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Cultural distance and entry modes: implications for global expansion strategy

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Cultural distance and entry modes: implications for global expansion strategy

Cultural
distance and
entry modes

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Abstract

Purpose – The purpose of this paper is to take a strategic perspective on how MNEs in the retail sector decide to enter a new market. Drawing on transaction cost theory, the contingency approach and resource-based theory, the implications of the interplay between global strategy, cultural distance and entry mode strategies are examined by means of an analysis of Carrefour's global expansion.

Design/methodology/approach – To account for the shortcomings of prior research, a hypothesis in the relationship between entry modes and cultural distance is tested empirically using a sample of 44 foreign market entries by Carrefour over the 40 last years. The paper uses a quantitative approach, i.e., logistic regressions. To measure cultural distance, the authors rely on the GLOBE dimensions and the Kogut-Singh Index.

Findings – The findings suggest a positive relationship between a resource commitment, entry mode strategy and cultural distance for Carrefour. However, these findings are contrary to the mainstream argument that high cultural distance is related to entry strategies based on relatively low resource commitment. The authors explain these findings by integrating a cultural distance perspective with Carrefour's overall global expansion strategy.

Research limitations/implications – Because of the chosen research approach, the research results may lack generalizability.

Practical implications – The paper provides insights into why prior research on cultural distance and entry modes has yielded mixed results. From a strategic viewpoint, the paper stresses the particularities of the retail sector and how retailers try to account for cultural distance in their entry mode decisions.

Originality/value – By focussing on a single company instead of a meta-analysis, the analysis demonstrates how the search for strategic consistency and the particularities of the retail sector reverse a well-investigated theoretical assumption. The main originality of the paper is that it shows the implications of the interplay between cultural distance and entry mode as being part of the retail firm's overall global expansion strategy.

Keywords Cultural distance, Carrefour, Global strategy, GLOBE dimensions, Kogut-Singh index, Retail sector

Paper type Research paper

Introduction

In our globalized world, more and more companies are international in scope. To conquer new markets, companies have to choose an entry mode: e.g., greenfield investment, acquisition, joint ventures or looser forms such as franchising and licensing. These entry mode strategies are often placed on a continuum going from relatively low resource commitment (licensing, franchising, joint venture) to high resource commitment (acquisition, greenfield investment) strategies (e.g. Anderson and Gatignon, 1986; Hill *et al.*, 1990).

A broad range of theoretical approaches have been used to explain entry mode choice. Some of the most popular theories are transaction cost theory, resource dependency theory, the contingency approach and the new institutional theory (Brouthers and Hennart, 2007). The latter is tridimensional, i.e., regulatory, cognitive and normative dimensions determine entry mode choice. Cultural Distance is viewed as a proxy for measuring the normative dimension (Yiu and Makino, 2002). It also appears to increase entry costs, decrease operational benefits and hamper the firm's ability to transfer its core competencies (Gomez-Mejia and Palich, 1997).

However, the evidence for the impact of cultural distance on entry mode is contradictory. According to the dominant paradigm, high cultural distance is related to low resource commitment strategies (e.g. Gatignon and Anderson, 1988; Gomes-Casseres, 1990; Kogut and Singh, 1988). However, some scholars argue that with greater cultural distance associated with higher perceived risk, companies will choose high resource commitment entry strategies (e.g. Anand and Delios, 1997; Chen and Hu, 2002).

While it has been argued that entry mode choice should be aligned with the firm's overall global strategy (Meyer *et al.*, 2006; Tan and Tan, 2005; Zajac *et al.*, 2000), the current literature on the effect of cultural distance on entry modes does not differentiate between industries and does not take the firm's overall strategy into account. Moreover, prior research on entry modes and cultural distance has focussed for the most part on manufacturers' strategies and paid insufficient attention to other industries. In this paper, we look at the relevance of cultural factors for entry modes and overall global expansion strategy of retail sector firms. Given that customers experience the good directly (Burt and Sparks, 2002), this sector is characterized by the importance of the connection with final clients (Jonsson and Elg, 2006). In this light, cultural distance should play an important role in entry mode choice and the global expansion strategies of retail sector firms.

Our analysis is not based on an aggregate (country-specific) level data (e.g. Quer *et al.*, 2007; Schwens *et al.*, 2011) or on foreign direct investment as a proxy (e.g. Ionascu *et al.*, 2004), as usually used in previous studies, but on the case of a specific multinational company (MNE) – the French retailer Carrefour.

In this paper, we offer several contributions to the literature. First, the literature on global expansion strategy assumes for the most part that strategic decisions or management in the retail sector are driven by economic and political variables (e.g. Doherty, 2000; Egelhoff, 1988; Kobrin, 1982; Sternquist and Jin, 1988). We show that cultural distance plays an important role in strategic decisions in this sector and that for a company to be successful internationally, it is important for it to integrate the cultural component into its overall strategy.

Second, the literature on entry mode strategies and internationalization often relies on qualitative or conceptual analysis (e.g. Doherty, 2000; Elg *et al.*, 2008; Huang and Sternquist, 2007; Jonsson and Elg, 2006; Rogers *et al.*, 2005) or only offers propositions (Xu and Shenkar, 2002). In this paper, we conduct a quantitative analysis of the effects of cultural distance on entry mode strategies in the retail sector based on the case of the Carrefour Company. We also take a wider, strategic perspective.

Third, quantitative empirical studies in the field of entry mode and cultural distance rely for the most part on dyadic cultural models and limit themselves to investigating the entry of one retailer into one foreign country (e.g. Jonsson and Elg, 2006; Rocha and Dib, 2002; Subhadra, 2005). In this paper, we offer a broader approach by studying various cultural settings in relation to a home country by testing our hypothesis with one single multinational company.

The paper is structured as follows. Following a review of the literature on strategic decisions of retail companies, the most popular approaches explaining entry mode choice and role of cultural distance in expanding to new markets, we develop a literature-based hypothesis related to the relationship between cultural distance and entry mode strategy. We empirically test this hypothesis using a sample of 44 foreign market entries made by Carrefour over the last 40 years. Lastly, we present our main conclusions and discuss the limitations of this study.

Strategic alignment in the retail sector

When conquering new markets, one of the major strategic decision facing MNEs is to choose between a global integration strategy and a national responsiveness strategy. The latter signifies that the strategy itself and its implementation are mainly tailored to the host country, whereas the former refers to aligning operations across cultures (Doz, 1980; Prahalad and Doz, 1987).

Similarly, a distinction must be made between a global brand strategy (i.e. a global brand with little or no adaptation) and a local brand strategy (i.e. a portfolio of local brands) (Meyer *et al.*, 2006). Most importantly, MNEs have the choice between centralizing or decentralizing their operations and processes when going abroad.

To achieve the best outcomes and to account for long-term consequences (Pedersen *et al.*, 2002), the entry mode choice should be consistent with the firm's overall strategy of the firm, that is, the firm should strive for alignment of entry mode choice and overall firm strategy (e.g. Cui and Jiang, 2009; Meyer *et al.*, 2006; Tan and Tan, 2005; Zajac *et al.*, 2000).

Companies mainly choose from among four different entry modes: franchising, joint venture, acquisition and greenfield investment. However, these modes can be classified differently: ownership level (wholly owned subsidiary vs partially owned subsidiary) (Hennart and Larimo, 1998), establishment mode (e.g. greenfield vs acquisition) (Brouthers and Hennart, 2007), contracts (franchising) vs equity (joint ventures vs wholly owned subsidiaries (WOS)) (Hennart, 1988, 1989; Brouthers and Nakos, 2004) and different levels of control and risk and different levels of resource commitment (e.g. Anderson and Gatignon, 1986; Hill *et al.*, 1990).

This paper relies on the latter approach to classifying entry mode strategies and adopts the position that franchising, joint ventures, acquisition and greenfield investment are aligned on a continuum of increasing resource commitment (mainly financial) in line with increasing control and risk: wholly owned subsidiaries are chosen when firms want to maximize control over their operations (Figure 1). However, this objective requires high resource commitment. As such, with increasing risk, more firm assets are at stake.

This assumption is in line with a many authors investigating entry modes (e.g. Anderson and Gatignon, 1986; Hill *et al.*, 1990).

However, implementing this strategic alignment is no an easy task given that countries differ from one another and each has different requirements and poses different challenges. In particular, cultural distance has shown to be a crucial factor in a global strategy: prior research has suggested that cultural distance plays a major

Figure 1.
Continuum of entry
mode strategies

role in ensuring the effectiveness in distant global markets of the chosen entry mode (Evans and Movondo, 2002). Similarly, the feasibility of a global integration strategy is at its highest when the cultural distance between a parent company and its subsidiary is low (Kostova and Roth, 2002). With cultural distance being tacit, there are a lot of challenges an MNE has to overcome when implementing a global strategy in a host country with high cultural differences (Xu and Shenkar, 2002).

These observations illustrate the tension between striving for overall strategic alignment and choosing a strategy that best fits the target market. A good example of this phenomenon Wal-Mart's entry in the German retail market: insufficient cultural knowledge and poor fit with the local culture impeded economic success even when a well-established business model was transferred (Subhadra, 2005). Wal-Mart relied on its business model but forgot to account for the local challenges. The Wal-Mart case highlights the fact that the choice of entry mode is often made without much consideration (Doherty, 2000).

This example from the retail sector shows us that the firm's overall global strategy has to be sensitive to cultural distance. The choice of entry mode can either help to decreasing or contribute to increasing cultural distance, thereby posing significant challenges for the company. For instance, it has been shown that joint ventures give access to tacit local knowledge and therefore decrease cultural distance (Li *et al.*, 2010). We explore the relationship between entry modes and cultural distance in the following sections.

The role of cultural distance

Prior research has often emphasized that the internationalization processes for retailers were challenging and complex in comparison to those facing manufacturers (Burt, 1993; Burt and Carralero-Encinas, 2000; Dawson, 1994, 2000). Retailers cannot rely on a traditional exporting strategy, but have to build new stores in a new environment, develop a new distribution system and emphasize cultural differences as they interact on a daily basis with local customers (Jonsson and Elg, 2006). Because of these differences, there is some question as to whether internationalization theories (very often developed for manufacturing firms) can even be applied to the retail sector (Sternquist, 1997; Vida and Reardon, 2000).

To give a holistic view on the relationship between entry mode strategies and cultural distance and to account for the scarce literature on entry modes in the retail sector, we take not only prior research on the retail sector into account but also the results of studies of other settings. In our view, cultural distance plays a crucial role in the retail sector because retailers rely heavily on the end consumer. As such, cultural distance plays a major role in daily business.

Culture is often defined as the homogeneity of characteristics that separate one human group from another. Each culture incorporates inherent norms, values and institutions (Hofstede, 1980). Furthermore, it is widely held that cultural differences have an impact on strategies and decisions within corporations. Indeed, according to institutional theory (e.g. Ionascu *et al.*, 2004), culture's three dimensions (regulatory, cognitive and normative) have a direct effect on entry mode choice (Yiu and Makino, 2002).

The normative dimension is often interpreted as cultural difference (Brouthers and Hennart, 2007), and different studies provide evidence for the impact of cultural distance on entry mode choice (e.g. Agarwald, 1994; Hennart and Larimo, 1998; Kogut and Singh, 1988). However, studies of the relationship between cultural distance

and entry mode strategy yield contradictory results. Prevailing scholarly wisdom explains entry mode choice by the risk-reduction rationale of MNE managers. Higher cultural distance leads to higher perceived risk, and, therefore, MNEs prefer more flexible entry mode strategies, such as franchising or joint ventures, in the event that they need to quickly exit the foreign market (Gatignon and Anderson, 1988). In this way, MNEs reduce their cultural risk exposure. Scholars argue that cultural distance is negatively related to resource commitment entry mode choice (e.g. Kim and Hwang, 1992; Grosse and Trevino, 1996; Barkema and Vermeulen, 1998). At the same time, some scholars working in the institutionalist framework argue that higher cultural distance results in higher resource commitment entry modes because large cultural differences incite MNEs to maintain greater control of their operations (Buckley and Casson, 1996).

A meta-analysis with 66 independent samples (Tihanyi *et al.*, 2005) does not provide any statistical evidence for a significant relationship between cultural distance and entry mode strategy, implying that firms do not take cultural distance into account in their strategic decisions. Nevertheless, more recent findings suggest that cultural distance does act as a moderator between firm specific assets and entry mode strategy (e.g. Schwens *et al.*, 2011; Tihanyi *et al.*, 2005). However, these studies all examine aggregate data such as the entry mode strategies of Spanish firms (Quer *et al.*, 2007) or non-American firms entering the USA (Caves and Mehra, 1986). To our knowledge, no study has yet examined the entry mode decisions of one single company.

As we have seen, there are two main points for which prior research only had uncertain answers. First, the studies yielded ambiguous results regarding the interplay of cultural distance and entry mode strategy. Second, they relied for the most part on a meta-analytic approach. Furthermore, by only taking into account the influence of cultural distance (or other country specific factors) the studies might have overlooked an important factor: the following analysis reviews existing theoretical approaches to entry mode choice, taking into account the firm's global strategy and linking entry mode choice to the firm's behavior in the retail sector.

Hypothesis development

As noted in the previous sections, strategic alignment is important. In our view, cultural distance plays an important role in the retail sector and poses significant challenges for retail firms. Prior research on cultural distance and entry mode (mainly from the manufacturing industry) has yielded mixed results.

In this section, we develop a theory-based hypothesis that allows us to test for the interplay of global strategy, cultural distance and entry mode in the retail sector. Prior research has relied on different theoretical approaches in order to explain entry mode choice: transaction cost theory, contingency view and resource-based theory.

Transaction Cost Theory, mainly grounded on the work of Coase (1937) and Williamson (1975, 1985) has been used in academic research to explain organizational culture (Jones, 1983) as well as strategic decision making such as the choice of entry mode for MNEs (e.g. Gatignon and Anderson, 1988; Gomes-Casseres, 1989; Hennart, 1989). Its practical application has been confirmed through empirical research (e.g. Klein and Shelanski, 1995; Rindfleisch and Heide, 1997). Transaction Cost Theory argues that managers suffer from bounded rationality, whereas potential partners may act opportunistically. Great cultural distance leads to higher (transaction) costs (Chen and Hu, 2002) and uncertainty and therefore to higher perceived risk (Kogut and Singh, 1988).

Hence, companies are expected to prefer a low resource commitment entry mode, like franchising or a joint venture, to deal with the additional costs (Balakrishnan and Koza, 1993; Randoy and Dibrell, 2002) stemming from expanding to foreign markets.

Indeed, it has been shown that relatively low resource commitment entry strategies, such as partnerships, licensing, franchising and joint ventures, share the risk of entering a new market with a local partner (e.g. Azofra and Martinez, 1999; Chen and Hu, 2002) and are less costly than WOS (acquisition or greenfield investment) (Gatignon and Anderson, 1988; Gomes-Casseres, 1990; Kogut and Singh, 1988).

However, some transaction cost scholars argue that high resource commitment strategies are preferred when knowledge from the home country to host country is transferred (e.g. Anderson and Gatignon, 1986; Hennart 1988) because knowledge and resources are exposed to the threat of opportunism (e.g. Malhotra, 2003). Williamson (1985) refers to opportunism as an attempt to “mislead, distort, disguise, obfuscate, or otherwise confuse” the partner. In the context of cultural distance, this suggests that in cases of high cultural distance, the probability of opportunism increases and MNEs are expected to choose a high commitment entry mode to control their foreign affiliates more effectively.

Nevertheless, following the prevailing view of authors investigating entry mode choice in a cultural setting, we rely on the former approach and argue that low commitment entry modes are chosen in cases of high cultural distance.

This assumption is also in line with other approaches, such as the contingency approach, i.e., the search for flexibility that makes it possible to modify decisions (Quer *et al.*, 2007). A relatively low resource commitment entry mode, like franchising or joint ventures enables companies to withdraw easily from the host market in the case of failure (Kim and Hwang, 1992). As suggested by several studies, the ability of MNEs to operate effectively in a host country decreases when cultural distance increases (e.g. Gomez-Mejia and Palich, 1997; Hennart and Larimo, 1998) because differences in local cultures go in hand with differences in organizational and administrative practices (Lincoln *et al.*, 1981). Therefore, companies are expected to prefer low resource commitment entry mode strategies for target markets with great cultural distance.

Furthermore, firm-specific resources, such as assets and capabilities, are essential factors when choosing the most appropriate entry mode strategy. In contrast to transaction cost economics, where cost minimization is the objective when choosing the entry mode, the resource-based view focusses on maximizing firm-specific resources such as assets and capabilities (e.g. Meyer *et al.*, 2009). According to resource based theory, companies exploit these resources with the aim of generating rent and strive to develop them efficiently (Tsang, 2000). However, cultural distance may hamper the firm's objectives. Therefore, to gain access to resources in a foreign market in order to operate effectively, MNEs are expected to rely on local partners (e.g. Anand and Delios, 1997; Quer *et al.*, 2007). Padmanabhan and Cho (1996) show that joint venture partners can offer this required knowledge and experience.

Recent research in resource based tradition shows that the entry mode choice often depends on the company's existing capabilities and those that it would like to acquire. Thus, different entry modes offer different approaches to exploiting and benefiting from local resources (Meyer *et al.*, 2009).

More precisely, upstream capabilities, such as R&D activities (geographically fungible resources) and downstream capabilities, such as marketing, advertising or distribution (location-bound resources) are presumed to affect the entry mode (e.g. Anand and Delios, 2002; Meyer *et al.*, 2009). These capabilities turn out to play a major role in the choice of entering the host market through a greenfield plant or an acquisition strategy. Anand and Delios (2002) argue that companies choose to enter a foreign market depending on their relative technological advantage, operationalized through the difference in R&D intensity. In this connection, companies tend to enter a new market through joint ventures (Anand and Delios, 1997) because they offer another approach to acquiring local capabilities (e.g. Inkpen and Beamish, 1997; Stopfort and Wells, 1972) when the sector in the host country exhibits technical advantages in comparison to the home country. In the opposite case, greenfield investments are chosen.

Although these results do not imply any relationship between cultural distance and entry mode strategy, they do offer a broader perspective with regard to entry mode choice and host-country resources. Therefore, in the empirical part of our paper, we control for host country resources in the retail sector.

The following table sums up the main points of the above mentioned theories (Table I).

To summarize, we assume that cultural distance hampers a firm's ability to cope with the foreign environment, and MNEs are expected to rely on lower commitment entry strategies, where less capital is at stake but local experience and capabilities are maximized through the local franchise or joint venture partner.

This line of argument leads us to the following hypothesis (see also Figure 2), supported by an aggregate database in several studies (e.g. Gatignon and Anderson, 1988; Gomes-Casseres, 1990; Kogut and Singh, 1988; Kim and Hwang, 1992; Hennart and Larimo, 1998; Pak and Park, 2004; Quer *et al.*, 2007).

Although our theoretical argument is admittedly based for the most part on research in the manufacturing sector, we believe that we can transfer the argument to the retail sector. Indeed, joint ventures offer closer access to local knowledge and franchising gives important access to local distribution networks (Li *et al.*, 2010). Both good access to distribution networks and local knowledge argue crucial for success in the international retail sector (Subhadra, 2005). Moreover, our hypothesis is in line with Huang and Sternquist (2007) whose theory predicts the entry behavior of retailers. Thus, a low resource commitment entry mode through a local actor decrease cultural distance and should also be used for this purpose:

- H1.* The likelihood that a retail-sector MNE enters a new market through a low resource commitment entry mode, like franchising or a joint venture, rather

Theories	Transaction cost theory	Contingency approach	Resource dependency perspective
Criterion	Level of control/level of commitment	Adaption to changing conditions	Access to local resources
Firm objectives	Transaction cost minimization	Search for flexibility	Value maximization
Hypothesized relationship	High cultural distance > low resource commitment entry mode	High cultural distance > low resource commitment entry mode	High cultural distance > low resource commitment entry mode

Table I.
Comparison of the
three theories

Figure 2.
Resource
commitment and
cultural distance

than through a WOS (greenfield investment, acquisition) increases as cultural distance increases.

In this study, we investigate the relationship between cultural distance and entry mode in the retail sector. To this end, we provide a case study of a specific multinational company, namely, Carrefour. In particular, we examine whether cultural distance and the search for a consistent global strategy are taken into account when making the entry mode decision since we argue that the overall global strategy has to be sensitive to cultural distance.

Carrefour

Carrefour is a French retailer operating in more than 30 countries throughout the world. It got underway in 1959 in France and quickly expanded to Europe, Latin America, Asia and, recently, the Middle East. Carrefour has become the second largest retailer in the world with partners and stores throughout the world. The reason for its phenomenal success stems from its “hypermarché” concept, that is, it offers one-stop shopping at low prices and product freshness, as well as self-service and free parking (Dupuis and Prime, 1996). Compared to its main competitor Wal-Mart, it is much more globalized and therefore represents a sufficient data source for this study.

In order to obtain its strong market position, Carrefour relied on different market entry strategies, ranging from greenfield investment, acquisition and joint ventures to franchising. The present paper aims at determining how and whether Carrefour has integrated cultural distance in their strategic decision making process.

Table II indicates the countries entered by Carrefour over the last 40 years and the respective entry strategies. The entry choice refers to Carrefour’s initial entry strategy in new markets, regardless of ensuing actions or strategic changes.

Year	Country	Entry mode
1959	France	Home base
1969	Belgium	Joint venture
1970	Great Britain	Franchise
1970	Switzerland	Franchise
1972	Italy	Joint venture
1973	Spain	Joint venture
1975	Brazil	Acquisition
1976	Austria	Greenfield
1982	Argentina	Acquisition
1988	USA	Joint venture
1989	Taiwan	Joint venture
1991	Greece	Joint venture
1991	Portugal	Acquisition
1993	Turkey	Joint venture
1994	Mexico	Joint venture
1994	Malaysia	Greenfield
1995	China	Joint venture
1996	Thailand	Joint venture
1996	South Korea	Greenfield
1997	Poland	Greenfield
1997	Czech	Greenfield
1997	Slovakia	Greenfield
1997	Singapore	Greenfield
1997	Hong Kong	Greenfield
1998	Chile	Greenfield
1998	Colombia	Acquisition
1998	Indonesia	Acquisition
2000	Japan	Greenfield
2000	Qatar	Joint venture
2001	Tunisia	Joint venture
2002	Egypt	Joint venture
2003	Oman	Joint venture
2005	Algeria	Joint venture
2007	Kuwait	Joint venture
2008	Bahrain	Joint venture
2009	Bulgaria	Franchise
2009	Pakistan	Joint venture
2009	Morocco	Franchise
2009	Russia	Greenfield
2010	India	Acquisition
2010	Azerbaijan	Joint venture
2011	Albania	Joint venture
2012	Georgia	Joint venture
2012	Macedonia	Joint venture
2012	Iraq	Joint venture

Sources: Derived from Carrefour's annual reports, Carrefour's main web site, Carrefour's regional web sites, and Angela and Dib (2002); Aoyama (2007); Hitt *et al.* (2009)

Table II.
Entry modes
Carrefour

It is important to clearly define the terminology of entry mode choice. In line with Kogut and Singh (1988), this paper refers to acquisition in the case of the purchase of controlling equity in an already-existing company. A joint venture is the pooling of assets by two or more firms who share joint ownership and control over these assets.

Greenfield investment means building up new facilities in a foreign market. Franchising refers to conceding (distribution) rights to a partner, enabling it to do business under the parent's trademark (Michael, 2000). In line with Pan and Tse's (2000) classification, we refer to greenfield investment and acquisitions as WOS that require high resource commitment in contrast to joint ventures or franchising, which require relatively low resource commitment.

Methodology

Data collection and variables

Dependent variable. The data used in the present study were mainly obtained from a review of Carrefour's annual reports and other specific literature. In total, 44 target countries and four different entry mode strategies (greenfield investment, acquisition, joint venture and franchising) were identified.

The four different types of entry mode strategies used by Carrefour to enter foreign markets were used as dependent variables. Due to the fact that Carrefour's internationalization represents a rather limited number of entries, we had to deal with a limited sample. At the same time, a sample size above 30 is considered to be acceptable for logistic regression (Hosmer and Lemeshow, 2004). In the case of Carrefour, we have 44 entries and use four types of entry modes: greenfield, acquisition, joint venture, franchise. We conduct four regressions to test the probability of each of these entry modes to be chosen over the other three types. Therefore, in each of these four regressions, a selected mode of entry is operationalized as a dummy variable that takes a value of 1, while other types of entry mode take the value of 0.

In a second step, we conduct robustness analysis aligned with prior studies (e.g. Pan and Tse, 2000; Quer *et al.*, 2007). We perform the same regression analysis by shaping the entry mode variable by sequentially implying a decreasing degree of resource commitment:

- (1) acquisition/greenfield investment; and
- (2) franchising/joint venture.

Hence, mode of entry is a dummy variable that takes a value of 1 if the foreign operation was set up as joint venture or franchising and a value of 0 if otherwise (acquisition/greenfield investment).

Independent variable. Cultural Distance is treated as the independent variable able to predict Carrefour's entry mode strategy in different host countries. To investigate cultural settings, the majority of studies use data based on Hofstede's (1980) five cultural dimensions: power distance, individualism/collectivism, uncertainty avoidance, time orientation and masculinity/femininity. However, Hofstede's data have been extensively criticized for being based on a relatively small sample of IBM employees, which might not be applicable to the whole country's population. Recently, researchers have started to use cultural indexes presented by the GLOBE project (House *et al.*, 2004). The GLOBE project generated nine dimensions (performance orientation, institutional collectivism, in-group collectivism, gender egalitarianism, uncertainty avoidance, future orientation, human orientation, assertiveness, power distance), some of which are the same as those found in Hofstede's research. However, the GLOBE's cultural indexes are viewed as being more accurate and more sensitive to cross-cultural differences since they are based on a larger and much broader sample of population (Hechavarria and Reynolds, 2009). Additionally, the GLOBE indexes reflect a country's informal institutions while Hofstede's indexes are

related more to work-related values (Venaik and Brewer, 2010; Brewer and Venaik, 2011). It is for these reasons that we chose the GLOBE's dimensions rather than Hofstede's.

To measure the cultural distance between the target countries and France, Carrefour's home country, we rely on the Kogut-Singh Index (Kogut and Singh, 1988) used by various authors to investigate differences in cultural settings (e.g. Erramilli, 1991; Barkema *et al.* 1996):

$$CD_i = \sum_{i=1}^9 \left((I_{ij} - I_{ih})^2 / V_i \right) / 9$$

where CD_i stands for the cultural distance between the j th country and the home country (France), I_{ij} is the index of the i th cultural dimension (power distance, in-group collectivism, uncertainty avoidance, etc.), I_{ih} is the cultural dimension index of the multinational firm's home country (France), and V_i is the variance of the index in the i th dimension. Large values signify increasing dissimilarity to the country of comparison (in our case France).

Control variables. In line with the literature, we also introduce a number of control variables that we expect will influence entry mode choice. The market size of the host country is argued to have a positive impact on the inflow of FDI (Terpstra and Yu, 1988). With market size being an indicator for future host country demand, there might be a possibility that Carrefour would favor low entry mode strategies when demand uncertainty is high, i.e., the market size of the host country is small (Kim and Hwang, 1992). In line with prior research, market size is operationalized through GDP and GDP per capita, among other factors (Goodnow, 1985; Henisz and Delios, 2002) and is included in our analysis in order to monitor their possible influence on our results. To mitigate time-related effects on the change in these economic indicators, GDP and the GDP per capita are adjusted relative to 2009 (the base year) for each market entry.

A variable for controlling for exchange rate fluctuations was included since prior research has shown that variation in the exchange rate constitutes an economic risk and therefore might influence the entry mode choice (e.g. Brouthers *et al.*, 2000; Ahmed *et al.*, 2002). We also control for the "years of international experience" variable (Year-1969), as well as for cultural experience with any of the neighboring countries operationalized as a dummy variable to capture whether or not Carrefour was present in any of the neighboring countries. In order to account for particularities in the retail sector (in line with the resource-based theory) we include variable capturing consumer expenditures in the retail sector (operationalized as percentage of GDP based on the data from Euromonitor) as well as the sales force employment (Anand and Delios, 2002).

Statistical model

To test our hypothesis, we first perform four multiple logistic regressions testing the probability that Carrefour will set up its foreign market entry either with a Greenfield investment, an acquisition, a joint venture or with a franchise partner:

$$P(\text{mode of entry}) = \frac{e^Y}{1 + e^Y}$$

where Y is defined as:

$$Y = \beta_0 + \beta_1 X_{\text{Cultural Distance}} + \beta_2 X_{\text{Exchange rate}} + \beta_3 X_{\text{GDP per capita}} + \beta_4 X_{\text{international experience}} + \beta_5 X_{\text{cultural experience}} + \beta_6 X_{\text{GDP}} + \beta_7 X_{\text{expenditures in retail}} + \beta_8 X_{\text{sales force employment}}$$

In the second step, we examine our hypothesis more closely by performing a logistic regression estimating the probability that Carrefour will choose to enter a foreign market with a lower degree of resource commitment: joint venture/franchise vs acquisition/greenfield strategy.

Discussion

The results of the analysis are reported in Tables III and IV. The results of the four separate regressions indicate that cultural distance is significant in predicting the probability of joint venture and greenfield investment mode. It has a significant positive effect on the probability of greenfield investment and a significant negative effect on the probability of joint venture entry mode. Cultural distance appeared to be insignificant in predicting acquisition and franchise entry modes. Model fit indicators are satisfactory for the regressions predicting the probability of joint venture and greenfield investment. However, model fit indicators for the other two regressions are not good. Model fit statistics from Table V (the regression with low resource commitment vs high resource commitment) indicates that this model is the best one for analyzing our data, which may be because we have a small sample and the fact that we operationalize entry mode as low vs high instead of using four different types of entry mode, leading to a more parsimonious analysis. The results from Table V indicate that cultural distance is significant in predicting the entry mode. However, our *H1* is unsupported since the results of both analyses (Tables IV and V) indicate the

Countries	Kogut-Singh	Countries	Kogut-Singh
Algeria	0.83	Portugal	1.28
Argentina	2.02	Qatar	0.85
Austria	2.29	Singapore	5.01
Bahrain	0.89	Slovak Rep	2.92
Belgium	0.11	South Korea	3.24
Brazil	1.75	Spain	0.52
Bulgaria	1.04	Switzerland	0.29
Chile	2.86	Taiwan	1.82
China	3.41	Thailand	1.91
Colombia	2.04	Tunisia	0.84
Czech Rep	0.97	Turkey	1.66
Egypt	1.02	USA	1.83
Great Britain	2.54	Russia	3.01
Greece	1.19	India	3.11
Hong Kong	3.19	Azerbaijan	1.66
Indonesia	2.18	Albania	1.03
Italy	0.67	Georgia	1.22
Japan	3.22	Macedonia	1.16
Kuwait	1.29	Iraq	2.71
Malaysia	3.05		
Mexico	1.56		
Morocco	0.58		
Oman	0.87		
Pakistan	2.38		
Poland	1.04		

Table III.
Calculation of
Kogut-Singh index

Factors	Cultural distance and entry modes			
	Model 1: probability of Franchise	Model 2: probability of Joint Venture	Model 3: probability of Greenfield	Model 4: probability of Acquisition
Cultural distance	-0.23 (0.245)	-0.06** (0.028)	0.09* (0.045)	0.04 (0.056)
Years of international experience	-0.03** (0.014)	0.09* (0.045)	0.12 (0.136)	0.26 (0.304)
Being present in any of the neighboring countries	0.36 (0.377)	0.24*** (0.008)	-0.003** (0.001)	-0.49 (0.508)
Consumer expenditures in the retail sector	0.47 (0.495)	0.38 (0.397)	-0.51 (0.563)	0.12 (0.139)
Sales force employment	-0.12 (0.136)	-0.08 (0.091)	0.06* (0.03)	0.42*** (0.003)
GDP	0.14 (0.153)	0.33 (0.359)	-0.21 (0.225)	-0.17 (0.184)
GDP per capita	-0.28 (0.309)	0.02 (0.032)	-0.13 (0.144)	-0.004* (0.002)
Exchange rate fluctuation	0.23 (0.264)	0.16 (0.173)	-0.09 (0.101)	-0.16 (0.178)
Pseudo R^2	0.19	0.22	0.27	0.21
Log likelihood	-1,237.08	-4,976.42	-7,012.93	-3,066.59
χ^2/df	41.2	10.01	3.1	12.07
Prob > χ^2	0.0705	0.0004	0.0000	0.0018
n	44	44	44	44

Notes: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

Table IV.
The results of four
logistic regressions

Factors	Probability of low resource commitment entry mode
Cultural distance	-0.15*** (0.001)
Years of international experience	0.009 (0.009)
Being present in any of the neighboring countries	0.04** (0.019)
Consumer expenditures in the retail sector	0.12 (0.138)
Sales force employment	-0.25*** (0.001)
GDP	0.07 (0.084)
GDP per capita	0.17 (0.192)
Exchange rate fluctuation	0.26 (0.277)
Pseudo R^2	0.23
χ^2/df	1.8
Prob > χ^2	0.0000
n	44

Notes: *** $p < 0.01$; ** $p < 0.05$

Table V.
The results of
logistic regression
testing the effect of
low vs high resource
commitment

opposite result: a diminishing likelihood of using a joint venture/franchising market entry strategy when cultural distance is high.

Apparently, Carrefour prefers high resource commitment market entries when cultural distance is high. When cultural distance is negligible (Kogut-Singh Index = 0), there is an 82 percent probability that Carrefour will choose to enter a foreign market with a franchise or joint venture strategy (Table VI). However, when cultural distance is high (Kogut-Singh Index = 5), this likelihood decreases to 9 percent.

This result appears to support the assumptions of institutionalist scholars and some transaction cost scholars who, contrary to the mainstream opinion in the international business literature, argue that in the case of great cultural distance, MNEs prefer to internalize, i.e., they choose higher resource commitment entry modes in order to control their foreign affiliates more effectively (Xu and Shenkar, 2002) and to avoid opportunism (Gatignon and Anderson, 1988; Buckley and Casson, 1996). The contingency approach states that companies opt for low commitment strategies in the case of great cultural distance to be able to quickly change their strategy. Additionally, relying on the resource based view, we assumed that Carrefour would prefer low resource commitment strategies in order to benefit from a partner's knowledge in a target market with great cultural distance. The results of this study indicate that results based on aggregate data are not applicable to specific cases and that further research on cultural distance and entry mode strategies is needed, especially at the firm level.

There are different possible explications for why this study yielded contrary results. First, it may be that benefiting from a foreign partner's knowledge does not outweigh the fact that low resource commitment entry mode strategies go hand in hand with lower levels of control (Gomes-Casseres, 1990). Hence, Carrefour apparently accorded more importance to level of control in target markets with high cultural distance than to the benefits accruing from a partner's knowledge and experience.

Another explanation can stem from Carrefour's tried and tested business model which it employs to expand into foreign markets. It has been shown that cultural distance causes difficulties in transferring competencies (Li and Guisinger, 1992). By choosing high resource commitment entry strategies, Carrefour ensures that there is an unhindered flow of competences and an efficient transfer of practices between headquarters and the subsidiaries in markets with high cultural distance so that its business model is successfully implemented. By taking a strategic perspective, this result is not surprising. Carrefour pursues an international integration strategy and a global brand strategy. It uses its own brand/company name and does not rely on local brands (Meyer *et al.*, 2006). This strategic decision goes well with the choice of WOS in countries with high cultural distance, enabling it to control the implementation of its business model and product quality and to ensure some alignment with its global

Table VI.

Likelihood of
choosing a low
resource commitment
strategy

Cultural distance	$e^Y/1+e^Y$ (%)
0	82
1	71
2	50
3	34
4	18
5	9

strategy, which researchers call a “global integration strategy” (Doz, 1980; Prahalad and Doz, 1987).

Given that cultural distance can hamper knowledge, business models and other elements to the host country, Carrefour tries to counteract by internalizing. This does not mean that it does not take cultural distance into consideration; rather, it incorporates it in its larger strategy by “reversing” the logic assumed by prior research. This finding shows us that the role of cultural distance cannot be explained from a narrow viewpoint but, rather, from a broader strategic perspective. It also explains the contradictory results concerning the relationship between cultural distance and entry mode choice in prior research. The entry mode choice is not only based on the cultural distance factor, but, rather, on overall strategy. In the case of Carrefour, this overall strategy takes the form of an international integration strategy, which fits with our statistical results indicating that Carrefour prefers a high resource commitment market entry when cultural distance is high.

Although this finding shows us that cultural distance plays a role in the retail sector, the theories developed for the manufacturing service cannot be transferred to a 100 percent to the retail sector.

In the retail sector, corporate brand image and close control of practice transfers is more important in mitigating cultural distance than the local knowledge provided by the franchisee or joint venture partner. Carrefour tries to decrease cultural distance, but almost emphasizes it in order to distinguish itself from local retailers and to deliver a consistent brand image (Burt and Sparks, 2002). This might be due to the fact that global retailers usually enter foreign markets by implementing a standard retail format (Salmon and Tjordan, 1989; Sternquist, 1997). At the same time, as a high resource commitment entry mode, an acquisition also gives some access to local infrastructure (e.g. distribution networks). It does not offer as much local knowledge as a joint venture or franchising. However, in the retail sector, it provides more potential for control while also having the advantages associated with access to local infrastructure.

This case provides us with several important insights for retailer strategies. Cultural distance appears to play an important role in the retail sector, in that it is a statistically significant predictor of the entry mode. Thus, retailers should pay special attention to cultural distance and also keep in mind their overall strategy in order to align both. However, in the case of high cultural distance, retailers should not decrease cultural distance by entering a foreign market via a franchise or joint venture. Rather, they should seek to mitigate the cultural distance by entering through high control modes such as acquisition or greenfield investment in order to offer a consistent brand image.

Conclusion and limitations

One of the critical challenge facing MNEs expanding into new markets is to choose the right entry mode strategy to ensure high profit returns and efficiency.

The results of the present study suggest that the dominant approach to theorizing the linkage between entry mode and cultural distance cannot sufficiently explain Carrefour’s entry mode choice. These results are surprising because most research supports the assumptions of the hypothesis developed above (Gatignon and Anderson, 1988; Kim and Hwang, 1992; Hennart and Larimo, 1998; Pak and Park, 2004; Quer *et al.*, 2007). The theoretical insights provided here are that Carrefour’s strategy can best be explained by the recent institutional framework and show that conclusions drawn on an aggregate base do not always apply to the individual company and that decisions are made for the most part at the firm level (Gatignon and Anderson, 1988). Entry mode

appears to depend on “what the firm wants” (Gomes-Casseres, 1990). In the case of the international retail sector, our results suggest that management prefers high resource commitment entry modes in the case of high cultural distance in order to keep greater control and successfully implement its business model. This shows us that overall global strategy and sector particularities influence the relationship between cultural distance and entry mode and even reverse a well-theorized assumption from prior research.

However, our results and conclusions should be interpreted with care. Our study has a number of limitations. First, we did not control for the qualitative side of Carrefour’s international experience (Erramilli, 1991) due to difficulties with quantifying this very qualitative concept. Second, we could have used other control variables. For instance, it is important to keep in mind that a firm’s decision is also constrained by several factors such as government policies in the host country. Choosing the right market entry mode is a complex task and different factors have to be taken into account. Not only can cultural differences with the host country determine the entry mode, but political and social factors, such as access to local politicians or embeddedness in local networks or the general regulatory environment of the host country, can also play an important role (e.g. Elg *et al.*, 2008). For example, political instability in Thailand could create problems for retailers in the coming decades (Yu *et al.*, 2011) or import-export limitations as well as tax treatment of foreign investment enterprises could hamper a firm’s possibilities (e.g. Davies, 1994). Although close consideration of political and social issues is beyond the research scope of this paper, these elements offer interesting and important research avenues for future studies.

Third, using countries as a unit of analysis to address cultural differences may not be sufficient because culture is not defined and limited by national borders. For instance, it is important to take sub-national or trans-regional variations in culture into account.

Therefore, extending this study to other MNEs at the firm level while taking into account the above-mentioned limitations would be an interesting possibility for future research into the effects of cultural distance on MNE entry mode strategies.

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