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The Impact of Industry Forces on International SME Performance in Iran: The Mediating Effect of Competitive Advantage

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Abstract: International small and medium-sized enterprises (SMEs) encounter several problems, including how to manage the industry forces in order to achieve their performance goals. Focusing mainly on international SMEs, we explored this issue by examining competitive advantage as a mediator in the relationship between industry forces and international SMEs' performance. This study was conducted in the context of the Iranian market. Iran offers substantial economic opportunities to international SMEs since it has a population of 85 million people, a range of natural resources, and a sophisticated manufacturing industry. In Iran, an international SME is a firm with less than 100 employees that originated outside of Iran but has an entity inside the country. The partial least squares method was employed in analyzing the survey data collected from 166 international SMEs in Iran. The results indicate that industry forces have significant effects on performance, but competitive advantage does not have a mediating impact. The results of this study reaffirm that international SMEs should be aware of the consequences of industry forces in order to attain their performance goals. This is especially critical for some developing economies which are more characterized by ambiguities.

Keywords: industrial organization; SME performance; structural equation modelling; small and medium-sized enterprises (SMEs); developing economies

1. Introduction

Iran's economy potentially presents many opportunities to international small and medium-sized enterprises (SMEs) due to its large population of 85 million people (United Nations 2021), forty percent of whom are under the age of 30, which could translate into a steady foundation for economic growth. The educational standard is considered high since it has a ninety eight percent literacy rate; hence, it has rich human resource capital. Moreover, it is ranked 16th internationally in terms of published academic articles, and 43rd in terms of the availability of engineers and scientists (Mundi 2022). Iran has also been included in Bloomberg's fifty most innovative nations. The criteria used to rank the countries include productivity, spending on research and development, concentration of PhD graduates and other researchers, the number of patents issued, concentration of high-tech firms, and tertiary education standards. Therefore, it is potentially an attractive market for businesses.

Nonetheless, the Iranian market is faced with many challenges that are more pronounced for SMEs due to their limited resources. The trade and financial restrictions imposed on many sectors of the economy have complicated the trade relations between Iran and other countries (Iranmanesh et al. 2021). According to the International Monetary Fund (2015), Iran's gross domestic product was set to increase by 5.5 percent annually,

which would have resulted in a lower cost of trade. This prediction was not materialized—in fact, the opposite took place, which highlights the uncertain nature of the economy. Many international SMEs were highly engaged in the Iranian market previously; however, in recent years, due to the high uncertainty, this process has been halted to a large degree, even though sixty six percent of Iranian consumers favor imported products because of their perceived higher quality (Mehdipour 2021). Many of these products are imported by SMEs. Therefore, when SMEs decide to enter an international market, they need to take many factors into consideration, such as the industry forces and performance goals.

One of the challenges for international SMEs in this type of market is to achieve their performance goals while assessing environmental conditions such as the industry forces. The key factor that will help managers make a decision on the strategy is first understanding the market environment of the host nation (Efrat and Shoham 2013), which includes the uncertainty in the market, as well as the market dynamism and competitive intensity. A number of empirical papers have considered the relationship between these industry forces and the firm's performance (e.g., Tseng and Lee 2010; Fath et al. 2021; Nahaei and Bahrami 2021). However, the research is lacking when it comes to this relationship in developing markets, particularly those of the Middle East. Thus far, the amount of research exploring how uncertainty affects firms is scarce (Koseoglu et al. 2013; Arieftiara et al. 2017; Chu et al. 2018).

Studies on performance and international business underline the impact of market dynamism on firms' performance and stresses the significance of adapting and reacting to the shifting market conditions, and as a result creating competitive advantage (Teece 2014; Amankwah-Amoah and Zhang 2015; Amankwah-Amoah 2016; Mikalef and Pateli 2017). Nevertheless, there are limited empirical studies that explore the implications of competitive intensity and market dynamism on SMEs active in diverse international environments (e.g., highly dynamic, intense, and uncertain markets of Iran), rendering it challenging for international firms to achieve competitive advantage in developing countries. This paper approaches this gap by exploring the effects of these industry forces on the SMEs' performance. Each of these forces can affect the performance of an international SME on their own merit. For instance, they can impact the availability of supply or consumer levels, which demonstrate the impact they have on performance both directly and indirectly through a variety of different means. As a result, it is imperative that international SMEs study these forces prior to strategizing in order to achieve their performance goals.

The subsequent sections of this manuscript discuss the theoretical background and hypotheses development, followed by the methods, then the data analyses and results, followed by the discussion and conclusion.

2. Literature Review

We investigated the impacts of industry forces, namely, market uncertainty, market dynamism, and competitive intensity, on firm performance. Furthermore, we evaluated the effects of competitive advantage as a mediator in these relationships.

2.1. Industrial Organization

Industrial organization is an area that scholars rely on for answers to different policy challenges. At the industry and organizational levels, many scholars demonstrated that it was not only the availability of capital which impacted performance, but it was also how industries are organized (Bain 1956; Chandler 1977, 1990). Industrial organization is well positioned to address the issues related to uncertainty and the level of competition in the marketplace. The birth of industrial organization as a discipline was a reaction to the rise in monopolies in the latter years of the nineteenth century and the negative effects that they seemingly had on performance measures such as revenues and prices (Scherer 1970). The options available to regulators to counter these perceived negative impacts were most concisely communicated by Williamson (1968), whose framework showed that there could be improvements in productivity by enabling competitors to merge in order to achieve

economies of scale. Nonetheless, he also examined higher market concentration and the negative effects that it may entail in order to attain these benefits. This trade-off remains an important topic among scholars of industrial organization and regulators alike (Skiti 2020; Audretsch 2018).

Industrial organization focuses on the environments of industries and markets of firms (Martin 2010). According to Bashir and Fedorova (2014), industrial organization describes the industry's interaction with organizational structure and firm behavior in relation to competition. Furthermore, industrial organization describes the industry features such as market structure, behavior, and firm performance in a particular sector. The structure–conduct–performance model established by Mason (1939) arose within this theory as a primary analytical framework (Martin 2010). This framework necessitated that industry forces wield influence on organizational performance and their conduct (Lipczynski and Wilson 2001). This line of thought depends on the assumption that every firm in a given industry is homogeneous (apart from size), and because of this homogeneity, industry forces are assumed to influence every firm to the same degree (Caves and Porter 1977).

Porter (1980, 1981, 1985) provided structural analysis through the model of five competitive forces, which are the threat of newcomers to the market, competitive intensity, threat of substitute products, consumer bargaining power, and seller bargaining power. A significant factor here is the assumption of firms' capacity to affect the structure based on their standing in the industry, which has reimagined the role of structure in describing firm performance. This evolution has made industrial organization a relevant theory in the field of management (Porter 1981), yet it keeps the essential tenet of industrial organization that firm performance is largely defined by the nature of the industry forces (Porter 1981; Barney 1986).

One of the frequently discussed issues in the industrial organization literature is the assumption of symmetric organizations, which may be appropriate from a long-term standpoint when the possession of competitive advantage and the nature of demand permit all organizations to rely on a mutual standard of best practices, and to benefit from the prospect of product differentiation. Based on this view, a rich series of models is characterized by similar comparative properties of price and earnings when the number of businesses in the market grow. If the number of businesses in the sector grows in perpetuity, two restrictive scenarios arise: the perfectly competitive and the monopolistic competitive. Long-term market structure in an unrestricted entry setting is decided by limited factors related to technology (i.e., economies of scale), as well as tastes (i.e., the size of the market), along with an added component linked to competitive intensity. Therefore, the overall outcome of unrestricted entry offers a robust theoretical basis to the classical approach of industrial organization which depends on the structure–conduct–performance framework. According to Polo (2018), the standardized characteristic of unrestricted entry demonstrates that in a context where product differentiation does not exist, the business-stealing effect is the main component that builds friction among individual (i.e., business) motives and the social planner, determining a market oversaturated with competitors. If a firm enjoys product differentiation, an opposite externality that could lead to a lack of choices exists as well, because the business motives for entry do not include the advantages to the consumers due to a higher variety of alternative products to choose from.

2.2. Firm Performance

It is crucial for any business to measure their performance in order to have an effective management process (Demirbag et al. 2006). Performance measurement generates numerical frameworks out of a complicated reality which is communicated and understood more easily, which in turn facilitates decision making (Wu and Voss 2015). Quantifying the performance is vital when it comes to effective organizational management, especially when it comes to strategizing for the future.

There are two types of performance measurement: objective and subjective measurement. Objective measures are observable, independent information attained from either

secondary sources or from respondents in the form of an absolute value (Vorhies and Morgan 2003). There are numerous ways to measure the objective (i.e., financial) performance of a firm, including the return on equity (ROE), return on assets (ROA), and many more. Subjective (i.e., non-financial) measures of performance, on the other hand, consists of sales growth (Luo et al. 2005) and the success of new products (Atuahene-Gima et al. 2005), to name just a few. According to Pont and Shaw (2003), subjective measures mainly address the firm's performance compared to their competitors or even compared to their own prospects.

There are several disadvantages that objective measures of performance have that do not apply to subjective measures. Studies on objective performance have disproportionately relied on accounting-based parameters, which are usually not optimal during economic downturns—it might be challenging to understand the degree to which a firm's performance is guided by external dynamics (Ibrahim and Lloyd 2011; Rikhardsson et al. 2020). According to Ibrahim and Lloyd (2011), during economic downturns, firms ought to depend on subjective measures to assess their performance due to the reduced reliability of objective measures during these periods. Therefore, since Iran has been going through economic downturns and the uncertainty is high, measuring performance based on subjective measures is more suitable.

The key motive for using a subjective measure for assessing the performance of a firm is that there is a positive link between these measures and future financial performance (Roberts et al. 2017; Banker et al. 2000). As a result, in a volatile and uncertain market, as in Iran, which entered a recession after the sanctions were imposed, it is more reasonable to use subjective measures to evaluate performance.

Performance in an environment characterized by uncertainty and imperfect competition is considered a long-lasting issue for scholars. It continues to be a key issue in empirical as well as theoretical industrial organization literature, in addition to the policy arena when it comes to matters related to competition.

2.3. Market Uncertainty

Market uncertainty describes the level of ambiguity that is associated with a given market due to numerous elements such as regulations, cost of operation, cost of raw material, etc. Market uncertainty can be considered as a by-product of various conditions such as market competitiveness, consumer behavior, and technological landscape, among others (e.g., Sainio et al. 2012; Jalonen 2011; Incekara 2018).

Market uncertainty exacerbates the challenges for producers to foresee market and consumer behavior, thus making the performance outcome unpredictable (Blind et al. 2016). Therefore, one of the key factors that will help a manager to make a decision on the market strategy is to first understand the market environment of the host nation (Efrat and Shoham 2013). An environment that is constantly shifting needs a more meticulous analysis with the aim of minimizing existing threats and exploiting the opportunities that are born out of these circumstances, such as unveiling new services and identifying new cost cutting measures (Pashaa and Poisterb 2017; Goll and Rasheed 1997). For that reason, a prerequisite for conducting business in developing countries is to have a compelling approach for coping with the country's distinctive business context. Therefore, to achieve their performance goals in these environments, firms should process additional information on the existing avenues at their disposal and their possible effect on different approaches, as well as advancing organizational processes, plans, and goals (Hart and Banbury 1994; Chu et al. 2018).

Based on the literature, market uncertainty comprises numerous elements such as regulatory, technological, and competitive uncertainty (Tjahjadi 2011; Lopez-Gamero et al. 2011; Koseoglu et al. 2013; Arieftiara et al. 2017). Two of these elements, regulatory and competitive uncertainty, signify the main aspects of uncertainty confronted by firms in Iran.

H1a. *Market uncertainty has an effect on international SME performance.*

2.4. Market Dynamism

Market dynamism describes the degree of change in the needs and desires of consumers (Lee et al. 2015). High market dynamism reflects the constant changing of consumer behavior, which could manifest in several ways. For example, potential consumers could choose to hold off their planned acquisition of the item due to their advanced knowledge of key improvements in technology, and as a result, they may delay their purchase so that they can instead acquire the newest model of that product, which could impact SMEs' performance goals. In such an environment, consumer behavior can be unexpected since their expectations about certain products might suddenly change, and at the same time, the actions of competitors in the market can be equally unpredictable (Wang et al. 2015; Bayighomog Likoum et al. 2018). Therefore, firms are often substantially transformed when they try to manage market dynamism (Dess and Beard 1984; Park and Xiao 2020).

International SMEs may face challenges in adapting to consumer needs in the event of constant changes in market demands (Shi and Gao 2016). In this environment, forecasting will be less reliable, and the uncertainty level and the potential for risk are elevated, threatening the relationship between planning and execution. For that reason, when market dynamism is high, the firm should be swift in meeting the buyers' needs, rapidly adapt to new technologies, and quickly react to the actions taken by their rivals (Jaworski and Kohli 1996; Zand and Rezaei 2020). This is especially relevant when it comes to Iran, since the market has experienced many changes over the years and the level of uncertainty and dynamism are constantly elevated. Therefore, employing an industry approach can allow SMEs to detect and react swiftly to changes in the market, and as a result, enhance their performance.

H1b. *Market dynamism has an effect on international SME performance.*

2.5. Competitive Intensity

Competitive intensity or the amount of competition faced by an international SME is another aspect of industry forces with a potential link to performance. There is less market uncertainty that comes with lower competitive intensity; thus, an international SME can be more effective in achieving their performance goals if the competitive intensity is low. However, from the consumers' perspective, when there is low competitive intensity, consumers' choices are limited; therefore, they may not be able to simply change providers, and so they might be more inclined to continue their relationship with the firm (Cadogan et al. 2003; Zhang et al. 2020). In this kind of environment, international SMEs can predict their performance more accurately and thus be able to come up with a robust planning scheme (Auh and Menguc 2005; Spyropoulou et al. 2017). This would not be the case in a market with high intensity since consumers will have more options to choose from. In a highly competitive market, international SMEs have to be extremely resilient in reacting to their competitors; hence, their performance will be harder to anticipate (Murray et al. 2011; Chen and Wang 2020). This could make it more difficult for international SMEs to achieve their desired performance against their competitors.

In a high-intensity environment, it is more important to achieve differentiation advantage in order to be distinguished from competitors. For that purpose, many firms consider mass customization and the acceleration of new product development as models for production (Lampel and Mintzberg 1996).

H1c. *Competitive intensity has an effect on international SME performance.*

2.6. Competitive Advantage

The significance of competitive advantage in the study of strategic management is evident by the content analysis of *Strategic Management Journal* (Ong et al. 2012). Competitive advantage could be described as a company's capacity to generate more value for their customers compared to their rivals in the same sector (Ong et al. 2018). According to Fornell (1992), a mixture of advantage in goods and services as well as price advantage signify the

key elements of value offerings to consumers by firms, and successfully attaining all three components is an ideal but rare occurrence. However, the different types of competitive advantages are viewed simultaneously by consumers, and implicit value comparisons by them are to be expected (Kaleka and Morgan 2017). Therefore, it is recommended to employ specific competitive tactics which could help an organization compete through either cost differentiation or product differentiation compared to their rivals in the marketplace, or through a combination of the two to increase performance (Carlisle and Faulkner 2005; Walsh and Sanderson 2008; Grant et al. 2015; Walsh and Dodds 2017; Eldor 2019).

SMEs strive to succeed in international markets while experiencing continuous uncertainty caused by factors such as changes in regulatory policies, changes in the cost of raw material and labor, aggressive rivals, and changing consumer demands. According to de Guimarães et al. (2017), firms nowadays try to manage their resources in such a way that can lead them to a beneficial position compared to their rivals and, as a result, continue to be competitive in the marketplace. Firms constantly aim to obtain competitive advantage since the benefits that it entails by offering products and services which are differentiated from competitors elevate the firm's profile in their industry in terms of their interactions with other players in their sector (Porter 1980; Barney 1991a, 1991b; Araujo et al. 2003). Therefore, by having this advantage, they can navigate the industry forces more effectively and achieve higher performance.

In environments characterized by high industry forces coupled with an organization's natural progression over time, it will be highly improbable for most organizations to maintain their original operational approach (Liu and Liang 2015), especially if they intend to sustain their competitive advantage and improve their performance. In high-uncertainty markets, for example, issues related to the suppliers could be another reason why demand may not transform into revenue even in cases where the consumer demand is solid. For instance, the product may not be available due to supply chain issues or some unforeseen circumstances at the time it is needed, which could affect their performance (Leonidou 2003). Thus, when it comes to international markets, the industry forces are a significant element that could affect the international firm's competitive advantage and hence their performance.

We examined the relationship between industry forces, performance of international SMEs, and competitive advantage (i.e., cost advantage and differentiation advantage) using industrial organization (IO). The relatively narrow focus of performance effects of international SMEs is not common in industrial organization studies; however, the nature of industry forces and how they alter firm decisions are fundamentally heterogeneous. By synthesizing the existing contributions on industrial organization, the theoretical framework will draw on the experiences that international SMEs have had in the Iranian market and will measure their performance level, as well as the way their performance was impacted by industry forces. Moreover, it will assess the role of competitive advantage as a mediator in this relationship.

H2a. *Cost advantage has a mediating effect on market uncertainty and international SME performance.*

H2b. *Cost advantage has a mediating effect on market dynamism and international SME performance.*

H2c. *Cost advantage has a mediating effect on competitive intensity and international SME performance.*

H3a. *Differentiation advantage has a mediating effect on market uncertainty and international SME performance.*

H3b. *Differentiation advantage has a mediating effect on market dynamism and international SME performance.*

H3c. *Differentiation advantage has a mediating effect on competitive intensity and international SME performance.*

3. Research Methods

The existing literature provides ample evidence to suggest that industry forces can affect performance (Blind et al. 2016; Chu et al. 2018). In this paper, we address this issue by empirically examining the mediating impact of cost advantage and differentiation advantage on the link between industry forces and firm performance. Figure 1 presents the research framework.
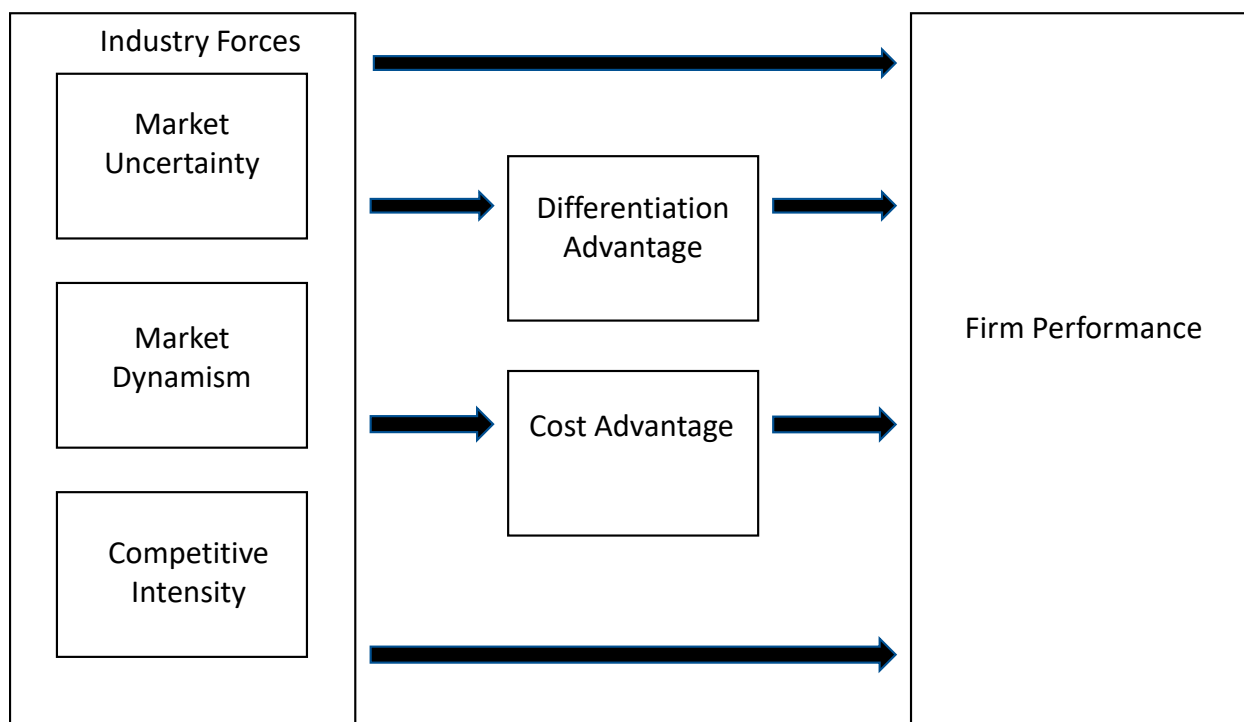

Figure 1. Research framework.

The research method used in this study is quantitative and was executed through a survey instrument. The measurement scales were adapted from previous studies to suit the context of this study. Measurement items for firm performance and competitive advantage were adapted from Ong et al. (2018). Furthermore, market uncertainty was measured with seven items adapted from Gao et al. (2017). Market dynamism was adapted from Chari et al. (2014), and competitive intensity from Jaworski and Kohli (1993).

This study addresses common method bias through guaranteeing the privacy of the respondents. Moreover, the scale utilized for the dependent variable (five-point Likert) was different than the one used for the independent variable (seven-point Likert), also in an attempt to prevent issues related to common method bias (Podsakoff et al. 2003). In addition, the face validity was further enhanced during the methodological expert review (i.e., two academics and two top executives in Iran, and two academics in Malaysia). The number of expert opinions sought for this study is well above the minimum of two experts needed to validate the measurement items (Rubio et al. 2003).

The sampling frame comprises SMEs located in international markets with established branches in Iran. The database, which contained 1452 international SMEs, was obtained from a dataset acquired from a leading industry database provider. The survey was sent to the entire dataset through a self-administered online survey from top-level managers among international SMEs in Iran. The respondents were asked to voluntarily participate in the survey after being informed of the subject matter of the questionnaire and an explanation of the purpose of data collection. After four reminders and relying on referral networks, 166 usable responses were obtained. Various methods were used to increase participation. For instance, the cover page gave a short summary of the objectives, assured

privacy, gave the time needed to fill up the survey, and the university letter head was included to highlight the academic nature of the research.

The descriptive analyses for each of the variables were conducted to ensure that the data correspond to the conditions of normality and linearity. The statistical analyses performed in order to evaluate reliability and validity included factor analysis and correlation of the measurement scales. Moreover, the structural equation modelling (SEM) method was performed since the framework includes several relationships. SEM was performed with the aid of PLS software. We used the mediating model to test the hypothesized mediation role of competitive advantage between industry forces and performance, which followed the assessment of the direct impact of industry forces on firm performance.

4. Results and Findings

The following section reports the statistical findings of the study, including the results of the demographic profiles, validity testing, as well as the model testing.

4.1. Demographic Profiles

Table 1 presents the demographic profiles of the 166 international SMEs who participated in the survey. Of the sample, 27.7% have 10 employees or fewer, 34.9% have 11 to 49 employees, and 37.3% have 50 to 99 employees. The majority of respondents were SMEs originating in Asia Pacific (57.8%), followed by Western Europe (35.5%), Eastern Europe (5.4%), and the rest were from other regions. Most of the international SMEs are in the manufacturing sector (33.1%).

Table 1. Demographic profiles.

Profile	Frequency (166)	Percentage (100%)
SME Size (number of employees)		
10 or less	46	27.7
11–49	58	34.9
50–99	62	37.3
Region of Origin		
Asia Pacific	96	57.8
Eastern Europe	9	5.4
Western Europe	59	35.5
Other	2	1.2
Core Industry		
Service	48	28.9
Manufacturing	55	33.1
Retail	29	17.5
Agriculture	28	16.9
Other	6	3.6

Source: Developed for this study.

4.2. Validity Test

The average variance extracted (AVE) was used to determine convergent validity of the underlying variables. An AVE score of 0.50 or higher is suitable for convergent validity (Fornell and Larcker 1981; Hair et al. 2017). If the AVE is below 0.5 but the composite reliability is above 0.6, the convergent validity is still considered acceptable (Fornell and Larcker 1981). Moreover, Hair et al. (2011) suggest that every item of a variable which has an outer loading lower than 0.40 should be eliminated.

Table 2 presents the AVEs and the composite reliability. The results reveal that all the variables exceeded the suggested cut-off of 0.7 for composite reliability (Hair et al. 2017), affirming that each variable has an adequate degree of reliability.

Table 2. Convergent validity.

Construct	Item	Loadings	Composite Reliability	Average Variance Extracted (AVE)
Firm Performance			0.888	0.505
	FP1	0.673		
	FP2	0.521		
	FP3	0.816		
	FP4	0.749		
	FP5	0.768		
	FP6	0.843		
	FP7	0.521		
	FP8	0.721		
Market Dynamism			0.882	0.457
	MD1	0.708		
	MD2	0.679		
	MD3	0.731		
	MD4	0.763		
	MD5	0.687		
	MD6	0.693		
	MD7	0.655		
	MD8	0.625		
	MD9	0.508		
Competitive Intensity			0.833	0.458
	CI1	0.662		
	CI2	0.659		
	CI3	0.659		
	CI4	0.535		
	CI5	0.828		
	CI6	0.687		
Market Uncertainty			0.868	0.489
	MU1	0.545		
	MU2	0.643		
	MU3	0.653		
	MU4	0.665		
	MU5	0.769		
	MU6	0.804		
	MU7	0.774		
Cost Advantage			0.721	0.355
	COS1	0.820		
	COS2	0.875		
	COS3	0.581		
	COS4	0.534		
	COS5	0.229		
	COS6	0.127		
Differentiation Advantage			0.819	0.454
	DA1	0.731		
	DA2	0.736		
	DA3	0.837		
	DA4	0.886		
	DA5	0.744		
	DA6	DELETED		
	DA7	DELETED		

Source: Developed for this study.

The HTMT ratio and the cross-loading criterion were used for measuring discriminant validity. Table 3 shows the results of the HTMT ratio. The findings show that there is an adequate level of discriminant validity.

Table 3. Heterotrait–monotrait ratio (HTMT).

	Competitive Intensity	Cost Advantage	Differentiation Advantage	Firm Performance	Market Dynamism
Competitive Intensity					
Cost Advantage	0.286				
Differentiation Advantage	0.183	0.856			
Firm Performance	0.751	0.228	0.186		
Market Dynamism	0.754	0.211	0.148	0.853	
Market Uncertainty	0.762	0.275	0.159	0.739	0.772

Source: Developed for this study.

Moreover, to determine multicollinearity, the variance inflation factor (VIF) method was used to detect the correlations between the variables. Table 4 presents the VIF scores. The most important requirement for determining multicollinearity is to establish if there is substantial correlation among each set of two variables. The VIFs were considered acceptable since they are well below the threshold.

Table 4. Collinearity based on VIF.

Variables	VIF
Market Uncertainty	2.087
Market Dynamism	2.091
Competitive Intensity	2.051
Cost Advantage	1.276
Differentiation Advantage	1.164

Source: Developed for this study.

4.3. Model Testing

We use the bootstrapping method to evaluate the relationships. The outcome of the bootstrapping is shown in Table 5, which includes the *p*-values and the standardized path coefficients (β) for each path. According to these results, market uncertainty has a significant effect on firm performance (β = 0.206, $p < 0.001$). Likewise, market dynamism (β = 0.481, $p < 0.000$) and competitive intensity (β = 0.213, $p < 0.001$) has a significant effect on firm performance.

Table 5. Results of bootstrapping for path model.

Path	β	SE	T Value	*p* Value	F	R^2	R^2 Adjusted
Market Uncertainty → Firm Performance	0.206	0.064	3.204	0.001	0.297	0.64	0.629
Market Dynamism → Firm Performance	0.481	0.067	7.216	0.000			
Competitive Intensity → Firm Performance	0.213	0.066	3.230	0.001			
Cost Advantage → Firm Performance	−0.002	0.071	0.026	0.979			
Differentiation Advantage → Firm Performance	0.076	0.066	1.163	0.245			

Source: Developed for this study.

4.4. Test of Mediation

Table 6 shows the indirect effects of competitive advantage on the relationship between market uncertainty, market dynamism, and competitive intensity with firm performance by applying bootstrapping. According to the findings, the indirect effects of market uncertainty on firm performance through cost advantage and differentiation advantage were not significant. Similarly, the indirect effects of market dynamism and competitive intensity on the said relationships were not significant.

Table 6. Test of indirect effects using bootstrapping.

	Beta	SE	T Value	*p* Values	CI 95% LL	UL
Market Uncertainty → Cost Advantage → Firm Performance	0.000	0.015	0.025	0.980	−0.032	0.032
Market Uncertainty → Differentiation Advantage → Firm Performance	0.006	0.017	0.360	0.719	−0.042	0.030
Market Dynamism → Cost Advantage → Firm Performance	0.000	0.020	0.019	0.985	−0.035	0.048
Market Dynamism → Differentiation Advantage → Firm Performance	0.009	0.016	0.537	0.591	−0.020	0.048
Competitive Intensity → Cost Advantage → Firm Performance	0.001	0.022	0.024	0.981	−0.047	0.042
Competitive Intensity → Differentiation Advantage → Firm Performance	−0.007	0.017	0.422	0.673	−0.051	0.018

Source: Developed for this study.

5. Discussion

The results of this study confirm the relationship between industry forces and firm performance. As anticipated, industry forces influence firm performance, as shown in past research (Johnson et al. 2017; Blind et al. 2016; O'Toole and Meier 2014; Hart and Banbury 1994; Doz et al. 1989). While the positive impact of industry forces on firm performance has been established in earlier studies, the same cannot be said about the impact in developing countries. Since developing markets are characterized by constant fluctuations and uncertainty, it is important to study the effects of industry forces on performance in these contexts.

Consistent with the support found in previous studies when it comes to its relationship with firm performance (Blind et al. 2016), market uncertainty was found to influence international SME performance in Iran. Iran's economy has been characterized by uncertainty for many decades; hence, before entering the market, firms might be aware of the uncertainty. Therefore, despite the possibility that firms entering the market do anticipate uncertainty in the first place, they are still affected by it.

Additionally, high market dynamism adversely impacts the performance of international SMEs, as supported by the findings of this study. Furthermore, competitive intensity also follows the same trajectory. When the competitive intensity is low, firms stand a chance to make a higher profit thus meet their performance goals due to having less competition in the marketplace. A comparable view has been discussed in the literature, in which high industry forces (i.e., market uncertainty, market dynamism, and competitive intensity) lead to low performance (Kumar et al. 2011; Spyropoulou et al. 2017; Ikhsan et al. 2017). Moreover, the findings reveal that the implications of industry forces are higher towards market dynamism, as opposed to competitive intensity and market uncertainty.

The empirical relationship between competitive advantage and firm performance has been validated in previous studies. This research advances the implications of competitive advantage in the context of developing nations on international SME performance. Most SMEs were found to have entered the market through joint ventures or other partnership

modes with local firms. The foreign firms might have conflicting goals with their local partners; hence, they may prevent a full sharing of knowledge with local partners so that they can protect their competitive advantage. This could explain why the effect of competitive advantage was not found to be significant. Thus, the role of competitive advantage might be more pronounced if international SMEs enter the market through a more direct mode, which is consistent with the literature (Zhao and Priporas 2017; Kaleka and Morgan 2017). However, in the case of Iran, as in many other developing nations, it is complicated for international SMEs to engage in direct investment due to the international and local regulations. Therefore, as long as these restrictions are in place, it will be difficult for those countries to reap the benefits of the competitive advantages that international SMEs could transfer to their country. By taking this into account, policy makers need to take appropriate steps to alleviate this barrier in order for the economy to benefit from the possible competitive advantage that international SMEs might bring to the market. Alternatively, international SMEs need to have a close and longstanding relationship with their local partner in order to generate trust and share their valuable competitive advantage.

5.1. The Theoretical and Practical Implications of the Study

While the positive impact of industry forces on firm performance has been established in earlier studies, the same cannot be said about their impact on international SME performance in developing countries. This paper offers understanding of the significance of these constructs in the performance of international SMEs.

This work expands the knowledge on the necessity to conceptualize industrial organization through establishing the role of industry forces in international SME performance in developing markets. Previous studies have recognized that the organization of industries and the amount of competition, regulation, and dynamism in the market are imperative in affecting the performance of firms in uncertain markets (e.g., Kalyvas and Mamatzakis 2014; Audretsch 2018). Nonetheless, the exact mechanism underlying this relationship has not been fully explored. Many studies have called for further inquiry on industrial organization so as to strengthen the understanding of its existence. This research proposes explanations through conceptualizing the interactions between industry forces, firm performance, and industrial organization, thus adding to the current theoretical knowledge. Thus, consistent with industrial organization theory, the implications of market uncertainty on firm performance were demonstrated in predicting industrial organization.

The findings of this research imply that international SMEs should gather intelligence on market uncertainty, market dynamism, and competitive intensity. For instance, market uncertainty could create advantageous positions for some firms, but the opposite for others. That is why gathering information on market uncertainty can aid international SMEs to benefit from the uncertainty rather than be harmed by it. Therefore, international SMEs are cautioned to be highly aware of uncertainty and to incorporate it into their decision-making processes. The same logic stands for gathering information about consumers and competitors in order to deal with changing consumer preferences and the competitors alike. If they have enough information on consumers and competitors over time, they can react appropriately in order to be in an advantageous position. To effectively manage these industry forces, international SMEs ought to have updated information regarding market players and create an environment which supports the building of additional value for their patrons. In order to fully take advantage of the opportunities that industry forces present and to avoid their downsides, SMEs should actively gather, analyze, and use consumer data, especially in environments which experience constant changes in market conditions.

5.2. Limitations and Future Research

One limitation of the study stems from the fact that the data collection coincided with the initial stages of the COVID-19 pandemic lockdowns. For many businesses, this was a time of extreme uncertainty and anxiety about the near future. This may have had an impact on the sentiments of the respondents regarding their outlook on the economy and

their perceived optimism concerning their performance. Moreover, the generalizability of the conceptual model is contingent upon obtaining data from other types of firms, and perhaps from other developing economies.

Towards a more generalized research, future studies can also investigate the generalizability of the results in diverse market conditions (e.g., small vs. large firms; domestic vs. international SMEs). Furthermore, it is recommended to explore this model in other developing markets as well. Research in other market environments can provide support in further establishing the acceptability of the model.

6. Conclusions

This paper mainly researched the previously neglected effects of industry forces on international SME performance in developing countries. After revisiting the original concepts of industrial organization, conceptually associated concepts such as competitive advantage in developing firm performance were considered. By relying on the literature, industry forces were hypothesized to affect firm performance through data obtained from a cross-sectional survey of international SMEs in Iran. The outcome of the study showed that industry forces are a determining factor of international SME performance.

Likewise, this study advances the knowledge on the need for conceptualization of industrial organization by establishing the role of industry forces in international SME performance in developing markets. Consequently, managers of international SMEs should assess the level of risks associated with market uncertainty, market dynamism, and competitive intensity prior to making a decision to enter a market, especially in developing countries.

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