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OPINION

Pro-market reforms and firm performance

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ABSTRACT

Empirical findings from prior research regarding the impact of pro-market reforms on firm performance have been mixed and ambiguous. The primary objective of this study is to conduct a systematic literature review to investigate how pro-market reforms affect firm performance. We summarize the possible factors that led to the mixed findings and provide suggestions for future research.

Keywords: pro-market reforms; firm performance; literature review

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1. Introduction

Given the significance of the effect of pro-market reforms on firm-level outcomes, previous studies have extensively investigated their impact on firm performance[1–6]. However, they yield mixed findings[7]. Some scholars have suggested that pro-market reforms enhance firm performance[8], while others have proposed the opposing viewpoint[9]. These inconsistent findings might be due to the fact that previous studies typically treat pro-market reforms as static occurrences, with the assumption that these reforms remain constant over time[7,10]. At the same time, scholars also indicate that pro-market reforms represent an ongoing process that evolves over time rather than being a one-time event[9]. To explore the impact of institutional change, it is essential to adopt a temporal perspective, recognizing the evolving nature of the reforms[8,11]. A shift in scholarly focus from a static view to dynamic reality is thus needed.

2. Opinion exposition

The lack of consistent findings on the influence of pro-market reforms on firm performance may also be attributed to the use of various terminologies on pro-market reforms, including structural adjustment program[12], structural reforms[4], pro-market reforms[7], market reforms[13], market-oriented reforms[14], market-based institutional reforms[15], regulatory reforms[16], institutional reform[17–19], neo-liberal policy reforms and national governance reforms[20], economic reforms and economic liberalization[21], market liberalization[5,22,23], and the new economic system[24]. They define each term from different angles with different dimensions. Moreover, inconsistent findings may also be attributed to the fact that prior studies measure firm performance in various ways, such as profitably (return on sales), Cuervo-Cazurra and Dau[7] and Dau[2,3], return on assets Chari and Banalieva[25] and Park et al.[5], sustainability of superior profits (the capacity of firms to maintain financial results that exceed industry standards over extended periods), Chari and David[9].

3. Conclusion

To address the inconsistent findings on the effect of pro-market market reforms, our review provides three important suggestions. First, pro-market reforms should be viewed as a dynamic process rather than a static and discrete event. Second, the different terms used to describe pro-market reforms suggest that we need to highlight the foci of reforms, which is the shift towards a market-driven economic system, and the primary elements of these reforms involve establishing the necessary institutional and regulatory framework to facilitate this system. Thus, when exploring the impact of pro-market reforms on firm-level strategy, scholars should strive to use consistent terminology. Finally, when examining the impact of pro-market reforms on firm performance, scholars should be mindful of the various dimensions of firm performance.

Conflict of interest

The authors declare no conflict of interest.

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