Volume: 16, Issue: 1
Page: 108-120
2022

International Journal of Science and Business

Journal homepage: ijsab.com/ijsb

IJSAB International

The Impact of Entry Mode Choice on Performance of Firms through Innovation and External Business Network

Eleny Tadele and Zhou Xiaoyan

Abstract

This research empirically examines the mediating effect of innovation and external business network on the association between firm's entry mode decision and performance. The research employed firm level panel data of 2,824 foreign firms who have an investment in the top ten FDI recipient African countries over the period of 1996-2018. This data is obtained from World Bank Enterprise Survey Indicators (ESI). Findings showed that, firm innovation positively mediate the relationship between high share and wholly owned types of entry mode and performance. While low share of ownership has no mediation effect between the two variables. The result indicates that, firms with high and full ownership have limited risk of opportunistic behavior of their partners than firms with shared ownership Whereas, external business network positively mediate the association between firms with low shares of ownership and performance. This result show when firm's share the ownership with local partners the linkage attached to the local partner would be shared to them and enhance their network with customers, suppliers, R&D institutes and other actors of host country external business environment. Therefore, Multinational firms should give special emphasis to their entry mode decisions when they enter a new market. This research gives a practical knowledge for multinational firms on the importance of their entry mode decision to enhance their innovation, business network as well as performance.

IJSB
Accepted 31 August 2022
Published 1 September 2022
DOI: 10.5281/zenodo.7039979

Keywords: *Entry mode, Performance, Firm Innovation, External Business network, Host country, Home country.*

About Author (s)

Eleny Tadele (corresponding author), Department of Business Administration, School of Business and Economics, Beijing University of International Business and Economics (UIBE), Chaoyang District Beijing, P.R. China 100029.

Zhou Xiaoyan, : Department of Business Administration, School of Business, Beijing University of International Business and Economics (UIBE), Beijing, China.

Introduction

For firms expanding abroad, selecting the appropriate entry mode is critical and challenging decision, it involves several trade-offs and each mode have different resource deployment patterns, level of control and risk (Brouthers & Hennart, 2007). However, firms with better innovation capacity possess ownership advantages and these advantages can help them to exploit the opportunities in the international market (Song Hua Hu et al., 2014). In addition to firm's innovation capacity, networking of firms with host country external environment also have meaningful contribution for the enhancement of their performance. Firm performance highly affected due to lack of external resources and reluctant of host country competitors to share their resource. Firms are very sensitive to external resources especially at the initial stage (Carroll et al., 1989). Intense competition at initial stage creates resource scarcity, at this point new firms cannot move quickly from start-up to full scale operations face very strong selection pressure (Ibid). Though network has been studied for many years by sociologists, the role of network on individual firm performance has become a critical question to both managers and scholars (Dyer & Singh, 1998; Gulati et al., 2000; Koka & Prescott, 2002). Currently researches are discovered most of the internal and external factors affecting entry mode choice decisions and performance. However, there is still a need to explore the role of innovation and external business network on firm's entry mode decision and performance. Thus, build on the existing theory, this paper explores the impact of firm innovation and external business network on the relationship between entry mode choice decision and performance. This research employed firm level panel data of top ten FDI recipient African countries over the period of 1996-2018.

Literature and Theoretical Background

Firms entering a new market are suffering from both liability of foreignness and newness, viewers are likely to represent them as less capable, less trust worthy and less predictable than older firms (Lipuma, 2012; Suchman, 1995). This arises from their unfamiliarity with the rules, regulations, norms, values and procedures of host country (Hymer, 1960; Zaheer, 1995). These liabilities expose them to extra coordination and transaction costs, which affects their survival and performance (Salomon & Martine, 2008). Thus, for firms expanding abroad, selecting the appropriate entry mode is a critical decision but not an easy one (Brouthers & Hennart, 2007). When a firm decides to enter a new market, it faces with two critical and strategic decisions. First, the firm has to choose between equity based and non-equity based modes of entry. Second, it needs to decide whether it holds full ownership or share ownership with a local partner (Brouthers and Hennart, 2007). Innovation becomes one of the most important multinational firm strategies intends to enter a new market. It enhances the existing market share and seeks positive reputation in customer's perception to gain competitive advantage (Al Kuradi, Alshurideh, & Al afaishata, 2022: Hayajneh et al., 2021; Kurdi, etal, 2020). Moreover, innovation provides the firm with a strategic orientation to overcome problems while motivated to accomplish a sustainable competitive advantage (Drucker, 1985: Hitt et al., 2001: Kuratko et al., 2005). In order to enhance competitiveness of the firm, improve and reinforce innovation of products and services is one of the most important decisions firm should take (Alshurideh, 2014; 2010; 2022; Kurdi, 2016; Love & Rooper, 2015). According to (Gunday et al., 2011: Alshurideh et al., 2020: Alzoubi et al., 20202) innovation is not only restricted to product and process it also includes market and organization. They classified innovation as new product, new methods of production, new sources of supply, the exploitation of new markets and new ways to organize business.

It has become the attractive area of research, researchers trying to define and examine its effect on performance of firms (Gunday et al., 2011). Firm's internationalization and innovation have

also been considered as the two most important factors determining business success over the last decade (Buckler & Zien, 1996; Wind & Mahajian, 1997; Zahra & George, 2002; Vila & Kuster, 2007). In addition to firm innovation, external business network also have an important role in the reduction of challenges firms face due to their newness and foreignness (Zaheer & Mosakowski, 1997; Dyer & Singh, 1998; Gulati, 1999). Extant researches showed that, network facilitates forums for discussions and transmission of critical information, thus, network considered as an inimitable and non-substitutable resource as well as a means to access unique capabilities (Gulati, 1999 & Burt, 1992). Examine the network they are embedded with is very important to understand the overall business activity and performance of firms (Gulati, et al., 2000). Moreover, (Beckman & Haunschild 2002; Darr & Kurtzberg 2000), also add, the characteristics of the network which is the similarities and differences among partners have a particular important effect on firm performance. Heterogeneity of knowledge with in the network has a great impact on firm performance because diversity improves the breadth of perspective, cognitive resource, and overall capacity of members in the group (Hambrick, et al., 1996). Network provides firms to various opportunities including information and resource market. Given that information transfer and learning are key benefits of networking (Burt, 1992). The diversity in partner's background and experience may provide firms with more diverse samples of information from which to learn. Therefore, external business networks have significant role on the performance of firms.

Conceptual Framework and Hypothesis

This conceptual framework is developed based on the resource-based theory and employed various ideas and assumptions as a guide and source of information (M.B. Miles & Huberman, 1994: Robson, 2021). In addition previous researchers contend that the entire methodology must agree with the variables, their relationship and meaning (Latham, 2017). Therefore, the researcher used three types of entry mode as independent variable, firm innovation and external business network as mediator variable and performance as independent variable. The researcher also includes four control variables (macroeconomic stability, infrastructure, human capital, Openness to FDI) in our analysis based on the theories and previous studies.

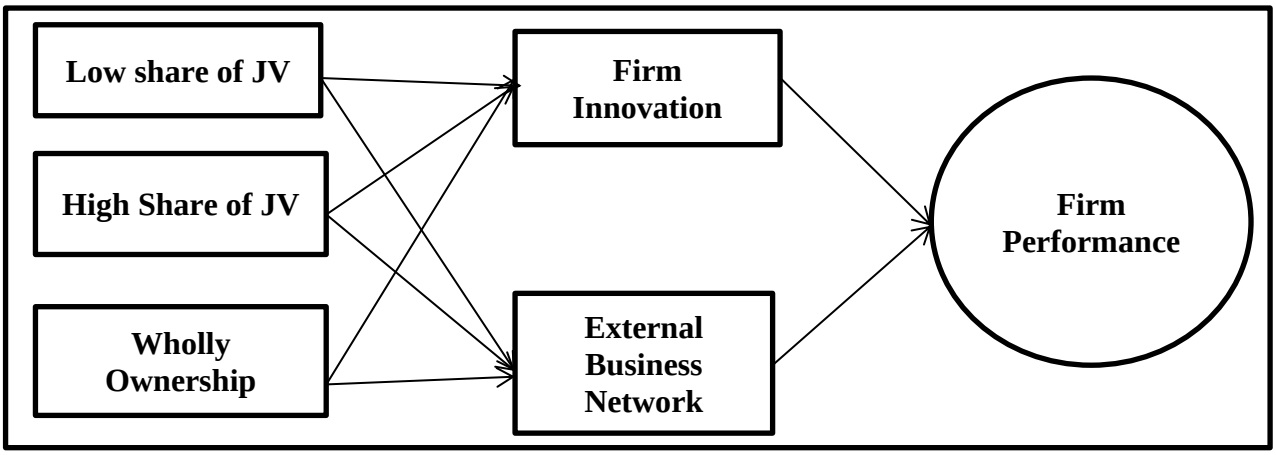

Figure: Conceptual framework

Research Hypothesis

Innovation: Innovation considered as the significant resource for firms growth, and long-standing progress. It can be described as the valued and effective instrument for any firm to accomplish sustainable development, maintain competitive advantage, and have access into the new markets (Becheikh et al., 2006). Extant researches also show that organization learning of firms differs based on their choice of location and mode of entry (Dow & Larimo,

2011: Salomon & Jin, 2008; Barkema & Vermeulen, 1998; Dow & Larimo, 2011; Salomon & Jin, 2018). The level of control firm have in the host market affects the quality and quantity of its innovation outcome. Firms with full ownership have limited risk of opportunistic behavior of their partners than firms with shared ownership. Therefore fully owned subsidiaries have a close tie to their home country than host country and its easier for them to transfer the existing knowledge of their parent companies and to create new one (Tsang & Yip,2010). Companies are required to be able to use existing resources to progress the company (Han et al., 1989). In order to investigate the effect of innovation on entry mode choice of firms and their performance, this research use four main indicators such as product innovation, research and development intensity, marketing innovation and patent right.

Product innovation: describes firm's innovation capacity to introduce novel products and services to the market. It shows the interest of firms to convert the knowledge and technology they have in to commercial use (Hill et al., 1991). Production innovation is the most important foundation for firms to create competitive advantage which makes the firm to produce new product, improve production and quality of production (Lefebvre & Lefebvre, 2001: Kim & Hwang, 1992).

Marketing innovation: refers the practice of novel marketing ideas or techniques like, new marketing adjustment or marketing channel. When firms own strong marketing capacity, they will be in the better position to meet the needs of their customers. Through marketing innovation firms can reduce uncertainty, build legitimacy, differentiated products and services and build competitive advantage (Javalgi & Martine, 2007: Luo etal., 2005). A strong marketing ability means that, firm's capability to position itself in a better situation. Those firms who own strong marketing capability tends to choose a high control mode (Fang et al., 2010).

Research and development intensity: multinational firms usually need to develop or customize their products and services to reach the demand of the new market, or to produce products and services in better standard (Psomas et al., 2018). It is very critical for firms to allocate more resources for research and development activities, as novel and better designs or methods are resulting from R&D work. R&D works are not only make products more attractive to customers but, also reduce cost and improve product quality in manufacturing process. It facilitates operating efficiency and enables the firm to obtain competitive advantage (Kotabe et al., 2002). Researches prevail that, firms with high R&D intensity tends to choose high control entry mode, while those firms with low R&D intensity chooses low control entry mode (Makino & Beamish, 1998; Brouthers et al., 2003; Brouthers & Nakos, 2004; Chen & Hu, 2002; Mutinelli & Piscitello, 1998). Moreover, extant researches witness the effect of innovation on firm performance and growth (Santi & Santoleri, 2017; Wolff & Pett, 2006).

H1: *low share of Joint venture does not affect firm performance through innovation*

H2: *Firm innovations have a positive mediating effect on the association between high share of joint venture and performance*

H3: *Firm innovation positively moderate the association between wholly owned modes of entry and performance*

External Business Network: Firms can be conceptualized as inter-organizational network that imbedded with internal and external networks. Internal networks consist of the parent company and its geographically dispersed country unites. Whereas external networks include all other institutions such as, customers, suppliers, competitors, regulators, universities and research institutions with which the firm interacts (Freel, 2000: Lee et al., 2001). External network concerned about creating a linkage with the external business environment to acquire resources, information and technology from the local market (Aarikka & Sandberg 2012; Lee et al., 2001). Foreign firms highly depend on external environment to acquire resources and achieve better performance (Pfeffer & Salancik, 1978; Burt, 1992; Aldrich and Zimmer, 1986). It is considered as a means of having continuous competitive advantage (Chesbrough, 2003).

In general, firms use external networks for several reasons such as, to overcome the shortage of internal resources by cooperating with external local Partners (Sung, 2005). Second, external resources enable new firms to be more efficient by sharing know how of other organizations (Abell and Nisar, 2007). Finally, it may help to achieve better performance (Lee et al., 2001). However, firms access to internal and external resources are highly determined by their entry mode decisions (Tang & Liu, 2010; Burt, 1992). Furthermore, entry mode decisions of firms have an effect on the ability to create external business network. If the firm owns the subsidiary fully without local partners, (wholly owned), it is more difficult to establish local network. Whereas, when firm shared the ownership with local partners (joint venture), the linkage attached to the local partner would be shared to the new sub unit (UNCTAD, 2000). Therefore, existing researches has showed, there is a relationship between network structure and performance (Burt, 1992; Galunic and Moran; 2000; Hansen, 1999; Rowley et al., 2000; Uzzi, 1996, 1997, 1999). Thus, firms have such networks should also get higher rates of return in their investment.

H4: *External business network have significant mediating effect between low share of joint venture and performance*

H5: *External business network have significant mediating effect between high share of joint venture and performance*

H6: *External business network do not have significant mediation effect between wholly owned mode of entry and performance*

Research Methodology

Data

This research empirically examines the mediating effect of firm innovation and external business network on the association between entry mode choice and performance. Firm level panel data of 2,824 foreign firms which have an investment in the top ten FDI recipient African countries (Angola, South Africa, Ethiopia, DRC, Egypt, Ghana, Nigeria, Tanzania, Keniya, and Moroco) were obtained from World Bank Enterprise Survey Indicators (ESI). This dataset is the world's most comprehensive firm level data in emerging market and developing economies. The data employed in this research covers over the period of 1996-2018.

Variable Description and Measurement s

Dependent Variable

The concept of firm performance is essential to international business literature. Competing in the dynamic and competitive environment is very necessary to comprehend and monitor performance (Omar Taouba, 2019; Georgopoulos & Tannebaum, 1957). Performance is the ability of firms to exploit their environment for accessing and using limited resources (Yuchtma & Seashore, 1967; Price 1968). It also explained as synonymous with organizational effectiveness and identifies as appreciation criteria for productivity, conformity, and institutionalization. Economists consider firm performance as an engine in determining their economic, social, and political development (Lupton, 1977). To survive in a competitive business environment, every firm should operate in conditions of performance. Currently firm performance has become a relevant concept in strategic management research and is frequently used as a dependent variable. Extant studies in international business measure performance using different financial and non-financial indicators (Barnett, 2007: McGahan and Victer, 2010). Based on the experience from extant studies the researcher employed total annual sales, percentage of annual direct and indirect export as well as profit before income tax to measure performance.

Independent Variable

Entry mode is an institutional arrangement that makes possible the entry of firms' product, technology, human skill management and other resources in to foreign country (Sharma & Erramilli, 2004). For firms expanding abroad selecting the appropriate entry mode is critical decision but not an easy one (Brouthers & Hennart, 2007). Entry mode is measured based on the data obtained from World Bank Enterprise Survey Indicators. For the purpose of this research entry modes are classified in to three, high control entry mode, low control entry mode and fully controlled entry mode. Specifically low control entry modes include joint ventures with the share of 1% - 50% ownership, high control entry modes refers to firms with the share of 51%-99% ownership, and wholly owned entry mode is firms with the share of 100% ownership.

Mediator Variables

According to Baron and Kenny (1986), mediation is a hypothesized causal chain in which one variable affects a second variable the second variable in turn affects a third variable. In this research external business network and firm innovation served as a mediator variable in the association between entry mode and performance. Network refers to a group of legally autonomous organizations which works together to achieve their individual and collective goals (Hoang & Antoncic, 2003). Thus, external business network is the connection of firms with outside forces of the organizational boundaries of business (Shaikh, 2010). It consists of all elements existing outside the boundary of the organization, which have potential to affect their overall performance. According to (Adebayo et al., 2005), business network can be broadly categorized into internal and external with the former comprising variables or factors within the control and manipulation of the firm to attain set objective while the latter encompasses factors that are outside the control and manipulation of the firm. Hence, firm must develop a plan that will help it to cope with the various environmental factors (Oluremi and Gbenga, 2011; Ibidun and Ogundele, 2013). To measure external business network the researcher used items such as, access to domestic inputs and materials, access to credit from local private and government banks. Innovation capacity refers to the ability of firms to use existing and potential resources for new production. It is also the source of ownership advantage for firms. Knowledge serves as both input and output for innovation and it plays a central role in the firm's innovation process. Firm can obtain the knowledge needed for innovation from both internal and external sources. In addition to the knowledge firms developed with in the firm, extant researches showed that, external knowledge, the knowledge obtained from outside boundary of the firm also contributes to their success (Dyer & Singh, 1998; Gulati 1999). The internal sources of knowledge are the subsidiary itself, parent company, and other subsidiary of same parent company. Whereas the external source of knowledge are host country firms, other firms in the home country and firms outside the home and host countries. In order to measure innovation the researcher employed indicators such as, research and development, product innovation, market innovation and patent right.

Control variables

To explore the effect of entry mode choice on performance the researcher considered several factors in the analysis. Specifically, the researcher includes macroeconomic stability, infrastructure, human capital and openness to FDI as control variable. The selection of control variables is based on the extant literatures on entry mode which suggest that, these variables are some of the major determinant factors of entry mode decision and performance

Analysis of the Result

Table 1: Multicollinearity test

vif

Variable	VIF	1/VIF
b2b2	3.08	0.324971
b2b	3.00	0.333839
b2b1	2.30	0.434277
Mean VIF	2.79	

Multicollinearity occurs when two or more independent variable highly correlated to each other, which means they do not provide unique and independent information in the regression model (Field, 2009: Montgomery et al., 2015). Thus, the result shows there is no multicollinearity in our case because VIF scores below 5 and tolerance scores above 0.2 (Keith, 2014; Hair et al., 2010; Tabachnick & Fidell, 2007).

Descriptive Statistics and Correlation

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
d3a	2824	78.807	30.956	0	100
d3b	2824	6.916	15.973	0	100
d3c	2824	15.126	28.393	0	100
mi	2824	9.032	1.435	6.143	12.333
mbn	2824	97.254	46.412	1	702
b2b	2824	12.908	17.807	0	100
b2b1	2824	52.786	28.019	0	100
b2b2	2824	98.739	48.7	0	100
ir	2824	37.58	264.015	-8.484	4145.106
alr	2824	63.74	11.275	29.82	95.023
fdii	2824	2.326	4.218	-10.725	40.167
inf	2824	2.96	3.684	.22	56.782

Note: this summery table describes observation, mean, standard deviation, minimum and maximum of variables.

As you can see from the table, this research employed firm level data of 2,824 foreign firms. When we see the mean value for independent variable, the average for low share of joint venture is 12.908%, high share of joint venture 52.786% and 98.739% for wholly owned type of ownership. While the average value of national sales, indirect export and direct export is 30.956, 15.973 and 28. 393 respectively.

Table 3: Matrix of correlations

Variables	(1)	(2)	(3)	(4)	(5)
(1) b2b	1.000				
(2) b2b1	-0.329	1.000			
(3) b2b2	-0.577	-0.363	1.000		
(4) mi	0.044	-0.077	-0.018	1.000	
(5) mbn	-0.038	0.089	0.002	-0.083	1.000

Note: the number in this table represents the association between low share of JV, high share of JV, wholly ownership, innovation and business network.

Firm innovation positively correlated with low share of joint venture (0.044) and negatively correlated with high share of joint venture and wholly ownership (-0.077) and (-0.018) respectively. Business network positively correlated with both high share of joint venture (0.089) and wholly ownership (0.002) and highly correlated with high share of joint venture. But business network negatively correlated with low share of joint venture (-0.0380).

Hypothesis Testing

The mediation effect of firm innovation and external business network on the association between entry mode decision and performance is shown in the tables below. Thus, the result from each table helps to test the proposed hypothesis.

Table 4: Mediation between Low Share of JV, Innovation and Performance

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	90.582	.428		211.397	.000
	low share of JV	.012	.019	.011	.602	.547
2	(Constant)	86.905	2.217		39.204	.000
	low share of JV	.010	.019	.010	.528	.598
	mean of innovation	.409	.242	.032	1.691	.091

a. Dependent Variable: mean of performance

The number in the table shows the mediating effect of firm innovation on the association between low share of joint venture and performance. The result indicates that (β=0.010, t=0.010, p=0.598) which indicates firm innovation does not have a mediation effect on the relationship between low share of JV and performance. This result supports H1.

Table 5: Mediation between High Share of JV, Innovation and Performance

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	90.395	.381		237.224	.000
	high share of JV	.026	.012	.040	2.140	.072
2	(Constant)	86.239	2.234		38.611	.000
	high share of JV	.028	.012	.043	2.281	.023
	mean of innovation	.458	.242	.036	1.889	.059

a. Dependent Variable: mean of performance

The above table also shows the association between high share of joint venture, innovation and performance. As it can be shown from the table innovation fully mediate the association between high share of joint venture and performance (β=0.28, t= 2.281, p= 0.023). This result indicates that, when firms control more than 50% of the share, there will be minimum risk of local partner's opportunistic behavior. The result supports H2.

Table 6: Mediation between Wholly Ownership, Innovation and Performance

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	90.752	.443		204.699	.000
	wholly owned	.000	.007	-.001	-.065	.948
2	(Constant)	86.998	2.234		38.947	.000
	wholly owned	.020	.007	-.001	.034	.031
	mean of innovation	.415	.242	.032	1.715	.087

a. Dependent Variable: mean of performance

When we see the mediating role of innovation between wholly owned modes of entry and performance, the result shows innovation fully mediates on the association between wholly owned modes of entry mode and performance (β= 0.20, t= 0.34, p=0.031). The result supports H3.

Table 7: Mediation between Low share of JV, Business Network and Performance

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	90.582	.428		211.397	.000
	low share of JV	.012	.019	.011	.602	.547
2	(Constant)	86.566	.848		102.047	.000
	low share of JV	.016	.019	.015	.813	.046
	mean of business network	.041	.007	.103	5.476	.000

a. Dependent Variable: mean of performance

The result represents the association between low share of joint venture, external business network and performance. As you can see from the table (β= 0.016, t= 0.813, p=0.046), this result indicates that, external business network have a fully mediating effect between low share of joint venture and firm performance. The result indicates that, when firm share control of the subsidiary with local partners it facilitates to improve their external network with host country stockholders which have a positive effect on their performance. The result supports H4.

Table 8: Mediation between High Share of JV, Business Network and Performance

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	90.395	.381		237.224	.000
	high share of JV	.026	.012	.040	2.140	.052
2	(Constant)	86.635	.807		107.401	.000
	high share of JV	.021	.012	.031	1.674	.024
	mean of bisiness network	.039	.007	.099	5.281	.000

a. Dependent Variable: mean of performance

When we see the association between high share of joint venture, external business network and performance, external business network fully mediates between the two variables (β= 0.02, t=1.67, p= 0.24). The result indicated that, if foreign firms shared the control of subsidiaries with local partners it positively affect their network with host country external environment as well as performance. The result support H5.

Table 9: Mediation between wholly Ownership, Business Network and Performance

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	90.752	.443		204.699	.000
	wholly owned	.000	.007	-.001	-.065	.948
2	(Constant)	86.998	2.234		38.947	.000
	wholly owned	.000	.007	-.001	-.034	.973
	mean of innovation	.415	.242	.032	1.715	.087

a. Dependent Variable: mean of performance

As demonstrated from the above table external business network do not have a mediating effect between wholly owned modes of entry and firm performance. The mediating effect of external business network is (β=0.000, t= -0.034, p= 0.973), it depicts; there is no association between the three variables which is wholly owned mode of entry, external business network and performance. This result indicates if foreign firms fully controlled the subsidiary without any partnership with local firms, this makes very difficult to create external business network

with host country suppliers, stockholders and customers and it also affects their performance. The result supports H6.

Discussion

This study aims to provide insight into the mediating effect of firm innovation and external business network in the association between entry mode choice and performance. The result demonstrates that, firm innovation has a significant mediation effect between entry mode choice and performance. When firms choose high share and wholly owned types of entry mode firm innovation have full and significant mediating effect between entry mode and performance, while innovation does not have significant mediation effect in the relationship between low share of entry mode and performance. The level of control firms has in the host market affects the quality and quantity of their innovation outcome (Dow & Larimo, 2011: Salomon & Jin, 2008: Barkema & Vermeulen, 1998). Firms with full ownership have limited risk of opportunistic behavior of their partners than firms with shared ownership (Tsang & Yip, 2010). This study also emphasizes on the mediation role of external business network between entry mode choice and performance. The result represents external business network of firms fully mediates on the association between low and high share of joint venture and performance. However, external business network do not have mediation effect between wholly owned modes of entry and performance. According to (Tang & Liu, 2010: Burt, 1992), entry mode decisions of firms have an effect on the ability to create external business network. When firms choose full ownership, it is difficult for them to establish local networks, while for those firms shared the ownership with local firms, the linkage attached to the local partner would be shared with them.

Conclusion

In harmony with resource dependency view (RDV), this research develops a model that explains how firm innovation and external business network mediate on the relationship between entry mode choice and performance. This research has various theoretical implications for RDV to firm performance. This also extends the RBV in three ways. First, this research strengthens studies related to the theory by providing additional evidence on the effect of firm's internal and external resource on their performance. Specifically, the findings of this research suggest that, when firms own innovative products and services which is internal by its nature high share of ownership positively associates with their performance. Second, the contribution of firm's external business network on the association between firm's entry mode choice and performance should also be one of the main focus areas for international firms. While firms need to have better networking with their external environment of hosting countries shared ownership positively associate with their performance than wholly ownership. Third, this research also demonstrated the effect of each entry mode type on the two mediator variables as well as performance in the case of Africa. This is important because it facilitates to directly test the propositions and hypothesis grounded on RBV. Thus, the finding of this research extends the understanding on how firm's entry mode decision affects their innovation, external business network and performance in the top ten FDI recipient African countries. Finally, by developing theory-based assumptions this research contributed to the development of entry mode literature from developing countries perspective. This research also has practical contribution for owners and managers of multinational firms. For those firms desired to enter African market investigating entry mode types which is suitable for this kind of market is very critical. This research provides an important insight for multinational firms, if they have a desire to enter African market it would be better to share the ownership of their investment with local partners so, they can easily create network with the external environment of hosting countries. On the other side high share and wholly owned types of

entry mode is appropriate to avoid opportunistic behavior of local partners if firms own innovative products and services. However pervious researchers have not fully investigated the role of external business network on the relationship between entry mode choice and performance. This study shows the positive mediating effect of external network between entry mode choice and performance. Since networking of firms with their external business environment is one of the best strategies to avoid liability of newness and foreignness for new entrant firms.

Limitation and Future Research Direction

Despite the positive contribution of this research, there are a few limitations which need to be addressed by future researchers. Findings from this study have substantially improved our understanding of the relationship between entry mode choice and performance by using various types of variables as mediator and moderator. The draw backs that the researcher needs to be addressed by future researchers are mentioned as follows; first, this study included only three types of entry mode (Low share of Joint venture, high share of joint venture and wholly ownership) and also focused only on equity-based modes of entry. However, there are various types of entry modes from both equities based and non-equity-based. Therefore, future researchers need to fill the gap by addressing the remaining modes of entry. Second, this research used World Bank Enterprise Survey (ES) firm level data of 2,824 foreign firms who have all types of investment on the top ten FDI recipient African countries. Thus, as Africa is a large content with 54 countries and diversified culture, political system and business environment future researchers need to address the gap of this research by addressing the rest of the country in the continent. Finally, the theoretical and empirical findings provided in this work represents an important first step towards a more advanced understanding of the function of firm's entry mode choice and their association with innovation, and external business network in achieving better performance. Therefore, future researchers needs to use this finding as starting point and investigate more to add their own contributions on business research.

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Cite this article:

Eleny Tadele and Zhou Xiaoyan (2022). 'The Impact of Entry Mode Choice on Performance of Firms through Innovation and External Business Network'. *International Journal of Science and Business, 16*(1), 108-120. doi: https://doi.org/ 10.5281/zenodo.7039979

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