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Entry mode choice of French companies: a holistic approach

INTRODUCTION

International entry mode is a central topic in IB research (Canabal and white, 2008; Werner, 2002; Morschett et al., 2010). Sharma and Erramilli (2004) define this concept as "a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only the marketing operations (i.e., via export modes), or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly owned operations)" (p. 2). The entry mode decision is crucial because this decision can impact the survival of a company and thus its performance. The companies must choose the appropriate entry mode into foreign markets. Several studies have examined the effect of cultural distance (Kogut and Singh, 1988; Brouthers and Brouthers, 2001; Drogendjik and Slangen, 2006); international experience; risk (Brouthers et al., 2000; Delios and Henisz, 2000) on the choice of entry mode. These empirical research have focused on one or few specific variables and have provided conflicting results concerning the impact of certain variables such as cultural distance. With regard to the complexity and the importance of the entry mode decision, we argue that an overview of main antecedents could be interesting.

In this paper, we adopt a holistic approach of the entry mode choice. Thus, we take into consideration three main levels of analysis: country, industry and company. Entry mode choice is an important issue and the manger has to examine the relevant factors before taking such decision. This research aims to analyze the influence of main factors relating to the country, the industry and the company on market entry mode choice.

EMPIRICAL STUDY

The empirical study of this research is based on a sample of 203 interfirm linkages concluded by French companies, in the year 2010, with partners across the world. The information is drawn from a database compiled by the authors. Data on announced agreements were collected through an exhaustive review of the French daily newspaper "Les Echos", which relates strategic moves of French companies on a reliable basis.

Among the 203 entry modes registered in the data-base, 105 operations concern cooperative alliances (52%) and 98 mergers-acquisitions (48%). The signed operations concern 37 different countries. The United States is the major target country (23.15%), followed by the United Kingdom (11.33%). 39% of operations are formed with partners from the European Union. As far as emerging economies are concerned, it seems interesting to note that interfirm linkages with Chinese companies represent 9.36% and those with Indian and Brazilian partners respectively 4.43% and 2.96% of the sample.

VARIABLE MEASUREMENTS

- **Dependent variable**

The dependent variable for our study is the choice of entry mode. Previous studies relating to entry mode choice often differentiated wholly-owned subsidiaries and cooperative alliances (Morschett et al., 2010). Wholly-owned subsidiaries are usually defined as subsidiaries where the company holds more than 95% of the capital (Brouthers and Brouthers, 2001; Cho and Padmanabhan, 2005; Huanglin and Schaan, 2008; Kim and Gray, 2009). In our sample, mergers-acquisitions are operations involving the purchase of more than 95% of the capital. In accordance with Mayrhofer's (2004) study, cooperative alliances include joint-ventures (equal and unequal ownership), minority equity investments and contractual agreements. The dependent variable is dichotomous: it is coded 1 for mergers-acquisitions and 0 for cooperative alliances.

- **Independent and control variables**

Variables	Rationale	Measurement	Reference
Country variables			
Cultural Distance	When entering foreign markets, companies need to face different cultures which may lead to a lack of understanding and managerial difficulties. These situations are caused by uncertainty due to an insufficient knowledge of target markets. Setting up cooperative alliances with local partners may prove to be a useful solution to acquire knowledge about new markets.	We use three cultural frameworks using the index defined by Kogut and Singh (1988). - Hofstede's 4 dimensions of national culture - Globe's nine dimensions of national culture - Schwartz's (1994) seven dimensions of national culture	Larimo and Dow (2009), Drogendijk and Slangen (2006)
Political Risk	Political risk affect's managers' decision in the entry mode choice. They will tend to choose cooperative alliances rather than M&A. Having a local partner helps to reduce the political instability in the host country.	Mean of the political risk of the year of investment (2010). The ICRG[1] data for the variable were used.	Angué and Mayrhofer (2010), Delios and Beamish (1999)
Government effectiveness	Government effectiveness also influences the choice of entry mode. "An ineffective government with excessive regulations will impede	We adopt a measure of government effectiveness from Kaufmann et al.'s (2010) study. Kaufmann et al. (2010) develop the	Kaufmann et al. (2010) ; Malhotra et al., 2009

[1] ICRG is a monthly publication of the International Country Risk Guide (ICRG). The variables include risk of government repudiation of contracts (measured on a 0–10 scale), risk of expropriation (0–10), corruption (0–6), a measure of the rule of law (0–6), and bureaucratic quality (0–6).

	economic activity, which means that managers will need to spend more time and money in overcoming these regulations" (Malhotra et al., 2009, p.656). In order to deal with an ineffective government, partnering with a local firm could help to better understand the procedures and overcome local barriers.	government effectiveness index to measure competence of bureaucratic procedures and the quality of public service delivery by governments in different countries.	
Investing company variables			
Size of the investing company	Larger companies have more resources and may prefer M&A rather than cooperative alliances.	Logarithm of the turnover of the company (in euros) in the year of the investment (2010)	Hennart and Larimo (1998); Vermeulen and Barkema (2001); Larimo (2003), Drogendijk and Slangen (2006), Larimo and Dow (2009)
Target country experience of the investing company	Investing company's experience in the host country reduces the external uncertainty and thus may increase the commitment of the firm by choosing M&A as entry mode	Dummy variable (coded 1 for company with experience, 0 otherwise)	Gatignon and Andersson (1998), Andersson and Svensson (1994), Larimo and Dow (2009)
Industry variables			
R&D intensity	Firms operating in R&D sectors possess proprietary of technological knowledge. Thus, they will tend to preserve this by penetrating a new market through M&A rather than cooperative alliances.	A classification of various 4-digit SIC industries into three categories based on their value added figures.	Larimo and Dow (2009)
Industry growth	Industry growth is used as an indicator for market attractiveness. This variable is expected to lead to enhanced resource commitment in a country. "[…] entering fast growing markets through cooperative modes of entry is recommended" (Morshett et al., 2010).	To be determined	Hennart and Larimo, (1998), Brouthers (2002), Morshett et al. (2010)

Control variables			
Level of economic developm ent of the host country	Our sample concerns French firms investing in different locations. The host country level of economic development may influence a company's entry mode.	We use the classification of the World Bank based on gross national income (GNI) per capita	Wang and Schaan (2008)
Industry dummies	Firms in the manufacturing industry and service industry may choose different type of entry mode when investing abroad.	Dummy variable (coded 1 for manufacturing, 0 for services).	Wang and Schaan (2008), Drogendijk and Slangen (2006)