

Impacts of Competitor Selection Strategy on Firm Risk - Case in Vietnam Investment and Finance Industry

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Abstract

Competitor selection strategy is one of key factors that affect business strategy of our company, esp. In financial industry. We will use a single factor model in this paper to measure effects of this strategy on business risk. This paper mainly uses quantitative analysis and statistics, together with qualitative methods including synthesis, comparison and explanatory methods.

Our research findings show that in case keeping current competitor size, we can minimize the risk disperse (beta measured at 0,233). One more result is that beta CAM and competitor size there is positive relationship.

We also change size of competitors to double to measure impacts on beta CAPM.

At last, we use results in order to suggest suitable policies.

Key-words: Competitor Selection Strategy, Beta CAPM, Investment and Finance Industry.

JEL: M21, G30, G32, G38.

1. Introduction

We cannot deny the truth that investment and financial industry in Vietnam has contributed so much to the development of socio-economy in recent years in the context of industry 4.0.

Therefore, this papers pay attention to effects of competitor strategy on business risks, beta CAPM in this sector.

This paper is organized with introduction, research questions, literature review, main results, discussion and conclusion.

2. Research Questions

Question 1: To what extent beta CAPM changes under effects from competitor size changing?

Question 2: What are recommendations for risk policies and competitive strategy in this sector?

3. Literature Review

We summarize previous studies as follows:

Table 1- Summary of Previous Studies

Authors	Year	Results, contents
Black	1976	Between return volatility and equity return there is negative is negative relationship
Deshpande and Gatingon	1994	Provide a conceptualization of how competitive analyses can be framed by decision makers and for researching how human biases in decision making and corporate culture impact on the nature and use of competitive analysis information.
Armstrong and Collopy	1996	When information about the competitor's profits was provided, over 40% of the subjects were willing to sacrifice part of their company's profits to beat or harm the competitor. Such competitor-oriented behavior occurred across a variety of treatments.
Fama and French	2004	Stock return will be affected by value and size
Kim et al	2002	In order to value product strategies effects on value of shareholders, we need to take into account competitive interaction
Daly and Hanh Phan	2013	In Asian countries, competition of bank system are much affected by economic crisis.
Ana and John	2013	Between leverage and volatility there is correct is correct connection.
Maune	2014	examine the relationship that exists between competitive intelligence and firm competitiveness through literature review. There are varying perceptions of the relationship that exists between competitive intelligence and firm competitiveness; and that there is no universally accepted model of best practice for adoption and adaption
Gupta et al	2016	Revealed that innovativeness in the marketing initiatives of the brand can be a function of the contributions made by the brand to its competitiveness.

Then, Adom et al (2016) mentioned identifying competitors and how they operate helps managers to tackle industry issues that are detrimental to their companies' health and also helps managers to learn from competitors. It also revealed that firms that pay attention to competitors' actions have been found to achieve better business performance.

Last but not last, Buehl and Melchers (2018) examined the influence of two such factors – attractiveness of the organization and competition among applicants – on the intention to fake in an interview and revealed that attractiveness influenced faking intentions. However, we found no effect for competition.

4. Conceptual Theories

Competitor Strategy Impacts on Business

Selecting proper competitors will affect business strategy through evaluating strengths and weaknesses of our firm competitors, from that we can build suitable competitive strategy to win market share.

Our firm competitors and their pricing strategy might affect our pricing plans and deliver proper responses to customers.

5. Methodology

Competitive and comparative methods are used for competitor analysis.

Tax rate is 25% in the survey and competitor size change to make a sensitivity analysis.

We use a combination of qualitative and philosophical and quantitative methods with live data from stock exchange.

We can generate policies from our analysis and results then.

6. Overall Analysis

This survey consists of 10 listed firms in RE sector, we find out that between beta CAPM and leverage there is positive correlation.

One more result from below table is that there is 30% firms with $\beta > 1$ and 10% firms with asset $\beta > 1$. Asset beta helped to reduce risks in many firms.

Table 2 – The number of companies in research sample with different beta values and ratio

Unit: %

	current size		double size		smaller size	
Equity Beta	No. of firms	Ratio	No. of firms	Ratio	No. of firms	Ratio
<0	0	0,0%	0	0,0%	0	0,0%
0<beta<1	6	60,0%	7	70,0%	7	70,0%
Beta > 1	4	40,0%	3	30,0%	3	30,0%
total	10	100,0%	10	100,0%	10	100,0%
	current size		double size		smaller size	
Asset Beta	No. of firms	Ratio	No. of firms	Ratio	No. of firms	Ratio
<0	0	0,0%	0	0,0%	0	0,0%
0<beta<1	9	90,0%	9	90,0%	9	90,0%
Beta > 1	1	10,0%	1	10,0%	1	10,0%
total	10	100,0%	10	100,0%	10	100,0%

(Source: VN's stock exchange 2012 and authors' calculation)

We also recognize that from above table 1: number of firms with beta >1 in 3 cases are equal (only 1 firm).

7. Empirical Research Findings and Discussion

Under cases of changing competitor size: current size, smaller and double, We estimate beta CAPM in below tables.

Table 3 – Analyzing Market Risk under Three (3) Scenarios

	FL as current
Case 1: current leverage, competitor size as current	Scenario 1
Case 2: current leverage, competitor size as doubles	Scenario 2
Case 3: current leverage, competitor size as little smaller	Scenario 3

(Source: Made by Author)

Our results show that:

- Case 1: current leverage, competitor size as current: only 40% of firms with beta higher than 1.

- Case 2: current leverage, competitor size as doubles: only 1 firm with beta higher than 1.
- Case 3: current leverage, competitor size as little smaller: only 1 form with beta higher than 1.

8. Comparing Statistical Results in 3 Scenarios of Changing Leverage

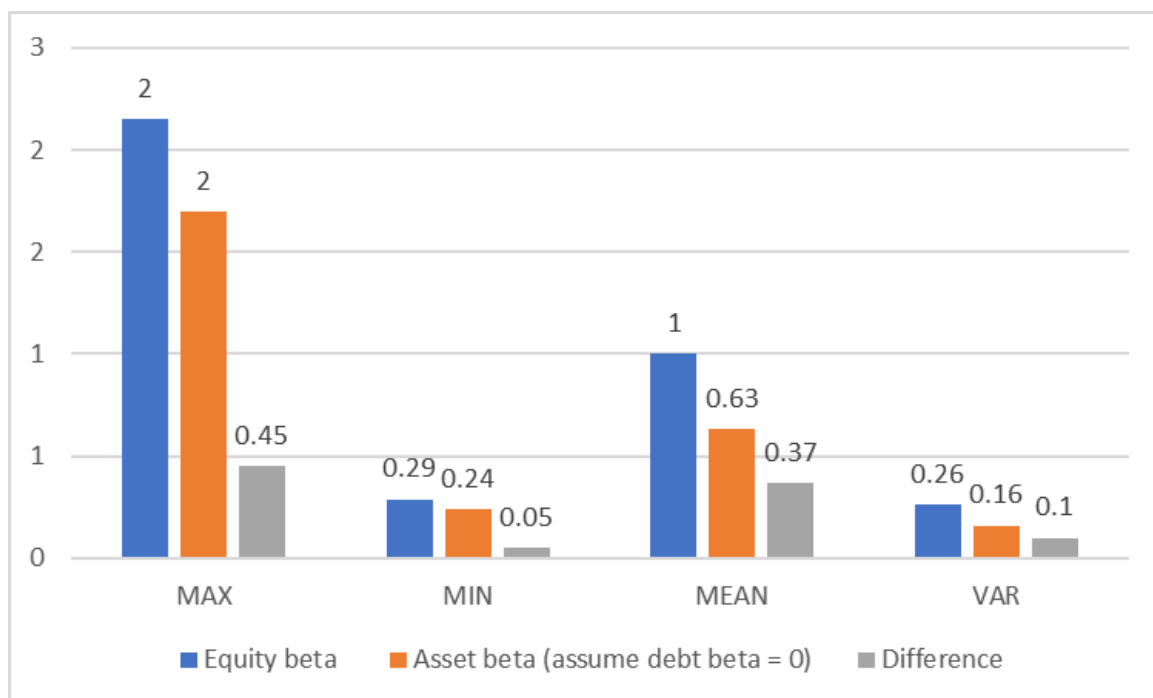
Table 4 - Statistical Results (FL in Case 1)

Statistic results	Equity beta	Asset beta (assume debt beta = 0)	Difference
MAX	2,159	1,592	0,5669
MIN	0,546	0,119	0,4268
MEAN	1,050	0,574	0,4767
VAR	0,2332	0,1694	0,0638
Note: Sample size : 10			

(Source: VN's stock exchange 2012 and authors' calculation. Unit of beta is a number only)

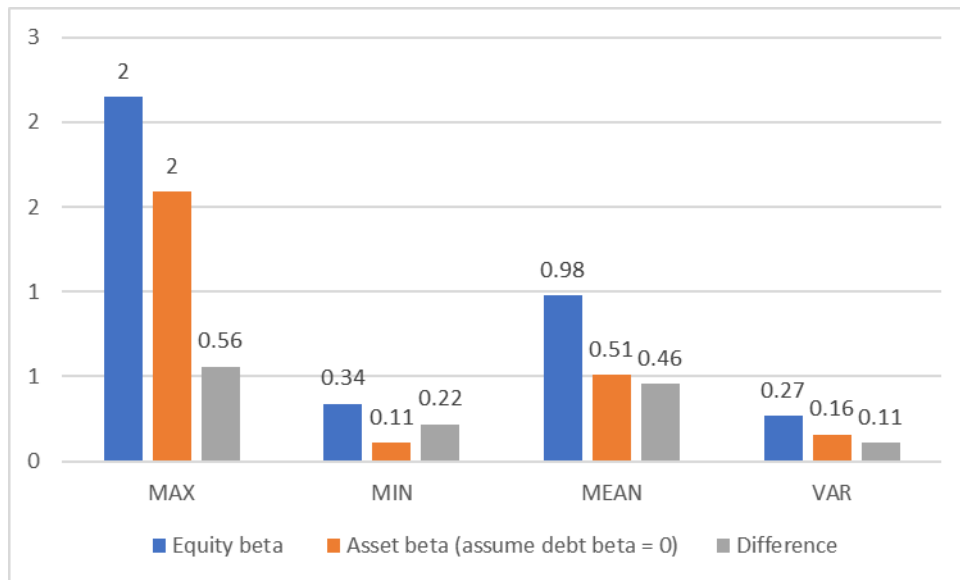
We also recognize that from above table 4: while beta mean is accepted (0,57) max equity beta still high (2,15).

Chart 1 – Statistic Results (FL in Case 2) (Source: VN Stock Exchange 2012)



(Source: VN's stock exchange 2012 and authors' calculation. Unit of beta is a number only)

Chart 2- Statistic Results (FL in case 3) (Source: VN stock exchange 2012)



(Source: VN's stock exchange 2012 and authors' calculation. Unit of beta is a number only)

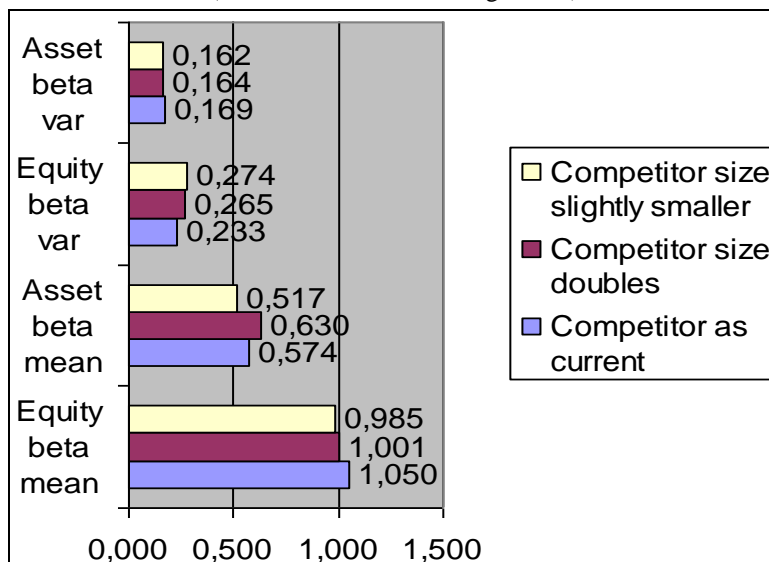
Form above tables and charts we recognize that:

If size of competitor doubles, asset beta max will increase and its value up to 1,705 from 1,592.

Also below charts tell us that in case smaller size of competitor, asset beta max does not increase.

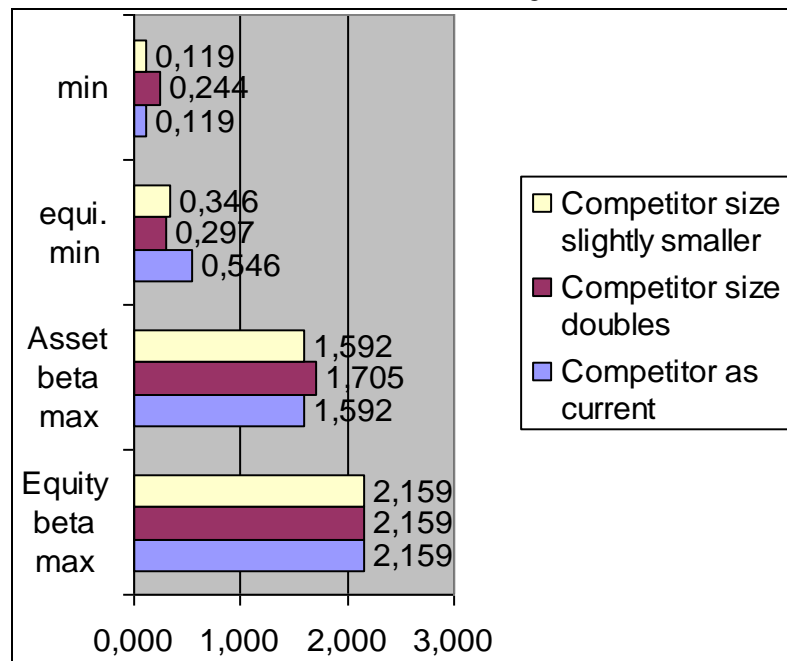
Asset beta (mean) also declines to 0,517 when smaller size of competitor.

Chart 3 – Comparing Statistical Results of Equity Beta Var and Mean in Three (3) Scenarios of Changing Competitor Size (source: VN stock exchange 2012)



(Source: VN's stock exchange 2012 and authors' calculation. Unit of beta is a number only)

Chart 4 – Comparing Statistical Results of Equity/Asset Beta Max and Min in Three (3) Scenarios of Changing Competitor Size (Source: VN Stock Exchange 2012)



(Source: VN's stock exchange 2012 and authors' calculation. Unit of beta is a number only)

9. Discussion

In case smaller competitor size, we can increase number of firms with beta < 1 up to 70%, as shown in above tables.

Above charts tell us that asst beta max can increase in case doubling competitor size.

We recognize that from above table chart 3: equity beta variation in case smaller size is little higher than in case double size.

We recognize that from above table chart 4: equity beta max are the same while asset beta max is bigger in case of double size.

10. Conclusion

In conclusion, bank system need to support firms to smooth capitals flows. We note that risk can decline if in specific case in which smaller size of competitor, and then double competitor size.

We need to identify and expand competitor lists, not only current competitors presenting in the market, but also other competitors hiding and potential in the market in future.

From that, we can select proper competitors to estimate their effects on business performance and risk.

Management Implications

To achieve a competitive advantage in selling to control and gain more markets, our firms must possess a thorough knowledge of your competition and manager need to make in-depth competitive analysis including: An understanding of how your existing and potential customers win the markets; A positive identification of your competitor's strengths and weaknesses; A mechanism to develop effective competitive strategies in your target market.

Limitation of Research

We can then expand our model to other industries and markets.

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