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CULTURE AND ITS EFFECT ON MANAGEMENT MYOPIA AND FINANCIAL PERFORMANCE: A COMPARISON OF FIRMS FROM SHORT-TERM AND LONG-TERM ORIENTED CULTURES

ABSTRACT

Myopic management has been defined as making decisions based on short-term profitability as opposed to the long-term value. Myopic firms typically cut expenditures in advertising and R&D which result in the destruction of the long-term value of the firm. This paper reports the findings of a study that investigated the impact of culture on myopic management, *i.e.*, do firms from cultures that are short-term oriented behave more myopically than firms from cultures that are long-term oriented? The findings support the hypotheses that firms from long-term oriented cultures spend more on R&D and advertising than firms from short-term cultures which then translates to higher profitability for firms from long-term oriented cultures in comparison to firms from short-term oriented cultures.

Key Words: myopic management, advertising and R&D expenditures, Hofstede's cultural index of long-term orientation

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INTRODUCTION

Myopic management is the practice of cutting marketing, research and development, and employee training expenditures in order to meet short-term goals. This typically increases short-term earnings, but has a very negative impact on the long-term value of the firm (Mizik, 2010). A myopic policy is one where decisions are made as if the present period is the final one (Dirickx and Jennergren, 1975). Investments in marketing and product innovation are the two critical factors for the long-term health of a firm (Drucker, 1973), and over the long run value is created through investments in R&D and marketing which in turn lead to growth, lower risk and higher financial performance (Krasnikov and Jayachandran, 2008; McAlister, Srinivasan, and Min, 2007; Mizik, 2010).

Hofstede's (2001) seminal work on cultures rates cultures of countries based on the following traits: uncertainty avoidance (high vs. low), power distance (high vs. low), collectivism vs. individualism, masculine vs. feminine, and long-term vs. short-term oriented cultures. Cultures with high uncertainty avoidance feel threatened by ambiguity and try to avoid these situations, while cultures with low uncertainty avoidance like taking risk. High power distance cultures accept inequality in power in society while low power distance cultures treat each other as equals. Individualistic cultures look after themselves while people in collective cultures are very dependent on each other as a group. Highly masculine cultures place a very high value to being competitive, assertive, and are very ambitious, and do not care for others, while feminine cultures place more value to relationships, modesty, nurturing, caring for others and quality of life. Finally, long-term oriented cultures are thrifty and persevere in order to attain future rewards, while short-term oriented cultures value normative statements, and do not give a lot of importance to the future.

However, culture's effects on consumer behavior and managerial decision-making has not been studied as extensively. In this age of globalization it is imperative for multinational firms who are doing business in foreign countries to understand the different cultural dimensions and their influence on consumer behavior and managerial decision making. For instance, if financial performance (of managers) of firms in one culture are better than financial performance (of managers) of firms from another culture (due to cultural factors), then managers from one culture can learn and adopt those behaviors of managers from other cultures and improve the financial performance of their firms.

A very limited number of studies have investigated the impact of myopic management on the financial performance of firms (Chapman and Steenburgh, 2010; Mizik and Jacobson, 2007; Moorman and Spencer, 2008; Mizik, 2010). There is no study to date that has investigated whether culture affects myopic management, *i.e.*, are managers of firms from short-term oriented cultures more myopic than managers of firms from long-term oriented cultures. This study proposes that myopic behavior (short-term orientation) has a cultural bias and it will affect behaviors of managers from different cultures, *i.e.*, managers from short-term oriented cultures will be more myopic in their decision making than managers from long-term oriented cultures. This, in turn, will dictate what percentage of their sales they spend on R&D and marketing (for this study advertising is used in place of marketing since marketing is much broader and encompasses decisions on products, price, promotion and distribution and annual reports of firms typically report advertising expenditures). This study hypothesizes that managers of firms from short-term oriented cultures will spend less on R&D and advertising in comparison to managers (of firms) from long-term oriented cultures. This will ultimately affect the financial performance of firms from the two cultures, *i.e.*, financial performance of firms from myopic cultures (short-term orientation) will be worse than the financial performance of firms from non-myopic cultures (long-term orientation).

LITERATURE REVIEW

The following section reviews the literature on long-term orientation, management myopia and its impact on advertising and R&D expenditures, and their influence on firm financial performance.

Long-term Orientation

Long-term orientation describes a society's "time horizon" and how important they think the future is in comparison to the present and past. Long-term societies typically have traits of Confucianism ethics, and are hard workers, pragmatic, thrifty, benevolent, moral, non-materialistic, and socially conscious. Long-term oriented cultures like Japan and other Asian countries are dynamic in their thought process; they accept constant changes and have been very successful with their hard work and perseverance. This may explain the reasons for their success (Franke, Hofstede, and Bond, 1991). Long term orientation should be considered as a combination of tradition and prudence (Sharma, 2010). Cultures

that rate high on prudence will encourage its people to plan for the future, persevere with their goals, and to be thrifty (Puri, 1996). On the other hand, short-term oriented societies have been associated with western cultures that focus on immediate gratification and do not have the patience to wait for rewards in the future (Hofstede, 2001).

Management Myopia

Myopic management of resources by managers is due to their desire to manage earnings in the short-term and thus positively affect stock price in the short-term (Baker, Stein, and Wurgler, 2003; Coles, Daniel, and Naveen, 2006). Managers engaged in myopic management typically cut expenditures in advertising and R&D to inflate short-term earnings. However, the consequence of such myopic management behavior is its negative impact on the future (long-term) financial performance of a firm (McAnally, Srivastava, and Weaver, 2008). Managers destroy real long-term value of a firm when they compromise operating decisions in order to meet short-term market expectations (Bhojraj and Libby, 2005). Firms that cut discretionary expenditures (especially advertising and R&D) and just beat analysts' forecasts with low quality earnings are able to boost short-term stock prices relative to firms that miss analysts' forecasts with high quality earnings, however, this trend reverses within three years (Bhojraj, Haribar, Picconi, and McInnis, 2009).

Upper level managers favor strategies with immediate payoffs over strategies that may not lead to long-term payoffs (Coles, Fertzal, and Kalpathy, 2006). Firms can beat market expectations by just one cent by decreasing advertising and R&D expenditures and show significant income, however, if they had not incurred these expenditures on advertising and R&D they would have missed market expectations significantly, thus negatively affecting stock prices in the short-run (Bhojraj *et al.*, 2009). Managers typically expect long-term benefits from expenditures in R&D and advertising, however, because of the uncertainty tied to the long-term benefits of these expenditures it creates disincentives to spend on advertising and R&D (Currim, Lim, and Kim, 2012).

Pressures of the financial markets to meet projected earnings may force managers to engage in this behavior, and sometimes it may also be due to the personal interests where their compensation may be tied to meeting these projected short-term earnings (Currim *et al.*, 2012). Firms reduce advertising and advertising expenditures to inflate earnings in the current time period (Mizik and Jacobson, 2007). CEOs decrease

expenditures in advertising and R&D in order to meet quarterly earnings even though it may sacrifice a firm's future value (Graham, Harvey, and Rajgopal, 2005; Chapman and Steenburgh, 2010). Managers have also been known to give incentives to customers to buy more in the current quarter at the expense of future cash flow, and this behavior temporarily increases stock price in the short-term, but it negatively affects the long-term stock price of the company (Currim *et al.*, 2012).

Industry surveys show that senior management still question advertising's contribution to a firm's earnings and may thus be reluctant to invest in advertising capabilities (Rust, Ambler, Carpenter, Kumar, and Srivastava, 2004). Expenditures in advertising are usually treated as discretionary and may be the first to be cut if managers have not met their earnings goal (Mizik, 2010). Currim *et al.* (2012) study the effect of long versus short-term compensation of top executives and its effects on R&D and advertising expenditures and report that the higher the equity to bonus ratio in executives' compensation package, the higher they spend on R&D and advertising as a percentage of sales, and this ultimately increases stock market return. This behavior of managers is also supported by studies conducted by Rajgopal and Shevlin (2002). Strategies that lead to long-term competitiveness of a firm diminish current-term earnings and managers in the U.S. (in comparison to Japanese managers) typically discount strategies with long-term paybacks (Jacobson and Aaker, 1993).

Marketing's Impact on Long-term Financial Performance

A firm's marketing strategy's performance is the discounted present value of the future cash flows (Mizik and Jacobson, 2003). Firms with higher financial performance focus and spend more on long-term marketing strategies in comparison to firms with low financial performance who seem to concentrate on acquisitions that provide immediate revenue growth (Markovitch, Steckel, and Yeung, 2005). Expenditures on advertising reduce systematic risks in the long-term (Madden, Fehle, and Fournier, 2006). Expenditures on promotion, sales force and relative price reduce variability in return on investments (Bharadwaj and Menon, 1993; Kroll, Wright, and Heiens, 1999). Similarly, advertising reduces the variability in highly seasonal markets or accentuates them and may increase the residual value of the firm by keeping them distinctive and relevant (Srinivasan, Pauwels, Silva-Risso, and Hanssens, 2009). Expenditures in television advertising have the effect of building a brand's long-term equity, but don't have much impact on sales in the

short-run (Cohen, Mashruwala, and Zach, 2010). First mover firms that spend more on advertising generate greater cash flows than later entrants and firms also reap permanent benefits due to their advertising (Bowman and Gatignon, 1996).

National brands that cut marketing expenditures during recession make their market share even smaller (Lamey, Deleersnyder, Dekimpe, and Steenkamp, 2007; Deleersnyder, Steenkamp, Dekimpe, and Leeflang, 2009). Moorman and Spencer (2008) finds that firms that delay new product introduction (innovation) in order to lower market expectations see much greater potential losses of revenue. Firms who overproduce and give temporary price discounts in order to increase sales and earnings in the short run (Roychowdhury, 2006), typically through sales promotions, encourage customers to stockpile and rob the firm of future sales (Chapman and Steenburgh, 2010; Nijs, Dekimpe, Steenkamp, and Hanssens, 2001). However, these short-term cash flows increases through sales promotion are short lived and dissipate very quickly (Srinivasan *et al.*, 2009). Firms milk brand equity by reducing brand building support and increase sales promotion in order to increase short-term sales (Aaker, 1991).

Srinivasan *et al.* (2009) investigate the impact of marketing investments and product innovations on stock prices and future cash flows and find that pioneering innovations have an impact on stock prices that are seven times more than minor updates and the advertising support has an impact that is nine times more effective. Similarly Chandy and Tellis (2000) find that expenditures in marketing sustain innovative brands and speed the diffusion process and ultimately the cash flow. Since most marketing assets are intangible, not much time has been devoted to understanding the relationship between these intangible marketing assets and their impact on firm financial performance (Srinivasan and Hanssens, 2009). Hanssens, Rust, and Srivastava (2009) list three drivers of firm value: (1) market-based assets which consist of customers, brands, channels, and innovations, (2) marketing capabilities which consist of market orientation and expertise that are necessary for the optimum use of resources in the marketplace, and (3) marketing actions that result in strategies and executions of business models which leverage the capabilities and advertising assets of the firm. These three drivers of firm value affect the financial performance of the firm through their profitability, growth and risk.

A firm's marketing creates intangible assets in the market place through the firm's brand equity and the value of a firm is created through its customers through current and future cash flows (Srivastava, Shervani, and Fahey, 1998). These intangible assets affect

the financial performance of the firm through sales growth and profitability (Boulding and Staelin, 1995; Erickson and Jacobson, 1992), and ultimately shareholder value (Rao, Agarwal, and Dahlhoff, 2004). Expenditures in advertising also increase the awareness of the firm in the minds of investors who prefer holding stocks of firms with high recognition (Frieder and Subrahmanayam, 2005), which leads to broader ownership of the stock of the firm (Grullon, Kanatas, and Weston, 2004; Huberman, 2001). It is the marketing actions of firms that lead to customer equity and ultimately the value of the firm, and this value of the firm can be measured through their increase in customer equity (Gupta, Lehmann, and Stuart, 2004; Hanssens *et al.* 2009; Kumar and Shah, 2009; Rust, Lemon, and Zeithaml, 2004).

Various aspects of marketing programs like advertising have a positive impact on brand value (Barth, Clement, Foster, and Kasznik, 1998), productivity of marketing communications (Luo and Donthu, 2006), customer satisfaction (Luo, Homburg and Weiske, 2010) which in turn affects shareholder value (Grewal, Chandrashekar, and Citrin, 2010). Advertising has a long-term and lagged effect on sales (Anderson, Fornell, and Mazvanchery, 2004; Assmus, Farley, and Lehmann, 1984; Fornell, Mithas, Morgeson III, and Krishnan, 2006; Givon and Horsky, 1990; Morgan and Rego, 2006). Other researchers have also found a positive relationship between advertising and sales (Leone, 1995), profit (Erickson and Jacobson, 1992), brand equity (Aaker, 1996; Keller, 1998), and differentiation with other brands (Boulding and Staelin, 1995; Kirmani and Zeithaml, 1993).

Increased advertising makes brands less easily substitutable (Mela, Gupta, and Lehmann, 1997), increases price premiums (Ailawadi, Neslin, and Lehmann, 2003), and lowers price sensitivities (Kaul and Wittink, 1995; Sethuraman and Tellis, 1991), especially in comparison to less advertised brands (Blattberg, Breisch, and Fox, 1995). When introducing new products, flagship brands that have been advertised heavily are more likely to be acceptable by consumers and distributors than non-flagship brands which are not advertised as heavily (Kaufman, Jayachandran, and Rose, 2006). Advertising has a positive effect on brand equity which leads firms to up-sell and cross-sell to their customers (Kamakura, Kossar, and Wedel, 2004). Firms with higher advertising are highly liquidable and also have greater breadth of stock ownership (Grullon *et al.*, 2004). Brand perceptions of firms are also highly impacted through increased advertising expenditures (Frieder and Subrahmanayam, 2005).

The findings by Krasnikov and Jayachandran (2008) show that a firm's marketing capability has a much stronger impact on the financial performance of a firm than the firm's R&D and operations capabilities. Marketing capabilities result in revenue growth and increase in earnings generated through cutting costs through efficiencies are not as sustainable as earnings gains through revenue growth (Zuckerman and Hudson, 2007). A reduction in advertising expenditures results in a reduction in stock return (Luo and de Jong, 2012). As stated earlier, this study investigates the relationship between marketing myopia (short-term orientation) and advertising expenditure. Based on the above, the following hypothesis related to long-term orientation and advertising is proposed.

Hypothesis 1: Companies from cultures that rate high in long-term orientation will spend more on advertising (as a percentage of its sales) than companies from cultures that rate low in long-term orientation.

R&D's impact on long-term performance

A firm's investment on R&D consistently generates higher profits (Capon, Farley, and Hoeing, 1990; Roberts, 2001), higher increases in stock prices (Chan, Lakonishok, and Sougiannis, 2001; Mizik and Jacobson, 2003; Pakes, 1985), and superior market value (Jaffe, 1986). Product innovation leads to long-term sales and has a positive effect on the performance and the stock price of the firm (Pauwels, Silva-Risso, Srinivasan, and Hanssens, 2004), as does new product announcement (Chaney, Devinney, and Winer, 1991). A firm's stock price is also insulated from market downturns if it spends more on R&D (Veliyath and Ferris, 1997). A firm's expenditure on R&D results in new products which enhances future cash flows, profitability, and lowers its systematic risk (Chaney *et al.*, 1991; Sorescu, Shanker, and Kushwaha, 2007) and also helps it to adapt to environmental changes (Miller and Bromiley, 1990). However, some studies find that firms with higher R&D expenditures have unpredictable income streams in the future (Kothari, Laguerre, and Leone, 2002; Barth, Kasznik, and McNichols, 2001; Chambers, Jennings, and Thompson, 2002).

A firm's expenditure on R&D creates strategic differentiation along with efficiency and flexibility which ultimately insulates the firm from market downturns and systematic risk (McAlister *et al.*, 2007). R&D also influences brand extensions (Lane and Jacobson, 1995) and product quality (Aaker and Jacobson, 1994; Mizik and Jacobson,

2009) which ultimately increases firm financial performance. Pioneering innovations generate growth in customers and revenue due to the improvements in perceived quality by new entrants and innovations that result in added customer value have a greater impact on the success of brands (Agarwal and Bayus, 2002). Innovations have a U-shaped impact on the performance of firms (Pauwels *et al.*, 2004), and products that are high on newness have a strong impact on growth (Gielens and Steenkamp, 2007). The more revolutionary the product the higher the likelihood of long-term financial gain (Moorman and Miner, 1997). High performing companies focus and spend more on R&D in comparison to firms with low performance (Markovitch *et al.*, 2005). However, Dechow and Sloan (1991), Bushee (1998), and Cheng (2004) find that firms typically cut R&D investments to avoid losses in order to show inflated earnings in the short run. Based on the above, the following hypothesis related to long-term orientation and R&D are proposed.

Hypothesis 2: Companies from cultures that rate high in long-term orientation will spend more on R&D (as a percentage of its sales) than companies from cultures that rate low in long-term orientation.

Hypothesis 3: Companies from cultures that rate high in long-term orientation (and spend more on advertising related activities & R&D) will be more profitable (higher EBIT as a percentage of revenue) than companies from cultures that rate low in long-term orientation.

Hypothesis 4: Companies from cultures that rate high in long-term orientation (and spend more on advertising/advertising and R&D related activities) will have a higher rate of growth in their Revenue than companies from cultures that rate low in long-term orientation.

METHODOLOGY

Data for this study are collected from two different sources. The countries that are selected for this study are Japan, South Korea, Germany, and the United States, with a long-term orientation index of 80, 75, 31, and 29 respectively. These index scores are based on Hofstede's (2001) study. Data for advertising expenditures, R&D, revenue, and profitability are collected from the annual reports of the following firms for the years 1995 through 2012. For the U.S: General Motors, Ford, Chrysler, and General Electric, for Germany: Daimler Benz, BMW, Siemens, and Bosch, for Japan: Toyota, Honda, Nissan,

Mitsubishi, Panasonic, and Sony, for South Korea: Hyundai, and Samsung. These firms are selected for this study since they are very well-known multinational firms and have operations throughout the world. All of them are involved in similar industries - consumer durables and industrial products. Their annual financial statements of these firms were readily available in published sources in the U.S. because of their multinational operations.

Based on their long-term orientation scores, companies from countries were grouped into two groups – short-term oriented countries (U.S. and Germany with scores of 29 and 31 respectively) and long-term oriented countries (Japan and South Korea with scores of 80 and 75 respectively). Next, mean scores are calculated for the two groups on R&D expenditures and advertising expenditures and analysis of variance is used to test the two hypotheses that companies from long-term oriented countries spend more on advertising and R&D than companies from short-term oriented countries. Finally, mean scores are also calculated for the two groups on profitability and revenue growth and analysis of variance is used to test whether there is difference in firm financial performance – profitability and revenue growth.

RESULTS

As stated earlier, the long-term index for the four countries are as follows: Japan – 80, South Korea – 75, Germany – 31, and the United States – 29. Japan and South Korea are thus classified as countries with a long-term orientation and grouped together into one group, while Germany and the U.S. are classified as countries with short-term orientation, and grouped together into another group. Next, data collected from the annual reports for the above mentioned companies is aggregated for the two groups and the proposed hypotheses are tested.

Hypothesis 1 states that companies from Japan and South Korea (long-term orientated cultures) will spend more on advertising (as a percentage of sales) than companies from Germany and the U.S. (short-term oriented cultures). Table 1 below shows that firms from long-term oriented cultures spend about 19% of their sales on advertising while firms from short-term cultures spend about 12%. The corresponding F value for this is significant at the 0.05 level, thus supporting this hypothesis.

Table 1. ANOVA for advertising expenditures of companies from long-term and short-term cultures

	Cultures		F-Value	Significance
	Long-term	Short-term		
Advertising (% of Revenue)	18.78%	11.68%	5.307	0.037

Hypothesis 2 states that companies from Japan and South Korea (long-term orientated cultures) will spend more on R&D (as a percentage of sales) than companies from Germany and the U.S. (short-term oriented cultures). Table 2 below shows that firms from long-term oriented cultures spend about 10% of their revenue on R&D while firms from short-term oriented cultures spend about 5% on R&D. The corresponding F-Value of 5.661 is significant at the 0.05 level, thus supporting this hypothesis. This is also supported by comments by Morita, Reingold, Shimonura, and Srinivasan (1986) that U.S. companies focus on short-term profits and do not invest in new plant, equipment and research while Japanese companies concentrate on achieving long-term competitive success even if it is at the expense of short-term profits.

Table2. ANOVA for R&D expenditures of companies from long-term and short-term cultures

	Cultures		F-Value	Significance
	Long-term	Short-term		
R&D (% of Revenue)	10.14%	4.57%	5.661	0.032

Hypothesis 3 states that companies from Japan and South Korea (long-term orientated cultures) will have a higher rate of revenue growth (as a percentage of sales) than companies from Germany and the U.S. (short-term oriented cultures). Table 3 below shows that firms from long-term oriented cultures grew at about 4% every year while firms from short-term cultures shrunk at about 4% per year. Even though revenues of firms from long-term oriented cultures grew almost 10% points higher than short-term oriented cultures, the corresponding F-Value was not significant at the 0.05 level, thus this hypothesis is not supported.

Table 3. ANOVA for rate of revenue growth of companies from long-term and short-term cultures

	Cultures		F-Value	Significance
	Long-term	Short-term		
Revenue growth (% of Revenue)	104.33%	94.67%	0.754	0.40

Hypothesis 4 states that companies from Japan and South Korea (long-term orientated cultures) will have a higher rate of profitability (EBIT as a percentage of sales) than companies from Germany and the U.S. (short-term oriented cultures). Table 4 below shows that the EBIT/Revenue of firms from Japan and South Korea is 13.4% while it is 6.36% for firms from the U.S. and Germany, with a corresponding F-Value of 4.617 which is significant at the 0.05 level, thus supporting this hypothesis.

Table 4. ANOVA for profitability of companies from long-term and short-term cultures

	Cultures		F-Value	Significance
	Long-term	Short-term		
EBIT (% of Revenue)	13.4%	6.36%	4.6174	0.050

DISCUSSION AND IMPLICATIONS

Myopic management has been regarded as decisions made by managers that sacrifice the long term profitability and growth of a firm for short term gains, especially by reducing investments in advertising and R&D which are considered as investments that give firms competitive advantage in the long term and build the long term value of a firm. Previous studies have investigated the relationship of myopic management with firm financial performance in the U.S. This paper hypothesized that myopic management is influenced by culture, *i.e.*, firms from cultures (countries) that are short-term oriented are more myopic in their management than firms from long-term oriented cultures (countries), and thus spend less on advertising and R&D which in turn lowers the financial performance of their firms.

The results of the study support the hypotheses that firms from long-term oriented cultures spend more on advertising and R&D activities (as a percentage of their sales) than firms from short oriented cultures. The study also hypothesized that due to these expenditures, the financial performance of firms from long-term oriented cultures

will be better than firms from short oriented cultures. This is also supported by data, *i.e.*, firms from long-term oriented cultures have a higher ratio of EBIT/Revenue than firms from short oriented cultures. One of the hypotheses, growth in revenue, was not statistically significant, even though results show that firms from long-term oriented cultures have a higher rate of growth in revenue than firms from short-term oriented cultures.

This author believes that all of us are products of our environment, and culture is one of the biggest environmental factors that influences the decision making process of consumers as well as managers. Consumers from different cultures use different criteria when making purchase decisions. Likewise, managers from different cultures also make managerial decisions using different criteria. In 2001, Hofstede proposed five dimensions of cultural values: individualistic vs. collective cultures, masculine vs. feminine cultures, uncertainty avoidance cultures vs. risk taking cultures, cultures where the power distance is low vs. high, and finally cultures that are long-term or short-term oriented in their decision making.

As stated earlier, culture's effect on consumer buying behavior and managerial decision making has not been studied as extensively, especially in this age of internationalization and globalization of business. In order to be successful in foreign countries, it is imperative that CEOs and other senior executives of multinational firms understand the underlying aspect of culture and its effects on human beings – the differences in consumer buying behavior in different cultures/countries and the differences in decision making criteria used by managers from different cultures.

For multinational firms seeking to market their goods and services to consumers in different cultures/countries, they will be remiss if they treat consumers from different cultures the same. The key to success is to adapt their offerings to their customers' needs and wants. For instance, products and services will have to be adapted based on cultural habits, promotion messages will be different and will have to be adapted to cultural norms, and even distribution will have to be adapted based on the shopping habits of consumers in different cultures/countries. Very successful firms from the U.S. have failed in foreign markets simply because they did not bother to adapt their offerings to the needs of their foreign markets and the cultures of their consumers in the foreign markets.

Similarly, when dealing with managers from different cultures CEOs need to understand that the decision making process of managers from different cultures will be

different. Hofstede's cultural dimensions and its effects on managers from different cultures should be taken into account. Confronted with the same scenarios/situation, it is very likely that managers from different cultures will use different criteria and will come to different conclusions/decisions. As this study shows, managers from short-term oriented cultures do not take a very long-term view of the future and thus their decisions are to cut expenditures in advertising and R&D in order to maximize short-term profits, hurting long-term profitability. On the other hand, managers from long-term oriented cultures do just the opposite – investing more into R&D and advertising, which will hurt short term returns, but will maximize long-term profitability. It is very difficult to suggest that managers from short-term cultures mimic the actions of managers from long-term cultures since the reward system of firms in short-term oriented cultures are based on immediate short-term financial performance and not long-term financial performance and thus managers concentrate on the short-term.

Entrepreneurs seeking to invest in a country/culture that is long term oriented, then they will have to be patient since managers of firms in long-term-oriented cultures will invest taking the long-term view and will make decisions that may lose money in the short-run, but will more than make it up in the long run. It is common knowledge that Wall Street is not too kind to a firm's stock price if the firm misses expected quarterly earnings. If a firm misses its earnings, its stock price falls which in turn leads to a drop in the total compensation of senior managers, and their behavior may be a function of such cultural factors. On the other hand, cultures like Japan do not penalize managers for missing quarterly earnings since it is seen as a way to build long-term market share, and ultimately long-term profitability.

LIMITATIONS

Like any other study, this study has its limitations. The generalizability of the study is affected by the limited sample size since only four countries were used for this study and only sixteen firms were used from these four countries. This study could have used a larger number of firms from a number of countries with different long-term indexes, *e.g.*, countries could have been categorized as short-term, midium-term and long-term in orientation and the proposed hypotheses could have been tested. However, it is very difficult to get financial data for firms from different countries and thus it would have been quite difficult to test the proposed hypotheses.

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