

Correlations Industries Across Countries

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Are patterns of profitability structured similarly around the world?

Within advanced economies, is there any guarantee that companies in certain industries that have solid performance will be transferred within the same industry in another country? Or, put another way, are patterns of profitability structured similarly around the world?

This question was postured in a Harvard Business School (Khanna & Rivkin) paper and the conclusions may or may not, surprise you.

Khanna & Rivkin focused on publically traded firms in 43 nations and compared profitability patterns in two different ways.

- Showed that correlation in industry average profitability across the typical pair of countries is close to zero.
- Found that there were marked departures from the order of “effects” observed in several breakdowns the variance of profitability of U.S. companies?

As one might expect, however, correlations are more strongly positive for pairs of countries with common tastes, technology and national

institutions and for pairs (countries) that are relatively developed.

Moreover, they determined that there is no discernable relationship between similarity in variance breakdowns and similarity in tastes, technology, and national institutions.

The conclusion is the facts about profitability do not travel well from one country to another.

From this study, and for its conclusions, one could postulate that a coating/paint/adhesive/sealant formulator with solid profitability success in USA would have similar profitability success in Canada, England & Germany while NOT this similarity in China, Brazil, Russia and Iraq.

Further, to be profit-successful, within these dissimilar countries (China, Brazil, Russia and Iraq), the business models must be different from the model that “works” in similar industrialized country’s cultures and even to the extreme of customizing strategies on a country by country basis.

This treatment has not done justice to this very important and complex topic. Further research is important to develop tactical precision when firms feel the need to geographically expand. **CW**



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