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THEORETICAL ASPECTS OF INTERNAL AND EXTERNAL DETERMINANTS OF FIRM PERFORMANCE: INSIGHTS FROM DEVELOPING ECONOMIES

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ABSTRACT

The firm's internal and external factors have been recognised as a source of revenue and a generator of long-term competitive advantage. Still, research on the effects of these factors on the firm's performance is an evolving area. In light of the existing financial theories, this study aims to analyse the relationship between internal and external factors of firm performance. By exploring numerous financial theories, this study performs a theoretical review of the internal and external determinants of firm performance in Pakistan and Turkey. This theoretical review suggests that firms operating in developing economies often face limited external resources, therefore by making the efficient use of internal resources, firms can overcome these constraints by enhancing human capital through innovation, technical proficiency, and specialised knowledge. Highly concentrated industries in these developing economies can hinder competition and innovation, so firms must adjust their strategies to navigate external market conditions. In Pakistan, firms can use market intelligence to cater to local consumer preferences and manage competitive challenges. In Turkey, firms can maximize regional and worldwide prospects by staying aware of market trends and regulatory modifications. Firms must adapt to national and international market changes, user preferences, and emerging trends to foster innovation and collaboration.

Keywords: *The resource Based View (RBV), The Structure-Conduct-Performance (SCP), Industrial Organisation theory, Market Based View, Trade-off Theory, Theory of Risk and Return, System Theory.*

INTRODUCTION

The conventional perspective of evaluating the performance of firms solely based on tangible assets (as one of the internal factor) presents a limited analysis of a firm's competitive ability (Pulic, 2000).Firms that extensively depend on physical assets as their primary means of gaining a competitive advantage face substantial risks of imitation by competitors and are particularly susceptible to losing their competitive edge (Madhani, 2012).Hence, creative firms must place utmost importance on cultivating and safeguarding strategic resources that can facilitate the attainment of a competitive advantage and outstanding financial performance.

The existing body of literature presents compelling data indicating that internal factors are more important than external (Gamayuni, 2015; Nagaraja & Vinay, 2016, Pitelli et al., 2014; Marr & Roos, 2012; Khalique et al., 2011; Komnenic & Pokrajčić, 2012; Cheng et al., 2010). However, many academic researchers have shown considerable interest in examining the internal and external determinants of firm's financial performance (Meressa, 2016, Kyläheiko et al., 2017;

Gupta et al., 2017; Mathur et al., 2021, Ahmed & Afza, 2019). This study theoretically analyses different internal and external determinants of firm and their influence on the performance inside the framework of two developing economies: Pakistan and Turkey.

Theoretical Review

In modern dynamic market environments, acquiring competitive advantages relies on a firm's capacity to engage in transformative procedures by consistently generating creative solutions. The efficient development and utilization of knowledge resources or intellectual capital enhances the ability to achieve this capacity. Pulic (1998, 2004) proposed a conceptual framework for assessing the intellectual capital through Value Added Intellectual Capital ($VAIC^{TM}$) of a firm, which involves evaluating the effectiveness of human capital efficiency (HCE), structural capital efficiency (SCE), and capital employed efficiency (CEE). The reliability of the information utilized in calculating the $VAIC^{TM}$, stems from financial statements provided for audit purposes.

Many factors have been discussed in a firm's external environment that can affect its financial performance, such as economic, social, political, legal, and environmental factors (Janković, mihajlović & cvetković, 2016). The industry to which the firm is affiliated is an example of an economic environment that can influence a firm's financial performance (Ruefli & Wiggins, 2003). Similarly, another major external environmental factor is associated with any country's climate. The climate is considered an unexpected phenomenon, and risk associated with climate affects developing and developed regions equally. Climate risk refers to the occurrence of climatic disparities. Climate risk, or losses from extreme weather events like hurricanes, typhoons, and heat waves, may significantly influence a firm because of the impossibility of fully insuring against it (huang, kerstein & wang, 2018). It's also possible that businesses won't be able to immediately identify the monetary effects of climate risk (cavlack et al., 2021). Therefore, there is a need to theoretically examine these internal and external determinates to abalyse their impact on performance.

The Resource-Based View (RBV)

The Resource-based View (RBV) is the criteria of firm intellectual capital, including intangible assets like knowledge, trademarks, patents, etc. that can impact performance and financial stability. The intellectual capital corresponds to the effectiveness, productivity and the ability of the firm to generate profits (Radjenović & Krstić, 2017) Hence, the most important question is why firms perform differently in the same business environment. The RBV is a framework that answers how intellectual capital is becoming favourable for one firm and not for another. Valuable and rare resources are related to competitive advantage, and that competitive advantage is related to performance (DiMaggio & Powell, 1983). The firm gains a competitive advantage and improves performance using an RBV through strategic human capital, employed capital and other intangible assets. These are all link to superior performance competitive advantages and strong financial position (Wernerfelt, 1984).

The firm management perceives its great potential to employ capital in both tangible and intangible assets to improve performance even in a high-risk climate. The RBV taken by the administration in any business environment and climate risk keeps an eye on the benefits of both tangible and intellectual assets. The RBV concept is essential in the accounting, economic and strategic management literature. The BV leads businesses to gain competitiveness (Lehner, 2004). The tangible assets as well as intangible assets of the organisation should calculated, monitored and improved by internalized audits and accounting strategies and implemented through specific competitive and profitable strategies to enhance firm performance. The tangible and intangible assets effectively create long-lasting competitive advantages. The RBV is vital for the conduct of a firm's operation. For example, the resources firms own should help them improve their performance to survive in a combative industry competition. The human capital, employed capital, structural capital and other types of tangible assets, for example, property, plant and equipment and physical technologies, help to create a strong position in the open market. The property, plant and equipment can quickly be sold and purchased in the market to generate quick capital (Barney, 2001). These tangible assets are easily imitable and substitutable.

In comparison, intangible assets such as patents and copyrights are rare, valuable, and usually not

inimitable and non-substitutable. These strategic assets generate sustainable competitive advantage and superior financial leverage, impaling a firm's performance (Barney, 2001). The essential thing to understand is the fundamental characteristics of intangible assets and how they enhance a firm's financial position, profitability and competitive advantage (Lehner, 2004). They work strategically and are essential for their rarity, inimitability and non-substitutability. Firms usually try to develop unique intellectual assets. These intangible assets also qualify as strategic assets (Michalisin et al., 1997) and need to be strictly applicable to reduce the impact of external threats on firm performance.

In the last 15 years, scholars have emphasised the significance of human capital in understanding why certain organisations outperform others, while developing a resource-based theory (RBV) of competitive advantage (Barney et al., 2011) .The Resource-Based Theory (RBV) posits that the varying allocation of valued resources, such as human capital, among different organisations, is the underlying factor that accounts for variances in performance. Firms that hold important resources that are difficult for others to replicate or replace will achieve better results than competitors that lack such resources (Cardeal & Antonio, 2012; Lin et al., 2012; Knott, 2015; Chen & Kodono, 2014; Das, 2016; Bresser & Powalla, 2012). As academics have made progress in identifying the resources that are most likely to influence competitive advantage and performance, they have found that knowledge embodied in human capital is widely recognised as a highly valuable and difficult to replicate resource (Pesic et al., 2013).

Resource-Based View (RBV) suggests that firms in Pakistan and Turkey may gain a competitive advantage by utilizing their distinct internal resources, namely the efficiency of intellectual capital and the management of working capital. Pakistani firms if allocate resources to highly trained workforce, advanced technology, and robust ventures may utilize intangible resources to enhance operational effectiveness and stimulate innovation, especially in industries such as manufacturing and information technology. By employing highly skilled engineers or using exclusive techniques in the textiles industry, firms may improve their efficiency and distinguish themselves in the market. For a developing economy like Pakistan where access to external resources such as funding or advanced infrastructure may be restricted (Javid, 2019) , therefore , the efficient use of intellectual capital becomes a crucial factor in determining firm performance, which directly impacts profitability (ROA, EVA) and long-term stability. Pakistani firms may become resilient and compete in both domestic and foreign markets by focusing on utilizing their internal capabilities. Turkey, a growing economy, possesses the 17th biggest nominal GDP based on PPP. It encounters both favourable circumstances and challenges in key sectors such as agriculture, textiles, motor vehicles, and consumer electronics. (World Bank Turkey, 2021). In this particular context, the application of RBV emphasizes the significance of intellectual capital efficiency for Turkish enterprises in attaining a lasting competitive advantage.

The Structure-Conduct-Performance (SCP)

The Structure-Conduct-Performance (SCP) paradigm is a theoretical framework employed in the field of industrial organisation economics to examine the relationship among market structure, the behaviour of firms operating within that market, and the consequent economic performance (Lelissa & Kuhil 2018).The performance consequences may encompass reduced efficacy and ingenuity as a result of a dearth of competitive push (Lelissa & Kuhil, 2018). Pakistan's sectors, particularly telecommunications, cement, and textiles, are highly consolidated, enabling firms to exercise market dominance by increasing prices and hampering technical progress (Pakistan Economic Survey, 2023). Consequently, this decreases competitiveness, thus diminishing the motivation for firms to engage in innovation or enhance productivity.

Furthermore, in Turkey, industries such as automotive and construction are dominated by a small number of major firms, leading to the establishment of prices and limited options for consumers. Structure Conduct performance theory further arguers that in both Pakistan and Turkey, the presence of a small number of dominant enterprises in the market leads to a decline in competition and innovation. These firms prioritise market domination and profit maximisation over enhancing efficiency or producing benefits for the whole economy.

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Consequently, this results in increased pricing, diminished innovation, and slowed economic progress (Perrow, 2016).

Industrial Organisation theory

Both industry-specific and firms-specific factors have been found in the literature as drivers of firm performance. Although proponents of the industry organization theory (Bain, 1954; Schmalensee, 1985) claim that external industry variables are more important in determining a company's success, while according to their other counterpart ((Barney, 1991; Wernerfelt, 1984), a company's distinctive assets and competencies are what really matter when it comes to performance. Therefore, two alternative views coexist about the relative importance of industry and organizational factors of firm profitability (Zhang ET al., 2020).

Industrial Organization theory is the field of economics that explains how the organisation operates by dealing with strategic behaviour of organisational policies, market competition, concentration, and regulatory policies. This theory focuses on employee behaviour, leadership and firm financial structure (Varadarajan, 2020). The industrial organisation theory also covers the government policies concerning financial growth, financial leverage, intellectual capital, etc., to increase the firm performance and economic stability in the long run. The industry in the industrial organisation refers to a robust and large-scale business-related activity. It covers all the industries, for example, manufacturing, tourism, hospitality and production. Industry competition and industry performance are directly related to firm performance and financial stability (Rehman et al., 2019). More competition in the business environment means the firms are investing more to improve their operational activities to compete and improve their profitability and financial position.

This theory also helps to develop a set of economic policies and attempts to predict the nature of industry and prevailing climate risk. The industrial organisation theory focuses on the market and industrial competition. The financial stability of firms depends on positive market interactions, healthy price competition, efficient market and product placement and advertising, research and more (Waldman & Jensen, 2019). This theory explores how industrial competition is influencing firms in any industry. The firm must generate financial leverage and financial stability compatible with the market structure, competitive strategies and the ultimate impact on the organisational performance (Waldman & Jensen, 2019).The firm operations can be improved by following the studies covered under the industrial organisation (Magnusson & Werner, 2023; Uzunidis, 2016).There is a need to understand the market structure to improve the performance and financial stability of the firm (Zhao & Xia, 2014).

Utilising Industrial Organisation theory to analyse the influence of market concentration on firm performance in Pakistan and Turkey uncovers unique dynamics particular to each industry. In Pakistan's pharmaceutical industry, a high level of market concentration with a small number of dominating firms can cause a decrease in competition, leading to increased medicine costs and a reduction in the pace of innovation in medical technologies. This market structure might impede the profitability of firms and restrict their capacity to allocate resources towards research and development. Likewise, in Turkey's construction sector, where a small number of significant industrial firms dominate important infrastructure projects, market consolidation can result in less competitive bidding and increased construction expenses, therefore impacting the overall efficiency and financial stability of the industry (Öz, 2019).

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Market Based View

The Market-Based View (MBV) is a strategic management approach that highlights the importance of the external market environment in influencing a company's strategy and competitive advantage. Makhija, (2003) discussed the role of market power while analysing the firm performance. Firms that embrace the Market-Based View typically prioritise market orientation, which entails consistently collecting data on client demands, rival strategies, and market patterns. By prioritizing the needs and preferences of customers and promptly adjusting to shifts in the market, firms can modify their plans to align with changing demands, resulting in enhanced performance (Madhani, 2010). According to the Market-Based View, a firm's sustained competitive advantage stems from its capacity to effectively develop and sustain superior capabilities in response to market conditions. Firms that are able to recognise and take advantage of market

opportunities or successfully react to competitive challenges are more likely to surpass their competitors (Finney et al., 2008).

Within the framework of Pakistani and Turkish firms, the Market-Based View (MBV) emphasizes the need of adjusting strategic approaches to align with external market circumstances. . In general, MBV highlights that in order to keep a competitive edge and take advantage of new possibilities, businesses must constantly collect market data and modify their plans.

Trade-off Theory

Trade-off theory is an economic concept and study that suggests trade-offs between various choices in the business environment and analyses different factors. In the financial and business context, it refers to the equity and debt financing trade-offs. The trade-off theory focuses on the company's ability to compare the total benefits and expenses from debts (Kalash, 2021). The management controls the dilution of ownership and potential losses in the business environment through trade-off theory. Firms can enhance their values by setting goals of optimising financial leverage (Ciftci et al., 2019).

Trade-off theory refers to compromise or trade-off between different options. The idea suggests that the firm should sincerely judge the cost and benefits related to each option according to its requirements. The firm should find the right way to balance the financial structure to maximise the financial leverage. The primary concern in the management of working capital is to achieve an optimal balance between liquidity and profitability. According to the risk and return theory, investments with higher levels of risk are expected to yield greater returns. Firms that possess a higher degree of liquidity in their working capital tend to exhibit reduced levels of risk, which in turn may result in diminished profitability. In contrast, a firm with limited availability of working capital liquidity is likely to encounter elevated risk, leading to increased profitability (Imdad et al., 2011). In Pakistan, the trade-off theory is a fundamental concept that organisations must trade-off between different factors and resources in decision-making.

The trade-off theory can generate positive financial affects for the business firms in Turkey and Pakistan if the organisational management does trade-offs their working capital requirements properly and wisely. The trade-off theory has a vital impact on the firm's performance and financial stability (Martinez et al., 2019).Firms should carefully trade-off among factors of cost, quality and different resources to optimise the performance data and enhance financial leverage in the short and long run. Pakistan's business and economic conditions are unsuitable for some products due to a shortage of resources and inadequate business opportunities. Therefore, organisations must invest wisely in profitable projects. In Turkey, the business organisation supports higher-quality inputs for related high-quality products (Nazir et al., 2021).

Financial leverage is using borrowed capital or funds by business firms to run their operations and increase economic investment. Firms must use financial leverage or organisational equity for business activities (Ali et al., 2021). Organisations decided to leverage that involves the chances of getting benefits of potentially higher returns against the potential risks. On the other hand, the firm may increase its obligations to return the borrowed money and interest payments. The role of trade-offs starts when a business firm assesses the optimal level related to the financial leverage, which ultimately balances the risks and returns for maximising financial leverage (Ullah et al., 2020).The Turkish business market has created the perfect balance between risk and returns because decision-makers made wise decisions for financial leverage. They focus on generating maximum benefits from risk and return analyses.

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Theory of Risk and Return

The theory of risk and return states that there is a direct relationship between risk from any investment and its potential returns. The higher the risk over some investment, the higher the possible return. The investors, however, invest according to their risk tolerance and investment decisions according to reruns associated (Noman et al., 2023). Thus, firms with high working capital liquidity may have low risk and low profitability(Morshed, 2020). Conversely, a firm with insufficient working capital liquidity, facing high risk, results in increased profitability. The issue is in managing working capital; firms must consider all the items in both accounts and try to balance the risk and return. Working capital financing is a method that firms use to fund their business activities. Capital financing also covers

the management of cash flows, payments, accounts payable, inventory and other operations of the firms. The most efficient working capital financing covers the firm's expenses and smooth processes (Wang et al., 2020).

The theory of risk and return relates to working capital financing as it supports business activities and examines the potential risks and profitability associated with this short-term investment (Mohsin Siraj et al., 2019).The firm considers different financing options, including working capital financing and related risk and returns. When the business management decides about their working capital financing, they evaluate potential losses (Akbar et al., 2022), understand these risks, and return accountability to make more informed decisions. The working capital strategies and risk and return theory are essential for enhancing firm performance and financial stability (Dao & Ta, 2020).

In Pakistan and Turkey, firms consider the concept of Working Capital Financing to improve their financial stability and performance. The business borrows money in both markets to cover day-to-day business operations and payroll (Dao & Ta, 2020). Pakistan's economic conditions, political instability and other climate-related risk factors force firms not to borrow. These factors make investors more risk-averse and don't want to rely on working capital financing. Working capital financing is common for businesses with inconsistent cash flow (Basyith et al., 2021).Which ultimately drops the firm performance and financial stability and becomes the main reason for Pakistan's business instability and decline.

The aggressive working capital policy is sometimes referred to as a high-risk and high-return policy. This policy is deemed appropriate for firms that operate inside marketplaces characterized by relative stability and consistent revenue generation. Under an aggressive working capital policy, a firm allocates a very small portion of its resources towards current assets, relying heavily on short-term credit or current liabilities. In contrast, a firm may choose to implement a conservative working capital policy, characterized by a cautious approach that prioritizes minimizing risk and maximizing profit. This method is deemed appropriate for firms that operate within highly fluctuating market conditions and encounter an ambiguous demand curve. In this particular method, a firm allocates significant resources towards current assets while minimizing reliance on short-term financing or current liabilities. (Altaf & Ahmad, 2019).

An increase in the level of working capital finance, which carries a higher degree of risk, has the potential to enhance the profitability of a firm. Firms may engage in aggressive working capital management techniques characterized by a reduced current asset to fixed asset ratio, as well as a higher reliance on debt financing to meet their working capital needs. The potential outcome of engaging in this precarious working capital finance may result in a situation characterized by both elevated risk and potential for significant returns. The rationale for this phenomenon lies in the inherent volatility of short-term interest rates compared to long-term interest rates. Consequently, the short-term debt will need to be rolled over annually, resulting in a subsequent rise in financing expenses. Despite the potential escalation in costs associated with renewing and refinancing short-term debt annually, firms may opt for this approach to mitigate the risk of insolvency associated with long-term financing. In this particular scenario, our hypothesis posits that there exists a positive correlation between the utilization of riskier short-term financing and the profitability of a firm, contingent upon the organization's adoption of an assertive working capital financing strategy (Panda & Nanda, 2018).

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System Theory

The system theory refers to every system composed of interconnected elements that frequently respond to their environment (General Systems Theory, n.d.). This theory is a vital and potentially important tool to examine the organisations' response to their environment. The system theory is a theoretical agreement about the business operating system and its environment, which may directly impact the business performance and financial stability. The system theory forces implementing operation and management tactics that work harmoniously within itself and that it is a system within a collection of other systems. The organisation must work systematically in unity with the other related management and environmental systems. Sometimes, a more extensive outside system can influence the internal organisational design. This impact can be positive or negative and can impact a firm's performance and financial stability.

Climate risks prevail in every business market, and firms should be aware of these risks. According to system theory, they should develop a capable system to tackle all the issues generated by climate risks.

Closed System Theory:

The system theory mentions closed and open systems and explains how firms respond to those systems to improve performance, growth, and financial stability. A closed system is one in which interactions happen only in internal business without any interaction with outside systems. The open system is one in which the management interacts with internal and external systems and related factors. They examine how any system's exterior aspects influence the firm's overall performance. An open system leads management to control different types of risks prevailing in climate risks. On the other hand, closed systems generate negative entropy with the likelihood of decaying due to the absence of exchanges with outside systems ((Dogara, 2015).In Pakistan and Turkey, the system theory explains a framework for better understanding how industry factors interact and influence business activities. The system theory in both markets helps to understand the interdependencies. Firms can implement open systems in different departments, processes and activities for solid stability and performance improvement. In Pakistani markets, climatic risks influence firm business more strongly as higher risks prevail in business industries (Iqbal, 2012).

The system theory application can identify and address the negative aspects of prevailing risks. It helps to resolve bottleneck problems and improve performance and efficiency. The improved performance will enable the firm to maximise profitability and returns. The system theory in the Pakistan business market is highly beneficial as it promotes a holistic approach to optimising business operations and helps the firm earn maximum profits. The system theory helps to reduce climate risks as it provides a layout to understand the interconnectedness of various processes, improve collaboration and support communication with the outside world. It helped the firm to adapt to business environment changes (Husnain & Toor, 2017). The closed system can impact negatively on the business growth. The firm cannot survive without coordinating with outside risks and opportunities. The adaptable external influences are the primary component of system theory (Zeithaml et al., 2020).

Open System Theory-The open system theory is a conceptual framework that helps the firm work as a dynamic entity that interacts frequently and exchanges important information with the external environment, making it an appropriate lens to examine the interdependence between assets, firm internal management, and the business environment in the system(Zeithaml et al., 2020).In today's dynamic and ever-changing business world, it is imperative to interact with the outside environment. An open system theory applies to firms that want to grow and improve their performance and financial stability. They must concentrate on the climatic risks and opportunities (Zeithaml et al., 2020).By assuming this system theory, business organisations can respond efficiently to the changes and judge the customers' demands and needs. The firms can know the emerging trends. The open system leads to innovation, collaborations, and diversification, a pathway to constant growth and development and long-term performance improvement. Opposite to the closed system, the open system theory helps engage the firm with customers, suppliers and competitors (Husnain & Toor, 2017). It helps management to consider all stakeholders to improve performance and stability. The open system forces firms to develop management strategies that are linked with adaptability and continue learning about the changing business environment (Husnain & Toor, 2017).

Pakistani firms must implement an open system to integrate valuable external inputs, enhance intellectual capital, effectively use financial leverage, and understand outside competitive opportunities (Javid & Iqbal, 2016). Through an open system, the business firms can monitor feedback to effectively adjust their system strategies for sustainable growth, firm performance and stability. The Turkish business industry has better and more significantly embraced the open system theory than Pakistan. They consider it a vital framework to connect with external factors and develop a positive relationship between business activities and

outside growth opportunities (Javid & Iqbal, 2016.).

Open systems in Pakistan and Turkey can work in many ways for example; it can quickly investigate significant variations among the working capital practices of the firms and how intellection and working capital financing help firms across different industries (Iqbal, 2012), it Can analyse and investigate aggressive or conservative working capital policies in the long run, it can validate the relationship between aggressive and conservative intellectual capital policies (Islam et al., 2022;Yousaf, 2016).

Institutional Theory

The institutional theory helps firms understand stakeholders' expectations and pressure from external and internal business matters. The government and tax departments, social groups, customers, and investors are reasons to build pressure on firms. The institutional theory helps align all those institutional pressures, expectations and demands and helps the firm develop trust and achieve performance, sustainability and growth targets in the long run (Middermann & Rashid, 2019).The institutional theory can play a significant part in shaping business competitiveness, improving intellectual capital growth, avoiding risks in climate and improving overall performance and financial stability.

In Pakistan, firms have formal and informal institutional practices and behaviours. Firms sometimes ignore the professional techniques required in the dynamic business world. Organisational performance and financial stability mostly rely on good institutional behaviours (Mahmood et al., 2019). In Pakistan, firms often conform to organisational reforms, norms, policies, rules and regulations as well as social acceptance and legitimacy (Zaman et al., 2021). The Turkish firms are more developed in the context of strategic and management reforms. They focus more on institutional development under economic solid and government rules and regulations. The institutional development has improved the overall industry performance, individual firm stability and growth. Institutional development is a pathway toward overall market growth to bring progress to the country (Zaman et al., 2021). Environmental conditions such as uncertainty, dynamism, hostility and the interpersonal relationships between these components all increase the perceived complexity in managing organisations (Lehner, 2004). Institutional theory postulates that the business environment in which organisations operate exerts pressure on them (Kinuu, 2014). Institutional theory asserts that market pressures and institutionalized managerial practices are the most critical factors influencing firm performance (Knoke, 1993). Managers as institutional actors are the causal agents that can interpret strategic stimuli and craft and implement strategic responses (Zaman et al., 2021).

Conclusion and Policy Implications

Investors consider financial performance to be a vital determinant of long-term economic growth. Both internal and external factors influence financial performance, with management decisions having a primary impact on internal aspects. The external environment, however, is frequently outside the realm of management influence. Therefore it can be concluded that a company's financial performance is impacted by distinct aspects that are specific to its business and industry. Below are some theoretical implications that have been drawn from studying the theoretical impact of a firm's internal and external determinants on the performance of Pakistani and Turkish firms:

- In an emerging country, the availability of external resources such as foreign investment or modern infrastructure may be restricted, rendering the efficient use of internal resources, especially intellectual capital, essential for economic development. Firms in developing economies that allocate resources to enhance human capital via the promotion of innovation, technical proficiency, and specialised knowledge may overcome these external constraints (Bayraktaroglu et al., 2019). For example, possessing sophisticated engineering expertise in the automobile industry or using innovative processes in textile manufacturing allows firms to distinguish themselves on a global scale, even if they operate in an emerging economy (World Bank Turkey, 2021).
- Highly concentrated industries within developing economies can hinder competition and innovation, therefore firms operating within these industries must adjust their internal strategies and operational practices to successfully navigate external market conditions. This involves

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balancing industry pressures with the firm's capabilities to improve performance.

- In Pakistan, firms may use market intelligence to cater to the specific tastes of local consumers and effectively manage competitive challenges, particularly in sectors like textiles or e-commerce. In Turkey, firms have the potential to maximize regional and worldwide prospects by maintaining awareness of market trends and regulatory modifications, as seen in industries such as automotive and textiles.
- When business management understands the trade-off, it can automatically optimise its capital structure and profit opportunities (Kalash, 2019). The firm can improve its performance and reduce the chances of risks. Informed financial decisions are significant in the Turkish business market. Investors are attracted to firms with lower financial leverage and prefer to use their equities (Hirdinis, 2019).
- The industries in developing economies should strive to adapt to national and international market changes, user preferences, and related emerging trends. The open system is open to external factors, therefore firms must be more sensitive while developing their business strategies. The open system can foster innovation and collaboration and improve performance in the business landscape. By following an open system, firms in Pakistan and Turkey can make significant positive impact on their performance.

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