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STRATEGIC ALTERNATIVES OF EMERGING MARKETS' COMPANIES IN THE CONDITION OF BUSINESS GLOBALIZATION

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Abstract: *The process of democratization of developing countries, followed by the liberalization of trade, opening and integration of their economies into the global market economy, however, brought many problems. Namely, companies from these emerging markets have faced with the entrance of multinational companies (MNCs) from developed countries and enhance of competition at the home market, as well as at the global market. Facing these difficulties, and their own inefficiency in business activity, and also lack of strategic resources, many companies from developing countries lost market share and faced with crisis in business, which threaten their growth and even survival. However, some of them managed to restructure their business, and have exploited new opportunities from the global market. They have become world-class companies, so-called "emerging giants", which competing successfully with global multinational rivals. Strategic options for these emerging giants in response to MNCs entry into their home market, as well as internationalization of their business activities at global market, are the themes of this paper.*

Keywords: *globalization of business, developing countries, emerging giants, strategies, market economy*

Introduction

World economic crisis showed in a dramatic way to what extent economy has become globalized. Financial markets as well as markets of products/services have become increasingly interrelated, and it can be said that they have become global as well. For that reason, leading economists started raising a number of issues: Do companies that have been global from

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the day of their emergence create global markets? Are these companies guided only by market opportunities and do they overlook traditional business rules and focus on presupposed global ideas of conduct instead? Will these global companies prevail over the attempts of nations/states to preserve their distinctive identities? Globalization encompasses much more than simple export of products/services to other countries. Globalization can be defined as the evolution of distinctive markets of products/services into globally interrelated markets of products/services [1, p. 94]. In global industries, key products are standardized, marketing approaches are uniform and strategies of competition are integrated into various foreign markets. In these industries, companies that are not capable to compete at a global level cannot achieve competitive advantage.

With regard to this kind of convergence of companies towards globalization and to its impact, it is understandable why people from both developed market economies and emerging markets fear economic impacts of globalization. The situation is even more striking when condition of world economic crisis are taken into consideration. Within developed market economies, people fear the impact that the globalization of business operations might have on their job security, salary and standard of life, especially in situations of constant penetration of companies from the emerging markets. On the other hand, people from the emerging markets, such as Brazil, India, China, Russia, Eastern and Central Europe fear the so-called homogenizing effects of globalization considering it as the danger not only for their economy, but also for their culture, customs and tradition [2, p. 9]. However, this fear of developing countries proves to be groundless for at least two reasons. First, globalization offers opportunities for all companies, and not only for low-cost ones. In the latter case, all business operations would flow only in one direction – towards the countries that manage to reduce the cost of their products through low input costs. Second, greater global integration brings about greater differentiation. Added economic value will go to the ones who come up with unique offer, with something that makes them special.

Regardless of the impact the economic recession caused to big multinational companies and the issues it raised on globalization and its influence on recession, the struggle of companies, including the ones from the emerging markets, to globalize their operations is still under way. FDI are still regarded as the strongest mechanism of the economic growth, international partnerships and acquisitions grow as well as outsourcing, and companies increasingly turn to customers from developing countries. However, beside the fact that economic recession affects the companies from developed and developing countries in a different way, responses of the companies to those challenges differ as well. For that reason, new trends in the development of world economy appear, as well as the ways in which the companies from developed and developing countries cope with those trends and challenges.

Present big economic crisis brings about changes that are related to the role and influence of developing countries, i.e. of emerging markets on global economy. These changes can be presented in three ways [3, p. 131]:

Firstly, developing countries are becoming big and significant markets of products/services. Not only is their rate bigger than the growth rate within developed market economies, but also their participation on the world products market will be greater when the recession is finished than it was when it started.

Secondly, role of governments in the economic development of these countries is bigger than it is in developed market economies. Apart from offering various financial and tax stimuli with the purpose of influencing the demand in certain industries (for example, reduction of taxes on the sales of small and fuel-efficient cars in China), they also contribute to the process of redesigning of certain industries.

Thirdly, competition in developing countries is becoming increasingly severe. Due to the reduction of possibilities for export under conditions of world economic crisis, companies in these countries are increasingly concentrating on the stimulation of sales on the home market. Since the case includes some of the most populated countries in the world (China, India, Russia, Brazil), potentials of those markets are of extraordinary importance for domestic companies as well as for multinational companies from abroad.

1. Possible Responses of Companies from Emerging Markets to Challenges of Globalization

When the wave of liberalization of trade hit the developing countries and "blew away" most of the protectionist barriers more than two decades ago, these countries started integrating more and more into the world economy. However, they were at the same time overflowed by the entry of multinational economies from North America, Western Europe, Japan and South Korea. Consequently, many local companies lost their market share and were even forced to sell their businesses, while others entered the contest with MNCs. Some of them managed to restructure their businesses and utilize their market chances, so that they built the reputation of world-class companies and themselves became the global rivals of big MNCs.

However, beside that, an issue is raised as to why customers on the global market of products and services expect products with labels "Made in China" or "Made in Brazil" to be inferior to the products that come from companies – global giants from Western Europe, Japan or USA – the triad of countries that dominate the global trade. With the purpose of overcoming the image of cheap, low-quality producers, companies from emerging markets have to offer added value for the money the customers pay for those products. Evolution into more profitable segments of value-added products can be clearly tracked on the so-called value curve [4, p. 134]. Namely, according to Bartlett and Ghoshal, all industries can be perceived as a group of segments product/market; value curve is a tool, which can be used for differentiating among various segments. The more profitable the segment is, the more sophisticated capabilities and resources (in R&D, distribution and marketing) are necessary for competing in that segment. The problem for emerging giants from developing countries is that they usually enter the global market with the products that are positioned at the bottom of the value curve and usually stay there. It is not that those companies do not see the greater profitability of the value-added product. However, they do not have either sufficient resources or confidence in the capabilities of their company, as well as the courage to dedicate their resources to the process of development of the product that will enable them to go up the value curve and respond to the challenges of global competition.

It is obvious that MNCs from Western Europe, USA, Japan and South Korea are in great advantage over the businesses from emerging markets. According to Khanna and Palepu [5, p. 62], not only do they possess famous brands, efficient innovative processes and management systems as well as sophisticated technologies, but they also have almost unlimited access to financial resources and highly-trained workforce. MNCs from developed countries are in a position to provide great sums of money for investments with relatively low costs owing to well-developed financial markets; or, they can employ the world's best experts, owing to the fact that talents from all over the world converge towards these countries. On the other hand, companies from emerging markets are not in a position to assemble the capital and talents in an easy and cheap way, which is why it is much more difficult for them to invest in R&D and create global brands. They often lack the so-called "soft" infrastructure that enables these markets to function efficiently. Moreover, there are no appropriate specialized intermediaries; regulations are insufficiently developed, as well as mechanisms for the application of contracts [see more in 6, pp.118-119].

However, nowadays some of the emerging giants successfully compete on the world market – for example, Brazilian AmBev, Chinese Lenovo Groups, and Huawei Technologies, Indian Infosys, NIIT, Tata Group and Wipro, Israeli Teva Pharmaceuticals, Mexican Cemex, Philippine Jollibee Group are some of the most famous ones, as cited by Khanna and Palepu [5, p. 62]. It is arguable which strategies these emerging giants applied to overcome the obstacles set by their domestic environment and compete successfully on the foreign market. What is more, do other companies from the emerging markets should follow their pattern? And which steps and strategies should they undertake with the purpose of entering foreign markets?

Regardless of the above-mentioned disadvantages that the companies from emerging markets have in relation to developed countries, they often have the possibility of overcoming those disadvantages. Some of the causes and ways of overcoming those disadvantages are the following [5, pp. 62-63]: First, MNCs from developed countries have to face the same institutional voids, which local companies face as well (for example, lack of sophisticated agencies for market research, lack of reliable members of supply chain), which brings about the difficulties in the process of efficient application of their business models. Due to their long-term experience with business in that kind of environment, managers from local companies know how to overcome those problems and institutional voids; what is more, better understanding of local context enables them to identify and satisfy the needs of local customers in a better way. Also, some local companies created mechanisms for collecting funds from local stock markets, relying on their reputation and connections. Second, initial success enables domestic companies to enter financial markets or markets of highly educated labor themselves both in country and abroad. For example, education programs that have been introduced in accordance with the programs of business schools in developed countries enable them to employ managers and other experts with knowledge and skills possessed by executive directors in MNCs from developed countries. Third, it could be too expensive and difficult for MNCs from developed countries to adjust their strategies to every market of the developing countries they enter, since it requires modification of products, services, and marketing communication in accordance with local preferences and tastes of customers. For that reason, MNCs often end up occupying small, super-premium market niches. Local companies, which operate on smaller number of markets, are better aware of the needs and tastes of local customers, which leave them in a better position for responding to requirements of customers on local markets or for adjusting the quality of their products/services to their preferences.

Although the companies from developing countries entered the market game on the global market too late and are faced with the above-mentioned disadvantages, they have to get rid of a belief that they are in no position to compete successfully on the global stage. Once they free themselves from these prejudices, they have to find adequate strategies for facing MNCs on local, as well as on the global market. However, on that road, companies from emerging markets can fall into several traps that Bartlett and Ghoshal label as "liabilities of origin" [4, p. 136]. The first trap is when local companies feel themselves "locked" in the local standards in situations when there is the gap between technical requirements and design norms that govern the home market and standards of world class that govern the global market. If the demand on the home market is high, managers of local companies can postpone investments in harmonization with international standards, which postpones their entry into international market as well. The second trap is when management of companies in developing countries is unaware of global potentials of their company or exhausted with doubts about their abilities to profit from those potentials and advantages. Third trap stems from the limited exposure to global competition, which leaves the managers too certain in their abilities or blind to dangers that lurk on the global market.

In the process of overcoming these traps, management has two possibilities: pushing from the home market and pulling from abroad. Pushing from the home market turns out to be facing the truth about positioning of company's products on foreign market. Some local companies are so blinded with success of their products on the home market that they refuse to face the truth about the existence of negative perception of their products by the customers abroad. That moment of truth has a long-term effect and is only one step on a long way, that is, one out of a series of actions that should change the perception and expectations of customers abroad about the product. Some companies perform the process of pushing from the home market intensely, by investing in those products (regardless of lower demand on foreign market), even if that kind of behavior reduces the company's ability to respond efficiently to higher demand on the home market. Pulling from abroad, on the other hand, stands for the investment in the abilities of management from foreign organization units, for the purpose of enabling them to open new market for the products of that company in an efficient way.

2. Strategies for Developing Countries' Companies Facing the MNCs on the Local and Global Market

When they develop value-added products, companies from emerging markets have to develop strategies for successful facing with MNCs on the local market as well as in case of their entry into the global market. Local companies, facing the pressure to globalize their products and regarding their strategic and marketing advantages, have three options in response to entrance of MNCs into their home market [7]: to become MNCs themselves, to merge or cooperate with MNCs, or to exit the market. They propose four response strategies for domestic firms facing the entrance of MNCs: to become contester, contender, cooperator or defender [see more in 6, pp. 123-126].

Due to the market structure in developing countries, local companies are in a more favorable position when it comes to development of strategies on the basis of which they will use their offer to face multinational rivals. As Khanna and Palepu point out [5, pp. 63-64], most product markets involve four distinctive segments: global segment, "glocal" segment, local segment and segment of "the bottom of the pyramid". Global segment includes the customers who require the products of global quality and with global characteristics – that is, offer that is characterized by the same quality and attributes, as is the case with the products from developed countries, for which they are ready to pay the prices that are valid on the global market. "Glocal" segment refers to the customers who require the products of global quality but with local characteristics ("local soul") and they are ready to pay for them the price that is somewhat lower than the one on the global market. Local segment refers to the customers who want the products with local characteristics and local prices, whereas the segment of "the bottom of the pyramid" refers to the customers who want to buy the cheapest products regardless of their characteristics. It is characteristic that these market segments can be differentiated not only on the product market but also on the resource market (market of experts and talents, capital, raw materials).

Due to the above-mentioned institutional voids with which big MNCs are faced upon entering the market of developing countries, these companies realize that they can hardly serve any other but the global market segment. Because of the lack of companies or agencies that deal with market research in developing countries, they can hardly understand the tastes of local customers. What is more, their offer is limited because of insufficient development and availability of distribution channels. On the resource market, MNCs often do not have sufficient information or knowledge about the offer of local experts, which could help them create policies with which they could attract and motivate labor from other market segments, apart from global. For that reason, after liberalization of developing countries, MNCs that rush to enter these markets usually position themselves on the global market segment, leaving other segments to domestic companies. After some time, "glocal" segment becomes the battlefield between local and foreign corporations. Since customers from these segments ask for global products with local characteristics, more companies from emerging markets manage to use their better knowledge about local markets to serve and attract local customers than it is the case with MNCs from developed countries.

When companies from emerging markets overcome institutional voids and create their strategies in accordance with the requirements of the local markets, they can profit from their ability to serve the home market in a better way than MNCs from developed countries can. They do that by using one of the following three strategies [5, pp. 64-69]:

1. Utilization of better knowledge of the product market. Many companies from emerging markets became world-class businesses because they profited from better knowledge of local product markets. Uniqueness of product markets lies in the needs and tastes of local customers, which are unique and specific. Local companies are the first to realize that they should build their business around distinctive national characteristics. They manage to keep MNCs at a distance by adapting to special characteristics and requirements of local customers and business systems. Apart from that, it is difficult for foreign companies to enter the local product markets since they are used to specialized infrastructure, channels of distribution and delivery systems in the process of successful satisfaction of customers' needs, which is in great number of cases very difficult for them to provide on the market of developing countries. On the other hand, when they enter the global market, companies from emerging markets instinctively turn towards geographically close emerging markets because they have the ability to embrace the chances in those countries due to better knowledge of bases of competition, i.e., products and prices, as well as linguistic, cultural and other types of closeness. When they enter the markets of developed countries, they avoid face-to-face competition with MNCs, focusing instead on the chances that exist in market niches that enable them to benefit from their advantages and strengths.

2. Positioning on the basis of knowledge of resource market. Some companies from emerging markets gained their competitive advantage owing to better knowledge of local production factors – thus serving the customers on home and foreign market in cost-efficient and effective way.

MNCs that offer sophisticated products and services have difficulties to benefit from human resources, as well as to select educated experts on the market where the level of knowledge, skills of people and quality of educational institutions varies to a great extent. When talented people and experts become rare in urban centers, local companies can have the advantage over MNCs in the process of attracting people from smaller cities, since local companies have better knowledge of local labor market. Also, it should be mentioned that some local companies used their better knowledge of local production factors and supply chains with the purpose of creating world-class businesses. Local companies which base their advantage on better knowledge of resource markets can successfully serve the customers on the markets of developed countries as well, because they have been, as a rule, either global from the emergence, or have become part of supply chain of some MNC. They spread their international operations and presence in three ways: first, they search for customers in developed countries whom they can successfully serve from home resource market; second, when the market of factors of production becomes saturated and more expensive, they turn towards other developing countries that offer similar resources under lower prices; and third, these companies start offering not only resources on the foreign market, but also finished products and solutions for some market niches, thus introducing products of higher added value.

3. Treatment of institutional voids as business opportunities. Third way in which the companies from emerging markets can gain competitive advantage is to start profiting from some intermediary operations on the markets of products and factors of production. These refer to operations of institutional intermediaries that provide for the flow of information on the market (such as, for example, agencies that sale databases); analyze information and advise the customers and vendors (agencies for checking of rating, ranking of products or, for example, publications that rank universities and professional schools); these also refer to quality assurance companies and accrediting agencies; markets and on-line auctions or job offer Internet sites that serve as special forums for realization of transactions on financial markets, markets of products and talents. Although in these intermediary operations MNCs can have particular advantages since they possess knowledge, expertise, credibility and experience, companies from developing countries can use their own advantages in three ways: first, these intermediary firms are, as a rule, human capital-intensive, and performance of these tasks requires knowledge of local market of experts, local language and culture; second, these firms are also information-intensive, which requires local expertise to collect and analyze information and data that can be of variable quality; and third, governments of developing countries regard many of these institutions that perform intermediary operations as institutions of national importance (media, banks, stock markets and other financial institutions), which is why they often prohibit MNCs to establish these institutions themselves or force them to form partnerships with local companies.

Apart from entrance of foreign MNCs into the home market and relevant response to that threat, another big challenge with which the companies from emerging markets have to face has to deal with their decision to enter the global market. At the point of entering the foreign market, each company has to decide how to respond to several important strategic issues. First important strategic issue, which they have to face, is the choice of the entrance mode into the foreign market. Beside standard modes of entry such as classic export, licensing and franchising, nowadays there are many other forms such as joint ventures, business cooperation contracts, strategic alliances, wholly-owned subsidiaries-WOS (which corresponded with Greenfield investment), as well as acquisitions, which may correspond also with Brownfield investment [see more in 8, pp. 88-90]. Second important strategic issue is the choice of strategy of entry into the foreign market. Companies may choose one out of three strategies that differ in relation to basic motives that lie behind the decision to enter the foreign market: market-seeking strategy, resource-seeking strategy or efficiency-seeking strategy [see more in 9]. However, for companies from developing countries, i.e. from emerging markets, choice of strategy of entry into the foreign market is also determined by the fact that they enter that market later than it is the case with big MNCs. Management researchers concluded a long time ago that domination of global giants, such as Coca-Cola, McDonald's, IBM and other MNCs had its roots in their status of first movers to certain industry/market. For example, Coca-Cola was the first company of non-alcoholic beverages that created a globally recognizable brand. However, as Bartlett and Ghoshal point out [4, pp. 138-139], there are some distinctive advantages on the part of late movers to the global market. According to these authors, companies from emerging markets usually utilize their late-mover advantages in one of the following two ways:

1. Benchmarking of MNCs and maneuvering around them. Managers of companies from emerging markets that, as a rule, have limited international experience and weak exposure to foreign companies' competition are not ready to face the global companies in a foreign environment that is not familiar to them. However, under contemporary conditions of globalized market, one does not have to go abroad in order to face the international competition. Sooner or later multinational companies