
| **Knowledge stock (KS)** |  |  |  | **.825** | **.926** | **.735** |
|  | Innovation capability (KSIC) | .924 | 5.3949 | 1.46088 |  |  |  |
|  | Management capabilities (KSMC) | .946 | 5.3541 | 1.45334 |  |  |  |
|  | Marketing capabilities (KSMK) | .909 | 5.2121 | 1.47750 |  |  |  |

**Table 3 Descriptive statistics and correlation matrix for the items**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **IC TOTAL** | **PC TOTAL** | **SC TOTAL** | **GTH TOTAL** | **EX TOTAL** | **KS TOTAL** | **Gender** | **Your age** | **Company size** | **Degree** | **Current position** | **Age of company (Home)** | **Age of company (Abroad)** | **Diversification (Home)** | **Diversification (Abroad)** | **Foreign location** | **Population** |
| **IC TOTAL** | 1 |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| **PC TOTAL** | .436\*\* | 1 |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| **SC TOTAL** | .443\*\* | .358\*\* | 1 |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| **GTH TOTAL** | .445\*\* | .286\*\* | .404\*\* | 1 |   |   |   |   |   |   |   |   |   |   |   |   |   |
| **EX TOTAL** | .466\*\* | .518\*\* | .455\*\* | .283\*\* | 1 |   |   |   |   |   |   |   |   |   |   |   |   |
| **KS TOTAL** | .278\*\* | .181\*\* | .286\*\* | .221\*\* | .236\*\* | 1 |   |   |   |   |   |   |   |   |   |   |   |
| **Gender** | .018 | .077\* | .062 | .002 | .060 | .077\* | 1 |   |   |   |   |   |   |   |   |   |   |
| **Your age** | .081\* | .060 | -.026 | .063 | .007 | .030 | .037 | 1 |   |   |   |   |   |   |   |   |   |
| **Company size** | .036 | .105\*\* | .050 | .093\* | .020 | -.024 | -.023 | .564\*\* | 1 |   |   |   |   |   |   |   |   |
| **Degree** | .056 | .065 | .007 | .020 | -.006 | .031 | .022 | -.004 | -.015 | 1 |   |   |   |   |   |   |   |
| **Current position** | .102\*\* | .030 | .012 | .066 | -.037 | .046 | .063 | .818\*\* | .432\*\* | -.015 | 1 |   |   |   |   |   |   |
| **Age of company (Home)** | -.085\* | -.001 | -.024 | -.047 | -.006 | .058 | .077\* | .016 | -.012 | -.038 | .056 | 1 |   |   |   |   |   |
| **Age of company (Abroad)** | .000 | .007 | .000 | .066 | -.035 | .045 | -.025 | -.070 | -.101\* | -.062 | -.073\* | -.042 | 1 |   |   |   |   |
| **Diversification (Home)** | -.046 | .082\* | .080\* | .004 | .053 | .001 | .040 | .030 | .101\* | -.047 | -.003 | .070 | -.151\*\* | 1 |   |   |   |
| **Diversification (Abroad)** | .073\* | .040 | .137\*\* | .000 | .060 | .012 | .022 | .020 | .025 | -.143\*\* | -.061 | -.020 | -.095\* | .091\* | 1 |   |   |
| **Foreign location** | -.027 | .131\*\* | .062 | .059 | .102\* | -.040 | .141\*\* | -.004 | -.001 | -.030 | .051 | .055 | -.057 | -.026 | .070 | 1 |   |
| **Population** | -.004 | -.014 | -.048 | -.047 | .009 | -.020 | -.038 | .027 | -.059 | -.114\*\* | .051 | .069 | -.034 | -.107\*\* | .053 | .054 | 1 |

**Figure 1 Validated structural model**

