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The decline of global market leaders☆

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ABSTRACT

Integrating capability-based and institution-based views in a multilevel framework, we argue that managerial capability to acquire loans to finance business expansion has an inverted U-shaped relationship with global market leadership. The negative effect on global market leadership of excessive loan-acquiring capability is amplified under business-friendly market institutions that ease access to credit. Managerial capability to utilize resources productively positively moderates the relationship between loan-acquiring capability and global market leadership. The role of resource-utilizing capability is attenuated under business-friendly market institutions that facilitate overinvestment. The study helps explain recent decline of global market leaders in advanced market economies.

1. Introduction

Competition has intensified in accelerated globalization since the 1980s. In essence, competition is all about market leadership – companies compete with each other for a leading market share in an industry. Competition for market leadership has now become truly global with the rise of companies based in emerging market countries like Brazil, Russia, India and China in the last two decades or so. Indeed, evidence abounds on the intensity of competition for global market leadership. The share of emerging market countries in Fortune Global 500 market leader companies increased from 4.8% in 1996 to 23.4% in 2011. This illustrates that losers in the battle for global market leadership were mainly companies based in mature market countries, while challenges were primarily companies based in emerging market countries.[2] In other words, nearly 20% of market leader companies based in mature market countries were dethroned over the period, and their vacancies were filled by rising global market leaders based in emerging market countries. In the recent global financial crisis and European debt crisis, in particular, a number of market leader companies based in mature market countries, such as the Lehman Brothers Holdings, Morgan Stanley, either collapsed or been weakened.

Research focused on the success of firms is often attributed to their managers' ability to acquire and utilize resources effectively and efficiently (Helfat et al., 2007; Sirmon & Hitt, 2009). Little research has been undertaken however to examine the relationship between managerial capability and the firm's institutional environment that may lead to the firm's decline. To what extent was managerial capability responsible for the decline of global market leaders? Given that most losers in the battle for global market leadership were based in mature market countries, did market institutions somehow contribute to the decline of global market leaders? How did market institutions interact with managerial capability in undermining global market leaders? The questions involve variables residing at different levels of analysis, and needs to be addressed by integrating different theoretical perspectives. Integrating capability-based view (CBV) and institution-based view (IBV) in a multilevel framework, we provide in the paper an integrated answer to the questions to fill an important research gap.

CBV intended to improve the all-inclusive conceptual framework of resource-based view (RBV) by singling out managerial capability as a key determinant of competitive advantage at the firm level (Adner & Helfat, 2003; Helfat et al., 2007; Ray, Barney, & Muhanna, 2004; Sapienza, Autio, George, & Zahra, 2006; Sirmon & Hitt, 2009; Teece, 2007). Managerial capability has been defined as the ability of managers to take actions to acquire (resource investments) and utilize these resources (resource deployment) to generate sales (Kraaijenbrink, Spender, & Groen, 2010; Sirmon & Hitt, 2009, p. 1376). As was in the case of RBV, however, CBV

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[2] In 1996, there were 24 companies based in emerging market countries on the list of Fortune Global 500 market leader companies ranked by sale revenue. In 2011, the figure increased to 117.

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neglected the 'dark' side of managerial capability (Arend, 2004). In response to the criticism, Sirmon, Hitt, Arregle, and Campbell (2010) recently distinguished between capability strength and capability weakness. They pointed to the role of capability weakness in affecting competitive advantage. They based their argument on a linearity assumption: the more a firm developed its managerial capability compared to its rivals, the greater its competitive advantage; conversely, the less a firm developed its managerial capabilities, the greater competitive disadvantage the firm experienced. Their distinction between capability strength and capability weakness was based on a linear assumption. As Sirmon et al. (2010, p. 1390) put it: a firm suffers from capability weakness "when the value of a firm's capability is below parity." Moreover, they overlooked the potential negative impact that market institutions can play on the relationship between managerial capability and competitive advantage.

In our paper, we argue that managerial capability does not necessarily have a linear relationship with competitive advantage. Capability-strengthening may as well lead to loss of competitive advantage and decline of global market leadership. Global market leadership indicates competitive advantage of the firm over rivals in the industry or "competitive advantage and its empirical correlate – relative performance" (Sirmon et al., 2010, p. 1387; Beck & Wiersema, 2013; also Arend, 2008). Specifically, we contend that excessive development of managers' ability to acquire loans to finance business expansion is likely to lead to decline of global market leadership. As equity sources are often limited, a firm often has to borrow to meet the financial need. Growing debts expose a firm to financial risks that adversely affect further development of the firm. Consequently, the relationship between loan-acquiring ability of senior managers and global market leadership is likely to be inverted U-shaped. Managers need to know the turning point on the inverted U-shaped curve. In this study, the turning point was found to be an estimated value of 1.06 in the sample of Fortune Global 500 market leader companies, slightly lower than the mean value of 1.08. Therefore, the liability of excessive loan-acquiring capability was an endogenous cause of the decline of global market leaders. The fact that the value of the turning point was lower than the mean suggests that the adverse effect of loan-acquiring capability on global market leadership might be positively moderated by other managerial capabilities, especially those related to resource utilization. Indeed managerial capability to utilize resources productively to achieve synergy was found to serve as a positive moderator.

Managerial capability at the firm level does not work in vacuum, but in a complex business environment at the institutional level (Ahlstrom, Levitas, Hitt, Dacin, & Zhu, 2014). The effect of managerial capability on global market leadership is very likely to be influenced by institutions that govern transactions in the marketplace. According to IBV, market institutions play an important role in influencing managerial behavior and firm performance (North, 1990; Williamson, 1985). Research on market institutions has focused on positive effects of business-friendly market institutions on firm performance, neglecting the possible liabilities of market institutions. Business-friendly market institutions reduce uncertainty in business transactions by lowering costs for business transactions and enhancing a firm's productivity (Alesina, Ardagna, Nicoletti, & Schiantarelli, 2005; Ciccone & Papaioannou, 2007; Klapper, Lewin, & Quesada Delgado, 2009; Peng, Sun, Pinkham, & Chen, 2009). Consequently, most governments around the world compete with each other to provide more investor-friendly institutional frameworks (Henisz, 2002; Koka, Prescott, & Madhavan, 1999; O'Higgins, 2002; Ostergard, 2000; Peng, 2006).

Business-friendly market institutions are not always conducive to firm performance. In fact, the behavior of these institutions may interact with managerial capability in undermining global market leadership. If managerial capability to acquire a loan has reached an excessive level and generated a negative effect on global market leadership, it is very likely that the more business-friendly market institutions are detrimental to a firm's global market leadership. Managers of debt-ridden firms find it easy to borrow funds under business-friendly market institutions that ease access credit restrictions for them (Djankov, McLiesh, & Shleifer, 2007; Haselmann, Pistor, & Vig, 2010). These institutions make it easy for managers to engage in overinvestment and inefficient deployment of resources (Haselmann et al., 2010; Stulz, 2001). Evidence has supported the argument. The liability of market institutions was therefore an exogenous cause of the decline of global market leaders.

The paper is organized as follows. In the next section, we integrate CBV and IBV in a multilevel framework to form the paper's theoretical base and develop hypotheses about the impact on global market leadership of managerial capability and market institutions. In Section 3, we describe data, variables and methods used in empirical testing. In Section 4, we interpret the regression results. In the final section, we discuss theoretical contributions, managerial implications, and limitations of the study and conclude the paper.

2. Theoretical analyses and hypotheses

CBV and IBV each focused on a different level of analysis: CBV at the firm level and IBV at the institution level. To capture the cross-level interactions, we integrate CBV and IBV in a multilevel framework to form the theoretical base of the paper. The integrated multilevel framework states that global market leadership is determined by managerial capability at the firm level as well as, directly and/or indirectly, business environment at the institution level. As is in the case of most multilevel frameworks, theoretical propositions about cross-level interactions are expected to impact variables at the higher level (institution) than on variables at the lower level (firm) (Hitt et al., 2007).

2.1. Managerial capability and global market leadership

Managerial capability has been the focus of CBV that was developed in response to criticism of theoretical limitations of RBV. A major drawback is, as Kraaijenbrink et al. (2010, p. 358) pointed out, that the all-inclusive definitions of resources "do not sufficiently acknowledge the distinction between those resources that are inputs to the firm and the capability that enables the firm to select, deploy, and organize such inputs". To overcome the drawback, CBV tried to distinguish between actual resources and the capability (or processes) to manage them (Helfat et al., 2007; Kraaijenbrink et al., 2010; Sirmon & Hitt, 2009; Sirmon, Hitt, Ireland, & Gilbert, 2011; Teece, 2007).

We propose a model of CBV that clearly distinguishes between actual resources and managerial capability to invest and deploy them. Actual resources are defined as inputs available to a firm, including staff (human resources) and assets (nonhuman resources). Assets can be divided into those owned (equity) and those borrowed (loan). Accordingly, managerial capability can be classified into (1) Managerial capability to acquire staff, equity and loan resources to generate sales revenue based on marginal sale productivity of respective resources as determined by available technology, and (2) Managerial capability to utilize all resources to achieve synergistic sale productivity gains. The model of CBV can be expressed mathematically in Eq. (1).

$$g_{ijt} = \gamma_0 + \gamma_1 S_{ijt} + \gamma_2 e_{ijt} + \gamma_3 l_{ijt} + \gamma_4 u_{ijt} + \in_{ijt} \quad (1)$$