Foreign Market Knowledge, Entry Mode Choice and SME International Performance in an Emerging Market

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Abstract

This paper examines the mediating role of equity entry mode choice in the relationship between foreign market knowledge (FMK) and international performance (IP) of small and medium-sized enterprises (SMEs) originating from emerging markets. In addition, this paper investigates when FMK enhances firms' equity mode choice by considering financial slack as a moderating variable. Using data obtained from 205 SMEs engaged in cross-border activities in Ghana, the results reveal that FMK and IP relationship is mediated by foreign market equity entry mode choice. The results also suggest that FMK positively relates to SMEs' preference for equity mode for foreign market entry and this relationship is amplified when slack resource is greater. These findings offer theoretical as well as practical implications for SME managers in developing and emerging markets in terms of entry mode decisions.

Key words: Africa; *Foreign market; entry mode choice; upper echelons; knowledge management; SMEs; Ghana*

1. Introduction

The international business (IB) literature recognizes that chief executive officers' (CEOs') experiences play a vital role in the strategic choices of firms (Herrmann and Datta, 2006; Oviatt and McDougall, 1994; Zahra, 2005). Consequently, research effort has been dedicated towards illuminating the mechanisms through which relevant personality characteristics and experiences of CEOs impact their firms' internationalization behavior (Barkema and Shvyrkov, 2007; Laufs *et al.*, 2016). This is a crucial research agenda given that internationalization of small and medium-sized enterprises (SMEs) is particularly dependent on CEOs (Francioni, Musso and Cioppi, 2015). For instance, foreign market knowledge (FMK) (i.e., the degree of knowledge about vital stakeholders such as foreign competitors, customers and distributors, as well as the cultural and regulatory environment) has mostly been grounded in the upper echelons (UE) scholarship (Hambrick and Mason, 1984). CEOs' are considered important members of the UE play and their FMK is crucial for SMEs to succeed in the international market (Oviatt and McDougall, 1994; Zahra, 2005; see also Johanson and Vahlne, 1977; Puthusserry et al., 2020).

Given that resource-deficient/constrained SMEs do not possess the vital tangible resources compared to large and established firms, accumulating foreign markets knowledge might be critical in facilitating the international expansion of SMEs (Tayauova, 2012). This notion appears logical since foreign market operations involve considerable risks, complexities and uncertainties, which invariably require CEOs who are knowledgeable about the international markets. Internationalizing SMEs often lack FMK and are inexperienced relative to large firms. In this direction, key decision makers' such as the CEO and top executives' role is extremely important in enabling SMEs to realize the potential of foreign market expansion.

Despite the above important insights, there are important research gaps that inform the current study. First, although firms pursuing international expansions are required to decide fundamental questions such as "which markets to enter" and "how and when to enter" (Erramilli and Rao, 1990; Pan and David, 2000), there remains limited empirical research examining the potential mediating role of foreign market entry mode choice on the relationship between FMK and international outcomes. This is important given that FMK plays a vital role in the internationalization of firms. Second, much of the contemporary research on foreign market entry mode choice is based on data from advanced economies, with very few notable exceptions (Laufs and Schwens 2014). Indeed, there is relatively limited research devoted to exploring the conditions under which foreign market knowledge is most effective in driving developing-country SMEs' entry mode choice (Laufs and Schwens, 2014).

To address these gaps, this paper tests a model capturing the mediating effects of equity mode choice on the relationship between FMK and their firms' international performance (IP). Second, this study examines financial slack as a contingent variable on the relationship between FMK and equity mode choice. These issues are particularly important given that they help to provide deep insights on the extent to which FMK is significant in explaining equity mode choice and firm IP. For example, CEOs with extensive FMK and high levels of financial slack are likely to choose equity mode because financial slack is the least absorbed form of slack and the easiest to redeploy (Greve, 2003). Firms are not constrained in their motivation or ability to deploy financial slack because it is generic and unabsorbed.

SMEs in emerging markets face significant challenges related to lack of transparency and intense foreign competition in their home countries (Musteen *et al.,* 2014). In addition, emerging economies are typified by increasing technological leapfrogging (Amankwah-Amoah, 2015), strong influence of informal institutions such as culture, norms, and values (Peng, 2014), growing middle class, the rise of emerging market multinational enterprises (EMNEs) and remarkable economic growth (Cavusgil, Ghauri, and Akcal, 2013; Cavusgil et al., 2020). Yet, emerging markets have weak institutional environments and firms receive limited support from the formal institutions, which hinder their growth and survival. Indeed, as such market supporting mechanisms and well-established intermediaries are often lacking or non-existent in emerging markets (Khanna, and Palepu, 2010). In such context, upper echelons' role becomes crucial in shaping firm level outcomes. Moreover, the presence of institutional voids in emerging markets are likely to exert varying effects on the application and impact of FMK on internationalizing SMEs. Thus, internationalizing SMEs often face resource and capabilities constraints that can curtail the intensity of their activities and cross-cultural learning efforts. Unlike most studies, which focus on advanced economies, the current study examines the role of FMK in driving IP via equity mode preference in an emerging economy setting. To reduce their dependence on their domestic market since such markets have uncertain environments, therefore, firms based in emerging markets where external environments are dynamic and evolving often look to international markets to realize their potential and aspirations for growth.

The contributions of the paper to the IB and strategy literature are threefold. First, although a number of past studies have examined various aspects of SME market entry mode decisions (Adomako et al., 200, 2021; Hollender et al., 2017; Nisar et al., 2018; Wu and Deng, 2020; for an overview, see Laufs and Schwens (2014), lacking in the current literature is robust examinations of the potential mechanisms of equity mode for foreign market entry on the association between FMK and IP. The study integrates insights from the literature on SME entry mode (Laufs and Schwens 2014) and the UE perspective (Hambrick and Mason, 1984; Neely et al., 2020) to develop a conceptual model and test the mediating effects of equity mode for foreign market entry on the association between FMK and IP. In so doing, we provide much deeper insights on choosing a suitable foreign market entry mode is a strategic decision—a vital choice that determines the degree of resource commitment to foreign markets (Hill et al., 1990).

Second, drawing on the knowledge-based view of the firm (Grant, 1996; Mejri, MacVaugh, and Tsagdis, 2018), we demonstrate that the influence of FMK and equity mode choice is best understood when financial slack resources are greater. To this end, the extent to which financial slack resource is rare and the extent to which it is absorbed determines its interpretation and subsequent effect on FMK and equity mode choice adopted by the firm.

Third, this paper responds to calls for new streams of research on emerging markets that examine firms' strategies (Deng and Zhang, 2018; Laufs and Schwens, 2014; Zoogah et al., 2015) by enriching the understanding of the role of FMK and IP. This is a key line of inquiry given that sub-Saharan Africa is regarded as one of the fastest-growing regions in the world (World Bank, 2016), and robust empirical research focusing on this region is lacking. Accordingly, we rectify this lacuna in our understanding by offering deep insights by utilizing a distinctive sample encompassing CEOs and finance managers of SMEs based in Ghana. Thus, this paper also enhances our understanding on how

SMEs originating from emerging economies can utilize financial slack to boost the relationship between FMK and equity mode choice.

Moreover, this study is timely and very much important from the context of Ghana as further research on internationalizing SMEs from Sub-Saharan Africa is needed to support the enactment of policies directed towards the development of SMEs (Mamman et al., 2019). The results from this study will be particularly important to develop and implement policies to support SMEs in Ghana and for other developing countries in Sub-Saharan Africa and also in rest of the world as those countries (developing countries) share common structural characteristics as well as institutional characteristics (Adomako et al., 2019; Fu et al, 2018).

The remainder of the paper is structured as follows. After the presentation of a review of the literature on FMK, financial slack, entry mode choice and IP, the research context and data sources are examined. Following these, the analysis and discussion of the findings of the study are presented. Finally, the implications of the analysis for research and practice are outlined.

2. Conceptual background and hypotheses development

The paper draws key insights from the knowledge-based view (KBV) of the firm, entry modes' literature and the upper echelons perspective. In today's global environment, a firm's ability to acquire and utilize new knowledge has been found to be essential for success (Li *et al*., 2010), and acquisitions of knowledge and learning has been acknowledged to play a vital role in the growth and survival of rapidly internationalizing SMEs (cf. Puthusserry et al., 2020). The KBV of the firm (Grant, 1996) suggests that knowledge accumulation and utilization is the basis for achieving superior performance and success in new markets (Sheng et al., 2019; Puthusserry et al., 2020). Hence, knowledge accumulation could better equip organizations in integrating knowledge embedded in the firm and individuals (Huang and Li, 2012). Research has highlighted that FMK tends to originate from the proactive quest for entrepreneurial opportunities across borders (Musteen et al., 2014; Zhou, 2007). By accumulating and combining new and existing knowledge, firms improve their innovativeness (Jiménez-Jiménez and Sanz-Valle, 2011).

Organizations are considered the reservoir of knowledge and expertise which can be mobilized and harnessed to deliver superior performance (Conner and Prahalad, 1996). The importance of knowledge accumulation through learning can equip new firms for international markets and mitigate the risk of strategic blunders. Strategic blunders may stem from lack of understanding, insight or necessary expertise to inform organizational actions and market positioning (e.g., Ricks, 2009), as well as lack of familiarity with foreign markets. By accumulating FMK through international collaborations and networks, firms become better equipped to offset the effects of the liability of foreignness (i.e., disadvantages in foreign markets stemming from non-native status) and lack of legitimacy (Amankwah-Amoah and Debrah, 2017; Musteen et al., 2014). Accordingly, such knowledge can be a key asset in enabling firms in emerging economies to exploit market opportunities (Knight and Liesch, 2002; Puthusserry et al., 2020). These issues are particularly important given that emerging markets are characterized by an underdeveloped legal system (Acquaah 2007) which shapes firms' ability to accrue and utilize knowledge for international markets.

The UE perspective considers a firm and its strategic decisions as a reflection of top management team/executives (Carpenter *et al*., 2004; Díaz-Fernández, Rosario and Simonetti, 2019; Hambrick and Mason, 1984; Neely, Lovelace, Cowen and Hiller, 2020). Under the UE theory, strategic choices are predicated on top executives' characteristics rather than firm-specific features (Hambrick and Mason, 1984; Neely et al., 2020). These characteristics include age, financial expertise, gender and knowledge of the decision-makers, which play a key role in the quality of the decisions being taken. As explained by the theory, executives' ability to improve firms' performance or effectively marshal the limited organizational resources are predicated on the top executives' characteristics (Hambrick and Mason, 1984; Neely et al., 2020).

SMEs, compared with MNEs, are characterized by certain factors that are likely to influence their foreign market entry mode decisions. These factors include their level of commitment to the foreign market, how risk is dealt with in the host country, and how they control foreign market activities. The IB literature also indicates that SMEs are constrained by financial and personnel resources (Brouthers and Nakos, 2004; Nakos and Brouthers, 2002). These constraints put greater limitations on an SME's ability to commit to a foreign market by using an entry mode that requires high commitment (Ripollés et al., 2012). The literature also shows that SMEs are very sensitive to external influencers (Cheng and Yu, 2008). This makes it difficult for SMEs to choose a foreign market entry mode that allows them to effectively tackle risks arising in the host country.

SMEs are also different from MNEs in terms of their ownership structure and management (Cheng, 2008; Pinho, 2007). Indeed, many SMEs are family-owned or owner-managed. Thus, entry mode choice of SMEs differs from that of MNEs as firms with family orientation or family ownership are less likely to share control in an equity joint venture (Fernandez and Nieto, 2006). In addition, given the small and nimble structures and decision processes, SMEs tend to have higher sensitivity to changes in the external business environment (Cheng and Yu, 2008). Accordingly, they are better able to strategically align their internal processes to the changes taking place in the external environment and employ an entry mode that advances this objective (Laufs and Schwens, 2014). Figure 1 presents our research model

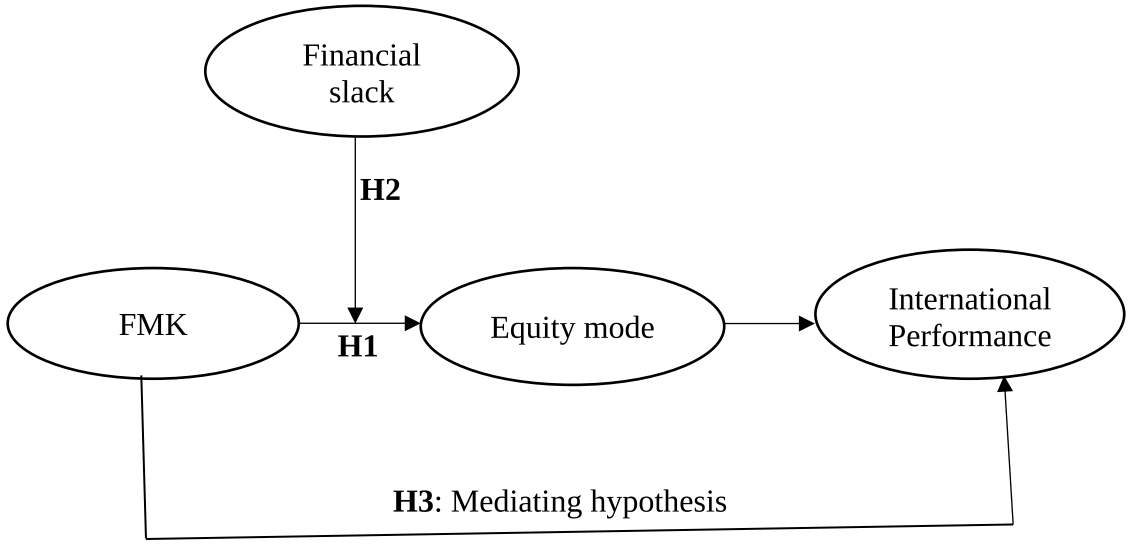

Figure 1. Research model

2.1 Foreign market knowledge and equity mode

Foreign market knowledge signifies insights on competitors, customers, business practices such as culture and politics, and potential market opportunities pertaining to a particular foreign market (Wang and Olsen, 2002; Musteen et al., 2014). The extant scholarship highlights the important role of FMK in internationalization of firms (Casillas et al., 2009; Liesch and Knight, 1999). Due to the weak resource base of SMEs these firms might not have the necessary resources to gain the required FMK and pick an optimal entry mode. Foreign market knowledge and experience can be important for internationalizing SMEs to tap into foreign markets and choose the appropriate entry mode across different markets. Scholars have indicated the important role of networks for SMEs in order to gain knowledge, which in turn can facilitate internationalization and optimal entry mode choice (Puthusserry et al., 2018, 2020). Since SMEs face greater issues around legitimacy given their small size, lack of resources and insufficient understanding and experience about foreign markets, thus having FMK can be important for SMEs to overcome these legitimacy related issues. Market entry modes refer to strategies employed by firms to enter new markets or exploit market opportunities to improve their competitiveness (Hitt et al., 2015). Market entry modes encompass equity including wholly-owned ventures, and non-equity such as licensing, R&D contracts and alliances, which reflects the parties' interests and power regarding the level of investment and control (Hill and Hult, 2018). A key factor in determining the most suitable market strategy is often the level of resources and attention the focal firm is willing to devote to the international engagement (Peng, 2014). It is worth noting that most studies on the process of internationalization are anchored in the Uppsala theory (Yamin and Kurt, 2018) and provide useful reference in exploring the linkages between knowledge and entry mode.

The literature indicates that there are two broad categories of market entry modes (Lai, Chen and Chang, 2012; Morschett, Schramm-Klein, and Swoboda, 2010) distinguished based on level of financial and human resource commitment and managerial/executives' attention. The first is the non-equity modes, which carry a low level of international involvement and require minimal resources from the focal firms. Distinct from non-equity are lower levels of organizational control and investment. Some of the market entry strategies encompass franchising, contractual agreements, co-marketing and exporting (Erramilli and Rao, 1990; Pan and David, 2000; Peng, 2014). Nonetheless, the equity modes incorporate higher resource and financial commitments to foreign markets, and they include strategies such as greenfield, wholly-owned subsidiaries and acquisitions (see Erramilli and Rao, 1990; Laufs and Schwens, 2014; Pan and David, 2000; Peng, 2014). Given that the decision to adopt either equity or non-equity strategies exerts different influences on a firm's human and financial resources, it also impacts on its ability to achieve international success. The accumulation of foreign market insight by CEOs tends to help them to develop the confidence in investing more resources into equity mode. Also, as firms develop preference for greater levels of control, they are also more inclined to opt for equity entry modes. Accordingly, we propose that:

H1: *Foreign market knowledge is positively related to SMEs' preference for equity mode for foreign market entry*.

2.2 The moderating role of financial slack

This paper argues that slack financial resources will moderate the effect of FMK. Financial slack reflects the level of liquid assets (e.g., cash in hand) available to a firm (Kraatz and Zajac, 2001). Financial slack is considered valuable but generic and therefore a less rare resource. As FMK is a necessary first step for internationalization and essential for success in foreign markets (Oviatt and McDougall, 1994; Zahra, 2005), this paper contends that financial slack can boost the effectiveness of FMK to stimulate the adoption of the preference for equity mode as a choice for foreign market entry because it incentivizes firms and individuals to explore new ideas, innovate and enhance their competitiveness (Howell and Higgins, 1990), as well as it gives the firms more power and control over key decisions. First, foreign market entry mode choice is predicted on level of risk, resource commitment and control in the international business environment (Hill et al., 1990). Given the equity mode of entry requires more resource commitment, financial slack is likely to enhance the effect of FMK on equity mode choice. For example, establishing a wholly-owned subsidiary requires that the firm commits a significant amount of resources as the firm has to take all the costs of establishing a new firm and operations in the host market. The level of resource commitment will push the CEOs of the firms to acquire more foreign knowledge when choosing equity entry mode. Second, equity foreign market entry mode choice is characterized by a high level of risk to which the firm is exposed to in the international market (Hill et al., 1990). The availability of slack is likely to determine the level of resource commitment and risk associated with the choice of an entry mode. For instance, greater FMK are likely to use the firm’s slack resources to increase the risk level of the firm’s investment in the foreign market. In addition, a firm that decides on a high-commitment mode can reduce the risk of unintended knowledge diffusion (Laufs and Schwens, 2014). More importantly, financial slack can be readily allocated to a range of foreign market modes due to its unabsorbed nature. However, it is expected that higher financial slack will be associated with equity entry mode, entailing a preference for committing resources to joint ventures and wholly-owned subsidiaries. This is because, when a firm decides on the equity mode, it requires more information gathering and more detailed due diligence than when it opts for a non-equity mode of entry. Given the extensive FMK on competitive conditions, markets, legal and social norms, and cultural differences as well as potential risks in the host country, the availability of financial slack is likely to trigger the adoption of equity mode choice (Agarwal and Ramaswami, 1992; Nohria and Gulati, 1996; Tan and Peng, 2003). This type of information is vital as it facilitates the decision-making process and adjusting the entry mode strategy. On the other hand, low levels of financial slack will bring increased pressure to conserve rather than deploy slack to risky investments. This will be done to ensure its availability for ongoing activities and firm viability. In addition, lower levels of slack could be considered insufficient for exploring risky international activities. Based on the foregoing arguments, we propose that:

> **H2:** *Financial slack moderates the relationship between foreign market knowledge and SMEs' preference for foreign market equity mode choice.*

2.3 The mediating role of equity mode

Foreign market timing is often predicated on whether the focal firm is seeking to accumulate first or late-mover advantage (Peng, 2014; Lieberman and Montgomery, 1988). As observed by Hill and Hult (2018), early market entry allows a firm to develop customer loyalty and its brand prior to its rivals, thereby making it difficult for clients and customers to switch to rival products or services. Due to high pioneering costs and risk of failure in uncharted foreign markets (Hill and Hult, 2018), some firms may decide to enter late or seek considerable new FMK to help minimize the risk of failure and take contingency measures to minimize risk and uncertainties. We contend that a high degree of FMK is likely to choose equity over non-equity mode when selecting the firm's international operations because the knowledge acquired from the international markets enables them to sense greater opportunities to be exploited (Adomako et al., 2019). Our contention is that when managers anticipate success in the international market, they tend to be effortful even in the midst of hostilities (Torkkeli et al., 2012) which allows them to make riskier decisions. In addition, equity mode choice has been found to increase venture performance in the international market (Brouthers, and Nakos, 2004; Hollender, Zapkau, and Schwens, 2017). This suggests that a greater knowledge about the foreign market is expected to increase their firms' performance in these markets. As FMK drives managers to expect success in the international business environment, it is reasonable to argue that they will opt for riskier entry modes such as equity investment for international expansion which is likely to yield improved firm performance. Thus, we argue that:

> **H3:** *SMEs' preference for equity mode for foreign market entry mediates the positive relationship between foreign market knowledge and international performance*.

3. Research method

3.1 Study setting – Ghana

The data used in this study were collected from a sample of SMEs engaged in cross-border activities in Ghana. Our context (i.e., Ghana) is a unique setting for testing the study's research model for several reasons. Ghana's successful implementation of an open market economy for over three decades has provided an important context for MNEs to do business (see Amankwah-Amoah et al., 2022). However, as home businesses continue to chalk up success, they successfully choose foreign market locations due to strong domestic performance. Though the Ghanaian business environment is considered an easy place to do business in West Africa (World Bank, 2017), business development is constrained by several barriers, such as inadequate access to finance, shortage of skilled labor, poor quality and high cost of raw materials, regulatory corruption, lack of well-established intermediaries, and various infrastructure related issues (Robson and Obeng, 2008; World Bank, 2017). These barriers make the process of developing a business very difficult. As such, internationalization to other locations is eminent for firms to realize their potential and further growth opportunities. Thus, the context of doing business in Ghana offers an emerging market perspective for testing how western theories perform in an emerging country context, and particularly in the context of resource constraints SMEs that are aiming international markets for their growth.

3.2 Sample and data collection

To test our hypothesis, we used a sample of manufacturing SMEs operating in Ghana. The sampling frame was drawn from the Ghana Revenue Authority's database (i.e., 21720 active SMEs). Previous studies in the study's setting indicated that the Ghana Revenue's database is considered a representative of the population of all firms operating in Ghana (Adomako, et al., 2020). Following previous studies (Adomako et al., 2021, De Clercq, and Zhou, 2014), the sample met the following criteria: (1) independent private firms which are not subsidiaries or affiliated to another entity, (2) SMEs defined in accordance with the Ghana Statistical Service as companies with up to 250 employees (Ghana Statistical Service, 2000), and (3) firms with international sales or operating in international markets. Using the above criteria, 855 SMEs were selected using the above selection criteria. The SMEs are headquartered in Ghana and are engaged in exporting and other cross-border activities. The SMEs have subsidiaries in a number of African regions as well as other developed economies (e.g., Economic Community of West African States, Southern African Development Community), Europe, and North America.

In the first survey (T1), all the CEOs of the 855 firms were contacted in person to collect data on FMK and foreign market entry mode choice. CEOs were chosen because of their influence on strategic decisions in SMEs (Adomako et al., 2021; Maekelburger, Schwens and Kabst, 2012). To ensure that the data were collected from the right firms, a sample of 35 questionnaires was taken and the CEOs contacted. Informant competency was captured by asking the CEOs to report on a 7-point scale with anchors ranging from 1 = strongly disagree to 7 = strongly agree. The issues related to (1) knowledgeability of questions asked, (2) accuracy of the answers provided, and (3) confidence in providing answers to the questions (Morgan et al., 2004). Two hundred and fifty-nine (259) useable responses were received, representing a 30.29% response rate. A mean of 5.42 (SD = 1.08) was obtained for issues relating to how knowledgeable the respondents are in answering the questions, 5.58 (SD = 1.02) for information accuracy, and 4.63 (SD = 0.99) for confidence in providing answers.

The second wave of the survey (time period, T2) took place immediately after the first survey (i.e., T1). This time, the finance managers of the 259 firms were approached with a questionnaire in person to tap IP and financial slack measures. Subsequently, 225 responses were received from the finance managers of the firms. It was detected that 20 of the finance managers were also the CEOs of the firms. These firms were excluded from the survey. Hence, 205 complete responses were used for the analyses, representing a 23.97% response rate.

We addressed the non-response bias by comparing the respondents with non-respondents for the final sample. Using Pearson's chi-square test for categorical (Greenwood and Nikulin, 1996), results indicate that the respondents were not significantly different ($p > 0.05$) from the non-respondents in terms of firm age, CEO age, and firm size. Hence, non-response bias does not appear to influence our findings (Armstrong and Overton, 1977; Rogelberg and Stanton, 2007).

3.3 Measures

Foreign entry mode choice. This study followed Pan and Tse's (2000) classification of entry mode choice and used a dichotomized variable to measure foreign market entry mode choice. Respondents were asked to choose "0" if their firm used non-equity entry modes (i.e., direct export, export through distributors, franchises and licensing) and "1" if equity entry modes (i.e., joint ventures, equity participations, acquisitions and wholly owned subsidiaries). This measure is widely accepted in measuring a firm's entry mode when choosing a foreign market (Brouthers and Nakos, 2004). In line with extant studies (Brouthers et al., 2008; Laufs et al., 2016), this study asked the respondents to indicate their most recent entry into a foreign market. On average, the most recent entry into a foreign market by the firms in the sample was two years prior to the administration of the questionnaire.

Financial slack. We used the approach suggested by Voss, Sirdeshmukh and Voss (2008) to measure financial slack. Accordingly, we used the ventures' unabsorbed resources available for immediate use for virtually any purpose. In particular, the ventures' cash reserves at the end of financial year 2017 was used. To control for firm size, cash reserves were divided by the venture's total expenses in financial year 2017.

Foreign market knowledge. FMK was measured by using a scale developed by Musteen *et al.* (2014). This scale contains 18 items that measure FMK along six domains: foreign competitors, foreign customers, channels of distribution, foreign political/legal environment, foreign culture, and business opportunities in foreign markets. These items were assessed on a 7-point Likert scale with anchors ranging from 1 = very low level of knowledge to 7 = very high level of knowledge.

To investigate the validity of FMK, an exploratory factor analysis (EFA) was conducted. The EFA was conducted on the 18 items using the principal component method with oblique rotation. Overall, six factors emerged with eigenvalues greater than one and the first factor accounted for about 29% of the variance. To arrive at the overall FMK, the average of the 18 items was taken (Cronbach's alpha = 0.89). In addition, these items were used to compute an intraclass correlation coefficient or (ICC [1]) associated with the FMK measure (Bliese, 2000). ICC values range from 0 to 1, with higher values signifying greater reliability. The ICC (1) value for the FMK measure was 0.621. Based on available standards (Bliese, 2000), these values can be considered adequate and indicative of high agreement across respondents.

International performance. This is referred to as the performance of the venture in a foreign market (Brouthers et al., 2015; Keupp and Gassmann, 2009). Accordingly, we used six subjective measures from Gerschewski et al. (2015) to capture SMEs' IP. On a 7-point scale, ranging from 1 = much lower to 7 = much higher, finance managers rated their firm's performance in foreign markets compared to their direct competitors over the last three-year period (Brouthers and Nakos, 2004; Brouthers et al., 2009).

Control variables. Several control variables were used in the research model. First, firm age, measured as the year of collecting data minus the year of incorporation (Hollender et al., 2017; Zahra et al., 2000). Second, firm size, measured as the number of full-time employees (Contractor, 1984). Third, family business (coded as "1" for family-owned firms and "0" for non-family-owned firms) was also included as a control variable because family ventures differ from non-family ventures in terms of strategic decisions (Stavrou et al., 2007). Fourth, international experience was also controlled for by capturing the number of years that the firm had international operations (Dimitratos et al., 2004). The time elapsed since the venture's most recent foreign market entry was also included, and this was captured as the data collection year minus the year in which the last foreign market was entered (Hollender et al., 2017; Ghauri and Buckley, 2003). CEO age was calculated by subtracting the CEO's date of birth from the year of the firm's most recent entry into a foreign market. In addition, CEO's individual international experience was included, and this was calculated as the average number of years the CEO spent abroad in education and in their professional career (Musteen et al., 2010).

Table 1: Validity and reliability assessment

Model variable	Item descriptions	Factor Loadings (t-values)	Cronbach's α	Composite reliability	Average variance extracted
Latent Variables					
Foreign competitors (Musteen et al. 2014)	Competitors in foreign markets	0.89(1.00)	0.96	0.96	0.64
	Level of competition in foreign markets	0.80 (13.21)			
	Competitive strategies employed by firms in foreign markets	0.92 (19.22)			
Foreign culture (Musteen et al. 2014)			0.89	0.85	0.58
	Values and norms in foreign markets	0.78(1.00)			
	Differences in the business practices in foreign markets	0.83(14.59)			
	Impact of cultural differences on business	0.75(10.34)			
Foreign political/legal environment (Musteen et al. 2014)			0.87	0.85	0.53
	Differences in the legal systems in foreign markets	0.76(1.00)			
	Risks associated with doing business in foreign markets	0.94(22.82)			
	Foreign government rules and regulations	0.86 (13.70)			
Foreign customers (Musteen et al. 2014)			0.95	0.90	0.67
	Customer demographics and segments in foreign markets	0.72 (1.00)			
	Foreign customer needs and preferences	0.90(19.05)			
	Trends in customer needs and preferences in foreign markets	0.86(15.02)			
	Existence of unmet customer needs in foreign markets	0.95(25.60)			
Foreign business opportunities Foreign customers (Musteen et al. 2014)					
	Opportunities for partnering in foreign markets	0.93 (1.00)	0.81	0.83	0.64
	Opportunities for potential new customers	0.93(26.39)			
Channels of distribution (Musteen et al. 2014)	Types/quality of available distribution channels in foreign markets	0.69 (1.00)	0.93	0.90	0.68
	Appropriateness of existing foreign distribution channels to your firm	0.92(23.62)			
	Quality of existing distribution channels abroad	0.82 (9.89)			
International performance (Brouthers and Nakos, 2004; Brouthers et al., 2009)			0.96	0.92	0.69
	International sales growth	0.93(1.00)			
	International sales volume	0.89(18.83)			
	International profitability	0.79(12.43)			
	Growth in market share in international business	0.80(12.78)			
	Return on investment from international business	0.90(15.26)			
	Overall international performance	0.89(12.97)			

3.4 Common method variance, reliability and validity

This study used two major approaches to address common method bias. First, the approach suggested by Podsakoff, MacKenzie, and Podsadoff (2012) was followed and included a single common latent factor in the models. The results show that the path coefficients of the main model did not change significantly when the idle factor was integrated (non-common method factor model: $\chi^2/df = 2.60$, $p < 0.001$, NFI = 0.98, CFI = 0.97, RMSEA = 0.05; common method factor model: $\chi^2/df = 2.63$, $p < 0.001$, NFI = 0.97, CFI = 0.98, RMSEA = 0.04). Also, the items were found to load significantly on their respective constructs. Second, this study followed the approach suggested by Lindell and Whitney (2001) and included a marker variable that was not conceptually related to any of the constructs. “My job allows me freedom to decide how I do my own work”, a variable which measures job autonomy, was used as our marker variable. Results from Lindell and Whitney’s (2001) marker test show low and non-significant correlations ranging between -0.01 and 0.03, suggesting that common method variance has no effect on the data.

In line with the assessment of common method variance, confirmatory factor analysis of the multi-item constructs was conducted. The exact model fit was assessed using the traditional chi-square test. In addition, several fit indices were inspected to assess model fit (Bagozzi and Yi, 2012). This analysis received adequate fit for the data χ^2 (degree of freedom [d.f.]) = 755.22 (432); $p < 0.00$; RMSEA = 0.04; NFI = 0.97; CFI = 0.95.

Subsequently, construct reliability, convergent validity and discriminant validity were examined. For each item, the standardized factor loadings are significant at 1%, supporting convergent validity of the measures (Bagozzi and Yi, 1988). In Table 2, the results of the CFA also show that composite reliability values exceeded the required threshold value of 0.70, confirming reliability of the constructs (Fornell and Larcker, 1981). The discriminant validity of the contracts was examined by utilizing the approach advanced by Fornell and Larcker (1981). It was inspected whether the average variance extracted (AVE) for each construct was larger than the highest shared variance (HSV) of each part of the construct. Results show that discriminant validity was achieved because the HSV between each pair of constructs was smaller than the AVE for each construct. The correlations between variables are presented in Table 3. Low to moderate levels of correlations were observed. The largest variance inflation factor in this study was 2.77, which is far below the suggested threshold value of 10 (Hair *et al*., 2006). This suggests that multicollinearity was not a concern in this study.

Table 2. Descriptive statistics and correlations

	Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1.	Firm size	123.23	196.42										
2.	Firm age	44.63	36.00	0.07									
3.	Family business	0.62	0.47	-0.03	0.27**								
4.	Firm international experience	7.36	12.85	0.09	0.23**	-0.09							
5.	Time elapsed since the firm's most recent foreign market entry	1.43	2.81	-0.03	0.04	0.03	-0.29**						
6.	CEO international experience	3.78	4.30	-0.05	0.02	0.05	0.07	0.03					
7.	CEO age	37.46	7.63	-0.01	0.03	0.01	0.00	-0.02	0.19**				
8.	Equity mode	0.44	0.48	0.18*	-0.06	-0.22**	0.32**	0.22**	0.29**	0.19**			
9.	Foreign market knowledge	4.15	1.14	0.22**	0.24**	-0.14*	0.31**	0.05	0.32**	0.23**	0.21**		
10.	Financial slack	14.22	21.97	0.29**	0.28**	0.03	0.11	0.02	0.01	0.03	0.35**	0.03	
11.	International performance	5.00	0.74	0.05	-0.14*	-0.08	0.08	0.01	0.09	0.05	0.19**	0.20**	0.14*

N = 205; *p < 0.05; **p < .01 (2-tailed test); S.D. = Standard deviation.

4. Results

We utilized the path analysis approach (Preacher, Zyphur and Zhang, 2010) using the Mplus statistical software (Muthén and Muthén, 1998-2010). To test the proposed mediation model, we performed path analysis (MacKinnon, 2008). Accordingly, the mediation model was tested through a test of statistical significance of the indirect effect and its associated confidence intervals (Preacher, Zyphur, and Zhang, 2010). Descriptive statistics and correlations are reported in Table 3. To evaluate whether multicollinearity influences the findings due to testing of the moderating hypothesis, the relevant variables were mean centered before embarking on the overall hypothesis testing (Aiken and West, 1991). It was detected that all inter-factor correlations were below the 0.65 cut-off value, indicating that multicollinearity is not likely to influence the findings (Tabachnik and Fidell, 1996). Additionally, the highest VIF was 1.33, well under the limit value of 10.

Table 4 presents the results of the hypotheses and multi-path analysis. This study proposed in Hypothesis 1 that FMK will be positively related to SMEs' preference for equity mode for foreign market entry. Results provide support for Hypothesis 1. Specifically, FMK was positively related to equity model choice ($\gamma = 0.28$, $p < 0.01$). Hypothesis 2 that financial resource slack moderates the relationship between FMK and preference for equity mode such that financial resource slack boosts the positive effect of FMK on SMEs' preference for equity mode. Results provide support for Hypothesis 2 ($\gamma = 0.44$, $p < 0.01$). A simple slope test utilizing the approach advanced by Aiken and West (1991) was conducted. The test revealed that the relationship between FMK and equity mode choice is positive when financial slack is high ($t = 2.94$, $p < 0.01$), whereas there is no significant effect of FMK on equity mode when financial slack is low ($t = 0.42$, *ns*). The results of the simple slope test are consistent with the regression results and confirm

Hypothesis 2. Hypothesis 3 stated that SMEs' preference for equity mode for foreign market entry mediates the positive relationship between FMK and IP. The results provide support for Hypothesis 3 (the estimate (ab) = 0.17, $p < 0.01$; 95% CI [0.11, 0.37]).

Table 4. Results of the hypothesis testing

	Hypotheses	Equity mode	International performance	
Control paths				
Firm size		0.14**	0.05	
Firm age		-0.07*	-0.10*	
Family ownership		-0.07*	-0.13**	
CEO age		0.02	0.04	
CEO international experience		0.04	0.12**	
Firm international experience		0.09*	0.08*	
Time elapsed since the firm's most recent foreign market entry		0.02	0.04	
Main effect paths				
Foreign market knowledge (FMK)	H1	0.28***	0.19***	
Financial resource slack		0.13**	0.10*	
Foreign market knowledge x financial slack	H2	0.44***		
Model fit statistics				
χ_2/df		383.27/243	370.44/261	
RMSEA		0.04	0.02	
NNFI		0.96	0.98	
CFI		0.96	0.95	
R^2		0.14	0.26	
Largest VIF		1.33	1.09	
			95% Confidence interval	
		Estimate	CI Lower end	CI upper end
Indirect effect				
FMK→ international performance (via equity mode choice)	H3	0.17***	0.11	0.37

* $p < 0.10$.; ** $p < 0.05$; *** $p < 0.01$. Standardized coefficients are shown. The model was estimated simultaneously. CI = confidence interval.

4.1 Robustness tests

To provide additional insight regarding the results reported in this research, several supplementary analyses were performed to substantiate the robustness of the research model. First of all, alternative measures of IP were used to measure IP dependent variable: (1) overseas sales as a percentage of total sales and (2) the number of nations in which the firm operates (Autio et al., 2000; Robertson and Chetty, 2000). The results support all the hypotheses in this study. Specifically, FMK positively relates to equity mode choice ($\gamma = 0.22$, $p < 0.01$) and financial resource slack moderates the relationship between FMK and preference for equity mode ($\gamma = 0.38$, $p < 0.01$). These results replicated the initial findings. Also, SMEs' preference for equity mode for foreign market entry mediates the positive relationship between FMK and IP (ab = 0.19, $p < 0.01$; 95% CI [0.13, 0.39]).

Second, this study used financial resource capability as a proxy for financial slack. This research conceptualized financial resource capability in terms of availability of financial capital or ease of accessing financial capital (Wiklund and Shepherd, 2005). Results of this additional analysis show that financial resource availability moderates the effect of FMK and SMEs' preference for equity market entry mode ($\gamma = 0.37$, $p < 0.01$). This further confirms Hypothesis 2.

Third, we followed the procedure outlined by Hayes and Preacher (2010) and tested the significance of the indirect effect using the Sobel test and bootstrapping. The results demonstrate that the indirect effect was significant (Sobel $z = 2.03$, $p = 0.05$). We then confirmed the Sobel test utilizing the bootstrapping method. Precisely, we estimated 95% bias-corrected confidence intervals (CI) for indirect effect by bootstrapping 10,000 samples. The results from bias-corrected CI ranged from 0.04 to 0.15, excluding zero in the CI. Since we did not find any zero in the CI, we concluded that the indirect effect is different from zero (Shrout and Bolger, 2002). Therefore, H3 was confirmed.

Finally, we established whether potential endogeneity affects our findings using the Durban–Wu–Hausman test. Accordingly, we used instruments that are correlated with the independent variable (FMK) and not correlated with the error term of the explanatory equation (Semadeni, Withers, and Certo, 2014). In this case, two instruments that met the above selection criteria were CEO age and educational level. Specifically, we found that whether CEOs' educational attainment (i.e., undergraduate or graduate degree) significantly influenced FMK (r = 0.27, $p < 0.01$), but did not affect firms' international performance (β = 0.03, *ns*). Additionally, CEO age was positively correlated with FMK (r = 0.31, $p < 0.01$), but was not correlated with firms' international performance (β = 0.04, *ns*). The results of the instrumental variable test suggest that the two instruments have a strong explanatory power for the potential endogenous variables. Based on this, we used the two variables as instruments for the Durbin–Wu–Hausman test and found no evidence of endogeneity.

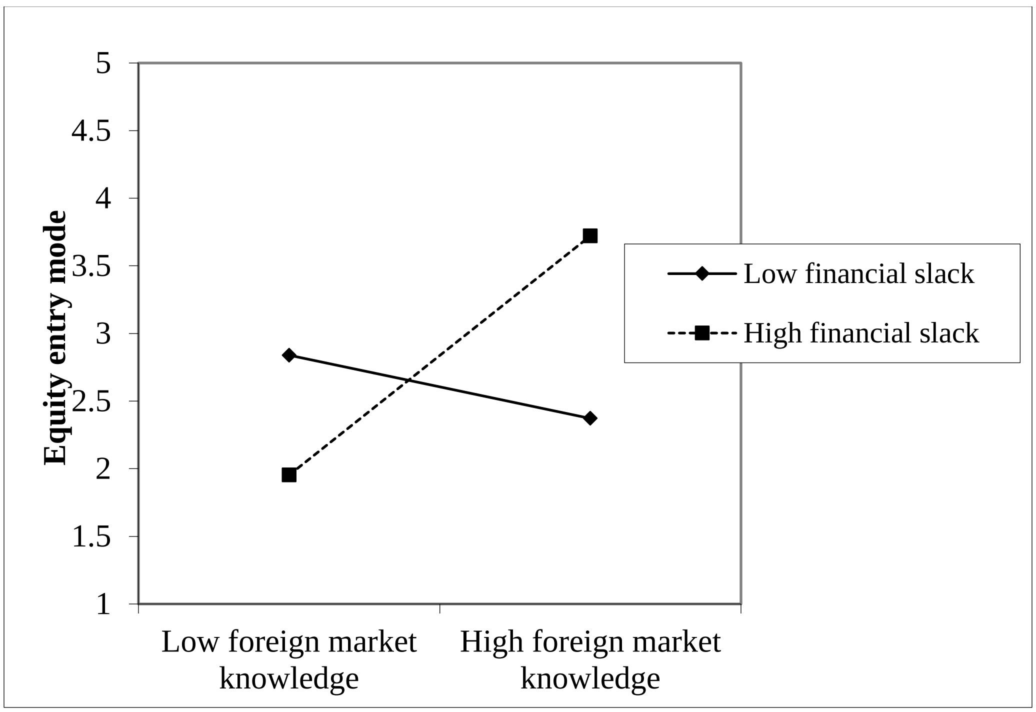

Figure 2: Interaction effect of FMK with financial slack **on equity model choice**

5. Discussion and Conclusion

Entry mode choice has received significant scholarly attention (cf. Brouthers, 2002; Hennart and Slangen, 2015; Shaver, 2013). Yet, there are limited studies exploring how resource constrained

SMEs originating from emerging markets decide on foreign market entry mode. Given that these firms lack key resources and are inexperienced in their internationalization efforts, the acquisitions of FMK become extremely important for such firms to realize their aspirations for foreign market expansion. Drawing on data obtained from 205 internationalizing SMEs in Ghana, our study examined the mediating effect of equity entry mode on the relation between the FMK and IP of SMEs. The study also examined the moderating influence of financial slack on the relationship between FMK and preference for foreign market equity mode choice. We found that FMK positively relates to SMEs' preference for equity entry mode choice. The results also show that this relationship is positively moderated by a firm's degree of financial slack. Finally, the study established that the effect of FMK on the firm's IP is mediated by foreign market equity entry mode choice. The findings offer some important theoretical implications for the IB literature.

5.1 Theoretical implications

First, this study extends previous research on the knowledge-based view of the firm (Grant, 1996) by specifically examining the effects of FMK on firms' IP (Musteen *et al*., 2014; Puthusserry et al., 2020). This provides unique insights into equity mode choice in mediating the relationship between market knowledge and IP. Second, the finding that FMK indirectly influences firms' IP contributes to the upper echelons' perspective. The UE perspective suggests that top executives' characteristics are strategically crucial to the decision-making process in organizations (Carpenter *et al*., 2004; Díaz-Fernández et al., 2019; Hambrick, 2007; Hambrick and Mason, 1984; Neely et al., 2020). This study, therefore, extends the boundaries of the UE theory (Neely et al., 2020) by demonstrating that FMK is crucial for a firm's IP.

Third, the study also shows that financial slack is crucial for SMEs to decide which foreign market entry mode is required for enhancing the IP of their firms. Specifically, the study tests the moderating effect of financial slack on the relationship between FMK and equity mode entry choice. Indeed, this study represents the first attempt to model these relationships. Related to the above, this study reinforces prior scholarly observation that entering foreign markets and succeeding in those markets requires developing unique resources of not only market knowledge (Erramilli and Rao, 1990; Petersen et al., 2008) but also strategic flexibility in terms of slack resources to overcome environmental turbulence or emerging new threats. It therefore adds to the IB literature (Bell et al., 2004; Child and Hsieh, 2014) by showing that financial slack can boost the effect of knowledge on international markets in deciding which foreign market entry mode to choose for improving the performance.

5.2 Practical implications

Our study has important practical implications. First, given the observed influence of FMK on SMEs' equity mode choice, owners of SMEs can employ FMK instrument to measure FMK in a pre-offer assessment. In this way, owners who care about the future growth of their businesses and who intend to hand over their SMEs to new CEOs should evaluate whether potential successors are knowledgeable about the foreign market they intend entering, as this might affect the future prosperity of the firm. Second, the findings relating to the moderating impact of financial slack on SMEs' equity mode choice indicates an important area where managers can improve their firms' performance in the international market. For example, given that high levels of financial slack moderate the effect of FMK on equity mode choice, it is critical that managers in emerging markets leading firms that are interested in entering international markets should consider their levels of FMK and slack within the firm before choosing equity mode. In addition, the findings from this study show the potential benefits of strategic financial capability in shaping firm performance in international markets. Given that knowledge gaps continue to be a major challenge facing internationalizing firms (Erramilli and Rao, 1990; Petersen *et al*., 2008), the abundance of slack financial resources provide firms with an opportunity to acquire new talent or knowledge to quickly update their expertise. The results also suggest that organizations possessing slack financial resources would be equipped to respond to threats in international markets and bridge knowledge gaps. Third, the finding that FMK indirectly influences IP is crucial for SMEs operating in sub-Saharan Africa markets. It may be important for shareholders of these firms to examine their FMK and the choice of foreign market mode when deciding on internationalization. The FMK should be considered alongside the overall strategic intent of the firm, as well as the potential risk associated with entry mode. Finally, this study is timely for SME managers in emerging markets as well as for those in developing economies given that SMEs in these markets share common institutional characteristics. For example, insights from the study can support the promulgation of appropriate managerial strategies for foreign market entry that can enhance SMEs' success in these contexts.

6. Limitations and direction for future research

Our study has some limitations that open avenues for future research. First, the current study focused on a single country (Ghana), so the results should be interpreted in the light of the context of a developing country. Although Ghana shares many unique characteristics (e.g., political, social, economic, cultural traditions and norms) with many developing countries, there might be some variations. For instance, information relating to how national cultural factors (e.g., future orientation, performance orientation, or risk-aversion levels of the population), may relate to foreign market entry mode choice and IP. Future research could investigate the role of cultural and institutional factors on foreign market entry mode choice across a range of developing and developed nations.

Given the uniqueness of the context which is typified by institutional dysfunctions such as weak intellectual property protection, weak legal enforcement system and limited availability of financial credit, future studies may explore how institutional voids influence entry mode selection in emerging markets. Another natural extension of this study would be to seek a cross-country sample from similar developing economies to assess whether the findings can be generalized.

Given that this study did not control for asset specificity, internal uncertainty or external uncertainty, it is recommended that future studies use these variables as controls. This is important given that these variables are likely to drive foreign market entry mode choice. This could shed further light on whether knowledge about the foreign market has any impact on entry mode decisions. Future studies could also examine the role of international environmental hostility (Zahra and Garvis, 2000), and the choice of entry mode adopted by SMEs across developed and developing markets.

In addition, this study used only six subjective items to capture the dependent variable. Future studies should use objective measures to measure IP. Third, given that the role of boards is becoming important in reducing psychic distance (cf. Puthusserry et al., 2021), future studies could examine how corporate governance (e.g., corporate boards) influences entry mode choice of SMEs. Lastly, future studies could focus on how CEOs interact with other top management team members in deciding on the optimal entry mode choice. In this context, future studies should explore the interactions of TMTs and how they influence the entry mode choice of SMEs originating from emerging and developed markets. it is also hoped that future studies could shed light on decision making as well as their knowledge and how they facilitate the internationalization of SMEs.

Despite the foregoing limitations, the results reported in this research show that high levels of FMK indirectly drive IP, and that this relationship is positively moderated by firms' level of financial slack. Overall, the outcomes from this study extend the IB literature in several ways. In the main, the study provides a clearer illustration of the specific conditions in which FMK impacts on SMEs' approaches to entering overseas markets within a developing market context.

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