

Chapter 15

Evaluation of Firm Performances in Emerging Markets

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ABSTRACT

This chapter provides basic understanding of firm performance in emerging markets by focusing on labor productivity and total factor productivity. In the study, labor productivity is measured in terms of average value added per worker. Total factor productivity is obtained from estimations of Cobb-Douglas production function where value added is a function of labor and capital. Data is obtained from the firm-level Enterprise Surveys by the World Bank. According to the results, differences in average labor productivities are significant among the sectors within each emerging region. Also, the value of factor elasticities changes across sectors as well as across regions. Moreover, the elasticity of capital is lower than the elasticity of labor for all sectors in regions. It implies that labor plays a more significant role and the firms are operating in a more labor-intensive production process in emerging markets.

INTRODUCTION

Emerging markets have played a critical role in the global economy, especially for about last four decades. They are the main actors that contribute to the growth and development of the world economy. Parallel to the globalization process, emerging countries have been striving to increase their competitiveness in the global markets. At this point, competitiveness of these countries in the world markets has been closely related to their growth, development and trade policies.

In this context, competitiveness describes certain dimensions of economic performance of a country. It is generally measured at the firm-level. Krugman (1994) claims that economic performance is a firm-level issue and firms rather than countries compete in the world markets. Hill and Jones (1995) conceptualize define competitiveness as the best profit performance of the firms with respect to competitors in the industrial sector. Kantha (2015) claims that industrial competitiveness of a country is highly dependent on performance and production capacity of the firms. Therefore, improving the firm performance, especially manufacturing ones, is the most appropriate way for emerging countries to survive

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in this globalizing world. Moreover, industrial sector, has traditionally been the most important driver in maintaining growth and development of emerging countries as well as improving their competitiveness. (Kaldor, 1966;1968). So, improving the performance of the manufacturing firms carries a special importance in determining the growth and competitiveness of emerging countries.

On the other hand, measuring firm performance has many external and internal dimensions. In the literature, there are many firm performance measures such as revenue, profitability, stock price, capacity utilization, productivity and productivity growth. Among them, productivity- the ability to generate greater outputs with less inputs- and productivity growth has a special importance in evaluating firm performance. In other words, the productivity levels of countries are considered to be an important indicator of their competitiveness. In this context, productivity is evaluated in two ways: labor productivity (LP) and Total Factor Productivity (TFP). LP shows how efficiently a firm uses its labor inputs and it is measured as total output per worker. On the other hand, TFP shows how efficiently both capital and labor are used in the production and it is measured as the portion of output that is not explained by the amount of inputs utilized.

In the literature, there are several studies proving the contribution of productivity to the generation of growth since Solow (1957). However, most of these studies focus on developed countries. In other words, there are few empirical studies about the firm productivity in emerging countries due to a lack of adequate and comparable firm-level data. Therefore, although emerging markets are a popular area of research, many things about firm performance in emerging economies are unknown. (Kang et al, 2018). This study tries to fill this gap by focusing on productivity levels of firms in emerging markets.

More specifically, this study measures and compare LP and TFP levels of the firms classified according to their geographic regions. These firms are located in Eastern Europe and Central Asia (ECA), the East and South Asia (ESA) and Middle East North Africa (MNA). Firm-level data is obtained from World Bank's Enterprise Surveys (WBES) which supplies firm-level data on a wide range of indicators. WBES firm-level data is available for China (2012), India (2014), Indonesia (2015), Malaysia (2015), Philippines (2015), Thailand (2015) from ESA; Russia(2012), Turkey(2013), Czech Republic (2013), Hungary (2013), Poland (2013) from ECA; Egypt (2013), Morocco(2013) and Tunisia(2013) from MNA.

This study contributes to the existing literature by providing a detailed analysis on firm performance in emerging markets. Moreover, the study provides a guide for new firms planning to produce in emerging markets by providing empirical evidence on the productivity performances of existing firms. Finally, the analyses, findings and results of this study constitute a guideline for identifying and implementing the most suitable policies to support productivity growth and industrial development in emerging markets.

The remainder of the paper is organized as follows. Next section mentions background of the study by reviewing the broad definitions and the relevant literature. Section 3 focuses on the estimation of firm-level productivity by discussing the data, relevant variables and the estimation procedure. Section 4 discusses the results. Finally, Section 5 outlines the conclusion.

BACKGROUND

The performance of firms is an important indicator of the economic situation and competitiveness of the sector or country in which they operate. In this context, competitiveness can be attributed to the firm's ability to produce. In order to determine the factors that contribute to a firm's ability to produce, in the first place, current performances of the firms should be analyzed in detail.

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