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Does Winning Mean the Same Thing around the World? National Ideology and the Performance of Global Competitors

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Do firms based in different countries have different and predictable performance objectives that reflect their national ideologies? This question is tested by examining the performance of 114 firms based in the United States, Japan, and the European Union. We find that firm performance reflects country of origin in a predictable fashion based on national ideologies. Implications for business include the possibility that competitive strategies for successful global competition can be developed based on the results reported. Opportunities for future research are also offered. J BUSN RES 1999. 44.117–126. © *1998 Elsevier Science Inc.*

Why might firms based in different countries pursue different objectives? We oftentimes assume that all firms are simply interested in maximizing profit. However, international business researchers have suggested a variety of possibilities beyond the classic profit-maximizing objective, which include protection of national culture (Hofstede, 1980), exploitation of unique products or resources (Porter, 1990), unique approaches to internationalization (Anderson and Coughlan, 1987), or development of national infrastructures (Keegan, 1984).

There are many who offer reasons for what the country-based goals might be. For example, Dunning and Pearce (1982) suggest that it might have to do with home country and host country influences. Kogut and Singh (1988) argue it is related to national culture. Porter (1990) suggests that location, culture, and resource-based advantages vary from country to country and help explain the pattern of global competition. Sekely and Collins (1988) suggest that cultural differences tend to heavily influence the capital structure of firms. They all seem to agree there is evidence that the performance goals of firms vary from country to country. Recently, Lodge (1990a) proposed that countries encourage firms to pursue a primary strategic objective based on the underlying ideology of the country. Extending Lodge's work, Thurow (1992) specifically suggests that competing national ideologies result in American firms being short-term profit maximizers, Japanese firms growth maximizers, and European firms tend to fall somewhere between the two.

The purpose of this study is to provide an empirical examination of Lodge and Thurow's views on the relationship between national ideology and primary performance objectives. We attempt to determine whether there is empirical support for the belief that firms pursue different performance goals based on their home country ideology. If this is true, knowing how other firms define winning will provide global competitors with information needed for the development of competitive strategies.

Theoretic Framework

Lodge (1990a) proposes that countries, and in turn firms, develop primary strategic objectives based on the ideology of the country's citizenry. According to Lodge:

> To think intelligently about the management of business-government relations within and among the nations of the world requires an understanding of the sharp differences both in the behavior of government and businesses in different countries as well as in prevailing views about how they are supposed to behave. (1990a, p. 3).

Lodge (1990b) believes that policies vary by country because national policies result from differing national ideologies, which stem from their historical patterns. He proposes that ideologies

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result in national systems, or strategic objectives, defining the country's share of the "global economic pie." National ideology is important because it gives senior managers responsible for setting policy an understanding of their role, behavior, and source of power in the work place (Lodge, 1987). Global strategic management authors have proposed that governments reflect the ideologies of the country in the level and type of intervention in the country's economy, which in turn, determines the primary objectives of the country's firms (Lodge, 1990a; Porter, 1990; Thurow, 1992).

Individualism and Communitarianism

Lodge (1987) proposes that two polar national ideologies exist: individualism and communitarianism. Individualism reflects the value for the near-term betterment of the individual. According to Lodge (1987), the United States is the best industrialized national representative of the individualistic ideology.

At the other extreme of the ideological continuum is communitarianism, which is characterized by holism, planning, and community need. The goals of communitarianism encourage the creation of a production-based economy that facilitates long-term sources of low-cost capital for industry, aggressive market dominance, and protection from acquisition when stock prices drop as a consequence of pursuing long-range production objectives. Lodge (1987) cites Japan as the best industrial national example of the communitarianistic ideology. In Japan, although still a desirable outcome, profits are seen as a means for long-term productive enterprise rather than as a goal to be achieved in their own right (Kono, 1984).

Between the ideological extremes of individualism and communitarianism are countries whose citizens value aspects of both ideologies. Such middle ideology countries tend to value extensive social programs that include national health care, pensions, and extensive government legislation protecting workers' rights in the workplace (Poole, 1986).

The differences between the United States and Japan on the individualism/communitarianism ideological continuum explain why the structures and purposes of businesses in "the United States and Japan appear to be polar extremes with European countries ranged on the spectrum in between" (Lodge, 1990a, p. 27). Thus, Lodge's theory implies that the ideological differences lead to dramatic differences in the primary performance objectives of U.S. and Japan businesses, with European Union (EU) firms falling somewhere in the middle.

Social-Market Economies

Expanding the work of Lodge, Thurow (1992) suggests that the form of capitalism practiced in America is subtly different from the versions of capitalism found in the EU. The Germans practice what Thurow calls "social-market economics." This is similar to what Poole (1986) and Lane (1989) refer to as "industrial democracies." These economies, "broaden the ranks of corporate stakeholders beyond that of the traditional capitalistic owners to include workers. German government agencies (state and federal) own more shares in more industries than any noncommunist country on the face of the globe" (Thurow, 1992, p. 36).

Although these industries are still profit oriented, government, workers, and private owners create an environment where capital must be more patient than in a true market economy. Thus, the performance goal of EU firms shifts from short-run profit maximization to a longer term profit orientation.

Producer Economies

Thurow further suggests that the Japanese firms pursue capitalism principles differently than their German counterparts. He characterizes them as having a "producer economy." According to Thurow, their "goal is market-share maximization . . . not simple profit maximization. Only in the contracting phase of a product's life cycle are profits maximized so that it serves as a cash cow to finance the expansion of new areas of endeavor" (1992, p. 118). This perspective is shared by Keegan (1984) and Kono (1984), who suggest that long-term market share dominance orientation is accomplished through short-term growth orientation.

The theory suggests that firms based in different countries tend to pursue different performance objectives. Thurow (1992) proposes that American firms are short-term profit maximizers, Japanese firms are growth maximizers, and European firms fall somewhere in the middle. This is consistent with observations about American (Jauch, Osborn, and Glueck, 1980), EU (Lane, 1989; Samiee, 1987; Poole, 1986), and Japanese (Clark, 1979; Kono, 1984) firms.

Hypotheses

Lodge's (1990a) and Thurow's (1992) theories of differing primary performance objectives are used to explain and predict differences in the performance of U.S., Japanese, and EU firms.[1]

Profit Goals

Several authors suggest that profit is the key strategic goal of U.S. and EU competitors (Thurow, 1992; King, 1985; Lane, 1989; Samiee, 1987; Poole, 1986). However, U.S. firms are believed to have short-term profit goals as opposed to EU firms' long-term profit goals. To attract capital either for expansion or investment, U.S. firms must provide short-run returns on invested capital that are at least as competitive as all other known alternatives. Conversely, to attract workers, competitive wages must be offered to attract the best workers possible, although such wages tend to restrict profitability. Thus, U.S. firms attempt to substitute capital for labor to achieve increasing levels of efficiency, thereby maintaining high wages and high returns on invested capital.

Thurow (1992) proposes that EU firms are also profit ori-

[1] It has been suggested that cross-national differences in reported profitability and/or growth may result from national differences in accounting procedures. However, as Agami (1993) notes, although accounting practices vary in Germany, Japan, and the United States, these differences appear to exert no systematic differences in reported performance.

ented, but in the longer term than U.S. firms. Because capital investment is needed to achieve competitive levels of profitability, and equity capital is one of the cheapest capital sources that firms can obtain, we also expect the capital level of U.S. and EU banks to be higher than Japanese firms.[2] The proposed relationship between firm profitability and capitalization levels is consistent with the financial pecking order theory, which proposes that the most profitable firms generally have the highest capital level because they rely on internal financing (Baskin, 1989; Myers, 1984). This leads to the following hypotheses:

H1a: U.S. and EU firms will have higher relative profit levels than Japanese firms within the same industry.

H1b: U.S. and EU firms will have higher relative capital levels than Japanese firms within the same industry.

Growth Goals

A number of authors have suggested that growth is the key strategic goal of Japanese firms (Clark, 1979; Kono, 1984). To achieve the communitarianistic ideology through growth, the Japanese government uses policies such as public encouragement of savings to ensure long-term and low-cost capital for industry, encouraged continual research and development through tax incentives, regular plant expansion and modernization, and interlocking business relationships to ensure achievement of national objectives (Hoshi, Kashyap, and Scharfstein, 1990). Protected trade also allows Japanese firms to charge higher prices at home than overseas, thus encouraging consumers to subsidize businesses at home while increasing international trade market share.

The result of these public policies is the encouragement of firms pursuing long-term performance goals. Short-term profits must be forsaken to achieve loan volume growth and resulting market dominance (Daimon, 1994). Therefore, to allow firms to invest the maximum amounts in future business relationships through growth, dividend yields and payout rates will tend to be low. Terrell, Dohner, and Lowrey (1990) summarize Japanese firm behavior this way:

> Their competitive success appears to result from a variety of factors, including the expansion of Japan as a trading nation and the ability of Japanese banks to fund their activities at very attractive rates in some markets (p. 49).

Since the Japanese economy supports Japan's primary strategic objective, we expect this growth orientation to be reflected in the performance of Japanese firms, specifically in financial and market growth measures. We also expect to see market dominance reflected in the size of Japanese firms. This leads to the following hypotheses:

H2a: Japanese firms will have the highest level of growth in their industry.

H2b: Japanese firms will be the largest in their industry.

[2] Additional support for this comes from the Cooke Committee, which acknowledged the uneven national emphasis placed on risk-based capital requirements within certain industries (Hemple et al., 1990; de Carmoy, 1990).

EU Goals

Because of their middle ideology, EU countries value goals that balance full employment, the support of extensive social programs, and reasonable return on investment. Like the United States, EU countries need business profits to fund the cost of their social programs through aggressive taxation. However, unlike the United States or Japan, EU countries have developed state-owned enterprises (SOEs). These government-sponsored firms provide a significant level of service in certain industries. They tend to focus on paying a good wage and maximizing employment, which supports the contention that short-term profitability is a secondary concern to longer term market opportunities and the continuance of broad social programs (Walter, 1988). Because of the higher level of government involvement through the economic impact of the SOEs, large EU firms tend to be better suited to focus on strategies having a longer time horizon than U.S. firms whose owners focus on quarterly performance achievement. Thus, the factors affecting European firms, including long-term social program demands and the need for success in the global marketplace, tend to result in firms having a longer term view of potential market opportunities (Grey and Thune, 1990). The importance of this longer time horizon, in part, affects how investors choose firms for investment.

The time period over which investors measure a portfolio's return tends to be proportional to the risk borne (Brealey and Myers, 1991). That is, all things being equal, the longer one holds an investment, the greater the likelihood that market risk will affect its return. Since it is proposed that EU firms tend to favor projects with longer time horizons promising long-term profits, we would expect the portfolio of stocks in EU firms to have greater exposure to market risk than in the United States or Japan.

We would also expect the requirement that EU firms support expensive social programs through aggressive taxation to affect their earnings distribution behavior. That is, in EU countries, where taxation rates are higher than in the U.S. or Japan, national requirements encourage the disbursement of profits to ease the administrative burden of tax collection (Atkinson, 1990; Bannock, 1990; Easson, 1980). Thus, we would expect the distribution of earnings (dividends) by EU firms to be greater than in the United States or Japan where firms tend to reinvest earnings in internal growth. Collectively, therefore, EU firms will behave more characteristically like a portfolio of income stocks than a portfolio of growth stocks by paying out a greater portion of their earnings in the form of dividends.[3] This leads to the following hypotheses:

[3] The idea of income versus growth portfolios is part of the goals that investors have when they make a financial investment. Investors interested in a source of steady income tend to invest in firms that issue dividends, whereas investors interested in the overall growth of their investment tend to invest in firms that reinvest earnings in growth strategies rather than dividends. Firms tend to communicate their earnings distribution strategy to ensure investors' goals are aligned with the goals of the firm.

H3a: EU firms will have the highest investment risk of firms in the three country types within the same industry.

H3b: EU firms will have the highest profit distribution rate of the firms in the three country types within the same industry.

Summary

Lodge and Thurow provide a framework for explaining performance differences among U.S., Japanese, and EU firms by proposing that the firms actually have different performance goals or definitions of winning. They suggest that national ideology tends to define the general performance goals of the country's firms. If these national goals exist, we expect to see predictable differences in the financial performance of firms in the three country types within specific competitive environments, or industries, as hypothesized. Comparison within industries is an important issue in the proposed framework. Since industries have their own competitive peculiarities, it is important to apply the model within a particular competitive environment when assessing differences in performance goals.

Method

We test the theory that firms pursue different primary objectives predicted by their home country ideology. We use the competitive environment of global banking to test the framework for four reasons. First, banking has been an object of rapid internationalization (Lee, 1994; Kim and Miller, 1983), and a global marketplace for financial services has been clearly identified (Tschoegl, 1987; Walter, 1988). This places banking at the forefront of global competition.

Second, banking is one of the major determinants of the economic future of countries. Banking has a place alongside technology as one of the primary means for mastering a country's economic future. An economy competing to advance its industries with diminished control over its "financial space" suffers a severe handicap in terms of the evolution of both living standards and political influence (de Carmoy, 1990). Therefore, banking is critically important to the financial welfare of globally competing nations. In addition, banking is regulated in a way that emphasizes the national goal orientation should one exist.

Third, the following provides evidence that even experienced "bank watchers" are at a loss to explain the pattern of international lending activities.

> Since 1984, foreign institutions have increased their share of C&I (commercial and industrial) loans from 8% to 20.9%, with Japanese banks now accounting for more than half such loans. Many observers have been expecting that the recent capital woes of Japanese banks at home would cause them to pull in their loans overseas, but no such pull-back is yet apparent (*Business Week*, January 28, 1991, p. 22).

Finally, we chose banking because any differences in performance over time may be reasonably attributed to the primary strategic objective of the bank rather than to the bank possessing any unique basis of sustainable competitive advantage (de Carmoy, 1990; Kim and Miller, 1983). Smith and Walter (1990, p. 651) suggest that, "In time, one's opponents can remake their own arsenals [of strategic weapons]," which as Bhide (1986, p. 61) suggests, is why "high profits stem from superior execution of forceful opportunism, not strategic competitive barriers." Clearly, there is a need for empirical investigation. Thus, banking is an important industry, making it optimal to test Lodge's and Thurow's assertions that cross-national differences in primary strategic objectives exist. For these reasons the global banking industry appears to be an excellent venue for testing the theories of Lodge and Thurow. We use an archival data set containing a number of financial and market performance measures to test the hypotheses. Analysis of variance and discriminant analysis are used to analyze the data.

Sample

The data used in this study were published in *Business Week's Global 1000* as obtained from Morgan Stanley Capital International for the 5 years ending May 31, 1988–1992. Morgan Stanley Capital International converted all firm financial and market statistics to U.S. dollar denominations as of the same day of each year (May 31) based on international currency rates in effect on those dates. We preferred this data over that used in a number of previous international comparative studies, because we were able to use a single source for firm performance information thus eliminating the potential for differences that result from multiple foreign exchange rate sources of information.

Our sample consists of the 114 international U.S., EU, and Japanese banks listed in the *Global 1000*, for the period 1988 through 1992. Five-year averages were calculated to limit the effects of single year variations following the approach suggested by Zimmer and McCauley (1991). Data for banks with fewer than 5 years of information were averaged, using the number of years for which data was available. These longitudinal data, or panel, follow a sample of banks over time. Panel data sets used for economic research possess several major advantages over conventional cross-sectional or time-series data sets, including increased reliability and reduced collinearity among explanatory variables (Hsiao, 1990). Therefore, we felt the data would be especially valid for testing the hypotheses.

The global banks were classified by home country of origin as U.S., Japanese, or EU. Table 1 provides the listing of countries and number of banks per country in each of the three country types. There are 34 U.S., 45 EU, and 35 Japanese banks in the sample.

Measures

The variables used combine accounting and market-based measures of performance. They were selected to represent the

Table 1. Classification and Description of Banks

Classification of Banks by Home Country			
Market Economy	**Social-Market Economy**		**Producer Economy**
U.S. (34)	Belgium	(2)	Japan (35)
	Britain	(10)	
	Denmark	(2)	
	France	(7)	
	Germany	(6)	
	Ireland	(1)	
	Italy	(5)	
	Netherlands	(4)	
	Spain	(8)	
34		45	35
Total: 114			

Descriptive Statistics of Bank Size by Region			
	Assets	**Market Value of Equity**	**Share Price**
United States	$51,192	$3,470	$35.64
European Union	81,886	4,026	62.36
Japan	115,410	16,859	15.93

All figures are in billions of dollars except for stock price.
Numbers in parentheses indicate the number of banks by home country.

outcomes of the country goals. Banks present several unique opportunities for the measurement of performance differences. These unique aspects allow a number of ways to measure profits, capitalization, growth, size, investment risk, and earnings distribution.

PROFITABILITY. Measures of profitability are based on the return a bank achieves given the resources at its disposal. The profit performance of a bank is often measured by the ratio of income to total assets (ROA). Although ROA is an accurate measure of bank profit performance in traditional areas such as interest income, return on equity (ROE) has been proposed as a better method of gauging profitability, since banks are increasing their concentration of investment and fee income as well as the traditional loan-based interest income sources (Staats, 1993). Additionally, it has been suggested that ROA may be a misleading measure of profitability if used to compare firms with different capital ratios (Brealey and Myers, 1991). Therefore, we use both ROA and ROE as measures of profitability.

Yield, calculated by market gains plus dividends divided by stock price per share, it also used as a profit performance measure because it combines accounting and stock market information. Investor profit orientation is measured by the yield of the firm's stock.

CAPITALIZATION. The measure of capitalization used, i.e., the percent of stockholder equity divided by total liabilities, is also known as the capital ratio of the bank. It is a common indicator of a firm's free cash position (Jensen, 1988).

GROWTH. Growth is measured by a growth ratio. When applied to a portfolio of firms, growth is measured by the market reaction to the possibility future growth potential. We use a growth ratio and two measures of future growth potential to analyze growth orientation goals. The growth ratio, calculated by dividing ROE, minus yield, by ROE measures the rate banks retain earnings for potential investment. Since banks anticipating growth opportunities retain a large portion of their earnings, this measure is greater for "growth stocks" (Brealey and Myers, 1991; Collins, 1990).

Market indication of growth potential is also measured by Tobin's Q (Tobin, 1969; Jensen, 1988) and the price-to-earnings (PE) ratio. Tobin's Q has been related to a measure of monopoly power (Lindenberg and Ross, 1981), firm expansion (i.e., growth), and firm performance (Lang, Stultz, and Walkling, 1989; Wernerfelt and Montgomery, 1988). Tobin's Q, as measured by the market to book value ratio, was chosen because high Q firms are more likely to use internally generated funds for growth. A Tobin's Q of 1 indicates that investors value the assets under the direction of management the same as the replacement value of the assets indicating their belief that management potentially adds nothing to the assets.

The price-to-earnings ratio has also been related to growth (Brealey and Myers, 1991). That is, a high PE ratio tends to be indicative of high growth expectations by investors. For example, Constand, Freitas, and Sullivan (1991) found the PE ratio was negatively related to changes in dividend growth and dividend payout rates in Japanese firms.

SIZE. We measure size by two related accounting indicators, assets and market value of equity. Since loans are carried on the books of banks as assets, banks with the greatest market share will have the highest asset levels. Market value of equity

provides a market-based indication of bank size (Hemple, Coleman, and Simonson, 1990).

RISK. We use the variance of ROE to measure risk in the three portfolios. Generally, the greater the variance of ROE, the greater the risk. Unlike the previous measures, this measure is a portfolio, rather than individual firm, measure. That is, the variance of ROE of all firms in a country are calculated.

EARNINGS DISTRIBUTION. The belief that EU countries must support expensive social programs through aggressive taxation is measured by the payout ratio, i.e., the amount of earnings distributed directly to stockholders. The payout ratio also indicates the investment nature of the firm: income versus growth.

Analysis

Analysis of variance was used to determine the significance of differences among the firm performance for the three country types. Because the risk measure is a portfolio rather than individual measure, differences in variances were calculated by an F distribution as suggested by Anderson, Sweeney, and Williams (1990). Simultaneous paired comparisons were used to assess the significance of differences between country groupings consistent with the approach used by Scott (1972). Duncan's multiple range test was used, because it has been shown to be sensitive in detecting true differences between means while not unduly deemphasizing protection against type I errors. Simple correlations are reported in Table 2.

Since the objective of this study is to assess the factors that distinguish firm performance among country types, discriminant analysis (Fisher, 1936) was used to develop combinations of the performance factors that classify firms into one of the three (U.S., Japan, EU) hypothesized country types. Discriminant analysis is a multivariate technique used for the analysis of factors separating groups (Bray and Maxwell, 1985; Huberty, 1975). Banks have traditionally used discriminant analysis to develop models separating loan applicants into groups for determining probability of loan default. Classification results ("hits" versus "misses") are compared to determine the percent of cases classified correctly indicating the effectiveness of the model and predictive power of the factors chosen. We apply this technique in a different way by using the firm performance measures to predict the bank's home country. An efficient discriminant model will provide global competitors with information about the performance goals of competing firms based on its country of origin. Thus, knowing a rival's country of origin affords global competitors with a strategic advantage in planning competitive moves.

Results

Overall, the results support the theory that national ideology affects the performance goals of global competitors. The results of the hypotheses tests are discussed first, followed by the results of the discriminant analysis. Firm performance means,

Table 2. Correlations of Variables by Country Type

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10
1. ROE	11.51	5.24	1.00									
2. ROA	0.010	0.010	0.48[b]	1.00								
3. Yield	3.36	2.33	0.36[b]	0.08	1.00							
4. Capitalization	0.05	0.02	0.19[a]	0.68[b]	0.29[b]	1.00						
5. Assets (in millions)	83000	78464	−0.20[a]	−0.37[b]	−0.15	−0.48[b]	1.00					
6. Market value (in millions)	7801	12181	−0.18	−0.21[a]	−0.43[b]	−0.37[b]	−0.85[b]	1.00				
7. Growth	0.68	0.41	0.23[a]	0.14	−0.51[b]	−0.13	0.06	0.24[b]	1.00			
8. Tobin's Q	2.37	1.72	−0.15	−0.19	−0.76[b]	−0.47[b]	0.46[b]	0.74[b]	0.47[b]	1.00		
9. P-E Ratio	29.68	25.76	−0.54[b]	−0.40[b]	−0.62[b]	−0.43[b]	0.42[b]	0.59[b]	−0.01	0.72[b]	1.00	
10. Payout ratio	7.11	21.04	0.32[b]	−0.09	0.29[b]	−0.23[a]	0.01	−0.14	−0.07	−0.12	−0.24[b]	1.00
U.S.	0.32	0.47	0.23[a]	0.24[b]	0.33[b]	0.47[b]	−0.26[b]	−0.25[b]	−0.25[b]	−0.41[b]	−0.21[a]	−0.06
EU	0.36	0.47	0.23[a]	0.17	0.50[b]	0.06	−0.04	−0.25[b]	−0.20[a]	−0.38[b]	−0.47[b]	0.29[b]
Japan	0.33	0.47	−0.46[b]	−0.41[b]	−0.83[b]	−0.52[b]	0.30[b]	0.50[b]	0.46[b]	0.80[b]	0.69[b]	−0.23[a]

[a] $p < .05$.
[b] $p < .01$. Two-tailed test of significance.

grouped by country, and the significance of the differences are reported in Table 3.

H1a proposed that U.S. and EU banks would be more profitable than Japanese banks reflecting their profit goal orientations. Consistent with H1a, we found that U.S. and EU banks maintained significantly higher ($p < .01$) ROE, ROA, and yield levels than Japanese banks. ROE, ROA, and yield levels were not significantly different between U.S. and EU banks. We also found that U.S. and EU banks have significantly ($p < .01$) greater capital levels than Japanese banks, confirming H1b. The significant difference between U.S. and EU bank capital levels reflects country ideology about the level of capital needed to ensure a sound economy.

H2a was supported, whereas 2b was only partially supported. We proposed that Japanese banks would be the largest and have the greatest growth measures reflecting their market share objective. We found Japanese banks have a significantly ($p < .01$) higher growth index, Tobin's Q, and P-E ratios than U.S. or EU banks confirming H2a. We also found that Japanese banks are significantly larger by asset size, and market value of equity, than U.S. banks ($p < .01$).

H3a proposed that EU banks would have greater portfolio risk than U.S. or Japanese banks. We found risk to be significantly greater for EU than Japanese ($p < .01$) and U.S. banks ($p < .05$), confirming H3a. We also found that EU banks payout a significantly greater proportion of profits in term of dividends than Japanese ($p < .01$) and U.S. banks ($p < .05$), confirming H3b.

Discriminant Analysis

The results of the discriminant analysis are reported in Table 4. Because seven of 114 banks in the data base had missing information for one or more variables, 107 banks were included in the discriminant analysis.

The classification of each case into the country type is based on the value of the two functions shown in Table 4. Table 5 displays the summary of classification results called the "confusion matrix." The matrix displays the number of cases classified correctly and the percent improvement over chance resulting from using the discriminant model to predict the group. Overall, 85% of cases were classified correctly using the model, which is a 52% improvement over random chance.

Discussion

Our purpose in writing this article was to provide an empirical examination of Lodge and Thurow's theory that the relationship between national ideology and firm performance is systematic and predictable. We began this study by suggesting that, based on their theory, firms within industries and based in different countries would pursue different performance objectives. American firms would tend to be short-term profit maximizers, European firms long-term profit maximizers, and Japanese firms growth maximizers. If these hypotheses were true, it should be

Table 3. Analysis of Variance and Simultaneous Testing of Variables by Country Classification

Analysis of Variance	Duncan Procedure Group 1	Duncan Procedure Group 2
1. Return on equity		
F = 14.10 $p < .001$		
Means: 1. 13.28		
2. 13.11		
3. 8.06	[b]	[b]
2. Return on assets		
F = 9.40 $p < .001$		
Means: 1. 0.0057		
2. 0.0047		
3. 0.0024	[b]	[b]
3. Yield		
F = 131.43 $p < .001$		
Means: 1. 4.36		
2. 4.86		
3. 0.45	[b]	[b]
4. Capitalization		
F = 25.35 $p < .001$		
Means: 1. 0.059		
2. 0.046	[b]	
3. 0.034	[b]	[b]
5. Assets (in millons)		
F = 6.16 $p < .002$		
Means: 1. $51142		
2. $81886		
3. $115410	[b]	
6. Market value (in millions)		
F = 18.26 $p < .001$		
Means: 1. $3469		
2. $4026		
3. $16858	[b]	[b]
7. Growth		
F = 13.72 $p < .001$		
Means: 1. 0.53		
2. 0.57		
3. 0.94	[b]	[b]
8. Tobin's Q		
F = 99.93 $p < .001$		
Means: 1. 1.39		
2. 1.52		
3. 4.43	[b]	[b]
9. Price-Earnings ratio		
F = 50.67 $p < .001$		
Means: 1. 21.87		
2. 13.62		
3. 55.17	[b]	[b]
10. Payout ratio		
F = 5.27 $p < .007$		
Means: 1. 5.26		
2. 15.05	[a]	
3. 0.04	[b]	[b]
11. Risk (variance of ROE)		
F = 12.95 $p < .001$		
Means: 1. 23.43		
2. 38.32	[a]	
3. 2.96	[b]	[b]

[a] $p < .05$. [b] $p < .01$.
Group 1 = United States.
Group 2 = European Union.
Group 3 = Japan.

Table 4. Structure Matrix

Structure Matrix (pooled-within-group correlations)		
Variable	**Function 1**	**Function 2**
Yield	0.56 (0.51)	−0.30 (−0.51)
Tobin's Q	−0.50 (−0.88)	−0.04 (−1.14)
P-E ratio	−0.35 (0.06)	0.34 (0.95)
Market value	−0.21 (0.25)	0.01 (1.14)
Return on equity	0.19 (0.65)	−0.01 (0.97)
Growth	−0.19 (−0.45)	−0.05 (0.07)
Return on assets	0.17 (0.52)	0.07 (−0.76)
Capitalization	0.24 (0.27)	0.45 (0.68)
Payout ratio	0.09 (0.16)	−0.35 (−0.13)
Assets	−0.12 (0.15)	−0.21 (−0.86)
Canonical Discriminant Functions		
Group	**Function 1**	**Function 2**
U.S.	1.96	0.78
EU	1.76	−0.73
Japan	−3.82	0.03

Bold numbers indicate primary function association. Standardized canonical discriminant function coefficients are shown in parentheses.

possible to detect these patterns by examining the performance of the world's largest competitors within a single target industry. We chose global banks to test the theory.

The data showed that U.S., Japanese, and EU banks did have differences in performance providing support for the notion of differing national ideologies. Table 6 displays the country types and the results of the empirical study for each variable considered. Generally, U.S. banks were found to be profit motivated at the relative expense of future growth potential. Conversely, Japanese banks were motivated to achieve growth at the relative expense of short-term profits. Finally, EU banks frequently maintained a moderated position in favor of long-term profit at the expense of increased exposure to systematic risk. This conclusion supports Thurow's (1992) theory that primary performance tend to differ by national ideology in a predictable pattern.

Table 6. Ranking of Variables by Country Classification[a]

	Economy Type		
Variable	**U.S.**	**EU**	**Japan**
1. Return on equity	Highest	Middle	Lowest
2. Return on assets	Highest	Middle	Lowest
3. Yield	Middle	Highest	Lowest
4. Capitalization	Highest	Middle	Lowest
5. Asset size	Lowest	Middle	Highest
6. Market value	Lowest	Middle	Highest
7. Growth ratio	Lowest	Middle	Highest
8. Tobin's Q	Lowest	Middle	Highest
9. Price-Earnings ratio	Middle	Lowest	Highest
10. Payout ratio	Middle	Highest	Lowest
11. Risk (variance of ROE)[b]	Middle	Highest	Lowest

[a] Rankings are based on means over 5 years.
[b] Risk is a portfolio-level variable; all other variables are firm-level measures.

The discriminant analysis verified that direct competitors in three country types result in a model with significant predictive ability. Simply knowing the country of origin provides enough information to accurately determine the performance goals of global competitors 85% of the time. The performance goals clearly distinguish Japanese banks from EU or U.S. banks 100% of the time, whereas more modest success was achieved in distinguishing between U.S. and EU banks. However, this is not surprising when related back to the proposed differences in firm objectives. The differences between Japanese firms' primary strategic objectives and U.S. and EU firms' primary strategic objectives are differences of form (profit versus growth), whereas the differences between U.S. and EU firms' strategic goals are of time horizons (short-term versus long-term). Thus, we would expect greater difficulty in distinguishing between U.S. and EU firms than Japanese and U.S. or EU firms.

Table 5. Classification Results

		Predicted Group Membership		
Confusion Matrix	**No. of Cases**	**U.S.**	**EU**	**Japan**
Actual U.S. firms	34	30	4	0
Percentage hit(miss) rate		88.2%	(11.8%)	(0.0%)
Percentage improvement over chance		54.9%		
Actual EU firms	38	11	26	1
Percentage hit(miss) rate		(28.9%)	68.4%	(2.6%)
Percentage improvement over chance			35.1%	
Actual Japanese firms	35	0	0	35
Percentage hit(miss) rate		0.0%	0.0%	100.0%
Percentage improvement over chance				66.7%
Total banks in analysis	107			
Percent of cases correctly classified:	85.05			
Percentage improvement over chance:	51.75%			

Managerial Implications

In considering the underlying national factors of competitive advantage, one important question to ask, according to Porter (1990), is "How can the strategy researcher identify the principal economic goals of a nation that produces a high and rising standard of living for its citizens?" Our findings support the belief that different countries define "winning" through different means. Our empirical evidence supports the theory that the use of resources to achieve a valued standard of living based on ideology explains different approaches toward performance objectives that in turn determine the pattern of global competition.

When industry factors are held constant, as we have accomplished here by evaluating global competitors in the banking industry, the only basis for sustaining long-term competitive advantage becomes the performance goals themselves. This is because the primary performance objective becomes the only thing that, over the long-term, will remain different between competitors.

The implications for strategic managers is twofold. First, based on the above conclusions we predict: (1) banks will increasingly pursue competitive strategies that tend to maximize their primary performance objectives. This means that both product and market selection will be done increasingly in a manner that facilitates the objective of the firm, and (2) firms that pursue only strategies that maximize their primary objective will perform better than those that do not because they will be consistent with the advantages of national ideology stemming from their home country. Second, knowing the performance objectives of the firm based on home country provides the strategy-setting manager with information to develop counterstrategic moves to aggressive global competitors. This is good news indeed for U.S. managers who have to think about achieving of near-term profits and the longer term objectives of their global competitors.

Opportunities for Future Research

The analysis presented here raises many additional questions. From a strategic perspective, the next step in this research might be to see if there are cross-national patterns of strategies firms use to achieve their performance objectives. Differing strategic goals suggest different strategies (Mahan and Murray, 1981; Channon, 1988; Walter, 1988). Since strategic goals lead to firm strategies (Andrews, 1987) it is reasonable to expect that firms in differing countries will tend to use different strategies to achieve their strategic goals.

For example, U.S. banks given their short-term profit orientation may tend to focus on consumer lending as a source of short-term profit since consumer loans tend to be more profitable than business loans and are susceptible to mass marketing strategies. Similarly, Japanese banks, given their growth orientation, tend to focus on high growth business loans. In the area of loan pricing, Japanese banks tend to underprice both U.S. and EU banks to achieve maximum growth, whereas U.S. banks price to achieve short-term profits. These ideas provide a fertile field for additional research.

Finally, it is worth considering additional bases for explaining cross-national patterns in global competition. Broadening this line of inquiry into political, ethnographic, or cultural examinations of the home country could prove beneficial. It could be that an unintended impact of home country laws, regulations, or customs provide a basis for sustainable competitive advantage for firms competing in an ever increasing international business environment.

Limitations

Since this study is an initial empirical investigation of firm performance resulting from national ideology, the impact of unexplored factors such as industry effects or longitudinal economic conditions remains to be explored. We have attempted to test the theoretic framework is the most controlled approach possible. For example, the study attempts to control for industry effects by examining global competitors within a single industry and uses data averaged over a 5-year period to limit the effects of single-year variations. However, the data on the performance of international firms are limited by the uniformity of financial reporting differences. Specifically, there is increasing evidence that financial reporting varies from country to country in the absence of unified accounting standards (Zarzeski, 1996). In an attempt to limit the impact of this factor, we used data from international banks that report their performance globally and used both market-based and accounting-based measures of performance.

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