A world of giants

Over the last two decades, we have witnessed the rise of a relatively small number of global mega companies, also known as superstars, which stand out for having taken a substantial portion of the value created in the markets in which they operate. çSome figures help to highlight the importance of this phenomenon (known as «winner takes all»). Today, nearly 6,000 companies worldwide – all with annual revenues in excess of 1,000 million dollars – generate 66% of all global corporate revenues and profits. And, among them, 600 capture 80% of the economic profit generated in the world.[1] How are these companies distributed geographically and by sector? What combination of factors lie behind their success? These are some of the topics we discuss below.

The evidence

In recent years, a growing part of the economic literature has focused on documenting the phenomenon of superstars, its causes and its implications[2] for the competitive structure of the markets in particular, as well as for economic relations in general. Although the results differ between studies and the evidence remains incomplete, the emergence of superstars is having a notable impact in several dimensions.

2018 ranking of biggest companies (according to the Fortune Global 500)

Note: *Each circle on the map indicates the location of the headquarters of each company in the list. The size of the circle represents the company's revenues.*
Source: *CaixaBank Research, based on data from the Fortune Global 500.*

First, evidence suggests that market concentration has increased considerably in the last 20 years.[3] This is especially the case in the US, where concentration – as measured by the Herfindahl-Hirschman index – has increased in 75% of the sectors since the year 2000,[4] while in Europe the results vary depending on the country analised.[5]

Second, we find an increasing number of superstars in ever more regions. As the map shows, many of the 500 biggest companies in the world – according to the 2018 ranking by the US magazine *Fortune* – are based in advanced countries, although around 30% of these megacompanies are headquartered in emerging countries. This may not seem like much, but in 2005 only 7% of these super companies were based in emerging economies.

And, third, although this phenomenon is particularly marked in knowledge-intensive sectors – such as the technology sector –, today we find superstars in more and more sectors. On this note, the MIT economist David Autor and his co-authors[6] conclude that the phenomenon is now widespread across most sectors in the US, while other recent studies also show that, at the global level, superstars can be found in an increasing number of economic sectors.

What are the characteristics of these companies?

First and foremost, superstar firms stand out by being more global. In fact, the evidence suggests that in the last two decades these companies have rapidly expanded their global investments and their sales abroad. In particular, according to data from the United Nations, the biggest companies have significantly increased the proportion of their sales to the rest of the world (from around 55% of total sales in 1995 to 70% in 2015) and the proportion of their assets located abroad (from around 47% of total assets in 1995 to just over 65% in 2015).[7]

In addition, these superstar companies are digitally more mature and tend to invest intensively in intangible assets, such as intellectual property, and human and organisational capital.[8] As such, these companies stand out for their good organisational

1. See J. Manyika, S. Ramaswamy, J. Bughin, J. Woetzel, M. Birshan and Z. Nagpal (2018), «Superstars: The dynamics of firms, sectors, and cities leading the global economy», McKinsey Global Institute (MGI) Discussion Paper.
2. For further details, see the article «Superstars, competition and consequences» in this same Dossier.
3. See S. Calligaris, C. Criscuolo and L. Marcolin (2018), «Mark-ups in the digital era», OECD Publishing nº 2018/10.
4. See, among others, G. Grullon, Y. Larkin and R. Michaely (2018), «Are US industries becoming more concentrated?», Forthcoming, Review of Finance.
5. See OCDE (2018), «Market Concentration - Note by the United States, Hearing on Market Concentration», OECD June.
6. See D. Autor, D. Dorn, L.F. Katz, C. Patterson and J. Van Reenen (2017), «The fall of the labor share and the rise of superstar firms», National Bureau of Economic Research.
7. United Nations Conference on Trade and Development (2017), «World Investment Report 2017: Investment and the Digital Economy», UNCTAD.
8. Intangible assets can be divided into four major groups: (i) digitised information (such as software), (ii) intellectual property (patents, copyrights, R&D expenditure), (iii) human capital and (iv) organisational capital. For further details, see the article «Intangibles: the new investment in the knowledge era» in the Dossier of the MR11/2014.

and management practices, which in many cases is reflected in their ability to select and execute key investments and coordinate complex projects.[9] Their investment intensity in intangible capital gives them a major competitive advantage over their rivals. First, because although intangible assets require a high initial investment, they are easily scalable (they can be reproduced at zero marginal cost, which generates increasing returns to scale).[10] Furthermore, in many cases, the legal system prevents other companies from making use of them free of charge (through patents, for instance). And secondly, intangible assets tend to complement one another.[11] For example, studies show that investment in information technology (such as analytical software) is more effective when accompanied by good management (such as well-designed workflows).[12] Therefore, it is difficult for small companies to imitate superstars. Similarly, given their technological and management capacities, it should come as no surprise that these companies also tend to be more productive than the rest.[13]

Factors behind the success

Now that we have characterised these companies, one might ask what factors have propelled their expansion. In this sense, we have identified three main factors: globalisation, new technologies and regulation.

First, as globalisation has progressed and markets increasingly integrated, this has made it easier for many companies to operate in in multiple countries and regions. In particular, many companies have taken advantage of technological advances and the reduction of trade barriers to rapidly expand into new markets and/or to divide their operations across different countries (thus creating global value chains) and achieve significant reductions in their production costs. This has given them an enormous competitive advantage, and the development of business models that are very difficult for their competitors to replicate.

Secondly, technological changes are facilitating the expansion of the winner-takes-all phenomenon into a growing number of sectors. On the one hand, technological changes have helped to reduce friction in product markets between countries. Most notably, digitalisation and the internet have dramatically reduced search, communication and transport costs, especially for digital goods (which have a marginal cost of reproduction and distribution close to zero). All this has made it easier for companies – especially the most digitally mature ones – to enter other markets with greater intensity, since they can offer their products and services to consumers in other parts of the world without having to invest heavily in physical capital. On the other hand, digitalisation makes it easier for companies to exploit the increasingly important network effects – those forces that cause the consumer's interest in a particular product or service to increase as the user base increases. In this sense, superstars, especially technological ones, stand out for exploiting these effects very well in order to quickly serve and conquer global markets.

And third, we must highlight the role of regulation. In particular, greater and stricter regulatory requirements have introduced barriers to entry in some markets, albeit unintentionally. Since large companies have more resources (such as specialised staff) in order to meet the increasingly complex regulatory requirements (which act as a fixed cost), this places them in a more favourable position than smaller companies. Furthermore, even if these companies have reached their dominant position in the market on their own merits, they have the incentives and a greater ability to consolidate their position by seeking regulatory protection (such as through lobbying) or by acquiring companies that can challenge their dominant position in the market.[14]

In short, in recent years, underlying factors such as globalisation and new technologies have amplified the competitive advantages of these supercompanies, which have been rewarded with a position of greater dominance in the market. In this context, ongoing technological disruption should serve to ensure that the markets remain competitive by allowing new entrants (those that exploit new technologies more effectively) to quickly transform a market and challenge its leaders. However, for this to occur, we must closely monitor the extent to which the greater concentration in some markets is the result of the reward obtained by these supercompanies for the success of their products, and to what extent it is the result of anti-competitive behaviour to consolidate their dominant position.

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9. See J. Van Reenen (2018), «Increasing differences between firms: market power and the macro-economy», CEP Discussion Papers.
10. See N. Crouzet and J. Eberly (2018, August), «Understanding weak capital investment: The role of market concentration and intangibles», Created for the Jackson Hole Economic Policy Symposium.
11. Stanford University professor Nicholas Bloom and co-authors (2018) document the dispersion that exists in the quality of management and organisation among US companies, and the positive correlation that exists between organisational quality and productivity, profitability, growth, survival rate and innovation. Other studies come to similar conclusions.
12. See N. Bloom, R. Sadun and J. Van Reenen (2012), «Americans do IT better: US multinationals and the productivity miracle», American Economic Review, 102(1), 167-201.
13. See D. Andrews, C. Criscuolo and P. Gal (2015), «Frontier firms, technology diffusion and public policy: micro evidence from OECD countries», OECD Publishing, vol. 2.
14. For a more detailed analysis of this topic, see the article «Navigating in an ocean of big companies, or on the art of regulating a world undergoing disruptive change» in this same Dossier.