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A CONTINGENT APPROACH TO MARKET ORIENTATION AND PRODUCT-MARKET GROWTH STRATEGY: DOES FIT RELATE TO SHARE?

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ABSTRACT

The current study takes a contingency theory approach to the relationships between market orientation and product-market growth strategy in a sample of managers of credit unions. The results of the study support this approach, showing that for both service growth and market growth, the 'fit' between market orientation and the selected strategy is relevant to perceived market share. In both instances, the recommended-fit group exhibits the highest share.

INTRODUCTION

As marketing strategy plays a significant role in the activities of financial services organizations, researchers need to continue to strengthen the link between marketing strategy and performance (Uzelac & Sudarević 2006). Given the complexity of markets and competitive conditions, the fundamental assumption by researchers in strategy and related disciplines since the 1970s has been that no universal set of strategic choices is optimal for all businesses (Ginsberg & Venkatraman 1985). In essence, corporate or business strategy is contingency-based, with the effectiveness of an organization being dependent upon the amount of congruence or “fit” between structural and environmental variables (Shenhar 2001). The primary focus of contingency theory, therefore, has traditionally been on the relationship between organizational factors, environmental characteristics, and the organization’s strategic response (Ginsberg & Venkatraman 1985). This reemerging field of interest has produced a variety of studies in recent years supporting a contingency theory approach to strategy (Birkinshaw et al 2002, Solberg 2008, Teasley & Robinson 2005). In line with this perspective, the current study examines the relationship between a variety of marketing strategy concepts and one of the most important variables guiding the practice of modern day marketing: market orientation.

MARKET ORIENTATION

Perhaps the most fundamental philosophical assumption of modern marketing theory is the centrality of the marketing concept. According to the marketing concept, in order to achieve sustained success, firms should identify and satisfy customer needs more effectively than their competitors. Firms that adopt and implement the marketing concept are said to be market oriented (Lamb et al 2005). It follows then that market oriented firms engage in activities related to the generation and dissemination of customer and competitor related market intelligence (Kirca et al 2005). Li & Calantone (1998) point out that those firms more adept at generating market knowledge will be able to achieve better performance because they will have better access to information about consumer preferences. Yet market orientated firms go beyond the mere collection of market related information. Firms with a market orientation also actively share this information across departments. The result is to create greater customer value and satisfaction and to actively seek opportunities, both prerequisites for long term success (Im & Workman 2004, Kerin et al 2009, Narver & Slater 1990).

HYPOTHESES

According to the marketing strategy literature, implementing a market orientation provides a firm with the ability to sense market trends and to anticipate customer needs, both of which can lead to superior organizational performance (Hult & Ketchen 2001, Kirca et al 2005). Therefore, firms should ideally operate with a high level of market orientation to achieve high levels of market share. Also, research suggests that market orientation creates an aggressive and proactive disposition toward meeting customer needs (Kirca et al 2005). As such, it is likely that high levels of market orientation will work best when other related marketing strategy decisions are more aggressive and in line with the advantages given by a high market orientation. Alternatively, low levels of market orientation may be appropriate when a firm chooses to pursue less aggressive strategies. For instance, a follower brand that is not in the position to risk valuable resources may choose to be less aggressive overall, especially given the high cost of implementing a market orientation (Rust et al 2002). These less aggressive fit firms would not be expected to match the same levels of market share of the more aggressive firms with higher market orientation, simply because these firms would not be in position to take advantage of the many opportunities available in the market (Jaworski & Kohli 1993). Finally, there are firms which, either through choice or inability, do not to match their marketing strategies to their market orientation. These ill-fitted firms will implement less aggressive strategies with high levels of market orientation or more aggressive strategies with lower levels of market orientation. It is not expected that these ill-fitted firms will achieve the highest market shares as a result of possible inefficient activities, wasted efforts, or lack of support for important marketing decisions that result from ill-fitted strategies.

This leads to the following set of hypotheses.

Market Growth (H_1): *Market shares will differ among the market orientation-market growth "fit" groups with RFit having the largest share.*

Services Growth (H_2): *Market shares will differ among the market orientation-service growth "fit" groups with RFit having the largest share.*

DATA COLLECTION

A sample of chief executives from credit unions was taken in the financial services industry. Data for the study were gathered from a statewide survey in Florida of all the credit unions belonging to the Florida Credit Union League (FCUL), whose membership represented nearly ninety percent of all Florida credit unions and included three hundred and twenty-five firms. A single mailing with the questionnaires was directed to the president of each credit union, all of whom were asked by mail in advance to participate. This approach yielded one hundred and twenty-five useable surveys, a thirty-eight percent response rate. Medium to larger firms are represented in the sample to a greater degree than smaller firms based on asset size (χ^2=20.73, *d.f.* =7, p<.01).

MEASUREMENT

In addition to perceived market share, respondents were also asked for their perceptions regarding their firm's position relative to three marketing strategy constructs: (i) market orientation, (ii) market growth, and (iii) services growth. The precise methodology used to measure these variables is explained in the following paragraphs.

For performance, perceptual measures were used to evaluate relative market share. Perceptual measures avoid errors associated with variations in accounting methods and also have been shown to strongly correlate with objective measures within the same firm (Varadarajan 1986). In particular, respondents were asked about their market share performance on a scale from (1) poor to (5) excellent regarding five market share baselines: [1] versus competitors, [2] versus goals/expectations, [3] versus previous years, [4] versus firm potential, and [5] growth of share. A principal axis factor analysis indicated that the five items load highly on a single dimension explaining 66.4% of the original variance. Therefore, an overall indicator of perceived market share was constructed by summing the five items from the questionnaire. A reliability of 0.872 was found using Cronbach's (1951) coefficient alpha. The constructed measure of perceived market share had a possible range from five to twenty-five with a mean of 14.64 and a standard deviation of 3.56.

Market orientation is conceptualized as including two factors common in the marketing literature: customer focus and competitor focus (Kirca et al. 2005). The respondents were asked to evaluate their perceptions of the firm's efforts in the marketplace on a scale from (5) true to (1) not true, across seven items: [1] we are committed to our customers, [2] we create value for our customers, [3] we understand customer needs, [4] we are concerned with customer satisfaction, [5] our employees share competitor information, [6] we respond rapidly to competitors' actions, and [7] management is concerned with competitive strategies. The items were subjected to principal axis factoring. The results indicated that two factors, customer focus and competitor focus, explain 69.7% of the original variance. The items for each of the two factors were summed separately. Reliabilities of 0.789 for customer focus and 0.834 for competitor focus were found using coefficient alpha. An overall indicator of market orientation was then constructed by summing these two factors. The resulting market orientation variable had a possible range from eight to forty with a mean of 31.38 and a standard deviation of 4.51. Then, a median split was used to group the firms into those exhibiting high relative levels of market orientation and those exhibiting low relative levels of market orientation. In total, 48% of responding firms were classified as having a low market orientation and 52% were classified as high in market orientation.

For market growth, one of the most popular and well-known theoretical models in marketing is the product-market growth matrix developed by Ansoff (1957). Extending Ansoff's conceptualization of available market growth strategies, Pleshko & Heiens (2008) suggest that market growth strategies initiated by a given firm may focus on [1] existing market segments, [2] new market segments, or [3] both existing and new market segments. Consequently, our questionnaire asked respondents to indicate their particular market growth strategy by marking the box next to the appropriate descriptor. Respondents could check either [1] we target market segments presently served by the firm, or [2] we target market segments new to the firm. They could also check both of the boxes, indicating they use both new and current markets for growth. One hundred thirteen respondents answered the question with 65% (74/113) classified as focusing on current segments, 11% (13/113) classified as emphasizing new segments, and 23% (26/113) classified as targeting both new and existing market segments in their efforts at growth.

For services growth, once again drawing from Ansoff's (1957) conceptualization of available product-market growth strategies, Pleshko & Heiens (2008) suggest that product, or in this case, service growth strategies initiated by a given firm may focus on [1] existing services, [2] new services, or [3] both existing and new services. Our questionnaire asked respondents to indicate their particular services growth strategy by marking the box next to the appropriate descriptor. Respondents could check [1] we emphasize services presently offered by the firm, or [2] we emphasize services new to the firm. They could also check both of the boxes, indicating they emphasize both new and current services in their growth efforts. One hundred seventeen respondents answered the question with 54% (64/117) classified as focusing on existing services, 14% (17/117) classified as emphasizing new services, and 30% (36/117) classified as utilizing both new and existing services in their growth efforts.

For the measures of 'fit', the primary predictor variables used in the analyses, the suggested alignment of market orientation with (i) market growth and (ii) services growth is produced. Note that each "fit" construct has three possible categories or groups, depending on the expected correspondence to market orientation: (1) recommended fit (RFit), (2) other fit (OFit) and (3) no fit (NoFit). A fit would be recommended (RFit) in those circumstances where relatively high levels of market orientation would be most desirable, such as with aggressive growth or high levels of initiative. Other fit refers to those combinations where lower relative levels of market orientation would be acceptable, such as with less aggressive growth or strategies that are more reactive or defensive in nature. Any and all other possible combinations of market orientation with the strategy variables would be classified as NoFit, including for example high levels of market orientation with passive growth and low levels of market orientation with aggressive growth.

ANALYSIS AND RESULTS

A univariate analysis of variance (Anova) was used to determine if the two 'fit' constructs are relevant to the perceptions of market share performance. Both hypotheses were tested using this method, with significant findings further investigated using least-squared distances to determine if the means of any of the specific groups differed significantly. A summary of the Anova is provided in Table 1, which shows the number of firms in each 'fit' group, the average perceived market share for each group, the 'F' statistic, the '*p*' value, and the findings of the group mean comparisons. The Anova tests revealed that both analyses are significant, indicating that the 'fit' between market orientation and relevant growth strategies has an impact on market share.

Table 1
ANALYSIS OF VARIANCE

Fit Construct	*n*	*Share*	*F*	*"p"*	*Findings*
MO+Market Growth (H_2			5.52	.005	NoFit>OFit
RFit: High MO + New/Both	8	15.86			RFit>OFit (.07)
OFit: Low MO + Existing	42	13.38			
NoFit	63	15.52			
MO+Service Growth (H_3)			3.91	.023	RFit>OFit
RFit: High MO + New/Both	44	15.75			
OFit: Low MO + Existing	36	13.65			
NoFit	34	14.76			

Somewhat consistent with hypothesis 1, the firms with a recommended fit between market orientation and market growth strategies tended to have larger market shares, yet not all of the differences between the recommended fit group and the other groups were statistically significant. For instance, although RFit firms exhibited larger share than that of the OFit firms, the level of significance was only at the .07 level (p=0.07). It was, however, found that the perceived share of the NoFit group was larger than that of the OFit firms. Thus, it appears that the less aggressive strategy combinations, that is low levels of market orientation combined with a focus on current markets, exhibited the lowest levels of market share. Higher market share was more evident in firms combining high market orientation with aggressive market growth or rather in firms exhibiting mixed 'fit' combinations.

Consistent with hypothesis 2, the firms with a recommended fit between market orientation and service growth strategies tended to have larger market shares, yet once again not all of the differences between the various 'fit' groups were statistically significant. Specifically, it was found that the perceived share of the RFit group was significantly larger than that of the OFit firms. Therefore, it appears that high levels of market orientation, when combined with the more aggressive services growth strategies, exhibited larger market shares than firms exhibiting a fit combining low levels of market orientation with less aggressive services growth.

DISCUSSION

As firms operating in the financial services industry face greater competitive pressures, marketing strategy must continue to play a greater role (Uzelac & Sudarevi 2006). Contingency theory reminds us, however, that it is the appropriate combinations of strategy, organizational structure, and the environment which are most relevant for success. Therefore, the purpose of our research was to determine if the appropriate "fit" between market orientation and other marketing-related strategy concepts would result in higher levels of market share. The study has provided empirical evidence that more aggressive growth strategies should be pared with higher levels of market orientation. Additionally, when the target is market share in the financial services industry, the less aggressive approach is not recommended.

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AN EMPIRICAL STUDY ON MULTINATIONAL BANKS DECISION TO GO ABROAD

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ABSTRACT

This paper aims to show that, in addition to macro-economic factors, bank specific characteristics can help to understand the decisions of MNBs when establishing themselves abroad through a type of organizational form. We conducted this study by using a sample of 63 MNBs established in 25 foreign countries. Our results show that it is mainly the distance, as a major indicator of control difficulties, which supports the branch choice for its centralized decisions at the expense of the subsidiary and the affiliated bank choices. They also show that the international experience of MNBs affects positively the subsidiary and the branch choice and negatively affects the representative office choice. For example, the decision to go abroad through branch and subsidiary as organizational forms helps MNBs to transfer the knowledge acquired in their home countries to the overseas markets. Indeed, MNBs prefer these two organizational forms because they constitute a means of exploiting the rich in-house experience in their home countries while acquiring new knowledge from the overseas markets, as the establishment of a subsidiary bank requires a transfer of knowledge and an important investment in human resources.

INTRODUCTION

Literature related to Multionational banking [see for example Miller and Parkhe (1998), Blandon (1998 and 2000), Mutinelli and Piscitello (2001), Focarelli and Pozzolo (2005), Tschoegl (2004), and Cerutti and al. (2007)], mostly defends that economic and financial factors are decisive in the choice of the organizational form of representation that multinational banks (MNBs) choose when expanding abroad such as subsidiary, branch, affiliate-bank and representative office. The purpose of this paper is to consider parent-bank own characterics in its decision to choice an organizational form of establishment in foreign countries. Thus, our approach is different from macro-economic one, because it considers agency theory and resource-based theory to study the choice of organizational forms of representation abroad. As Fama and Jensen (1983) assert, the survival of an organization like multinational bank, depends on its capacity to solve agency problems that occur by doing its activities. This capacity depends on the type of organisational form chosed by the MNB to exert in a particular area of activity abroad. The agency theory make easy to understand more about the strategy of bank's internationalization. For example, in a multinational bank, agency problems which may be caused by the distance between home country and host country, would depend on the nature of the organizational form of representation abroad. The resource-based theory enables to take into account parent-bank specific characteristics such as capabilities in human resources and international experience.

Different from macro-economic approach, this study presents an important contribution because it allaows to understand better how do MNBs choise among many organizational forms when going abroad. It focuses on the following two research questions : (a) Why does a MNB hold several organizational forms of reprsentation in a same host country? (b) Why do MNBs from a same home country choose to be established via different organizational forms of representation in another foreign country?

The remainder of the paper is organized as follows. In the section 2, we review the literature relating to banking internationalization. Then, the section 3 describes the data and explains the methodology used in the empirical study. The section 4 presents and discusses the empirical results that show, when MNBs expand internationally, that the parent-bank specific characteristics play a leading role. Section 5 concludes.

REVIEW OF LITERATURE : TAKING INTO ACCOUNT BANK'S CHARACTERISTICS

The parent-bank size reflects both its financial and human resources dimensions. Size is an important factor because MNBs need a minimum size in order to be able to develop an activity abroad and to compete successfully with local banks (Blandon, 1998). Indeed, considerable resources are needed for absorbing the high costs of marketing and taking advantage of the economies of scale, when they exist in foreign markets. Ball and Tschoegl (1982) find that bank size has been a main determinant of MNB expansion in California and Japan. Ursacki and Vertinsky (1992) obtain that whereas the size of the bank positively affects the setting up of foreign branch, it does not affect the establishment of representative offices abroad. The establishment of banks abroad, via branches and subsidiaries requires the deployment of great amounts of resources. The representative office and the affiliate-bank constitute means of internationalization less expensive than the subsidiary and the branch. However, concerning the activities to be exerted in the host country, the representative office and the affiliate-bank offer very reduced possibilities, contrary to subsidiary and branch. These last two organizational forms make possible for the parent bank to offer various products and financial services. In many researches, size is measured by the total asset. But, in our study, the size will be measured by the total staff number of the parent-bank in order to take into account, the overall bank capacity in terms of human resources for its internationalization strategy.

The international experience, that is the degree of familiarity with foreign countries allows the parent-bank to know more about the international environment. This is a factor expected to encourage the bank's expansion abroad. Foreign direct investments include many risks such as political risk, economic risk, financial risk and so one. The lack of international experience may cause the parent-bank to take inappropriate decisions or lead to errors in managing relations with customers, competitors, local authorities (Mutinelli and Piscitello, 2001). Blandon (1998) asserts that banks without this experience will hardly assume the risk associated with an important foreign direct investment like the acquisition of foreign banks. Such parent-banks are expected to start their foreign ventures via organizational forms which involve smaller amounts of investment, such as representative offices. According to Agarwal and Ramaswani (1992), firms with important international experience will enjoy a larger capability for adapting their activities in different countries at a lower cost. This simply means that, large and more experienced banks tend to establish themselves through branches and subsidiaries implying a high level of commitment with the host country. Similar results obtained by Mutinelli and Piscitello (2001) indicate that the establishment of Italian banks abroad through branches and representative offices depended on the experience obtained from the overseas markets. Banks with little international experience must, at the beginning of their expansion abroad, rely on the representative office and the affiliated-bank which limits the risk related to direct foreign investment.

Distance between home country and host country is considered to be physical distance or cultural distance. Physical distance is generally regarded as a factor which fosters the increase of monitoring costs of the parent bank's investments in foreign countries. In this scenario, distance constitutes a barrier of entry to international banking. For example, Blandon (1998) affirms that the distance between Madrid and other countries constitutes a barrier to the internationalization of the Spanish banks. When distance is important, the parent bank cannot manage its foreign entities without high control costs. Ball and Tschoegl (1982) report that the physical distance negatively affects the selection of foreign subsidiaries and branches as organizational options. International banking operations incur additional costs for remaining informed along with coordination costs insofar as the distance makes it considerably more difficult for MNBs to be kept informed about their operations abroad. Distance can be considered in terms of cultural differences between the country of origin and the host country. Cultural variations can then affect the type of activities that banks practice abroad. Regarded as an entry barrier, cultural distance is especially visible when foreign banks wish to practice in the retail banking in the host country.

DATA AND METHODOLOGY

In order to conduct this study on the decision of MNBs to expand their activities abroad via representative office, affiliated-bank, and subsidiary branch as organizational forms, we collected data from both host countries and parent-banks. The economic, financial and lawful data relate to 25 host countries (five in each of these areas: Africa, South and Central America, Eastern Europe, South-East Asia and the Middle-East). By doing this, we avoided studying international banking within countries that are economically similar to their home countries. Initially, our sample consists of about 100 MNBs. From these, we retain only 82 which have operations in at least five countries. The constitution of the final sample led us to dismiss 19 MNBs for various reasons. For example, we excluded Almanij bank (Belgium) because it was absorbed in 2005 by another Belgium bank, KBC bank. Similarly, we eliminated Fleet National Bank (USA) acquired by Bank of America. Other MNBs such as the Belgolaise (Belgium), Le Crédit Lyonnais (France), Lehmann Brothers (USA) and Sumitomo Trust Bank (Japan) were removed from our sample because of the unavailability of certain information required for the study. Finally, the sample is formed of 63 multinational banks.

We then study how MNBs make a choice among the four organizational forms used abroad: representative office (RO), affiliated-bank (AB), subsidiary (SU) and branch (BR). We use a seemingly unrelated regression equation (SURE) model, where (RO), (AB), (SU) and (BR) are dependent variables defined by the same explanatory variables mainly related to parent-bank owned characteristics. The SURE model was developed by Arnold Zellner (1962) and is a technique for analyzing a system of multiple equations with cross-equation parameter restrictions and correlated error terms. An economic model may contain multiple equations which are independent of each other on the surface: they do not estimate the same dependent variable and they have different independent variables, etc. However, if the equations are using the same data, the errors may be correlated across the equations. SURE is an extension of the linear regression model which allows correlated errors between equations.

EMPIRICAL RESULTS

When we measure bank size by the parent's total number of employees, we find that the size affects positively the decision to go abroad by establishing a branch. This result enables us to assert that MNBs which have sufficient human resources are ready to open branches abroad. In addition, our study permits us to conclude that international experience negatively affects the choice of representative office but exerts a positive impact on the choice of subsidiary and/or branch as organizational forms. According to the resource-based theory, the human capital of MNBs constitutes a source of competitive advantages. Therefore, any bank which plans to internationalize its activities must have qualified personnel able to be transferred to the host country to manage the new entity (subsidiary, branch). The need for transfers is especially inherent in the branch form and, to a certain extent, in the subsidiary company as well. Our results confirm the assertion of Merrett (2002; p. 391): "the expatriation of the human capital in the Australian banks stimulates the transfer of information and know-how".

The branch and the subsidiary as organizational forms of establishment abroad need appropriate international experience. This allows MNBs, through the subsidiary and the branch forms, to easily transfer knowledge via the competencies of the individuals transferred. Note that the role of the personnel transferred is to be the channel through which the parent bank transfers its expertise towards the host country. According to Huber (1991), the transfer of qualified managers constitutes an effective means for the subsidiary companies to increase their knowledge base as quickly as possible. It is abundantly clear, as mentioned by Tsang (2001), that when knowledge is tacitly transferred with the aim of changing the attitude of the recipients, it is essential that the transferred managers be present during the training process to act as anchors. The decision to go abroad through branch and subsidiary as organizational forms thus makes it possible for multinational corporations to transfer knowledge acquired in their home countries to overseas markets (Kogut and Zander, 1996). Indeed, we explained the preference of MNBs for these two organizational forms by the fact that they constitute a means of exploiting the rich knowledge-base from the personnel of their home countries and, similarly, to also acquire new knowledge from overseas markets, as Kogut and Zander (1992) asserted. In short, the establishment of a subsidiary company requires a transfer of knowledge and an important investment in human resources. Accordingly, the creation by BNP Paribas of a Development Centre of Competencies within its subsidiary bank of El Djazaïr in Algeria is a concrete example thus illustrating the positive relation which exists between the holdings of a subsidiary bank abroad and the capacity of the MNB (BNP Paribas) to provide its establishment abroad with qualified personnel. By opening this training centre, BNP Paribas transferred knowledge thereby making it possible "to develop the quality of human resources and to continue the improvement of such services for its customers" within this subsidiary bank created in 2002. The aforementioned experience and competency are necessary to develop the subsidiary and the branch forms in banking environments which are in the initial developmental stage, as is the case of the 25 host countries in our sample.

If experience with overseas markets constitutes an important factor, it should be noted that MNBs are also confronted with a problem of supervision related to the distance which separates their home countries from the host countries. We find that physical distance affects positively the choice of the branch but influences negatively the affiliated-bank and the subsidiary. The results, although in opposition of that which we predicted, is not very surprising because distance constitutes an obstacle to controlling the entity abroad. However, the necessity for control is undoubtedly more important in the subsidiary and the affiliated-bank then that in the branch. In the first two organizational forms, the parent-bank can be confronted with some problems of control because of the presence of other shareholders in the ownership structure of the foreign entity. The negative effects of -0.047 and -0.067 (respectively) are statistically significant at the 1% level on the choice of either the affiliated-bank and/or the subsidiary. This indicates that distance does not encourage MNBs to take participations in foreign banks. The distance creates, according to the agency theory (see Berger and DeYoung, 2001), an asymmetry of information between the subsidiary and the parent-bank since the interests of the subsidiary directors are often opposite to those of the persons in charge of the MNB's head office. Indeed, the persons in charge of the subsidiary could pursue personal secondary goals which are not in the interests of the subsidiary itself (Mishra and Gobeli, 1998). This arises from the fact that head office may be unable to control the opportunistic behaviours of the subsidiary directors without the higher costs such a control would entail.

Our results also indicate that physical distance exerts a positive effect of 0.085, statistically significant at the 1% level, on the MNB's decision to go abroad through a branch. In such an organizational form of representation abroad, management is centralized, thus implying that problems of control are less acute than in the subsidiary. In the branch form, the parent-bank holds mainly all the decision-making powers and can easily impose its values and methods of management. The strategic decisions concerning the branch are made according to the objectives and the interests of head office (Meier and Schier, 2005). The parent-bank exerts a permanent control on the branch which has only a weak autonomy. Key positions in the branch are primarily held by the personnel of the parent-bank and local executives occupy only a few positions of lesser importance since the expatriation is made from parent-bank towards the branch in order to transfer values and knowledge. Hence, all the individuals working in the branch must be devoted the underlying principals of the parent-bank.

CONCLUSION

The phenomenon of banking internationalization held the attention of many researchers who proposed answers to relative questions regarding the operational decisions of multinational banks and sometimes tried to explain the rationale of the MNBs decision to go abroad through a type of organizational form. These studies concentrated on macroeconomic theories and analysis, with little interest in any micro-economic approach however complementary. Thus, in our paper, we recognized that other factors had to be taken into account when studying the choice of organizational forms preferred when embarking on foreign markets. The consideration of these factors leads us to resort to certain theoretical currents such as the agency theory, which is not used often enough to treat banking internationalization. A very important motivation for bank internationalization is undoubtedly the increase in market shares and improvements in performance. Indeed, a good positioning abroad necessarily passes by a better knowledge of the host countries through a particular type of organizational form.

References are available upon request.

PRE-CRISIS DETERMINANTS OF US BANK CHARTER VALUES

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ABSTRACT

We analyze factors related to U.S. bank holding company (BHC) charter values shortly before the current (2007-2010) financial crisis began to unfold. Using a sample of large BHCs, the evidence suggests that BHCs with riskier capital structures, stronger shareholder rights, and increased CEO risk-taking incentives were valued more highly by shareholders. Additional evidence indicates that increases in insider ownership (beyond a moderate level) also increases BHC charter value. Surprisingly, ownership by large outside shareholders is unrelated to charter value. The main conclusions from our study are that BHCs with more shareholder-friendly corporate governance and BHCs with riskier characteristics were valued more highly by shareholders in the period before the financial crisis. These results should be of interest to many banking stakeholders, including analysts, shareholders, and regulators.