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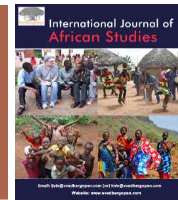

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An Integrated Theoretical Framework of Firms' Entry Modes in Emerging and Developing Economies: Evidence From African Markets

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Abstract

This paper aims to respond to the need highlighted in the literature for an integrated theoretical framework of firms' entry modes in emerging and developing economies, primarily characterized by the liability of foreignness. Specifically, it seeks to fill a gap identified in international business studies and marketing management literature, with a particular focus on African markets. A specific selection of recognized academic journals with a significant Scopus Impact Factor (2022) over the past four years and works published since 2010 have been used to ensure up-to-date evidence. By intertwining the network perspective and the resource-based view within the framework of the liability of foreignness, the firms' entry modes have been identified as: (i) market followership networking, (ii) market relations networking, (iii) institutional and government networking, and (iv) core competence and capability investment. Finally, our contribution can be a useful roadmap for scholars and business decision-makers by offering them a novel theoretical framework to reconsider internationalization drivers.

Keywords: *Internationalization, Underdeveloped country, Africa*

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1. Introduction

The rapid acceleration of globalization starting in the Nineties has significantly reshaped the socio-economic landscape of both developed and underdeveloped countries (Cãtao and Obstfeld, 2019; Lopez *et al.*, 2021). Firms' entry modes in foreign contexts have explored in the literature, however, the debate remains open in the research fields of international business and marketing management, which are in full theoretical development. Scholars and practitioners are drawing on a multitude of theoretical perspectives to examine firms' entry modes in foreign contexts.

Previous literature analyses have provided different perspectives, but none has offered an integrated theoretical framework addressing the liability of foreignness in African markets (Cantwell *et al*., 2009; Onetti *et al*., 2010; Chang and Rhee, 2011; Jormanainen and Koveshnikov, 2012; Salomon and Wu, 2012; Casillas and Moreno-Menéndez, 2017; Paul *et al.*, 2017; Jiang *et al*., 2020; Casprini *et al.,* 2020). Studies on the firms' internationalization in African markets have highlighted diverse types of purposes pursued by firms (Owusu and Habiyakare, 2011; Ovadje, 2016; White and Van Dongen, 2017; Bhattacharyya, 2018; Rambe, 2018; Meouloud *et al.,* 2019; Hammerschlag *et al.,* 2020; Al-Kwifi *et al.,* 2020; Blankson *et al.,* 2020; Boafo *et al.,* 2022).

The attractiveness of African contexts can be attributed to several factors: (i) formal and informal relationships, (ii) firms can supply from neighboring markets, (iii) services to firms, (iv) the presence of small firms, and (v) resource availability. However, African contexts also present the following challenges (Ferrucci and Paciullo, 2015; Rodrik, 2016;

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Dallago and Casagrande, 2023): (i) socio-political instability, (ii) inadequately regulated labor markets, (iii) poor infrastructure, and (iv) high transaction costs due to the absence of conduct codes and best practices.

Generally, emerging and developing economies are often characterized by rapid growth and an inadequate institutional and business environment (Morris *et al.*, 2023). It is possible that these contexts have their own formal and informal rules that make them unique contexts (Leonidou *et al.,* 2006; Brock *et al.,* 2011; Poulis *et al.*, 2013; Rose-Ackerman and Palifka, 2016).The existing literature on the topic has used specific theories, overlooking how different perspectives can be integrated (Brouthers, 2012; Matarazzo and Resciniti, 2014; Acquaah and Kiggundu, 2017; Surdu and Mellahi, 2016; Delios, 2016; Fletcher *et al.,* 2018; Schmid, 2018; Ferrucci *et al*., 2018; Mariotti *et al*., 2021; Evers *et al.,* 2023). This has attracted the attention of international business practitioners and marketing management scholars.

In globalized contexts, firms' internationalization strategy may necessitate the activation of an adequate system of interlocutors capable of networking to reduce uncertainty stemming from the liability of foreignness perceived by business decision-makers in doing business internationally (Håkansson and Snehota, 2017). According to Zaheer (1995), the liability of foreignness encompasses a set of costs that firms must bear to operate abroad, related to host-country cultural and spatial distance. These costs may result in lost business opportunities if not sufficiently understood or adequately addressed by firms operating abroad (Kodila-Tedika *et al.*, 2016; Guercini and Runfola, 2016).

Globalization has also transformed the socio-economic contexts of countries, highlighting their own particularities (Rivera-Santos *et al.,* 2012; Karabag and Berggren, 2014; Misati *et al.*, 2017; Dei Ottati, 2017; Ferrucci *et al.*, 2018; Mazonde and Carmichael, 2020; Scalamonti, 2021; Abdu *et al.*, 2022; Scalamonti, 2022; Scalamonti, 2023; Scalamonti, 2024a).

Even though this topic is not newly in international business studies and marketing management literature, as far as we know, at least one gap can be identified. In fact, this topic has often been treated in literature reviews in a non-integrated way and has not been adequately contextualized in reference to framework of SMEs.

Therefore, our work aims to fill this research gap offering a integrate perspective, and in so doing, it replies to several calls raised in recent literature highlighted above, with a particular focus on African markets (Cuervo-Cazurra and Genc, 2011; Ngobo and Fouda, 2012; Cuervo-Cazurra et al., 2018; Abodohoui *et al*., 2018; Cuervo-Cazurra *et al.*, 2019; Kinyondo, 2019; Miao *et al*., 2020). The evidence from African markets is provided in Appendix A.

Especially, Surdu and Mellahi (2016) called for major integrations in investigating what are the determinants affecting the SMEs' internationalization strategy and what are the firms' entry modes in emerging and developing economies, primarily characterized by the liability of foreignness. The study also considered the call of Evers *et al*. (2023) which in particular claimed a scarcity of studies related to the business model innovation and SMEs' internationalization ways (Delios, 2017; Fletcher *et al.*, 2018; Debellis *et al.*, 2021). Finally, this work can also be a useful roadmap for scholars and business decision-makers by offering them a novel theoretical framework to reconsider internationalization drivers.

We have utilized specific literature found by viewing articles in recognized academic reviews in the fields of international business and marketing management. Therefore, this selection has prioritized journals with a significant Scopus Impact Factor (2022) over the past four years and works published since 2010 to ensure up-to-date evidence. The list of the top-ten journals is: *Journal of International Business Studies* (IF 14.23; 26 articles), *Journal of Business Research* (13.76; 18), *Journal of World Business* (12.00; 14), *Journal of Management Studies* (11.78; 8), *Industrial Marketing Management* (10.58; 17), *Global Strategy Journal* (10.40; 8), *International Business Review* (10.19; 30), *Journal of International Management* (7.53; 6), *International Marketing Review* (6.65; 5), *Asia Pacific Management Review* (5.19; 23).The other sources have been found by analyzing works published in the aforementioned journals and, to a lesser extent, from related supplementary works.

The rest of the paper is structured as follows: (i) the variety of firms' entry modes in foreign markets, (ii) addressing the need for an integrated theoretical framework, and (iii) conclusions.

2. The Variety of Firms' Entry Modes in Foreign Markets

The emergence of rapidly developing areas, despite potentially being burdened by the liability of foreignness, is compelling management to reconsider firms' entry modes in foreign markets to seek novel competitive advantages (Pukall and Calabrò, 2013; Bembom and Schwens, 2018; Bai and Johanson, 2018; Paul and Rosado-Serrano, 2019; Paul, 2020; Arregle *et al.,* 2021; Xu *et al.*, 2021; Debellis *et al.,* 2021; Cuypers *et al.,* 2022; Yildiz *et al.,* 2022; Mitręga, 2023).

Emerging and developing economies can be characterized by increased environmental complexity, institutional instability, alongside other macroeconomic unbalances accentuating the perceived risk by investors.However, these contexts can also be perceived by investors in a non-negative way.

On one hand, due to the wide global economic integration, the management networking is weakened by manufacturing delocalization, on the other hand, it is precisely through the resulting manufacturing specialization that firms' management

has been able to adopt novel entry modes into emerging and developing economies. This means that internationalization strategy can result from incremental decisions of management and depend on their history and skills influencing networks, available resources, behaviors, and perceived risks.

Internationalization can represent a unique way of utilizing personal knowledge and resources to rethink the entry modes in foreign markets. From this perspective, managerial or entrepreneurial decisions can be significant. Therefore, their expertise and skills can be crucial to ensure firm performance in foreign markets burdened by the liability of foreignness. Additionally, it is reasonable to expect that firms' internationalization progresses incrementally,step-by-step,in adapting to culturally distant contexts.

The networking of managers and entrepreneurs aims to facilitate repeated interactions and interdependencies with numerous interlocutors, thus allowing for continuous adaptation to contexts. Indeed, this should enable a common exchange of information, fostering resource sharing, alliance formation, aim alignment, innovation, and organizational learning, finally increasing interconnectedness between the firm and its foreign counterparts.

2.1. Brief Considerations on the Different Perspectives of Analysis

Internationalization can be a highly risky strategy when subject to significant uncertainty and complexity arising from cultural distance or the heterogeneity of institutional and business environments, which increase the information processed by managers and entrepreneurs (Calabrò and Mussolino, 2011; Felin *et al.*, 2012; Sciascia *et al.*, 2012; Hsu *et al.,* 2013; Maitland and Sammartino, 2014; Le and Kroll, 2017; Adomako *et al*., 2017; Chittoor *et al.*, 2018; Chan and Pattnaik, 2021).Firm's internationalization can occur: (i) exporting, (ii) foreign direct investment, (iii) foreign portfolio investment, and (iv) other ways may encompass joint-venture, start-up, licensing, and contracting. These modes enabling firms to acquire direct or indirect knowledge from foreign markets (Hilmersson *et al*., 2015; Coviello *et al.*, 2017).

In this section, preliminary literature analysis of the theoretical framework proposed on firms' entry modes combining the network intensity (Johanson and Vahlne, 2009) and resource based (Hamel and Prahalad, 1990) within the framework of liability of foreignness (Zaheer, 1995) has been shown.

On the one hand, Vernon (1966), in analyzing the life cycle of product/industry, illustrates how firms can achieve additional profits from their products by accessing foreign markets before deciding to divest or re-launch a production line. This decision is contingent upon the technological progress of the production lines relative to the dominant techno-economic paradigm in the country/market served (Perez, 1983). If there is alignment between the technological maturity of a particular product and the foreign market served, the firm will have an economic incentive to operate in this market.On the other hand, Hymer (1960) starts from the theory of the firm and employs the theory of industrial organization to consider the role of market imperfections, such as those arising from product marketing or price-setting. In essence, firms venturing into international markets must possess specific advantages over host-country firms, for instance stemming from patents, technological know-how, or managerial expertise. In many cases, foreign investments made in the host country enable firms to fully leverage these advantages (Saka, 2003).

Both their points of view have made significant contributions to the development of studies on firms' internationalization. Their approaches, while original and incorporating the technological variable and market imperfections, still exhibited a predominant structuralist connotation.

The next step was represented by the stage theory of Uppsala and the learning-by-doing approach (Johanson and Vahlne, 2009). In this perspective, firm internationalization is characterized by the incremental accumulation of knowledge and organizational learning to operate in foreign markets. Firms tend to adapt progressively to the foreign contexts by crossing of four sequential stages: (i) absence of internationalization, (ii) trade internationalization, (iii) own foreign sales networks, and (iv) manufacturing internationalization. Throughout these four stages, firms gain access to numerous pieces of information about the target market. Thus, attaining a critical mass of learning in the previous stage is essential to transition successfully to the subsequent stage.

This implies that internationalization typically begins in neighboring and sociocultural similar contexts before expanding to others with the support of relationships and networks developed by firms' owners and managers. Therefore, internationalization is more likely to begin with lower involvement modes, such as exporting, and progress through medium involvement modes, such as strategic partnerships, before engaging in higher involvement modes, such as foreign investment. In other words, internationalization is contingent upon business decision-makers' knowledge gaps, their risk aversion, and sociocultural distance. This is perceived in languages, educational systems, business models, and development patterns. For containing these factors, a network of relationships can help in overcoming the liabilities of foreignness to enter foreign markets.

According to stage theory, the key factor influencing the timing and methods of entry into foreign markets is the experience gained in operating in these contexts. Internationalization becomes an incremental process rooted in learning-by-doing of managers and owners, considering the liability of foreignness as a set of disturbing sociocultural factors

(Zaheer, 1995). This suggests that internationalization process encompasses hidden and transaction costs burdening firms when entering foreign markets.However, operating in a similar institutional and business environment does not necessarily result in better firm performance (O'Grady and Lane, 1996). As a result, captive-market activities become fundamental to progressively reducing the sociocultural distance perceived by business decision-makers (Ahuja and Yayavaram, 2011; Schwens *et al.,* 2011; Hutzschenreuter *et al.*, 2011; Hutzschenreuter *et al.,* 2016; Doornich, 2018; Gao *et al.*, 2018; Bhaumik *et al.,* 2019). Reducing such distance become pivotal in determining the progressive firm's expansion abroad (Barnard, 2010; Meyer *et al.,* 2011; Yildiz and Fey, 2012; Moeller *et al.,* 2013; Ang *et al.,* 2014; Zhou and Guillen, 2016; Schmid, 2018). Finally, the concept of sociocultural distance across the home- and host-country provides the basis for understanding the value of non-conventional market resources (Johanson and Vahlne, 2009; Luo and Shenkar, 2011).

Contrariwise, there are firms that do not follow the step-by-step internationalization model (Hughes *et al.,* 2019; Chetty *et al.*, 2014). Studies on born-global firms have shown that growth trajectories can be vary and diversified (Bouquet and Birkinshaw, 2011; Rivera-Santos *et al.,* 2012; Karabag and Berggren, 2014; Hilmersson *et al.,* 2015; Alcácer *et al.,* 2016; Coviello *et al.*, 2017; Bembom and Schwens, 2018; Braunerhjelm and Halldin, 2019; Niittymies and Pajunen, 2020; Bornhausen, 2022). Born-global firms are relatively young and entrepreneurial in terms of ownership, management, and networking. They aim to serve international markets right from their inception. Their revenues are predominantly generated in foreign markets rather than domestic ones, and they are characterized as knowledge capital-intensive organizations primarily selling innovative and technology-based products (Nonaka and Takeuchi, 1995). In other words, the born-global can be start-up firm in high-tech serving niche markets by exporting its products globally (Weerawardena *et al.,* 2019; Odlin and Benson-Rea, 2021).

Additionally, there are also small- and medium-sized enterprises (SMEs) that may prefer to focus on the relational skills of managers and owners and on improving networks with various stakeholders in foreign markets (Vuorinen and Kurki, 2012; Alcácer *et al.*, 2016; Tarek *et al.*, 2017; Ferrucci *et al*., 2018; Paul, 2020; Ben Amara and Chen, 2020). An intense and effective network enables these firms to develop globally and overcome the limitations resulting from their size or limited knowledge abroad. Therefore, networking can be horizontal (with other firms) or vertical (with other stakeholders). In both cases, it can encourage coopetition, a strategy based on the coexistence of cooperation and competition between firms (Kraus *et al.*, 2016; Caridà *et al.*, 2018; Bouncken *et al.,* 2021; Lapeira *et al.,* 2024).

In analyzing firms' entry modes in emerging and developing economies, the resource-based perspective cannot certainly be overlooked (Hamel and Prahalad, 1990). Resources have value only within firms. They are inimitable and not easily replaceable. They provide a durable competitive advantage to firms in the market. This means that the knowledge and resources held by the firms are specific and basic to their strategies and business (Cavazzoni and Ceccacci, 2013). The knowledge held by firms becomes pivotal for innovation decisions, and the business decision-makers' experience and skills become crucial for the firm's survival, especially when operating in foreign markets (Chen *et al.*, 2016; Ramón-Llorens *et al.*, 2017; Bannò *et al.*, 2018; Li, 2018; Genc *et al.*, 2019; Popli *et al.*, 2022; Liu *et al.,* 2023). Therefore, internationalization can be an effective way of enhancing the knowledge capital held by firms (Håkansson *et al*., 2009; Baraldi *et al.*, 2012; Bocconcelli *et al.,* 2020; Huemer and Wang, 2021; Prenkert *et al.,* 2022; Du *et al.,* 2022).

In the resource-based view, a firm exists as a bundle of heterogeneous resources used to create products and services to satisfy customer needs (Penrose, 1959). Market resources are those developed and utilized by firms to compete with others within the industry. Meanwhile, non-market resources are those developed and used by firms to interact with other stokeholds in the place where they are physically located. This means that non-market resources are related to institutional knowledge of contexts, ownership-specific relational advantages, and supplementary activities for business development. These resources are pivotal for the firm's performance and success, especially in foreign markets. They can provide firms with an advantage both at home, for instance, when firms benefit from political networks, and in the host-country, for instance, when poor knowledge of the market does not enable them to best operate in countries with an unsound institutional and business environment (Cuervo-Cazurra and Genc, 2011; Cuervo-Cazurra *et al.,* 2018; Cuervo-Cazurra *et al.,* 2019).

In conclusion, based on these brief considerations about the different perspectives of analysis on firms' internationalization, it has emerged that there is a wide variety in firms' entry modes in emerging and developing economies depending on the knowledge capital held by firms (Sulistyo and Siyamtinah, 2016; Muthuveloo *et al*., 2017; Sujatha and Krishnaveni, 2018; Tsai *et al.*, 2018; Azudin and Mansor, 2018; Wahyono and Hutahayan, 2021).

The complex issue of the liability of foreignness may need to be addressed more effectively (Wang and Yang, 2016; Huang and Huang, 2019). In fact, over time and in continuing the studies, other significant variables have emerged in

addition to the spatial elements (Håkanson and Ambos, 2010; Abdi and Aulakh, 2012; Wu and Salomon, 2016). As a result, these studies, in addition to geographical distance and trading costs (Beugelsdijk *et al*., 2010; Singh and Marx, 2013; Iammarino and McCann, 2013; Crescenzi *et al*., 2017), have also considered "non-geographical" elements, such as sociocultural, normative, and relational ones (Berry *et al.*, 2010; Kleinert and Toubal, 2010; Broekel and Boschma, 2011; Guiso *et al.,* 2016).

Considering this, it appears necessary to reconsider the liability of foreignness with reference to the heterogeneity influencing business decision-makers' choices (Castellani *et al*., 2014; Ibrahim *et al*., 2017; Lee *et al*., 2018; Zonouzi *et al.,* 2021). This implies that the liability of foreignness can be analyzed generally in reference to the institutional and business environment, and more specifically in reference to resource specificity held by business units and their organization. Therefore, firms should possess absorptive capacity to adapt to socio-culturally distant contexts, also with reference to organizational structures (Ciaramella and Dettwiler, 2011; Ming-Chu and Meng-Hsiu 2015; Weerasinghe and Sandanayake, 2017; Abdul-Mutalib *et al.*, 2018; Lee and Lin, 2019; Huang and Huang, 2020; Moradi *et al.,* 2021; Imran and Rautiainen, 2022; Min and Kim, 2022; Banmairuroy *et al.*, 2022; Chen, 2022; Kaur-Bagga *et al.*, 2023; Yang and Lin, 2023; Stephen, 2023; Escandon-Barbosa and Salas-Páramo, 2023).

3. Addressing the Need for an Integrated Theoretical Framework

The presence of rapidly developing areas in the world, although some may be burdened by instability and various obstacles, is pushing business decision-makers to reconsider their entry modes in these foreign markets just as quickly (Bradley *et al.*, 2006; Tunisini and Bocconcelli, 2009; Gomez Mejia *et al.,* 2010; Lindsay *et al.*, 2017; Ali *et al.,* 2020; Pongelli *et al.*, 2021; Faroque *et al.*, 2022; Miroshnychenko *et al.,* 2023). However, certain types of risks should no longer be perceived solely as negative. This means that these risks could drive firms towards new business opportunities in markets characterized by high growth potential. When firms enter foreign markets, they face greater challenges from the liability of foreignness due to the cultural distance and distinctive features differentiating markets among them, therefore, their approach to enter foreign markets diverges across markets (Safari, 2024). In other words, the internationalization process is firm's path-history dependency and can result from a mix of incremental decisions, organizational learning, and innovative choices (Buckley, 2018; Du *et al*., 2022).

The liability of foreignness underscores the hurdles that firms face when entering new markets due to differences in culture, regulations, and institutions. The resource-based view emphasizes how a firm's unique resources and capabilities contribute to its ability to overcome these liabilities and succeed in foreign markets. Finally, the networking perspective stresses the significance of relationships and partnerships in accessing resources, information, and support as drivers for firms' internationalization. Through the integration of these three perspectives, firms can develop entry modes by leveraging their internal strengths and navigating the challenges posed by foreign markets by intertwining relations and networks. Therefore, novel internationalization modes may require firms of mitigating (by containing and addressing) the liabilities of foreignness by leveraging their unique resources and capabilities, meanwhile strategically building and nurturing networks in host-countries.

The work by Ferrucci *et al.* (2018) is seminal in the networking perspective because it introduces a new framework for configuring the relationships initiated by firms with various stakeholders (foreign firms, customers, suppliers, institutions) based on three types of networks: (i) confined local networks, where market experience acquired through local networks is specific and cannot be replicated; (ii) networking with bridging, in which firms utilize existing market relationships to gain access to foreign markets; (iii) clone networks, where firms successfully replicate the market relationships that have fostered their internationalization in other markets.

This implies that firms seeking international expansion should establish relationships at various levels with stakeholders in foreign markets. As a result, networking amplifies personal and informal relationships, thereby helping firms to uncover new business opportunities. Additionally, the channels activated by diplomacy can provide firms with crucial knowledge capital and information at low cost for their internationalization.

By considering this multivariate theoretical framework, the firm's entry modes in foreign markets burdened by liability of foreignness have been reformulate and taxonomized based on network intensity and resource specificity as shown below (Figure 1).

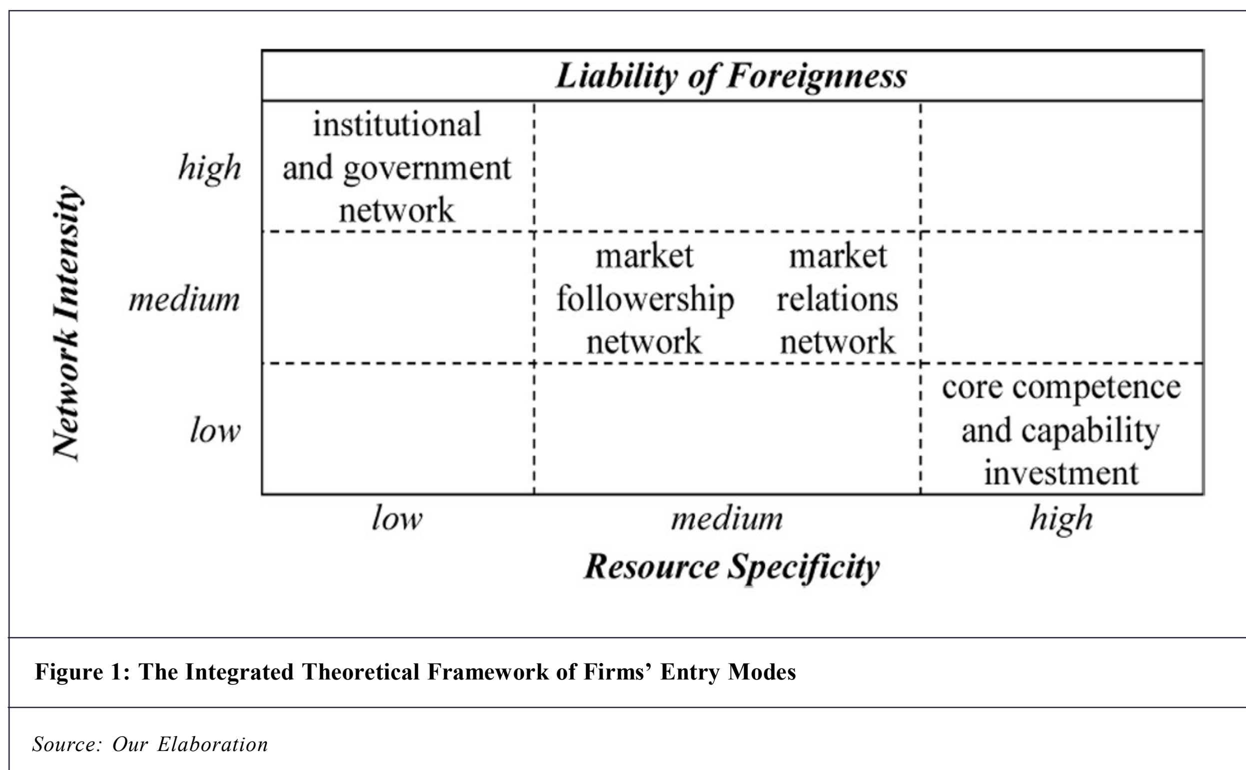

Figure 1: The Integrated Theoretical Framework of Firms' Entry Modes

Source: Our Elaboration

(i) Market followership networking: This entry mode occurs when small supplier firms, revolving around a larger leading firm, due to a pull effect – or bandwagon effect – accompany the process of internationalization and entry of this firm along the global value chains (GVCs) through autonomous investments or networking. For instance, leading firms in an industrial district may decide to invest in a challenging yet perceived as unsafe market to establish a subsidiary or headquarters there, then implement an entry mode into potential neighboring markets by establishing networks with local stakeholders (Draper and Scholvin, 2012; Ghauri *et al.,* 2014; Cerrato and Piva, 2015; Udomkit and Schreier, 2017; Bhattacharyya, 2018; Meouloud *et al.,* 2019; Ochieng *et al.,* 2024). As a result, this would trigger a domino effect to the benefit of its supply chain, then encouraging supplier firms to leverage the gate or bridge provided by the leading firm to cross national borders and access to foreign markets with it, while containing sunk costs and maintaining a lean and flat organization. Additionally, the governance modes of GVCs can facilitate or hinder the international positioning of leader and supplier firms depending on the investment specificity and interaction degree between firms (Gereffi *et al.,* 2018). The organizational learning is crucial to understand the tastes, preferences, and habits of the potential consumers. The firms can adopt an adhocratic organization allowing them to manage numerous productions, fostering coordination across different hierarchical levels, and better adapting to sudden changes in foreign markets.Firms entering African markets should confront an institutional and business environment that is not without risks and uncertainties. Only the big-corporations and most diversified firms possessing capital (tangible and intangible assets) can effectively enter these contexts through idiosyncratic investments. Therefore, experience and information gained on the field by these larger firms are crucial for the smaller firms to enter in foreign markets. With their investments, in addition to gaining access to foreign markets, these larger firms can also acquire context-specific knowledge that is valuable for smaller supplier firms.

(ii) Market relations networking: This entry mode occurs when a firm establishes formal and informal partnerships or co-marketing agreements with local stakeholders. Firms can rely on networks to overcome the size disadvantages to growth abroad. Through collaboration and cooperation with foreign partners, firms manage to gain multiple competitive advantages in host-countries (Manolova *et al*., 2010; O'Gorman and Evers, 2011; Hilmersson *et al.,* 2015; Pascucci *et al.*, 2016; Vissak *et al.*, 2017; Bhattacharyya, 2018; Sun *et al.*, 2019; Al-Kwifi *et al*., 2020). The uncertainty surrounding the macroeconomic and socio-political-institutional framework of certain countries contributes to increasing asymmetric information between the parties involved in the relationship (Williamson, 2010). Consequently, firms can employ formal and informal agreements to reduce market distortions and limit the perception of country risk (Owusu and Habiyakare, 2011; Ovadje, 2016; White

and Van Dongen, 2017; Ngasri and Freeman, 2018; Delbufalo and Monsurrò, 2019; Hammerschlag *et al.,* 2020; Boafo *et al.,* 2022; Pindado *et al.,* 2023). Networking is among the most valid and practicable alternatives, especially for smaller firms, in replacing of the traditional entry modes in foreign markets practiced by bigger firms. In many African markets, transparency in accounting information and reporting is poor. Therefore, entering these markets means firms face variable market risk. To avoid these and other information asymmetries, firms can resort to formal and informal agreements. Strategic partnerships and networking can be adopted by firms with fewer resources to invest in foreign business growth, thus effectively addressing the challenges in foreign markets imposed by globalization. This entry mode depends mainly on business decision-makers'ability to weave and manage relational networks to minimize their risk perception. Learning and experience in operating in foreign markets are crucial drivers. Firms thus increase know-how that can be reused to enter other foreign markets or valorized in other way. As a result, if a firm's experience in foreign markets has been positive and yielded good outcomes, it could positively affect its organization by impacting its culture and strategic orientation.

(iii) Institutional and government networking: Another entry mode involves the possibility of internationalization through institutional and diplomatic agreements facilizing firms' entry in foreign markets. Examples can include fairs, consortia, forums, or union actions. In the long run, institutional actors with a sound strategic vision can be pivotal in promoting firm engagement abroad or along the GVCs (Cuervo-Cazurra, 2011; Hilmersson and Jansson, 2012; Luiz and Ruplal, 2013; Oparaocha, 2015; Stoian *et al.*, 2016; Cuervo-Cazurra and Ramamurti, 2017; Gaur *et al.*, 2018; Nuruzzaman *et al.*, 2019; Chan and Pattnaik, 2021; Zhang *et al.*, 2022; Yang *et al.,* 2023). Alternatively, the same institutional actors can be equally important in the formation of district clusters where firms can enhance knowledge and human capital (Belussi, 2011; Barbieri *et al.*, 2012; Castellani *et al.*, 2013; Colovic and Lamotte, 2014; Zeng, 2015; Santangelo, 2018; Biggeri, 2017; Zheng and Aggarwal, 2020). The unions can also play a significant role in facilitating firms in making agreements and strategic alliances promoting international firm development (Boddewyn and Doh, 2011; Hong *et al.*, 2014). In all these cases, the compression of recurring interactions between institutional actors and firms is crucial for understanding territorial marketing policies and how these are formulated and implemented by local policymakers (Mariotti and Marzano, 2019; 2021). For instance, R&D networks, advanced training centers, and supporting activities can facilitate business start-ups whit the public actor playing a key role in policy development.This may occur with programs for promoting business abroad, for fostering capital for firms' internationalization, finally reducing the liability of foreignness perceived by business decision-makers. However, these programs should allow business decision-makers to effectively negotiate agreements with institutional counterparts.

(iv) Core competence and capability investment: This latter enter mode involves investing in training and acquiring specific soft skills by managers and entrepreneurs, otherwise by individuals capable of understanding local consumption styles and loose market signals. These persons can have an important role in foreign markets for reducing uncertainty and maintaining specific collaborations. Firm's entry modes can be significantly influenced by the personal features and attitudes, especially in innovative decisions (Dalziel *et al*., 2011; Hutzschenreuter and Horstkotte, 2013; Glaister *et al.,* 2014; Casillas *et al.,* 2015; Popli *et al.*, 2016; Rambe, 2018; Al-Kwifi *et al.,* 2020). Therefore, decision-making process can be highly informal and personalized (Alessandri *et al.,* 2018; De Groote *et al.*, 2023). Entrepreneurs and managers often rely heavily on their supervisory skills and undertake numerous visits abroad to develop novel entry modes in foreign markets, or simply to better understand foreign markets' internal functioning (Calza *et al.*, 2010). The ability of entrepreneurs and managers to adopt innovative choices depends not only on the countries' institutional and business environment but also on their capabilities and specific skills developed over time through training, open-mindedness to new experiences, and respect for other cultures (Mejri and Umemoto, 2010; Govindarajan and Ramamurti, 2011; Frimousse *et al.*, 2012; Omri and Becuwe, 2014; Cavusgil and Knight, 2015; Audretsch *et al.*, 2018; Peng and Lin, 2019). In contexts such as African ones, high-profile professionals trained in developed economies and who then return to their home-country can play an important role in the country's development. By leveraging their favorable position in the home-country, they can act as a bridge between parties and promote positive spillover effects through networking agreements. These are Africans who have acquired a high professional profile through training in developed contexts and possess adequate knowledge of the country, such that they could serve as valuable resources in terms of institutional and territorial marketing in their home-country. Therefore, they could act as strategic hubs for the stipulation of agreements and alliances between domestic and foreign firms. Training and developing of adequate competences, abilities, and skills plays a crucial role for this entry mode in foreign markets.

3.1. Discussion

We have responded to the need highlighted in in international business studies and marketing management literature for an integrated theoretical framework of firms' entry modes in emerging and developing economies, primarily characterized by the liability of foreignness. As a result, we have combined two analysis perspectives, namely the network perspective and the resource-based view, within the framework of the liability of foreignness. In this way, we are contributing to advancing theory and practical studies in research on firms' internationalization drivers in the fields of international business studies and marketing management literature.

Therefore, the study clarifies how firms, particularly SMEs, can approach foreign markets burdened by the liability of foreignness, such as African ones, and it addresses the difficult issue of the need for integration between different theoretical frameworks (Surdu and Mellahi, 2016; Delios, 2016; Fletcher *et al.*, 2018; Evers *et al.,* 2023). The entry modes in foreign contexts burdened by the liability of foreignness are summarized as follows: (i) the pull effect by big corporations, i.e., market followership networking; (ii) relationships, agreements, and co-marketing partnerships in the foreign markets, i.e., market relations networking; (iii) the use of institutional support at various levels, i.e., institutional and government networking; and (iv) the development of industry-specific professionals and qualified human capital, i.e., core competence and capability investment. This means that differences in countries' institutional and business environments can significantly influence business decision-makers regarding firms' entry modes in foreign markets.

The most important implications resulting from this integrated theoretical framework are at least twofold. On the one hand, we aim to draw the attention of specialized practitioners to firms' entry modes in foreign markets characterized by the liability of foreignness, for instance, African ones.

On the other hand, the proposed theoretical framework is intended to assist analysts and researchers in gaining a better understanding of firms' internationalization drivers in their empirical analyses. Particularly, SMEs may not always be able to directly internationalize themselves due to the hidden and sunk costs associated with the liability of foreignness, which can make entry into foreign markets challenging or more expensive for them without having adequate resources (Verbeke *et al.*, 2014; Bembom and Schwens, 2018; Braunerhjelm and Halldin, 2019; Paul, 2020; Niittymies and Pajunen, 2020; Bornhausen, 2022).

Finally, while firms' internationalization has been widely explored in the literature, the specific firms' entry modes in foreign markets remain pivotal in the academic scientific debate (Kalinic and Forza, 2012; Laufs and Schwens, 2014; Bembom and Schwens, 2018; Braunerhjelm and Halldin, 2019; Paul, 2020; Niittymies and Pajunen, 2020; Bornhausen, 2022; Du *et al.*, 2022).

4. Conclusion

4.1. Contribution and Concluding Remarks

Our theoretical framework, considering the network perspective and the resource-based view within the framework of the liability of foreignness, significantly contributes to the existing literature in the fields of international business and marketing management by revising, innovating, and filling the research gaps highlighted in previous reviews. In host-country the stakeholder involvement and organizational learning can enable foreign firm to tailor the products and services offering to local habits and consumption styles, thus reducing the liability of foreignness perceived by the decision-makers. Relationships and partnerships serve as the basis for long-lasting networks, encouraging the exchange of resources, know-how, and technological spillovers, finally driving the firm's internationalization.

In other words, international manufacturing fragmentations and cross-cultural fertilization are business practices demanding an ongoing adjustment process and are recursive process evolving incrementally. The knowledge and human capital held by firm can significantly contribute to determining the evolutionary trajectories of its business. This latter depends on the firm's history-path, meaning that a business's development abroad depends on the core competencies and specificities available to the firm at a given moment in its history. Disregarding the firm-specific history-path and the liability of foreignness in foreign markets can lead to the rejection of hybrid practices necessary to operate abroad.

The economic links and political interconnections established between countries, which largely drive the choices of entrepreneurs within the global socio-economic system, paradoxically tend to concentrate in well-localized clusters where global manufacturing is concentrated. Indeed, "globalization" and "localization" are two interrelated and complementary aspects, and each country is not economically and politically isolated, but it is a part of a wider global economic and social system transcending its components.

These links occur through several channels, including trade, investment, information flow, cross-cultural fertilization, and collaboration between firms and institutions. The interconnections are often driven by the ability of firms to benefit from localization in specific world regions, allowing them to establish important relationships with suppliers, customers, and research centers, by sharing significant information and positive spillovers (Meyer *et al.*, 2011; Farole, 2011;

Castellani *et al.,* 2013; Goerzen *et al.*, 2014; Zeng, 2015; Santangelo, 2018; Ferrucci *et al.,* 2018; Zheng and Aggarwal, 2020; Goerzen *et al.,* 2023).

However, consumer preferences and habits can vary across different world regions, and firms aiming to benefit from these localized clusters need to integrate culturally into the respective target markets. Therefore, market-oriented business decision-makers should consider specificities and socio-cultural aspects of these target markets. Cultural integration becomes crucial for firms to effectively capitalize on the opportunities offered by emerging and rapidly developing economies around the world (Hofstede *et al.,* 2010; Lysonski and Durvasula, 2013; Cerrato and Piva, 2015; Jain *et al.,* 2019).

Cross-cultural fertilization, networking, and partnerships should effectively combine adaptation and standardization policies with the aim of making the firm's product and services offering tangible and transparent (Boddewyn and Doh, 2011; Vuorinen and Kurki, 2012; Alcácer *et al*., 2016; Tarek *et al*., 2017).

In other words, heterogeneity is the feature that makes commercial offers unique and distinguishable. In other words, like intangibility – the other feature of the global economy – heterogeneity can be adequately managed through an effective mix of adaptation and standardization policies (Lambin, 2013; Rifkin, 2014; Teece and Linden, 2017; Uberbacher *et al.,* 2020). While it is true that cultural differences could lead to the perception that the product or service offered does not cater to local tastes and consumption styles, it is also true that cultural adaptation has the advantage of reducing the gap of misunderstandings between parties. This means that networking and consolidated partnerships could contribute to promoting new consumption styles and habits around the world.

Global sites where nowadays many manufacturing processes are concentrated allow firms gaining access to them to enhance distinctive skills and specific resources. In the same way, the special economic zones constituted as geographically defined areas within a country, managed and administered as independent socio-economic authorities to promote investment and increase employment in the manufacturing industry (Farole, 2011; Zeng, 2015; Kumari *et al*., 2018; Zheng and Aggarwal, 2020). Their aim is to obtain a better positioning of the country's manufacturing industry along the GVCs, boosting its overall attractiveness and competitiveness internationally (UNCTAD, 2017; 2019). Alternatively, other important spatial sites are global cities, which are intended to enhance a country's international connectivity. Firms managing to access can seize significant opportunities or significantly reduce the liability of foreignness (Goerzen *et al.*, 2014; UNCTAD, 2017; Santangelo, 2018; Goerzen *et al.,* 2023). Generally, global clusters can offer locational benefits, attracting international investors or people able to grasp market soft signals (Cerrato and Piva, 2015; Côté *et al.,* 2020). Additionally, firms that gain access to these clusters can benefit from a duty-free environment and achieve spillover effect and technology transfer easily. Finally, access to these clusters enables firm to bolster its knowledge capital, distinctive skills, and specificities.

4.2. Policy Implications

Globalization has brought together lifestyles and consumption worldwide. This process has involved flows of goods, money, information, people, and services. However, globalization has slowed down, and advanced economies are risking a new recession due to recurring crises, internal imbalances, and disparities undermining long-term economic growth and social stability, particularly, since the global pandemic crisis, the war in Ukraine and Israel, with the resulting economic stagnation (IMF, 2020; 2023). Nonetheless, some emerging and developing economies are experiencing rapid growth and noteworthy socio-economic and political dynamism.

On the one hand, if globalization promotes economic convergence between countries (Buchanan and Rishi, 2012; Corcoran and Gillanders, 2014; Cerrato and Piva, 2015), on the other hand, it will lead to increased economic and political competition between countries, shifting geopolitical balances and slowing down international cooperation (Rodrik, 2018; OECD, 2019a; 2019b; Lopez *et al.,* 2021).

Particularly, the international fragmentation of production along the GVCs, both in terms of trading tasks for products or semi-finished products and foreign investment flows, has impacted emerging and developing economies in several ways.

(i) The offshoring of low-value-added tasks towards underdeveloped countries could entail higher – or lower – remuneration of high-skilled workers in developed – or developing and emerging – countries, thus increasing income inequalities in advanced economies while reducing them in less developed ones (Van Bergeijk, 2018; Irwin, 2020).

(ii) This offshoring of low-value-added tasks from capital-abundant economies to labor-abundant ones could entail a higher capital-output ratio and reduced wages in the former, usually developed countries, to the extent that capital acts as a substitute for labor (Helpman, 2017). Nonetheless, to the extent that undeveloped countries have lower

educational levels and knowledge capital than developed ones, the tasks offshored along the GVCs by firms from the latter may result in high-skilled and capital-intensive activities in emerging and developing economies, although wage inequalities would increase in both developed and underdeveloped countries (Jaumotte *et al.*, 2013; Sheng and Yang, 2017; Dao *et al.,* 2019).

(iii) The production fragmentation along the GVCs is increasingly skill-based and capital-intensive compared to traditional trading tasks (Antràs, 2020a). On the one hand, this is caused by the higher level of capabilities required to perform tasks havingstrong complementarity with the other geographically fragmented value chain activities incorporating more value-added (Antràs, 2020b). On the other hand, this also depends on the more skill- and capital-intensive production techniques used by firms operating in GVCs compared to domestic firms fostering the mobility of production factors (Bernard *et al.,* 2018).

(iv) Finally, internationally fragmented production can also be a threat to workers locally. It weakens their bargaining power, reduces wages, and increases inequalities in both developed and underdeveloped countries (Hartmann *et al.,* 2017; Stansbury and Summers, 2020; Coveri and Pianta, 2022).

Generally, this means that in emerging and developing economies, the trading tasks of semi-finished products is amplifying firms' engagements within GVCs. Nevertheless, these products may elude national accounting due to the lack of international accounting harmonization. As a result, due to heightened trading tasks along the GVCs, products can transit across emerging or developing economies having increased in value by at least the labor cost, before returning to developed countries. However, these transactions may not be adequately accounted for by national statistical bureaus.

Underdeveloped countries may act as factories, potentially exhibiting a macroeconomic structure characterized by low or non-existent savings and only consumed incomes (Los *et al.*, 2015; Amador and Di Mauro, 2015). For instance, these are small economies primarily focused on import-export activities and prioritizing manufacturing production (Togati and Visaggio, 2016). Firms from advanced economies with active industries along the GVCs often penetrate these contexts through greenfield or brownfield investments, shaping the institutional and business environment.

In conclusion, the fragmented production along the GVCs has prompted a hyper-specialization of the global economy and trade across very specific value chain activities and trading tasks (Dedrick *et al.*, 2010; Timmer *et al*., 2014; Timmer *et al.*, 2019; Coveri *et al.*, 2020; Paglialunga *et al*., 2022; Coveri and Zanfei, 2023).

4.3. Limitationsand Suggestions

The orthodox economic and managerial literature has placed emphasis on certain drivers considered the most important in influencing firms' internationalization. These are represented by (i) ownership advantages, (ii) the containment of production factor costs, and (iii) the pursuit of economies of scale or scope (Dunning, 1991; Cantwell and Narula, 2001). However, drivers should also be related to contextual macroeconomic variables such as barriers to entry, the availability of resources, the rule of law, and potential demand in target markets. All these determinants are the heterodox drivers. For instance, due to their smaller size, SMEs are constrained to explore alternative methods to operate in foreign markets, often relying on the know-how and skills possessed by the entrepreneur. Additionally, another crucial variable for the firms' internationalization is the liability of foreignness perceived by business decision-makers in foreign contexts.

However, a qualitative review method may have intrinsic limitations due to researcher's ability to capture the numerous aspects characterizing a heterogeneous research field such as that of firms' entry modes in foreign markets.

Finally, ensuing studies could use World Bank Enterprise Surveys (WEBSs) to analyze the internationalization strategy of firms operating in emerging and developing economies to prove this taxonomy. For instance, collecting data from a diverse range of firms operating in various industries and world regions would allow researchers to prove these internationalization drivers and eventually propose changes.

Declaration of Competing Interest

The authors declare that they have no competing financial interests or personal relationships that could haveinfluenced the work reported in this paper.

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Appendix A

A. Evidence from the African Markets

In theory, structural change in emerging and developing countries can be traced back to four main drivers (Van Neuss, 2018): (i) income variations, (ii) price shifts, (iii) output/input modifications, and (iv) changes in comparative advantage caused by globalization.

African contexts are often characterized by an underdeveloped manufacturing industry, high unemployment rates, and a substantial role of services in economic growth. However, the predominance of informal activities underscores the challenges facing African countries' industrialization and manufacturing diversification. Indeed, these contexts often have a poor institutional and business environment and may be poorly integrated into global value chains, primarily exporting commodities and manufactured goods with little value-added (Rodrik, 2016).

Additionally, infrastructural development in these countries faces challenges such as inadequate land and sea transportation, limited rail networks, and lacks in electrical, agricultural, and digital infrastructure (Ajakaiye and Ncube, 2010; Calderón and Servén, 2010). As a result, this contributes to increased transportation costs and delays in shipping merchandise, rendering Africa's exports less competitive than those of other regions in the world (Mijiyawa, 2017). Despite the numerous challenges, African countries have also undergone significant structural upgrading, in some cases improving infrastructure efficiency, thus fostering economic growth (Jha and Afrin, 2017; Ekeocha et al., 2022; Malah-Kuete and Asongu, 2023).

A.1. Evidence of Trade and Productive Internationalization

The interest of firms in African countries has grown significantly in the last decade for at least two reasons. Firstly, due to the growing concerns of important developed and developing economies – such as the United States and China firstly – in ensuring the continuity of strategic supplies of commodities and natural resources. Secondly, due to the attractiveness exerted over the last decade by several growing African economies – the so-called "African Lions". These countries have aroused the interest of international investors, not only for their economic growth, but also for improvements in some macroeconomic and socio-political conditions (IMF, 2019).

The rapid transition of some economies results in different negative aspects exacerbated by globalization.There is a trade-off between the lowering of trade barriers caused by market globalization – to gain advantages from international trade – and the risk of exposing economic systems to significant external shocks and imbalances (Rodrik, 2016; Obstfeld, 2020).

In consideration of this, it may be interesting to find some empirical evidence from African markets (Chen and Hsu, 2010; Fon *et al.*, 2021). Tables 1A and 2A compare African countries in 2017 and 2002. In the middle of these, there was the global economic crisis (2007-2008). The economic crisis may justify the shift of economic interests towards African markets by some developed and developing economies (Holscher *et al.*, 2010; Kahn, 2011; Acemoglu and Robinson, 2012; Dallago and Gugliemetti, 2012; Chakrabarti and Ghosh, 2014; Dallago and Casagrande, 2023). Therefore, the economic interests of the European colonizing countries until 1939 have been controlled: United Kingdom, France, Germany, Italy, Belgium, Portugal, and Spain. The United States and Japan have been added as other developed economies, as well as Brazil, India, and China as main developing economies.

Table 1A: The top-two Economies for Commodity Trade in 2017 and 2002, Ranking from Imports and Exports

Import	2017		2002	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
French				
Algeria	China	France	France	Italy
Benin	China	India	China	France
Burkina Faso	France	China	France	Italy
Cameroon	China	France	France	USA

Appendix A

Table 1A (Cont.)				
Import	**2017**		**2002**	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
Central African Rep.	France	India	France	USA
Chad	China	France	France	USA
Comoros	China	France	France	India
Congo	China	France	France	Italy
Ivory Coast	China	France	France	China
Gabon	France	China	France	USA
Djibouti	China	India	USA	France
Guinea	China	India	France	Italy
Madagascar	China	France	France	China
Mali	France	China	France	Germany
Morocco	Spain	France	France	Spain
Mauritania	China	France	France	Belgium
Niger	France	India	France	India
Senegal	China	France	France	Belgium
Tunisia	France	Italy	France	Italy
British				
Botswana	China	Belgium	USA	UK
Egypt	China	Germany	USA	Germany
Gambia	China	India	China	UK
Ghana	China	USA	China	UK
Kenya	China	India	USA	UK
Lesotho	China	India	China	India
Malawi	China	India	India	USA
Mauritius	China	India	India	France
Nigeria	France	India	UK	USA
Seychelles	Spain	France	France	Spain
Sierra Leone	China	India	Germany	UK

Appendix A

Table 1A (Cont.)				
Import	**2017**		**2002**	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
Sudan	China	India	China	UK
Swaziland	Portugal	China	India	USA
Tanzania	China	India	China	India
Togo	China	Belgium	France	China
Uganda	China	India	India	UK
Zambia	China	India	USA	China
Zimbabwe	China	India	UK	USA
Portuguese				
Angola	China	Portugal	USA	Brazil
Cape Verde	Portugal	Spain	Portugal	Brazil
Guinea-Bissau	Portugal	China	Portugal	India
Mozambique	China	India	France	USA
São Tomé and Prin.	Portugal	China	Portugal	UK
Spanish				
Equatorial Guinea	Spain	China	USA	Spain
Belgian				
Burundi	China	India	Belgium	France
Congo, Dem. Rep.	China	Belgium	Belgium	France
Rwanda	China	India	Belgium	Germany
Italian				
Eritrea	China	Italy	USA	Italy
Ethiopia	China	France	China	Italy
Libya	Italy	China	Italy	Germany
Somalia	China	India	Brazil	India
Independent				
Liberia	China	Japan	Japan	France
Namibia	China	USA	USA	Germany
South Africa	China	Germany	Germany	USA

Appendix A

Table 1A (Cont.)

Export	2017		2002	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
French				
Algeria	Italy	Spain	France	Spain
Benin	India	China	India	Italy
Burkina Faso	India	Germany	Italy	France
Cameroon	France	China	Italy	Spain
Central African Rep.	China	Belgium	Belgium	Spain
Chad	USA	China	Portugal	Germany
Comoros	India	France	France	Germany
Congo	China	Italy	China	USA
Ivory Coast	USA	France	France	USA
Gabon	China	India	USA	China
Djibouti	USA	UK	USA	France
Guinea	China	India	Belgium	Spain
Madagascar	USA	France	France	USA
Mali	India	China	Italy	India
Morocco	Spain	France	France	Spain
Mauritania	China	Spain	Italy	France
Niger	France	China	France	Belgium
Senegal	India	China	India	France
Tunisia	France	Italy	France	Italy
British				
Botswana	India	Belgium	UK	USA
Egypt	Italy	USA	USA	Italy
Gambia	China	India	France	UK
Ghana	India	China	UK	France
Kenya	USA	UK	UK	USA
Lesotho	USA	Belgium	USA	Belgium
Malawi	Belgium	Germany	USA	Germany

Appendix A

Table 1A (Cont.)

Export	2017		2002	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
Mauritius	France	USA	UK	France
Nigeria	France	China	USA	Spain
Seychelles	France	UK	UK	France
Sierra Leone	China	Belgium	Belgium	Germany
Sudan	China	India	China	Japan
Swaziland	Spain	India	USA	UK
Tanzania	India	China	Japan	India
Togo	India	China	India	Spain
Uganda	Italy	Germany	Belgium	Germany
Zambia	China	India	Japan	China
Zimbabwe	China	UK	China	UK
Portuguese				
Angola	China	India	USA	China
Cape Verde	Spain	Portugal	Portugal	UK
Guinea-Bissau	India	France	India	Portugal
Mozambique	India	China	Belgium	Germany
São Tomé and Prin.	Spain	Belgium	France	Germany
Spanish				
Equatorial Guinea	China	India	USA	Spain
Belgian				
Burundi	India	USA	Germany	Belgium
Congo, Dem. Rep.	China	Italy	Belgium	USA
Rwanda	USA	China	Belgium	Germany
Italian				
Eritrea	China	Spain	Italy	Germany
Ethiopia	China	USA	Italy	Germany
Libya	Italy	Germany	Italy	Spain
Somalia	China	Japan	India	Italy

Appendix A

Table 1A (Cont.)				
Export	**2017**		**2002**	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
Independent				
Liberia	Germany	USA	Germany	France
Namibia	Belgium	China	UK	Spain
South Africa	China	UK	USA	UK

Source: Our Elaboration on UNCTAD.Comtrade Data (2020)

Table 2A: The Top-Two Economies for FDIs in 2017 and 2002, Ranking from Inward and Outward Flows				
Inward	**2017**		**2002**	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
French				
Algeria	France	Italy	USA	France
Benin	France	China	France	
Burkina Faso	UK	France	France	
Cameroon	France	Italy	France	USA
Central African Rep.	Italy	Brazil	France	
Chad	Belgium	France	France	
Comoros			France	
Congo	France	Italy	France	USA
Ivory Coast	France	USA	France	USA
Gabon	France	USA	France	USA
Djibouti	Germany	Italy	France	USA
Guinea	Belgium	Italy	France	
Madagascar	Italy	Germany	France	
Mali	UK	France	France	USA
Morocco	France	Spain	France	USA
Mauritania	USA	Belgium	France	USA
Niger	China	France	France	USA
Senegal	France	UK	France	USA
Tunisia	France	Italy	France	USA

Table 2A (Cont.)				
Inward	**2017**		**2002**	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
British				
Botswana	UK	France	UK	USA
Egypt	USA	Italy	USA	UK
Gambia	India	Germany		
Ghana	France	USA	USA	UK
Kenya	France	UK	UK	France
Lesotho	Italy	USA	USA	
Malawi	UK	USA	UK	USA
Mauritius	UK	India	UK	France
Nigeria	UK	USA	UK	USA
Seychelles	Brazil	France	France	USA
Sierra Leone	France	Italy	USA	
Sudan	France	Italy	USA	UK
Swaziland	Italy	UK		
Tanzania	USA	France	UK	USA
Togo	France	Germany	France	USA
Uganda	France	China	UK	USA
Zambia	China	UK	UK	USA
Zimbabwe	France	UK	USA	UK
Portuguese				
Angola	Brazil	Portugal	USA	Portugal
Cape Verde	UK	Spain	Portugal	
Guinea-Bissau	Portugal	USA	Portugal	
Mozambique	France	USA	Portugal	UK
São Tomé and Prin.	USA	Portugal	Portugal	
Spanish				
Equatorial Guinea	USA	France	USA	France
Belgian				
Burundi	Belgium	USA		
Congo, Dem. Rep.	Belgium	Germany	USA	France

Table 2A (Cont.)				
Inward	**2017**		**2002**	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
Rwanda	USA	India		
Italian				
Eritrea	Italy	USA	USA	
Ethiopia	Italy	Germany	USA	France
Libya	India	Italy	France	USA
Somalia	Italy		USA	
Independent				
Liberia	China	USA	USA	France
Namibia	Spain	Germany	UK	France
South Africa	UK	USA	UK	USA

Table 2A (Cont.)				
Outward	**2017**		**2002**	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
French				
Algeria	Spain	Italy	France	
Benin	France	China	France	USA
Burkina Faso	China	France	France	
Cameroon	USA	Italy	France	
Central African Rep.	China	Italy	France	
Chad	USA	Italy	France	
Comoros	Italy		France	
Congo	USA	Italy	France	
Ivory Coast	France	Belgium	France	USA
Gabon	France	China	France	USA
Djibouti	China	Italy	France	
Guinea	Italy	China	France	
Madagascar	Germany	China	France	
Mali	USA	Belgium	France	
Morocco	France	Spain	France	Italy

Table 2A (Cont.)

Outward	**2017**		**2002**	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
Mauritania	India	Italy	France	
Niger	China	USA	France	
Senegal	India	Portugal	France	
Tunisia	Portugal	China	France	Italy
British				
Botswana	Belgium	India		
Egypt	France	Italy	France	Italy
Gambia	China	India		
Ghana	France	USA	USA	
Kenya	UK	Italy	France	
Lesotho	Italy	China		
Malawi	China	Italy		
Mauritius	India	China	France	
Nigeria	China	USA	France	USA
Seychelles	China	UK	France	
Sierra Leone	Italy	China		
Sudan	Italy	China	France	
Swaziland	China	UK		
Tanzania	China	Italy		
Togo	France	Italy	France	
Uganda	Italy	Germany	USA	
Zambia	Brazil	France		
Zimbabwe	China	Italy		
Portuguese				
Angola	USA	Portugal	USA	France
Cape Verde	Italy	Portugal	Portugal	
Guinea-Bissau	China	Portugal	France	
Mozambique	Portugal	Germany	Portugal	
São Tomé and Prin.	Portugal	Italy		

Table 2A (Cont.)

Outward	2017		2002	
Colonial Influence	**1st Country**	**2nd Country**	**1st Country**	**2nd Country**
Spanish				
Equatorial Guinea	Spain	Portugal		
Belgian				
Burundi	Italy	China	France	
Congo, Dem. Rep.	Italy	China	France	
Rwanda	China	Italy		
Italian				
Eritrea	Italy	China		
Ethiopia	China	Italy		
Libya	Italy	France	France	
Somalia	Italy	China		
Independent				
Liberia	China	USA	USA	France
Namibia	UK	China	France	
South Africa	China	USA	Germany	USA

Source: Our Elaboration on OECD and IMF Data (2020)

Across the two examined periods, there is a noticeable increase in Chinese commercial activity, particularly in Sub-Saharan Africa and in countries with abundant natural resources (Busse and Groning, 2011; Amendolagine *et al.*, 2013; Edwards and Jenkins, 2014; Donou-Adonsou and Lim, 2018; Ado, 2020). However, the African continent is promising, but it also presents enormous future challenges due to its demographic growth, income inequality, and resource exploitation, justifying the liability of foreignness perceived by business decision-makers.

The country-ranking in 2002 is more varied than in 2017 when Chinese economic expansionism has become more evident (Brandt and Thun, 2010; Farole, 2011; Sun, 2012; Zeng, 2015; Xing *et al.*, 2016; Gray and Gills, 2018; Abodohoui and Su, 2020; Mazé and Chailan, 2021; Benfratello *et al.*, 2023). There at least four reasons to highlight the Chinese presence growth in African markets: (i) the natural resource abundance across Africa, (ii) market opportunities for foreign firms, and (iii) the need for infrastructural development, (iv) the intensification of Chinese trading tasks along the GVCs (Amiti and Freund, 2010; Tuomi, 2011; Goerzen *et al.*, 2014; Zeng, 2015; Lane and Miles-Ferretti, 2018; Egger *et al.*, 2019; Zheng and Aggarwal, 2020; Munjal *et al.*, 2022; Goerzen *et al.*, 2023). Finally, it is worth noting that Italian presence has also increased, although it is relatively modest compared to the empirical evidence from the other countries (Cerrato and Piva, 2015; Biggeri *et al.*, 2018).

Nowadays, the long-term growth relies on technologically advanced productions (Giovannetti and Sanfilippo, 2009; Gabriele, 2010; Morris and Staritz, 2016; Wolff, 2021). Therefore, there is a relatively small group of advanced economies that have reached the technological frontier, such as the United States, the United Kingdom, Japan, Germany, and France. Then there are countries that have approached this frontier, such as China. However, China has lacks in the institutional and business environment, such as attention to ecological issues, which classify them as emerging economies (Chiarvesio *et al.*, 2015; Chen *et al.*, 2017; Kawai *et al.*, 2018; Marin and Zanfei, 2019; Lin, 2021).

Table 2A (Cont.)

In conclusion, this empirical evidence is proof that significant changes in the terms of trade and productive investment have occurred in African markets, and this concurs to justify a revision of firms' entry modes in foreign markets.

A.2. Evidence of the Liability of Foreignness

The democratic process and globalization can support each other but can also conflict, arising the issue of the liability of foreignness perceived by business decision-makers when they decide to enter in foreign markets.

Cãtao and Obstfeld (2019) have argued that globalization can be problematic if not well implemented, as market failures generate inequalities and recurring crises (Henisz *et al.*, 2010; Kurihara, 2012; Furstenberg, 2015; Jude and Levieuge, 2016; Makgala and Botlhomilwe, 2017).

However, studies indicating long-term positive results on internationalization have highlighted the positive externalities of globalization on the countries' institutional and business environment (Rodrik, 2011; Meyer *et al.*, 2011; Boddewyn and Doh, 2011; Rabbiosi and Santangelo, 2013; Algan and Cahuc, 2014; Castellani *et al.*, 2015; Brueckner *et al.*, 2015; Acemoglu *et al.*, 2019; Mariotti, 2023). Countries' growth and economic stability have been realized through trading and technological spillovers.

In a globalized world, it appears necessary to distinguish between the governance and government. Governance is a concept more inclusive and has gained prominence in the scientific debate since the Nineties, following the new wave of globalization (Wolf, 2015).According to North (1990), institutions incorporate formal and informal rules underlying human behavior in the social community. The formal rules encompass legal frameworks, including constitutional charters, laws, and regulations enforced by the government to regulate social and economic interactions. On the other hand, informal rules are related to traditions, habits, culture, and beliefs. March and Olsen (1995) have separated the process of aggregating public interests, which they termed governance, from the process of guiding and controlling, which they termed government. According to Rhodes (1997), governance is a self-generating process of interdependent interorganizational networks. Generally, governance implies a decision-making or management process that moves towards objectives and is not limited to the principles of political organization alone (Bevir and Rhodes, 2016). International organizations have defined governance as the way politics manages a country's economic and social resources for development (Meyer and Stefanova, 2001).

In consideration of this, it can be interesting to show empirical evidence for the African markets concerning their governance climate (Pandya, 2016; Van Hoorn and Maseland, 2016; Koning *et al.*, 2017; Buckley *et al.*, 2017; Lundan and Li, 2018; Brandl *et al.*, 2018). To establish a solid framework of governance dynamics in Africa, the Worldwide Governance Indicators (WGIs) were employed. These consist of six indices used to create a composite index for the countries' governance climate. For methodological and construction details of each governance indicator, refer to Kaufmann *et al.* (2011).

An effective governance climate index should efficiently synthesize the three dimensions of governance: (a) the process by which governance is selected, monitored, and replaced by the social base – political governance, (b) the capability of governance to formulate and effectively implement policies – economic governance, and (c) the respect that people and policymakers have for the institutions governing social and economic interactions – institutional governance.

Governance climate is a composite and synthetic index that accurately captures the perception of governance in a country maintaining properties of consistency, monotonicity, and a compact synthesis of average values. It is normalized and its reliability averages at around 80%, as shown below in the Table 5A. It is an efficient aggregate indicator serving as a proxy for the perceived liability of foreignness in each country and year. This index has been computed as the arithmetic mean of the geometric means for pairs of Worldwide Governance Indicators (WGIs) representing the three governance dimensions identified by Kaufmann *et al.* (2011)[1].

[1] The governance climate index effectively synthesizes a set of otherwise non-substitutable indicators, adequately considering interdependences across governance dimensions. Considering this is important for the accurate measurement of countries' governance. It provides each dimension with parsimonious and equal consideration through the use of two different averages. Therefore, the governance climate index can provide an overall measure of governance, informing business decision-makers about the liability of foreignness in a country because governance matters (Kaufmann *et al.*, 1999) [1]:

Table 2A (Cont.)

In analyzing the governance indicators of African countries in relation to the FDIs inward stock as a proxy for passive internationalization (Figure 1A), a minimal variation has been observed in the assessment provided by each indicators, except for the political stability index. These changes corresponded to variations in the inward stock of FDIs between 2017 and 2007, particularly post-global economic crisis, especially in the countries on the left tail of the trend relating to African countries in 2007, thus those with lower values

The cross-section of the six governance indicators suggests that the passive internationalization of African countries appears disconnected from governance aspects. To explore this further, the Pearson index was calculated to analyze the correlation between progress in governance climate and FDIs inward stock. The results indicated that this correlation is not too excessive. The clustering indicates that some countries, without showing progress in governance in 2017, have attracted more FDIs inward stock than those with a sound governance climate. This evidence could be attributed to the abundance of Africa's natural resource abundance causing the "Dutch disease" in resource-rich countries (Collier and Venables, 2011; Wild and Wild, 2012; Matsen *et al.,* 2016; Bjornland *et al.*, 2019; Asiamah *et al.,* 2022). Figures 2A, 3A, and 4A illustrate how the governance climate has changed from 2007 to 2017. The perception of a change in the governance climate across the African continent is prominent. A significant deterioration has been observed, mainly in North Africa, where Libya and Egypt have become epicenter-countries of sociopolitical instability.

Governance progress in the North Africa following the "Arab Spring" uprisings in 2010 may have been undermined by the persistent sociopolitical pressures by the elites continued to influence countries' governance climate (Scalamonti, 2021; Scalamonti, 2024b).Tables 3A and 4A provide the country ranking in 2017 and 2007 for each governance dimension, respectively. Table 5A shows the standard errors and confidence levels of the WGIs surveys to determine the reliability of the governance climate index.In conclusion, the data highlight the necessity for a sound governance climate to reduce the liability of foreignness perceived by business decision-makers in African contexts (Wanasika *et al*., 2011; Kedir *et al.*, 2017; Vercelli, 2020; Festré, 2021; Razin, 2022).

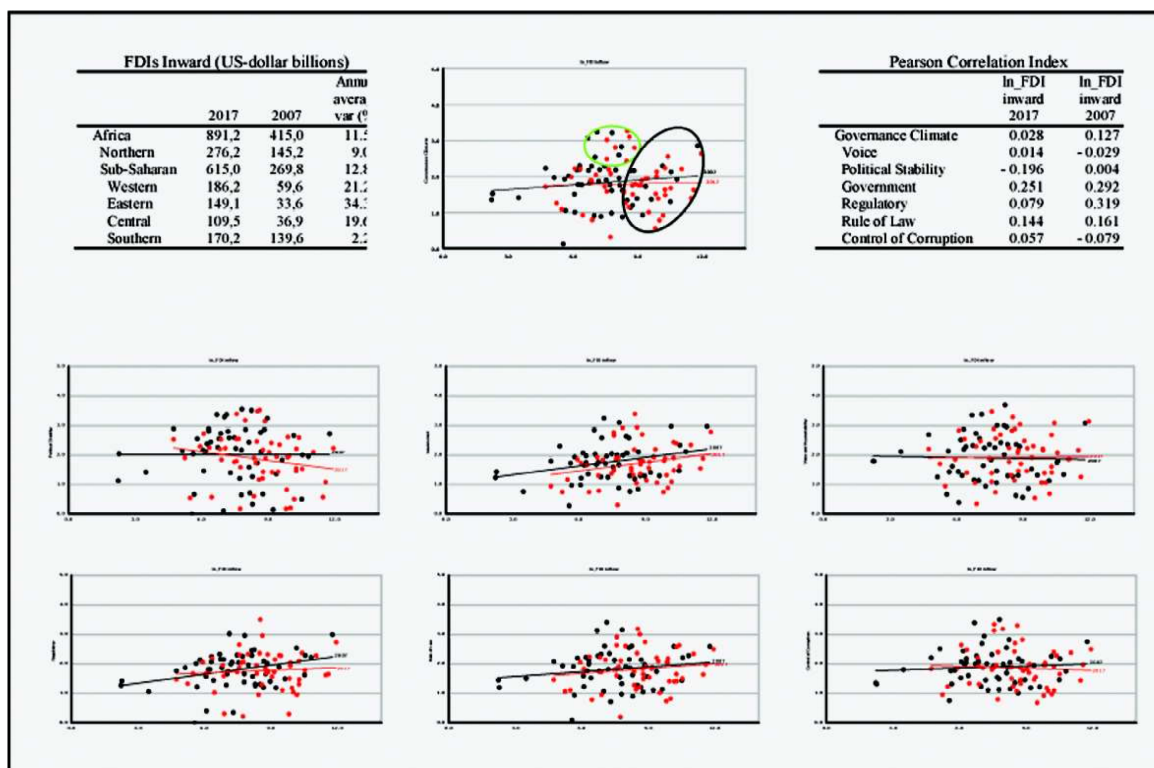

Figure 1A: The Relationship Between Governance Indicators and Inward Stock Fdis, Comparison To 2017 And 2007

Source: Our Elaboration on UNCATD and WGIs Data (2020)

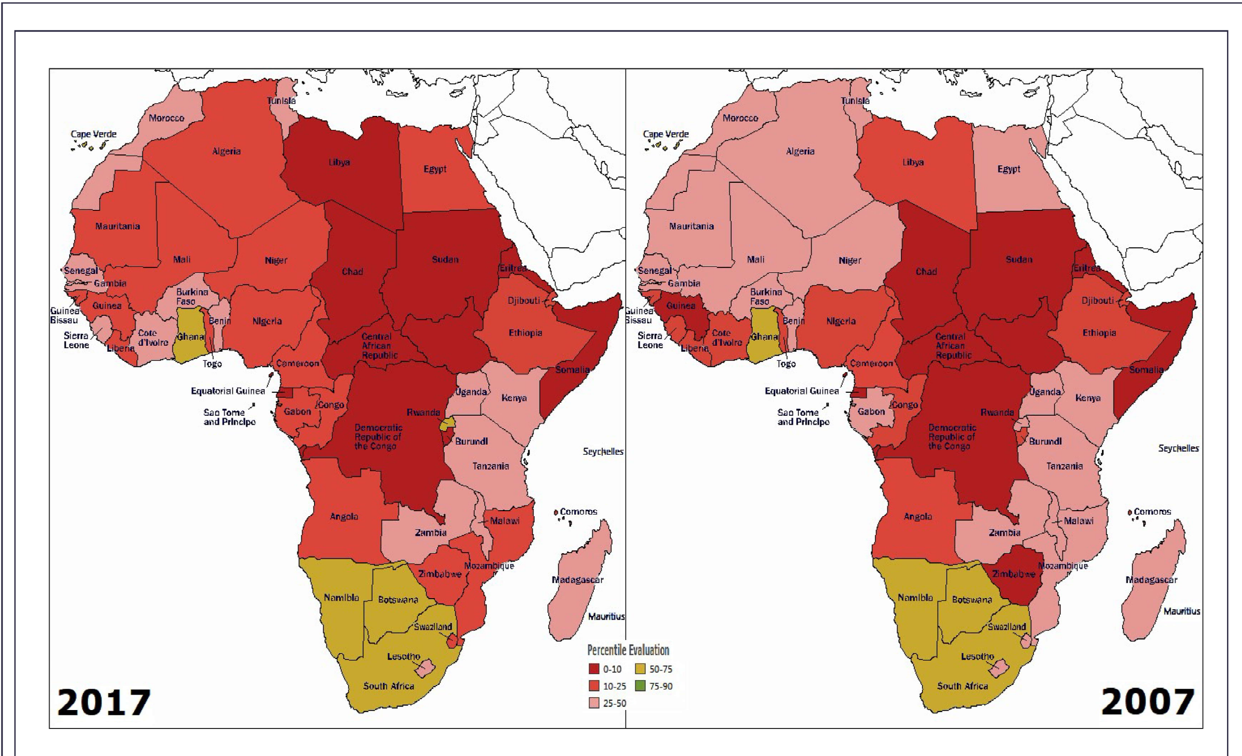

Figure 2A: Colored Africa Based on Governance Climate, Comparison to 2017 and 2007

Source: Our Elaboration on WGIs Data (2020)

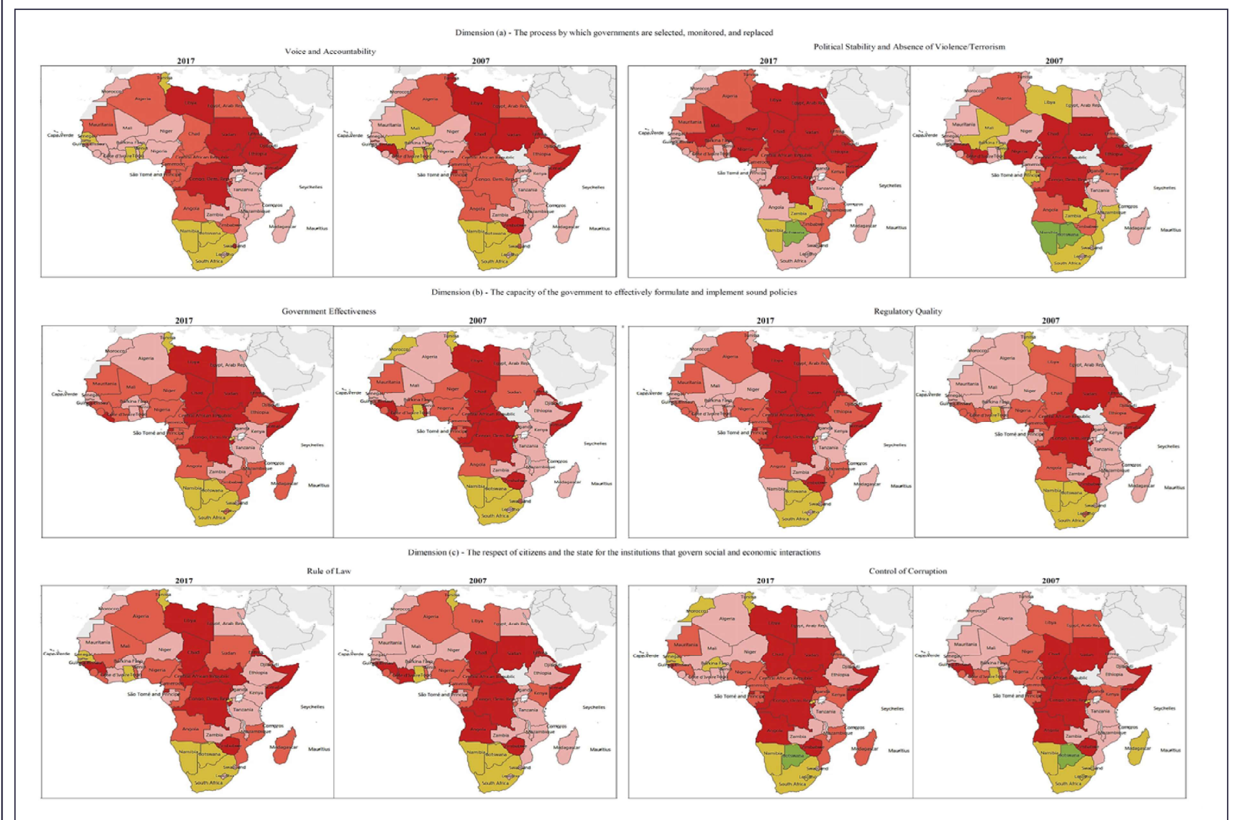

Figure 3A: Colored Africa Based on Each Governance Indicators, Comparison to 2017 And 2007

Source: Our Elaboration on WGIs Data (2020)

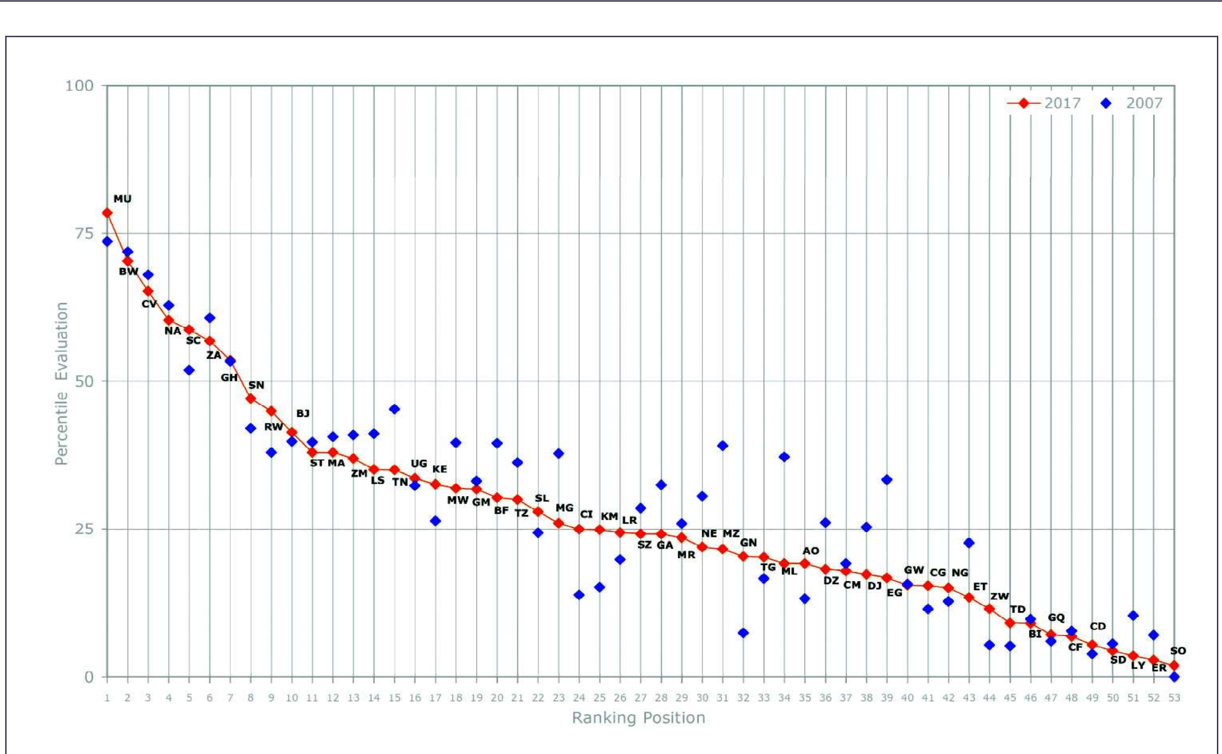

Figure 4A: The Change in Governance Climate, Comparison to 2017 and 2007

Source: Our Elaboration on WGIs Data (2020)

Table 3A: Countries' Ranking Based on Governance Climate, Comparison to 2017 and 2007

	Governance Climate	
Ranking	**2017**	**2007**
1	Mauritius	Mauritius
2	Botswana	Botswana
3	Cape Verde	Cape Verde
4	Namibia	Namibia
5	Seychelles	South Africa
6	South Africa	Ghana
7	Ghana	Seychelles
8	Rwanda	Madagascar
9	Senegal	Tunisia
10	Morocco	Benin
...	...	...

Appendix A

Table 3A (Cont)

	Governance Climate	
Ranking	**2017**	**2007**
44	Zimbabwe	Côte d'Ivoire
45	Chad	Eritrea
46	Burundi	Equatorial Guinea
47	Equatorial Guinea	Central African Rep.
48	Central African Rep.	Guinea
49	Congo, Dem. Rep.	Sudan
50	Sudan	Chad
51	Libya	Zimbabwe
52	Eritrea	Congo, Dem. Rep.
53	Somalia	Somalia

Source: Our Elaboration on WGIs Data (2020)

Appendix A

	Dimension (A) - The process by which governments are selected, monitored, and replaced			
	Voice and Accountability		Political Stability and Absence of Violence/Terrorism	
	2017	**2007**	**2017**	**2007**
1	Cape Verde	Mauritius	Botswana	Botswana
2	Mauritius	Cape Verde	Mauritius	Namibia
3	South Africa	South Africa	Cape Verde	Mauritius
4	Ghana	Botswana	Seychelles	Cape Verde
5	Namibia	Ghana	Namibia	Seychelles
6	Botswana	Namibia	São Tomé and Principe	Libya
7	Benin	Benin	Zambia	São Tomé and Principe
8	São Tomé and Principe	Mali	Ghana	Benin
9	Senegal	São Tomé and Principe	Benin	Zambia
10	Seychelles	Seychelles	Rwanda	Mozambique
⋮	⋮	⋮	⋮	⋮
44	Djibouti	Swaziland	Egypt, Arab Rep,	Burundi
45	Ethiopia	Guinea	Ethiopia	Ethiopia
46	Libya	Tunisia	Mali	Côte d'Ivoire
47	Congo, Dem. Rep.	Chad	Central African Rep.	Central African Rep.
48	Swaziland	Zimbabwe	Nigeria	Chad
49	Burundi	Sudan	Burundi	Nigeria
50	Somalia	Somalia	Sudan	Congo, Dem. Rep.
51	Sudan	Equatorial Guinea	Congo, Dem. Rep.	Sudan
52	Equatorial Guinea	Libya	Libya	Guinea
53	Eritrea	Eritrea	Somalia	Somalia

	Dimension (B) - The capacity of the government to effectively formulate and implement sound policies			
	Government Effectiveness		Regulatory Quality	
	2017	**2007**	**2017**	**2007**
1	Mauritius	Mauritius	Mauritius	Mauritius
2	Botswana	Botswana	Botswana	South Africa
3	Seychelles	South Africa	South Africa	Botswana
4	South Africa	Tunisia	Rwanda	Tunisia
5	Rwanda	Cape Verde	Ghana	Namibia
6	Namibia	Ghana	Senegal	Ghana
7	Cape Verde	Namibia	Seychelles	Cape Verde
8	Tunisia	Seychelles	Namibia	Madagascar
9	Ghana	Morocco	Cape Verde	Morocco
10	Morocco	Rwanda	Uganda	Uganda
⋮	⋮	⋮	⋮	⋮
44	Sudan	Burundi	Chad	Guinea
45	Equatorial Guinea	Eritrea	Congo, Rep.	Burundi
46	Chad	Congo, Rep,	Equatorial Guinea	Congo, Dem. Rep.
47	Comoros	Togo	Congo, Dem. Rep.	Central African Rep.
48	Congo, Dem. Rep.	Central African Rep.	Central African Rep.	Equatorial Guinea
49	Eritrea	Chad	Sudan	Sudan
50	Guinea-Bissau	Equatorial Guinea	Zimbabwe	Comoros
51	Central African Rep.	Congo, Dem. Rep.	Eritrea	Eritrea
52	Libya	Comoros	Libya	Zimbabwe
53	Somalia	Somalia	Somalia	Somalia

	Dimension (C) - The respect of citizens and the state for the institutions that govern social and economic interactions			
	Rule of Law		Control of Corruption	
	2017	**2007**	**2017**	**2007**
1	Mauritius	Mauritius	Cape Verde	Botswana
2	Botswana	Botswana	Botswana	Cape Verde
3	Cape Verde	Cape Verde	Seychelles	Mauritius
4	Namibia	Namibia	Rwanda	Namibia
5	Ghana	Seychelles	Namibia	South Africa
6	Rwanda	South Africa	Mauritius	Seychelles
7	Seychelles	Tunisia	São Tomé and Principe	Ghana
8	Tunisia	Ghana	South Africa	Rwanda
9	South Africa	Malawi	Lesotho	Lesotho
10	Senegal	Mali	Senegal	Madagascar
⋮	⋮	⋮	⋮	⋮
44	Chad	Guinea-Bissau	Burundi	Central African Rep.
45	Zimbabwe	Angola	Congo, Rep,	Guinea-Bissau
46	Burundi	Sudan	Angola	Guinea
47	Guinea-Bissau	Guinea	Congo, Dem. Rep.	Angola
48	Equatorial Guinea	Côte d'Ivoire	Chad	Sudan
49	Eritrea	Chad	Sudan	Congo, Dem. Rep.
50	Congo, Dem. Rep.	Central African Rep.	Guinea-Bissau	Chad
51	Central African Rep.	Congo, Dem. Rep.	Libya	Zimbabwe
52	Libya	Zimbabwe	Somalia	Equatorial Guinea
53	Somalia	Somalia	Equatorial Guinea	Somalia

Figure 4A: Countries' Ranking for the Governance Climate's Cross-Section, Comparison to 2017 And 2007

Source: Our Elaboration on UNCATD and WGIs Data (2020)

Appendix A

Table 5A: The Confidence and Standard Errors for the Governance Climate and its Dimensions, Comparison to 2017 and 2007, Average Values

Index	2017		2007	
	Conf.	Stand. Error	Conf.	Stand. Error
Voice and Accountability	0.87	0.13	0.87	0.13
Political Stability and not Terrorism	0.73	0.27	0.78	0.22
Political Governance - Dim. (a)	0.80	0.20	0.83	0.17
Government Effectiveness	0.78	0.22	0.81	0.19
Regulatory Quality	0.81	0.19	0.82	0.18
Economic Governance - Dim. (b)	0.80	0.20	0.81	0.19
Rule of Law	0.83	0.17	0.84	0.16
Control of Corruption	0.82	0.18	0.85	0.15
Institutional Governance - Dim. (c)	0.83	0.17	0.85	0.15
Governance Climate	0.81	0.19	0.83	0.17

Source: Our Elaboration on WGIs Data (2020)

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