

Modeling Factor Market Competition Using TextSpatial Approach: Evidence from Firm Mission and Vision Statements

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Abstract

Objective measurement of strategic similarities among firms, especially in factor markets, has been a challenge in studying the effect of inter-firm similarities on firm performance. In such markets, firm strategies are often implicit, expressed through textual data. In this paper, we study the effect of firm externalities in factor markets on firm performance by using the vision and mission statements for Fortune 1000 companies. We take innovative approach by transforming textual data to relative firm locations in latent strategy space and adopting spatial econometrics for estimation and interpretation. We find that the model explains 15% additional variance in firm performance and shows that factor market externalities and the firm performance externalities in strategically similar space significantly affect firm performance. The paper contributes methodologically through the approach taken and substantively by allowing managers to identify competition and assess its impact.

Subject Areas: *Finance, Market Analysis and Response, Marketing Strategy*

Track: Marketing Strategy & Theory