

The internationalization strategies of French and German firms: Two different models

Pierre-André BUIGUES and Denis LACOSTE
Professors of strategy at Toulouse Business School

[\[French version: June 2016 - n°124\]](#)

Macroeconomic statistics and data on big firms are used to compare the internationalization strategies adopted by French and German firms. The German and French models of internationalization differ with respect to: exportation; the volume and type of foreign direct investments; and the mode of market entry. Several possible explanations of these noticeable differences in strategies are proposed, among them: costs, the firms' strategic choices and the institutional and cultural environment.

As internationalization advances, firms are often unable to defend a strong position on the domestic market without also being present on other national markets. The motivation for this is not just the quest for new prospects in targeted foreign markets that are to be conquered. It also has to do with the shares and roles assigned to various foreign markets in the production chain through the investments made there, whether of a horizontal or vertical type (LEMAIRE 2013).

Researchers have adopted various theories to tackle this problem, such as the product-cycle theory (VERNON 1966), the Uppsala model of phases in commitment decisions (JOHANSON & VAHLNE 1977), the eclectic paradigm (DUNNING 1988), the theory of transaction costs (WILLIAMSON 1975) or the new economic geography (KRUGMAN 1991). These theories refer to a firm's characteristics, products and markets in the effort to explain its reasons for developing abroad, the regions where it sets up operations and its decision about how to enter the foreign market (COLOVIC & MAYRHOFER 2008). Except for the Uppsala model however, they concentrate on but a single aspect of the process (MEIER & MESCHI 2011). Nonetheless, they have considerably contributed to strategic management and help us better understand differences in the choices made by firms. In addition, these theories have underlaid empirical research.

Some of these empirical studies have focused on how the context in a firm's country of origin influences its internationalization strategy, in particular: the degree of

international diversification (LI & YUE 2008); the mode and timing of market entry (STEVENS & DYKES 2013); or even the relation between internationalization and performance (WAN & HOSKISSON 2003, ELANGO & SETHI 2007). However most empirical studies on international diversification, by focusing on a specific country of origin, have failed to take into account how the firm's nationality affects its strategic choices (LI & YUE 2008). National characteristics (comparative advantages, the institutional and cultural environment, etc.) weigh on the resources at a firm's disposal, its organizational routines and its competitive advantages, all of these being factors affecting the firm's strategic choices (BARMAYER & MAYRHOFER 2007).

For this reason, it is necessary to conduct new studies for identifying and better understanding differences in corporate internationalization strategies, in particular with respect to the mode of foreign market entry that a firm adopts as a function of its country of origin. Several studies have concentrated on the mode of entry, a critical component in a firm's international strategy; but no consensus has emerged (MORSCHETT *et al.* 2010). In particular, very few studies have compared the internationalization strategies of firms from different countries in Europe — a promising perspective for research (MAYRHOFER 2004). Several questions arise about these differences in international strategies. What specific advantages of a firm and which national, institutional or cultural characteristics of its homeland affect its choice of an international strategy?

The research presented herein, by concentrating on the internationalization strategies of firms from two European countries, helps make up for this lack in comparative studies. For this purpose, it has used global, macroeconomic data as well as data from the UNCTAD sample of multinational firms. Three alternatives for internationalization strategies are taken under consideration: exportation or foreign direct investment; foreign investments of a horizontal or vertical type; and investments made by setting up a foreign subsidiary from scratch (greenfield investments) or by purchasing foreign companies (acquisitions). We have left out of account foreign market entry modes based on more cooperative practices, since data about them are not available at the country level.

Since studies have already described the effects of size, the quality of production factors, local institutions (what has been dubbed the country's "munificence") and the legal system, we thought it worthwhile to compare rather similar countries in order to neutralize the effects of these three dimensions. France and Germany are of a comparable scale, and each has a high degree of munificence (WAN and HOSKISSON 2003). Both figure among countries with a legal system of a civil law type (LA PORTA *et al.* 1998). Furthermore, they use the same currency, the euro, and have, through the European Union, the same economic environment. We can then set the differences observed in our findings down to other characteristics of these two lands.

This article⁽¹⁾ starts by comparing the choices that French and German firms have made between exportation and direct foreign investment, and then between foreign investments of a horizontal or vertical type. It then turns to the choice between greenfield investments or acquisitions. Several possible explanations will be presented to account for the differences observed between the internationalization strategies of France and German firms: the positioning of products, investments in R&D, the cost competitiveness of production sites, and the institutional or cultural environment of the country of origin. Nevertheless, our research cannot yet establish a clear causal connection between these explanatory factors and the observed differences in internationalization strategies.

Which strategy: Exportation or foreign direct investment?

Exportation and foreign direct investments (henceforth, FDIs) are different, but not mutually exclusive, ways for firms to stake out a presence on foreign markets. Multinational corporations, in particular, do not usually adopt the one to the detriment of the other. Nonetheless, the benefits and costs of these two strategies are different in nature (LEMAIRE 2013).

⁽¹⁾ This article has been translated from French by Noal Mellott (Omaha Beach, France).

One advantage a firm gains from an exportation strategy is flexibility: it is easier to pull out of the market than in the case of an FDI, and the volume of exports targeting foreign markets can be adjusted as a function of demand on one of them. Moreover, an exportation strategy allows for faster access to foreign markets, since the firm uses its existing production capacity in the homeland. A last point: a growing volume of exports enables production plants located in the country of origin to improve their performance thanks to economies of scale (GRANT *et al.* 1988). Given these advantages, exportation is the most widespread form of internationalization. When turning toward international markets, small and medium-sized firms usually start by exporting. But even firms with foreign subsidiaries continue using exportation as a vector in their internationalization strategy.

In contrast, foreign direct investment bears advantages for a firm compared with a strategy based on exportation alone. First of all, setting up operations directly in the targeted country facilitates market entry there by reducing transportation costs of merchandise and sidestepping barriers to transactions, whether custom duties or other impediments (UNCTAD 2012). Next, host country governments often direct investments, which create jobs locally. Finally, FDI makes available to the firm the comparative advantages specific to the foreign market and enables it to benefit from its physical presence there: access to scientific or technological resources, as well as the low costs of labor or natural resources (KOGUT & ZANDER 1993, ZAHRA *et al.* 2000).

Comparing France and Germany provides a contrasting picture of the relative weights of exportation and FDI strategies for companies from these two countries. Quite clearly: whereas French firms have preferred FDI at the cost of their own exports, German firms have preferred exports from the homeland and have made fewer direct investments abroad than their French counterparts. Measuring the exportation of merchandise and services in 2010 as a percentage of GDP, the percentage point difference between the two lands was 22.1 in Germany's favor, whereas the difference between the two with respect to the total stock of FDIs was 15.8 in France's favor (*cf.* Table 1). Furthermore, these relative discrepancies in internationalization strategies have been accentuated during the first decade of the 21st century. German firms increasingly prefer exportation strategies more than French firms, whereas the latter increasingly prefer FDI strategies more than German firms.

How to explain these differences in internationalization strategies with respect to exportation?

The first explanation of the low level of exports by French firms is simply that France has fewer exporting firms: 11% of German firms do so as compared with only 4% of French firms (Direction Générale du Trésor 2009a). The dearth of exporters in France — approximately 100,000 here as compared with 350,000 in Germany — is closely related to the lack of "large" small and medium-sized firms in France. Size has a positive effect on both the propensity to export and

	<i>Exports 2010</i>	<i>Exports 2000</i>	<i>Total FDI outward stock 2010</i>	<i>Average FDI outward stock 1995-2004</i>
French firms	25.5%	28.8%	59.1%	13.0%
German firms	47.6%	33.4%	43.3%	10.6%
Percentage point difference (France-Germany)	-22.1	-4.6	15.8	2.4
<i>Sources:</i> Authors' calculations using data from the European Commission (2014) on exports and from UNCTAD (2012) on FDIs.				

Table 1: Exports of goods and services and the total stock of foreign direct investments as a percent of GDP.

the volume of exports, as several studies have shown (MITTELSTAEDT *et al.* 2003, LU & BEAMISH 2001). In 2007, France counted 4,900 middle-tiers firms as compared with 8,800 in Germany; and the gross sales of its middle-tier businesses were twofold less than their German equivalents (DANIEL & PICO 2012). Furthermore, fewer small and medium-sized firms are exporters in France than in Germany: 42% of firms with from 100 to 249 wage-earners do not export, compared with only 17% of German business of the same size (DIRECTION GÉNÉRALE DU TRÉSOR 2009b).

This explanation seems insufficient however, since France and Germany continued diverging with respect to exportation from 2000 to 2010, even though the structural characteristics of industry in the two lands had not fundamentally changed. By placing data on exports alongside data on FDIs, we notice that the latter are much higher for French than for German firms.

Might French firms have simply deserted their homeland because, in their opinion, it is no longer competitive? The annual increase in wages between 2000 and 2010 was 2.7% in France compared with a moderate 1.1% in Germany (COHEN & BUIGUES 2014). Might France's low level of exports not be explained, above all, by the decision of big French multinationals to manufacture abroad and to scale back production at French locations because the costs there are less competitive? This explanation is convincing given the increase in the stock of French FDIs compared with German FDIs during the period when the relative weight of French exports was decreasing.

Foreign direct investments, more than exports, are mostly a matter for big corporations; and France has more multinationals than Germany. Out of the hundred biggest nonfinancial multinationals (classified by foreign assets) in the world in 2012, fourteen had

their headquarters in France as compared with ten in Germany (UNCTAD 2013).⁽²⁾ Whereas France lacks middle-tiers firms compared with Germany, it has more big multinationals.

As a proportion of total jobs (domestic and foreign), the share of jobs in the foreign affiliates of the French multinationals retained in UNCTAD's ranking was, in 2012, higher than for the German multinationals: 63% vs. 58% (UNCTAD 2013). In that year, total employment in the German economy amounted to 41.5 million persons as compared with only 28.2 million in France; but the big French multinationals had more employees outside the country than did the German ones: 1.36 million vs. 1.29 million (respectively, 5.6% vs. 3.1%).

We obtain a different perspective on the internationalization of these big French and German multinationals by turning from the share of jobs in foreign affiliates to sales outside the domestic market (both exports from the homeland and the sales made by foreign affiliates) in relation to total sales. In 2012, sales outside the homeland by German multinationals amounted to 72% compared with 68% for French multinationals (*cf.* Table 2).

We thus observe major differences in the internationalization strategies of big French and German multinationals. The French ones have preferred FDI, thus limiting exports from plants in France. In contrast, German multinationals are less inclined to set up operations outside the country; and as a consequence, a larger share of their exports comes from plants in Germany.

⁽²⁾ In France: Renault, Édf, Engie, Veolia, Total, France Télécom, Vivendi, Schneider, Sanofi, Pernod-Ricard, Saint-Gobain, Lafarge, EADS and Carrefour. In Germany: VW, Mercedes, BMW, E.ON, RWE, Deutsche Post, Deutsche Telecom, Siemens, BASF and Linde.

	<i>Ratio of employment in foreign subsidiaries to total employment</i>	<i>Ratio of sales outside the homeland to total sales</i>
French multinationals	63%	68%
German multinationals	58%	72%
Percentage point difference (France-Germany)	5	-4
<i>Source:</i> Authors' calculations using data from UNCTAD (2013) about the top 100 multinationals.		

Table 2: Jobs and sales outside the country of origin in the biggest French and German multinationals (2012).

These findings about the biggest multinational firms corroborate macroeconomic data on the weight of exportation strategies in Germany and of FDIs in France (Table 1). French multinationals, unlike their German counterparts, have definitely preferred setting up operations outside the country, to the detriment of production in, and exports from, the homeland. The probable explanation for this is the decreasing cost competitiveness of production sites in France, as compared with Germany.

To illustrate these differences between French and German firms, it is worthwhile analyzing a firm from each land in the same branch of the economy. Table 3 presents data on two automakers. When foreign sales are used to measure internationalization, Volkswagen outstrips Renault. When shifting the focus to jobs in foreign affiliates however, Renault turns out to be more internationalized than Volkswagen. For a lower proportion of sales abroad, Renault produces more outside the country. This is clear evidence that the French automaker counts less on domestic production and, therefore, on exports than its German counterpart.

A question is still standing. As for operations set up outside the country of origin, do these French and German multinationals differ with respect to the choice of a type of FDI, horizontal or vertical? Let us now turn to this question.

Which FDI strategy: Horizontal, or vertical?

Markusen & Venables (1998), who introduced a typology of FDIs based on the strategies underlying decisions for setting up foreign subsidiaries, have distinguished between horizontal FDIs, which create subsidiaries that produce goods identical to those manufactured by the multinational in its country of origin, and vertical FDIs, which set up operations abroad that are complementary to the parent company's activities.

Horizontal multinationals set up abroad production processes similar to the parent company's in the homeland. Markusen and Venables (1998) have emphasized that FDIs of a horizontal type reduce trade flows. When a multinational sets up a subsidiary, local production replaces exports. Accordingly, multinationals choose to make horizontal FDIs when exportation costs are higher than the costs of setting up operations abroad. They prefer this strategy for entering the

markets of larger countries in order, on the one hand, to reduce fixed installation costs and, on the other, to reap economies of scale. The relative production cost at foreign plants in the case of a horizontal FDI compared with the cost of importing products from the multinational's country of origin apparently depends on: sales costs, transportation costs, trade barriers (such as custom duties) and the economies of scale to be made thanks to plants in the foreign land.

Vertical multinationals seek to take advantage of international differences in the cost or quality of various factors during each phase of the value chain. They thus specialize their plants in each country on a given stage of the production process. Optimally locating various business activities is a key issue for the multinationals that increasingly segment the value chain (COLOVIC & MAYRHOFER 2011). Opting for this strategy is not new. In the late 1990s, Ford located operations as a function of characteristics in the host country (MUCCHIELLI 1998). The most technology-intensive activities (motor parts) were located in Leamington (England) and Cologne (Germany); and the least technology-intensive ones (final assembly, upholstery), in Valencia (Spain). A good example of this vertical model comes from the German automakers who moved the production of certain parts to eastern Europe while keeping much of the value chain in Germany.

Vertical FDIs stimulate international transactions, unlike horizontal ones. Trade and FDIs are much more compatible when foreign investments are of a vertical type. The parent company's productivity is a factor in the decision to make a vertical FDI (HEAD & RIES 2001). In this case, the main determinants of the location of production units abroad are: unit labor costs in the host country, the characteristics of its labor market and the level of qualifications and skills there.

The multinational firms that prefer FDIs of a vertical type will, therefore, tend to import intermediate goods for assembly at their factories in the homeland. On the contrary, those that prefer FDIs of a horizontal type import fewer intermediate goods but more finished products. As Table 4 shows, the share of intermediate goods in total imports was, in 2011, lower in France than in Germany. During the period 1994-2011, this share increased considerably in Germany while tending to be stable in France. This comparatively low degree of externalization to low-cost countries of the supply of intermediate goods might, for France, be the factor that

	Ratio of employment in foreign subsidiaries to total employment	Ratio of sales outside the homeland to total sales
Renault	58%	74%
Volkswagen	55%	81%
Percentage point difference (Renault-Volkswagen)	+3	-7
Source: Authors' calculations using data from UNCTAD (2014) on the top 100 multinationals.		

Table 3: The internationalization of Renault and Volkswagen (2013).

accounts for the difference in the competitiveness of its exports with Germany's.

	1994	2011
France	46%	44%
Germany	47%	51%
Percentage point difference (France-Germany)	-1	-7

Source: Ministère de l'Économie et des Finances, 2012.

Table 4: Share of intermediate goods in imported manufactured products (France and Germany, 1994 and 2011).

Whereas French firms prefer setting up, in foreign markets, operations covering the whole value-added chain up to and including the finished product, German firms still export from Germany while importing intermediate products. They have, as a consequence, moved abroad operations involving labor-intensive phases in the value chain (KINKEL & MALOCA 2010) while keeping inside the country the core activities for adding value to the manufacturing process, namely: R&D, engineering, assembly and marketing (SINN 2006).

What about the strategies of the biggest French and German multinationals? Do these firms prefer horizontal or vertical FDIs? Do their profiles differ? The automobile industry illustrates, once again, the general differences between France and Germany with respect to the role assigned to homeland operations in the value chain.

French automakers are strongly inclined to import vehicles and export auto parts, whereas their German counterparts tend much more to import auto parts and export vehicles. As Table 5 shows, the importation of auto parts in 2011 represented a smaller percentage of total imports in France than in Germany. In turn, the exportation of vehicles represented a smaller percentage of total exports from French than from German automakers.

Differences in strategy clearly come into play. French automakers tend to offshore production more than assembly. The factories moved abroad make vehicles for foreign markets and, too, target the domestic market in France. During the first decade of the 21st century, Renault became a net importer of vehicles in France (BUIGUES *et al.* 2015). German automakers use foreign countries, in particular the new EU member states, to make parts that are then imported back into Germany

for final assembly, an activity retained more often in Germany than in France.

French automakers tend to make horizontal FDIs. Foreign factories produce vehicles in full, a percentage of them then being imported back in France. In contrast, German automakers import auto parts more than their French counterparts; and German factories are still more oriented toward the final assembly of vehicles for exportation. German FDIs tend, therefore, to be vertical.

German firms take advantage of international differences derived from the cost or quality of labor during each phase of the value chain for producing intermediate goods and parts. Each foreign market where operations are set up is specialized in a specific type of intermediate product, and the German multinational tries to optimize cost competitiveness and product quality.

These internationalization strategies, whether horizontal or vertical, are not independent of the strategy adopted for entering foreign markets. We suppose that horizontal FDI strategies are better adapted for penetrating foreign markets through acquisitions whereas vertical FDI strategies are better adapted to market entry through what has been called greenfield investments. Acquisitions seem less suited for producing abroad a single segment of the value-added chain. Can these suppositions be corroborated?

Which market entry strategy: Greenfield investments or acquisitions?

When a firm makes a direct investment to set up operations in a foreign country, it has to choose between two possible investment strategies, greenfields or acquisitions.

Greenfield investments, which create a new production unit from scratch, are a good way to expand into foreign markets. This strategy's principal advantage is that the parent company maintains full control over operations. However a rather long time is required before the strategy becomes fully operational.

Mergers and acquisitions hold certain advantages compared with the foregoing strategy, in particular a fast, easy access to new production capacities. Firms tend to make acquisitions in sectors where there are several targets that can be bought out. Furthermore,

	Exports		Imports	
	France	Germany	France	Germany
Auto parts	37%	25%	27%	41%
Vehicles	63%	75%	73%	59%
Total	100%	100%	100%	100%

Source: Direction Générale des Douanes et des Droits Indigents (2012).

Table 5: Horizontal vs. vertical FDIs: French and German multinationals in the automobile industry (2011).

this strategy allows a firm to immediately expand its market share and reinforce its position on the market.

Hennart (1982) was one of the first scholars to have analyzed the factors that weigh on the choice between these two modes of foreign market entry. Among the Japanese multinationals trying to enter the American market, those with a slight competitive advantage relied on acquisitions, whereas those with a strong competitive advantage preferred greenfields (HENNART & PARK 1993). Consonant with these findings, a relation has been shown to exist between R&D and the mode of market entry (CHANG & ROSENZWEIG 2001). A firm's commitment to R&D is an important factor in the choice between these two market entry modes. In technology-intensive sectors, firms with a competitive advantage generally prefer greenfields, since they have what it takes to develop in house the requisite capacities. On the other hand, firms that are not R&D-intensive might want to acquire technological skills through acquisitions.

Acquisitions usually cost more than internal development, owing to the financial premiums as well as the costs of transactions and integration (LEE & LIEBERMAN 2010). They also seem riskier than greenfields. An acquisition requires more funds up front, whereas a greenfield can be gradual. During implementation, acquisitions often run up against cultural differences; and expected economies of scale are not easy to achieve.

Finally, a firm's in-house "culture" is an important factor. Some firms have a culture favorable to greenfields; others, to acquisitions. Whether the firm adheres to an "Anglo-American" or a "continental" culture weighs on this choice (BUIGUES & LACOSTE 2011). In the former, the approach adopted by stockholders is more financial than industrial, and such firms tend toward mergers and acquisitions rather than greenfields, which require a long-term strategy. French multinationals where Anglo-American shareholders carry weight tend to adopt merger-and-acquisition strategies.

Indeed, firms and their executives are "imbued by a cultural socialization that has shaped their way of perceiving reality, and of thinking and acting according to this perception" (BARMEYER & MAYHOFER 2007:15). German firms, for example, value joint management; and wage-earners must be won over to strategic objectives. This form of management pushes for a high level of standardization of work processes. These characteristics of Rhenish capitalism, of its mode

of governance and management, might work in favor of greenfields instead of mergers and acquisitions. In the case of an acquisition, the cultural shock between the German firm and the thus acquired foreign company might jeopardize the Rhenish model.

Comparisons between the foreign market entry strategies of German and French firms are telling. Between 2011 and 2013, German firms heavily made greenfield investments: more than €56 billion per year compared with but €36 billion for French firms. The reverse can be observed for mergers and acquisitions. French multinationals invested more in acquisitions than did the Germans: €12.1 billion per year vs. only €9.4 billion (See Table 6).

The competitive advantage of German firms — in particular their high level of differentiation, their position on the high end of their markets and their high level of spending on R&D — provide, in our opinion, a possible explanation of their preference for greenfield investments over mergers and acquisitions. This confirms the findings of previously cited studies (HENNART & PARK 1993, CHANG & ROSENZWEIG 2001).

In contrast, French firms launch bigger operations than their German counterparts. The average amount for an acquisition was \$26.5 million compared with \$20.3 million for German firms. For greenfields, the respective averages were \$44.5 million and \$41.2 million. This difference might be set down to the French firms' propensity to pursue horizontal operations, which, by nature, cover a larger span of the value chain than the vertical operations preferred by German firms.

Conclusion

In the effort to contribute to the literature on corporate strategies for penetrating foreign markets, this article has compared the practices of firms from two European lands (France and Germany) and tried to explain the differences thus observed. Since most earlier studies have treated Europe like a single unit (MAYRHOFER 2004), it is worthwhile assessing how the characteristics of specific European countries weigh on the choices made by their firms. This France/Germany comparison, globally but also among big firms, has brought to light considerable differences in strategic choices.

Besides setting in a clear light two disparate models

	<i>Value of greenfield investments outside the country</i>	<i>Value of mergers and acquisitions outside the country</i>
French firms	\$35.9 billion	\$12.1 billion
German firms	\$56.3 billion	\$9.4 billion
Difference France-Germany	-\$20.4 billion	+\$2.7 billion
<i>Source: Authors' calculations using data from UNCTAD (2014).</i>		
<i>NB: A three-year period (2011-2013) has been used to limit possible distortions due to any given year.</i>		

Table 6: Foreign investments of French and German firms: Greenfields vs. mergers & acquisitions (Average value, 2011-2013).

of internationalization strategies, this comparative analysis of the international strategies of firms from Germany and France has mentioned explanatory factors. However the suggested explanations are, at this point, but hypotheses for further research. They await corroboration: the strong cost competitiveness of production sites in Germany compared with plants in France; the position of German multinationals at the high end of their markets; their high level of spending on R&D in comparison with French multinationals; and cultural and institutional factors. Let us review the major aspects that set these two models apart.

First of all, French firms prefer FDIs more than German firms, which tend toward exportation. France has more big multinationals than Germany, and its multinationals have gradually moved production plants outside the country. In contrast, the big German groups still give a strategic place to plants in Germany and still export massively from the homeland. Had French multinationals adopted internationalization strategies similar to the German ones, France would have improved its balance of trade. How to account for this difference in strategies? It has, we suppose, to do with the conditions of production in the homeland (the unfavorable trend in total labor costs in France compared with Germany) and, too, with the positioning of products on the market (French firms at the lower or middle range of the market compared with the upscale products of German firms). The erosion of France's balance of trade might, therefore, be mainly due to a lack of competitiveness of plants inside France, even though the performance of big French multinationals is comparable with that of their German counterparts.

Secondly, when they move operations outside the homeland, German firms rely, more than French firms, on a vertical segmentation of the value chain. They keep creative activities (e.g., their massive investments in R&D) and, above all, final assembly in the homeland. That is what the big German automobile firms have done. On the contrary, French multinationals prefer FDIs of a horizontal type, evidence of this being the importation into France (to satisfy domestic demand) of the vehicles made by Renault in Romania, Turkey or Spain. These differences in international strategies fit into global strategies that also differ. Made-in-Germany is still a reference mark, both qualitatively (brand imagery, objective quality) and quantitatively (the volume of exports stimulated by the location of plants in Germany). This accounts for the German firms' determination to not choose horizontal FDIs but to take advantage of international differences in the cost or quality of labor so as to produce intermediate parts and products abroad.

Finally, German multinationals, much more than their French counterparts, make foreign investments through internal growth (greenfields). This enables them to control production abroad better than in the case of FDIs made through external growth (acquisitions). In contrast, French multinationals are, more than their German counterparts, tempted by acquisitions when they want to enter a foreign market. Once again, a possible explanation is the strategic advantage held

by German multinationals in spending on R&D and innovation.

Consequently, French and German firms pursue different models of internationalization. This article does not claim to present an exhaustive list of the explanatory factors, nor to establish a direct relation between these two models of internationalization strategies and economic performance. It is yet to be proven whether these differences stem from domestic conditions (the costs of labor or capital, the institutional and cultural environments) or from the general strategic position. Although average profitability is lower for French than German firms, this is not so for the French and German multinationals in the UNCTAD sample. In 2012, the margin in relation to sales was 5.6% for these French multinationals vs. 3.9% for the German ones.

Beyond its input to theory-building in the academic literature, this article shows that managers must, when analyzing competition or drafting a strategy, better understand how a competitor's decisions are rooted in the context of his country of origin if they want to anticipate his strategic movements.

This research has limitations that should be pointed out. First of all, it focuses on exports and foreign investments, and thus overlooks more cooperative forms of development (franchises, alliances, etc.). In effect, data on these entry modes are not available at the country level. Secondly, the use of global data does not enable us to eliminate the hypothesis that specialization by sector in the two countries under study has affected the choices made — even though the sectoral distribution of the French and German multinationals ranked among the top 100 by UNCTAD is comparable. All the German firms and 60% of the French firms come from five branches of the economy: the automobile industry; energy and utilities; telecommunications; electric and electronic products; and the chemical and pharmaceutical industry. Finally, although possibilities for explaining national characteristics have been suggested herein, they do not take into account all dimensions of each nation's context. Nor do they allow us to build a model of how these dimensions are related to the choices made. It would be worthwhile bringing national, cultural factors into the proposed model; model-building, though complicated, is an important line of inquiry for further research.

References

- BARMEYER (C.) & MAYRHOFER (U.), "Culture et relations de pouvoir: Une analyse longitudinale du groupe EADS", *Gérer et comprendre*, 88, pp. 4-20, 2007. www.anales.org/gc/2007/gc88-06-07/barmeyer.pdf
- BUIGUES (P.A.) & LACOSTE (D.), *Stratégies d'internationalisation des entreprises: menaces et opportunités* (Brussels, BE: De Boeck, 2011).
- BUIGUES (P.), LACOSTE (D.) & SAIAS (M.), "Les déterminants des stratégies internationales des constructeurs automobiles européens: exportation ou investissements directs à l'étranger?", *Gérer et*

Comprendre, 119, pp. 62-72, 2015.

CHANG (S.J.) & ROSENZWEIG (P.M.), "The choice of entry mode in sequential foreign direct investment", *Strategic Management Journal*, 22(8), pp. 747-776, 2001.

COHEN (E.) & BUIGUES (P.A.), *Le Décrochage industriel* (Paris: Fayard, 2014).

COLOVIC (A.) & MAYRHOFER (U.), "Les stratégies de localisation des firmes multinationales: une analyse du secteur automobile", *Revue française de gestion*, 104, pp. 151-165, 2008.

COLOVIC (A.) & MAYRHOFER (U.), "La reconfiguration de l'espace mondial et les stratégies de localisation des firmes multinationales", *Management international*, 16(1), pp. 11-19, 2011.

DANIEL (L.) & PICO (L.), "Vers une stratégie de réindustrialisation?" in the special issue *Réindustrialiser la France?* of *Sociétal*, 76, pp. 51-61, 2012.

Direction Générale du Trésor et de la Politique Économique, "L'appareil exportateur français: une réalité plurielle", *Trésor-Eco*, 54, 8 pages, 2009a.

Direction Générale du Trésor et de la Politique Économique, "Spécialisations à l'exportation de la France et de l'Allemagne: similitude ou divergence?", *Trésor-Eco*, 68, 8 pages, 2009b.

Direction Générale des Douanes et des Droits Indirects, "Des stratégies automobiles différentes en France et en Allemagne", *Le Chiffre du commerce extérieur*, 30, April, 2012.

DUNNING (J.H.), *Explaining International Production* (London: Unwin Hyman, 1988).

ELANGO (B.) & SETHI (S.P.), "An exploration of the relationship between country of origin (COE) and the internationalization-performance paradigm", *Management International Review*, 47, pp. 369-392, 2007.

EUROPEAN COMMISSION, "Statistical annex to European economy", Autumn, 2014.

GRANT (R.M.), JAMMINE (A.P.) & THOMAS (H.), "Diversity, diversification, and profitability among British manufacturing companies, 1972-84", *Academy of Management Journal*, 31(4), pp. 771-801, 1988.

HEAD (K.) & RIES (J.), "Overseas investment and firm exports", *Review of International Economics*, 9(1), pp. 108-122, 2001.

HENNART (J.F.), *A Theory of Multinational Enterprise* (Ann Arbor, MI: University of Michigan Press, 1982).

HENNART (J.F.) & PARK (Y.R.), "Greenfield vs. acquisition: The strategy of Japanese investors in the United States", *Management Science*, 39(9), 1993, pp. 1054-1070.

JOHANSON (J.) & VAHLNE (J.E.), "The

internationalization process of the firm: A model of knowledge development and increasing foreign market commitment", *Journal of International Business Studies*, 8, pp. 23-32, 1977.

KINKEL (S.) & MALOCA (S.), "Localisations industrielles: les entreprises redécouvrent les vertus du 'made in Germany'", *Regards sur l'économie allemande*, 95, pp. 5-14, 2010.

KOGUT (B.) & ZANDER (U.), "Knowledge of the firm and the evolutionary theory of the multinational corporation", *Journal of International Business Studies*, 24, pp. 625-645, 1993.

KRUGMAN (P.), "Increasing returns and economic geography", *Journal of Political Economy*, 99, pp. 483-499, 1991.

LA PORTA (R.), LOPEZ de SILANES (F.), SHLEIFER (A.) & VISHNY (R.W.), "Law and finance", *Journal of Political Economy*, 106, pp. 1113-1154, 1998.

LEE (G.K.) & LIEBERMAN (M.B.), "Acquisition vs. internal development as modes of market entry", *Strategic Management Journal*, 31, pp. 140-158, 2010. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1921434&rec=1&srcabs=473721&alg=7&pos=3

LEMAIRE (J.P.), *Stratégies d'internationalisation* (Paris: Dunod, 2013).

LI (J.) & YUE (D.R.), "Market size, legal institutions, and international diversification strategies: Implications for the performance of multinational firms", *Management International Review*, 48(6), pp. 667-688, 2008.

LU (J.W.) & BEAMISH (P.W.), "The internationalization and performance of SMEs", *Strategic Management Journal*, 22(6-7), pp. 565-586, 2001.

MARKUSEN (J.R.) & VENABLES (A.J.), "Multinational firms and the new trade theory", *Journal of International Economics*, 46(2), pp. 183-203, 1998.

MAYRHOFER (U.), "International market entry: Does the home country affect entry-mode decisions?", *Journal of International Marketing*, 12(4), pp. 71-96, 2004.

MEIER (O.) & MESCHI (P.X.), "Approche intégrée ou partielle de l'internationalisation des firmes: les modèles Uppsala (1997 et 2009) face à l'approche 'International New Ventures' et aux théories de la firme", *Management international*, 15(1), pp. 11-18, 2010.

MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES, "Les importations de biens intermédiaires, facteur de compétitivité?", *Études et Éclairages*, 33, July 2012. Available at lekiosque.finances.gouv.fr/fichiers/Etudes/tableaux/EE_33.pdf

MITTELSTAEDT (J.D.), HARBEN (G.) & WARD (W.A.), "How small is too small? Firm size as a barrier to exporting from the United States", *Journal of Small Business Management*, 41(1), pp. 68-84, 2003.

MORSCHETT (D.), SCHRAMM-KLEIN (H.) & SWOBODA (B.), "Decades of research on market entry modes: What do we really know about external antecedents of entry mode choice?", *Journal of International Management*, 16(1), pp. 60-77, 2010.

MUCCHIELLI (J.L.), *Multinationales et mondialisation* (Paris: Éditions du Seuil, 1998).

SINN (H.W.), "The pathological export boom and the bazaar effect: How to solve the German puzzle", *The World Economy*, 29(9), pp. 1157-1175, 2006. Available at http://www.cesifo-group.de/portal/page/portal/DocBase_Content/WP/WP-CESifo_Working_Papers/wp-cesifo-2006/wp-cesifo-2006-04/cesifo1_wp1708.pdf

STEVENS (C.E.) & DYKES (B.), "The home country cultural determinants of firms' foreign market entry timing strategies", *Long Range Planning*, 46, pp. 387-410, 2013.

UNCTAD, *World Investment Report* (New York & Geneva: United Nations Conference on Trade and Development, 2012, 2013 & 2014). These annual reports are available at <http://unctad.org/en/pages/DIAE/World%20Investment%20Report/WIR-Series.aspx>

VERNON (R.), "International investment and international trade in the product cycle", *Quarterly Journal of Economics*, 80, pp. 190-207, 1966.

WAN (P.W.) & HOSKISSON (R.E.), "Home country environments, corporate diversification strategies, and firm performance", *Academy of Management Journal*, 46(1), pp. 27-45, 2003.

WILLIAMSON (O.E.), *Markets and Hierarchy: Analysis and Antitrust Implications* (New York: Free Press, 1975).

ZAHRA (S.A.), IRELAND (R.D.) & HITT (M.A.), "International expansion by new venture firms: International diversity, mode of market entry, technological learning, and performance", *Academy of Management Journal*, 43(5), pp. 925-950, 2000.