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The Impact of Competitive Dynamism on the Association between Firm Capabilities and Growth: An Investigation of Thai Pharmaceutical Industry

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ABSTRACT
The study aims to analyze the moderating impact of competitive dynamism on the association between firm capabilities (marketing and operations capabilities) and growth (revenue and profit growth). Using the data for the period of 2013 to 2019, the study draws a simple random sample of 60 pharmaceutical companies of Thailand. The data are collected from annual reports of sampled firms to compute the study variables. Marketing and operations capabilities show significant negative interaction effect on profit growth and suggests substitution interactive impact between marketing capability (MC) and operations capability (OC) in such a way that the positive impact of MC on profit growth of firm is weakened when the OC is higher. Overall, this outcome reports that MC enhances firm growth while OC diminishes the MC's direct impact on profit growth. The negative but insignificant association between MC and OC on revenue growth of firm strengthens and becomes negatively significant in highly competitive dynamic condition of market. Competitive dynamism generates larger hitches for practitioners in predicting moves of rival and competitive responses. The study concludes that the need for revenue growth effect of such services and products changes is likely to be higher in more competitive dynamic conditions of markets. The study finds strong evidences that the outcomes of growth of capability investments of firms are contingent upon competitive dynamism of market in which they operate.

Keywords: Marketing Capability, Operations Capability, Revenue Growth, Profit Growth, Thailand.

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INTRODUCTION

Thailand is in the middle of a fiscal renovation with healthcare at its heart. With 4 years of around 3-4% growth of annual GDP behind it, the second-larger economy of ASEAN countries has employed an "Industry 4.0" policy by which it is endeavoring to primacies innovation in many key industries, including the life sciences and healthcare. Even now a regional leader in terms of the application of general healthcare, Thailand aims to scale the value chain and grow its footmark in particular niches where it can shine, including production of infectious disease and clinical research. The nation also aims to strengthen its standing as one leading medical tourism pivots in Asia, fascinating patients from all over the world with higher-quality and affordable healthcare. Similar with other emerging economies, the road to economic transformation is not smooth. The local pharmaceuticals industry of Thailand is affected by pressures of prices which makes it problematic for global innovators to succeed. This is compounded by a monitoring system which still needs to be improved, regardless of venerable development having been made in dipping timelines of drug registration [25].

Capabilities are composite package of skills, abilities and knowledge inserted in organizational procedures. A firm perform well if it uses firm resources in a consistent way [5, 18]. Most of the focus of existing managerial researchers is on the association between individual capabilities (i.e., marketing or operations) and performance for the short time period [12]. However, previous studies provide incomplete and inadequate understandings of firm capabilities as they worked on short time period which disregards the interrelatedness of firm capabilities [12, 16]. Moreover, the focus of previous studies is on the direct effect of firm capabilities on firm's performance and they disregard the role of competitive dynamism. Thus, many researchers suggest that there is a need to explore the content-based discrepancies in the association between capability-performance relationship [12, 8, 26].

Contingency theory proposed that the business environment of any firm is an important determinant of firm's profitability [23]. Generally different market conditions having different value effects of capabilities [16]. Therefore, numerous economic scholars have suggested that capabilities have higher value when they are organized in the consistent way of external environment [17]. The theory indicated that an organized consolidation of firm's resources and capabilities increase the firm's competitive advantage [8]. Similarly, Numerous theories propose that the business environment is having significant contributions in the firm's investment returns. The theory of economics and finance prostrates that the firms should invest in different combinations because future threat and opportunities of any firm is affected by the choice of a firm to respond in different competitive dynamism [6]. Other theories suggest that the firm should organize their capabilities to face the business challenges and finding the best between firm and its environmental conditions like competitive dynamism [22]. Therefore, the study aims to analyze the moderating role of competitive dynamism in firm capabilities and growth relationship.

In the following section, the study discusses prior relevant researches and formulates hypothesis while in the third section the methodological approaches are discussed. The study then provides empirical findings and the last section consists of conclusions and implications.

LITERATURE REVIEW

Feng, Morgan & Rego [19] investigated the impact of firm capabilities on the growth of firms by using marketing, operations and R&D as a proxy of firm's capability. Results of the study revealed positive influence of the firm's capability on its growth. Boso et al. [4] utilized the data of

162 industrial exporting firms for examining the relationship between the export market capability and the revenue growth of exporting firms. Results of the study showed that the higher the capability of export market, the higher the growth of its revenues. Khattak & Hassan [11] revealed the positive influence of firm's management capabilities on the profitability of the firm. Easmon et al. [7] investigated the mediating role of firm capabilities on the association between social capital and the profitability of exporting firms. Results of the study revealed that the firm capabilities significantly mediated the positive association between social capital and the profitability of exporting firms. Kumar & Kumar [14] revealed that the entrepreneurship capability of corporate positively influence its revenue growth. Hameed, Iqbal & Ramzan [10] collected the data of 53 non-financial firms of Pakistan, listen in KSE for examining the association between firm's financial capacity on its revenue growth. The results of the study concluded the positive affiliation between these two variables. the study concluded that the higher the financial capacity of firm, the higher it has chances of investment which in their turn enhances the firm's revenue. Krush, Sohi & Saini [13] investigated the impact of firm's management capability on the profitability and the revenue growth of the firms and indicated the positive relationship between these variables. Bharadwaj [3] examined the effects of IT capacity on firm's performance. The study used It infrastructures as a measurement of IT capability. Results of the study indicated the positive influence of It capability on the performance of the firm. Angulo-Ruiz et al. [1] investigated the impact of marketing capabilities of firm on the its performance. For this purpose, the study utilized the merged data set, containing financial and marketing information of firm. Results of the study showed the positive association between firm's marketing capabilities and its performance. Vorhies et al. [24] revealed the positive impact of firm's marketing capabilities on their financial performance. After studying the above literature, it is proposed that:

H_1: "There is a relationship between firm capabilities and firm growth".

Contingency theory proposed that the business environment of any firm is an important determinant of firm's profitability [23]. Generally different market conditions having different value effects of capabilities [16]. Therefore, numerous economic scholars have suggested that capabilities have higher value when they are organized in the consistent way of external environment [17]. DC theory indicated that an organized consolidation of firm's resources and capabilities increase the firm's competitive advantage [8].

Similarly, Numerous theories proposed that the business environment is having significant contributions in the firm's investment returns. The theory of economics and finance prostrates that the firms should invest in different combinations because future threat and opportunities of any firm is affected by the choice of a firm to respond in different market conditions [6]. Other theories suggest that the firm should organize their capabilities to facing the business challenges, and finding the best between firm and its environmental conditions [22]. Literature revealed that managers are facing critical problem regarding the organization of their resources and capabilities for the better fixation of firm's external conditions so that they can easily deal with future threats and opportunities [18]. Hence it is concluded that the business environment is a decisive market condition which significantly affect the capability and growth of the firm [21]. Basically, market conditions are linked up with the market's uncertainty, where the managers are facing huge challenges in allocating their resources for making the investment decisions and hence, they needed more supervision. Therefore, it is essential to examine that "how firms should invest in and manage multiple capabilities to facilitate growth in uncertain markets". The above discussion allows developing following proposition:

H_2: "Competitive dynamism moderates the relationship between firm capabilities and firm growth".

RESEARCH METHODOLOGY

Using the data for the period of 2013 to 2019, the study draws a simple random sample of 60 pharmaceutical companies of Thailand. The data are collected from annual reports of sampled firms to compute the study variables. Firm capabilities (MC: marketing capability and OC: operations capability) and firm growth (RG: revenue growth and PG: profit growth) are used as independent and dependent variables, respectively. Competitive dynamism (CD) is used as moderating variable while firm size (FS), firm age (FA), leverage (LV) and return on assets (ROA) are used as control variables.

Firm Capabilities (FCs): Following Kumbhakar et al. [15] FCs are estimated on the basis of "a general least square random-effects model and stochastic frontier (SF) model". FCs are modeled through a component of persistent (a time-variant and firm-specific component) and a residual component (time and firm-specific component). This method allows separating FCs into time-varying and persistent components. The general function of SF is:

$$Oput_{it} = y_0 + y_1 \times Iput_{1it} + y_2 \times Iput_{2it} + \ldots\ldots\ldots + \mu_{it} + \epsilon_{it}$$

Where: "μ_i is a firm-level unobserved random effect and ϵ_{it} is a firm and time specific error term. The study further decomposed μ_i to estimate the firm-specific time-invariant persistent component and ϵ_{it} to estimate the firm- and time-specific component. Conceptually, both μ_i and ϵ_{it} are to be interpreted as inefficiency scores, capturing a firm's inefficiency in converting inputs (Iput) into the output (Oput)". The study uses two measures of firm capabilities:

Marketing capability (MC): Using SFE (stochastic frontier estimation) input-output method MC is measured. The outputs of the firms are prior and current period's SG&A and trademarks owned by the firm and its advertising investments [2, 28], while the outputs are the sales revenue of the firm. *Operations capability (OC):* OC is a proxy of production cost which is measured using cost of goods sold as output and cost of capital and labor (dividend paid and total interest) as the inputs in the equation of input-output, following the Narasimhan et al. [20].

Competitive Dynamism (CD): CD is used as moderating variable and is measured by using 5-year change in HHI

(Hirschmann-Herfindahl Index) [27]. *Firm Growth (FG):* The study uses two measures of future growth performance; future profit growth (PG) and future revenue growth (RG). These measures of FG as calculated as:

$PG = (Profit_{t+1} - Profit_t) / Profit_t$

$RG = (Sales_{t+1} - Sales_t) / Sales_t$

Control Variables: Return of assets (ROA: net income / total assets), firm age (FA: number of years since incorporation of a firm), firm size (FS: logarithm of total assets) and leverage (LV: total debts / total assets) are used as control variables.

The study uses error component model suggested by Krush et al [13]. This method is appropriate to deal with several estimations of econometrics such as unobserved-firm-specific heteroscedasticity, serial correlation, endogeneity and heteroscedasticity. Therefore, in order to address such concerns, the study proposes following specifications of model:

$$PG_{i,t+1} = \alpha_0 + \alpha_1 PG_{i,t} + \alpha_2 MC_{i,t} + \alpha_3 OC_{i,t} + \alpha_4 MC_{i,t} \times OC_{i,t} + \alpha_5 FS_{i,t} + \alpha_6 FA_{i,t} + \alpha_7 LV_{i,t} + \wp_i + e_{i,t+1} \ldots\ldots\ldots (1)$$

$$PG_{i,t+1} = \alpha_0 + \alpha_1 PG_{i,t} + \alpha_2 MC_{i,t} + \alpha_3 OC_{i,t} + \alpha_4 CD_{i,t} + \alpha_5 MC_{i,t} \times OC_{i,t} + \alpha_6 MC_{i,t} \times CD_{i,t} + \alpha_7 OC_{i,t} \times CD_{i,t} + \alpha_8 MC_{i,t} \times OC_{i,t} \times CD_{i,t} + \alpha_9 FS_{i,t} + \alpha_{10} FA_{i,t} + \alpha_{11} LV_{i,t} + \wp_i + e_{i,t+1} \ldots\ldots\ldots (2)$$

$$RG_{i,t+1} = \alpha_0 + \alpha_1 RG_{i,t} + \alpha_2 MC_{i,t} + \alpha_3 OC_{i,t} + \alpha_4 MC_{i,t} \times OC_{i,t} + \alpha_5 FS_{i,t} + \alpha_6 FA_{i,t} + \alpha_7 LV_{i,t} + \alpha_8 ROA_{i,t} + \wp_i + e_{i,t+1} \ldots\ldots\ldots (3)$$

$$RG_{i,t+1} = \alpha_0 + \alpha_1 RG_{i,t} + \alpha_2 MC_{i,t} + \alpha_3 OC_{i,t} + \alpha_4 CD_{i,t} + \alpha_5 MC_{i,t} \times OC_{i,t} + \alpha_6 MC_{i,t} \times CD_{i,t} + \alpha_7 OC_{i,t} \times CD_{i,t} + \alpha_8 MC_{i,t} \times OC_{i,t} \times CD_{i,t} + \alpha_9 FS_{i,t} + \alpha_{10} FA_{i,t} + \alpha_{11} LV_{i,t} + \alpha_{12} ROA_{i,t} + \wp_i + e_{i,t+1} \ldots\ldots (4)$$

Where; "PG: profit growth, RG: revenue growth, MC: marketing capability, OC: operations capability, CD: competitive dynamism, FS: firm size, FA: firm age, LV: leverage, ROA: return on assets, : time-variant-unobservable factors, α_0: constant, $\alpha_1 \ldots\ldots\ldots \alpha_{12}$: regression coefficients, and e: error term."

EMPIRICAL FINDINGS

Table 1 summarizes the descriptive statistics outcomes for each variable used in the current study. The Table shows that the mean value of PG, RG, MC, OC, CD, FS, FA, LV and ROA is 0.16, 0.20, 48.35, 51.84, -0.03, 6.56, 28.34, 0.64 and 0.04, respectively. while the median value of PG, RG, MC, OC, CD, FS, FA, LV and ROA is 0.12, 0.15, 52.34, 58.36, -0.02, 7.68, 26.86, 0.68 and 0.05, respectively. PG, RG, MC, OC, CD, FS, FA, LV and ROA show ±204.85 %, ±105.74 %, ±19.25 %, ±16.21 %, ±11.45 %, ±296.41 %, ±35.42 %, ±38.42 %, and ±25.47 % variations.

Table 2 reports the Pearson Correlation Analysis to check the presence of multicollinearity in the data. The Table shows no multicollinearity in the data as the highest coefficient of correlation is -0.6636 which is in between ROA and MC. Moreover, there is negative correlation between FS and PG, ROA and PG, FS and RG, ROA and RG, CD and MC, FS and MC, ROA and MC, CD and OC, FS and OC and ROA and OC. While positive correlation exists between RG and PG, MC and PG, OC and PG, CD and PG, FA and PG, LV and PG, MC and RG, OC and RG, CD and RG, FA and RG, LV and RG, OC and MC, FA and MC, LV and MC, FS and CD, FA and CD, LV and CD, ROA and CD, FA and FS, LV and FS, ROA and FS, LV and FA, ROA and FA and ROA and LV.

TABLE 1: Descriptive Statistics

Variables	Mean	Median	Max.	Min.	SD
PG	0.1674	0.1238	137.2423	-40.3767	2.0485
RG	0.2001	0.1578	6.3842	-0.5698	1.0574
MC	48.3574	52.3412	100.0000	1.0000	19.2587
OC	51.8434	58.3652	100.0000	1.0000	16.2145
CD	-0.0341	-0.0264	1.0078	-0.9782	0.1145
FS	6.5674	7.6821	14.3864	2.6842	2.9641
FA	28.3468	26.8658	53.6421	14.6523	0.3542
LV	0.6478	0.6862	0.0248	0.9324	0.3842
ROA	0.0486	0.0568	0.3268	-2.3681	0.2547

Note: "PG: profit growth, RG: revenue growth, MC: marketing capability, OC: operations capability, CD: competitive dynamism, FS: firm size, FA: firm age, LV: leverage, ROA: return on assets"

TABLE 2: Correlation Matrix

Variables	PG	RG	MC	OC	CD	FS	FA	LV	ROA
PG	1								
RG	0.3574	1							
MC	0.4852	0.3745	1						
OC	0.2485	0.4382	0.3185	1					
CD	0.0497	0.2412	-0.4785	-0.4625	1				
FS	-0.4721	-0.2222	-0.3895	-0.3274	0.3354	1			
FA	0.1731	0.4874	0.2486	0.4315	0.2468	0.4371	1		

LV	0.2546	0.1975	0.0586	0.0985	0.3471	0.3712	0.2421	1	
ROA	-0.3425	-0.0984	-0.6636	-0.2374	0.5231	0.2715	0.3271	0.0875	1

Note: "PG: profit growth, RG: revenue growth, MC: marketing capability, OC: operations capability, CD: competitive dynamism, FS: firm size, FA: firm age, LV: leverage, ROA: return on assets"

The study presents empirical findings for CD in the association between FCs and FG in Table 3 (for model 1 and 2) and Table 4 (for model 3 and 4). In Tables 3 and 4, model 1 and 3 presents two-way interaction (moderation) impacts among two FCs (MC and OC) on RG and PG while model 2 and 4 includes three-way interactions with moderating variable; competitive dynamism (CD). These Tables also provide main effects. MC shows insignificant negative effect on PG while OC shows significant positive impact on PG. The impact of moderating variable CD on PG is also insignificantly positive (0.0675, p > 10%). Moreover, MC has insignificant negative impact on RG while OC has significant positive impact on PG. The impact of moderating variable CD on RG is found to be significantly positive (0.2964, p < 1%). Two-way interaction effect of MC×OC, MC×CD and OC×CD on PG is significant positive at 1%, significant positive at 5% and insignificant negative, respectively. the effect of MC×OC, MC×CD and OC×CD on RG is found to be insignificant.

MC and OC show significant negative interaction effect on future PG (-0.6245, p < 1%) but this impact is insignificant in case of RG (-0.0943, p < 10%). The outcome suggests substitution interactive impact between MC and OC in such a way that the positive impact of MC on future PG on firm is weakened when the OC is higher.

TABLE 3: Regression Outputs: PG_{t+1}

Model	Model 1: PG_{t+1}			Model 2: PG_{t+1}		
Variables	Coefficient	S.E.	p-value	Coefficient	S.E.	p-value
Main effects						
PG_t	0.1346	0.3482	0.3485	0.3412	0.3492	0.4231
MC_t	-0.1245	0.0493	0.2499	-0.2697	0.0004	0.1349
OC_t	0.359	0.0018	0.3462	1.0642	0.0342	0.0000 ***
CD_t	---	---	---	0.0675	0.0437	0.2485
Moderation (two-way effects)						
$MC_t \times OC_t$	-0.6245	0.4382	0.0000 ***	0.6980	0.3742	0.0000 ***
$MC_t \times CD_t$	---	---	---	0.2042	0.0936	0.0564 **
$OC_t \times CD_t$	---	---	---	-0.0549	0.3288	0.3485
Three-way-interactions						
$MC_t \times OC_t \times CD_t$	---	---	---	-0.0594	0.3742	0.3891
Controls						
FS_t	0.0346	0.0455	0.3462	0.0684	0.0249	0.0695 *
FA_t	0.0624	0.0111	0.0246 **	0.0862	0.0371	0.0000 ***
LV_t	0.0145	0.0420	0.3485	0.3452	0.1721	0.5487

Note: "***, ** and * show level of significance at 1%, 5% and 10%, respectively"
"PG: profit growth, RG: revenue growth, MC: marketing capability, OC: operations capability, CD: competitive dynamism, FS: firm size, FA: firm age, LV: leverage, ROA: return on assets"

TABLE 4: Regression Outputs: RG_{t+1}

Model	Model 3: RG_{t+1}			Model 4: RG_{t+1}		
Variables	Coefficient	S.E.	p-value	Coefficient	S.E.	p-value
Main effects						
PG_t	0.2157	0.0064	0.0000 ***	0.1794	0.0674	0.0000 ***
MC_t	-0.4685	0.0371	0.2346	-0.4364	0.0049	0.3462
OC_t	0.4976	0.0834	0.0000 ***	0.4596	0.1674	0.0264 **
CD_t	---	---	---	0.2964	0.0274	0.0000 ***
Moderation (two-way effects)						
$MC_t \times OC_t$	-0.0943	0.0726	0.3462	-0.1265	0.0674	0.2196
$MC_t \times CD_t$	---	---	---	-0.0621	0.0721	0.5127
$OC_t \times CD_t$	---	---	---	0.0245	0.0037	0.1824
Three-way-interactions						

$MC_t \times OC_t \times CD_t$	---	---	---	-0.1496	0.0431	0.0264 **
Controls						
FS_t	0.0896	0.0382	0.3754	0.0278	0.0047	0.0864 *
FA_t	0.0467	0.0046	0.0275 **	0.0587	0.0488	0.0675 *
LV_t	-0.3642	0.0287	0.4982	-0.2751	0.0621	0.3842
ROA_t	-0.0976	0.0006	0.0000 ***	-0.1575	0.0004	0.0000 ***

Note: "***, ** and * show level of significance at 1%, 5% and 10%, respectively"
"PG: profit growth, RG: revenue growth, MC: marketing capability, OC: operations capability, CD: competitive dynamism, FS: firm size, FA: firm age, LV: leverage, ROA: return on assets"

The three-way interaction of (MC t × OC t × CD t) for RG is significant negative (-0.1496, p<5%) while it is insignificant for PG (-0.0594, p>10%). Though, the negative but insignificant association between MC and OC on RG of firm strengthens and becomes negatively significant in highly competitive dynamic condition of market. CD (competitive dynamism) generates larger hitches for practitioners in predicting moves of rival and competitive responses; making it more complex to truthfully plan future services and products requirements that are needed to exceed or match offering of competitors. Furthermore, FS and FA have significant positive impact on both PG and RG while ROA has significant negative impact on RG. LV does not show any significant impact on firm growth.

DISCUSSION AND CONCLUSION

Capabilities are composite package of skills, abilities and knowledge inserted in organizational procedures. A firm perform well if it uses firm resources in a consistent way. Most of the focus of existing managerial researchers is on the association between individual capabilities (i.e., marketing or operations) and performance for the short time period. However, previous studies provide incomplete and inadequate understandings of firm capabilities as they worked on short time period which disregards the interrelatedness of firm capabilities. Moreover, the focus of previous studies is on the direct effect of firm capabilities on firm's performance and they disregard the role of competitive dynamism. Thus, many researchers suggest that there is a need to explore the content-based discrepancies in the association between capability-performance relationship. Therefore, the current study aims to analyze the moderating impact of competitive dynamism on the association between firm capabilities and growth. Using the data for the period of 2013 to 2019, the study draws a simple random sample of 60 pharmaceutical companies of Thailand. The data are collected from annual reports of sampled firms to compute the study variables. Firm capabilities (MC: marketing capability and OC: operations capability) and firm growth (RG: revenue growth and PG: profit growth) are used as independent and dependent variables, respectively. Competitive dynamism (CD) is used as moderating variable while firm size (FS), firm age (FA), leverage (LV) and return on assets (ROA) are used as control variables.

The study presents empirical findings for CD in the association between FCs and FG and presents two-way interaction (moderation) impacts among two FCs (MC and OC) on RG and PG while it also includes three-way interactions with moderating variable; competitive dynamism (CD). MC and OC show significant negative interaction effect on future PG (-0.6245, p < 1%) but this impact is insignificant in case of RG (-0.0943, p < 10%). The outcome suggests substitution interactive impact between MC and OC in such a way that the positive impact of MC on future PG on firm is weakened when the OC is higher. Overall, this outcome reports that MC enhances firm growth (FG) while OC diminishes the MC's direct impact on PG.

The three-way interaction of (MC t × OC t × CD t) for RG is significant negative (-0.1496, p<5%) while it is insignificant for PG (-0.0594, p>10%). Though, the negative but insignificant association between MC and OC on RG of firm strengthens and becomes negatively significant in highly competitive dynamic condition of market. CD (competitive dynamism) generates larger hitches for practitioners in predicting moves of rival and competitive responses; making it more complex to truthfully plan future services and products requirements that are needed to exceed or match offering of competitors. The firms with strong OCs assembled on proficiently delivering services and products of a certain quality worth the standardization benefits of fewer tailored offerings and less services and products changes. It offers fewer flexibility in order to allow a firm to hurriedly adjust offering of its services and products. The study concludes that the need for RG effect of such services and products changes is likely to be higher in more competitive dynamic conditions of markets. The study finds strong evidences that the outcomes of growth of capability investments of firms are contingent upon competitive dynamism of market in which they operate. The research evidences clearly report that the managers should shape and sustain marketing capability that are superior to their competitors.

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