

1-1-2009

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Rangamohan V. Eunni, *COMPETING IN EMERGING MARKETS: THE SEARCH FOR A NEW PARADIGM*, 31 W. New Eng. L. Rev. 611 (2009), <http://digitalcommons.law.wne.edu/lawreview/vol31/iss3/3>

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COMPETING IN EMERGING MARKETS: THE SEARCH FOR A NEW PARADIGM

RANGAMOHAN V. EUNNI*

INTRODUCTION

Small and medium-sized enterprises (SMEs) are the bulwark of the United States economy. Considering the pivotal role that they play in the national economy, SMEs could potentially contribute to arresting the trend of escalating trade deficits¹ that exacerbate the problems of unemployment and declining wages. SMEs numerically account for 99.7% of all business firms, generate more than 52% of non-farm private sector gross domestic product (GDP), provide employment to almost 50% of the private workforce, and contribute 60-80% of the net new jobs added to the economy each year.² However, they account for only 26% of the total value of United States goods exported.³ Clearly, there is untapped potential for United States SMEs to pursue growth through accelerated internationalization. How to achieve this is the key question.

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1. The United States has not had a trade surplus since 1975. FOREIGN TRADE DIV., U.S. CENSUS BUREAU, U.S. TRADE IN GOODS AND SERVICES—BALANCE OF PAYMENT (BOP) BASIS 1 (2009), <http://www.census.gov/foreign-trade/statistics/historical/gands.pdf>. The United States trade deficit has galloped over the past two decades to reach a record \$753.3 billion in 2006. *Id.*; see also U.S. CENSUS BUREAU & U.S. BUREAU OF ECON. ANALYSIS, U.S. DEPT. OF COMMERCE, U.S. INTERNATIONAL TRADE IN GOODS AND SERVICES DECEMBER 2008, at 1 (2009) <http://www.bea.gov/newsreleases/international/trade/2009/pdf/trad1208.pdf>.

2. OFFICE OF ADVOCACY, U.S. SMALL BUS. ADMIN., FREQUENTLY ASKED QUESTIONS 1 (2008), <http://www.sba.gov/advo/stats/sbfaq.pdf>.

3. INT'L TRADE ADMIN., U.S. DEP'T OF COMMERCE, SMALL & MEDIUM-SIZED EXPORTING COMPANIES: A STATISTICAL HANDBOOK 39 (2005), <http://ita.doc.gov/td/industry/otea/docs/SMEstat-hbk2002.pdf>.

Expansion into emerging markets is the way to go. Emerging markets account for over two-thirds of the world's population and ten percent of the world's GDP, which is expected to double by 2010.⁴ United States exports to these countries accounted for only a quarter of the total United States exports in 1992.⁵ These economies present great opportunities for companies hungry for growth and entrepreneurs with imagination. Can we effectively compete in these markets, particularly considering that multinationals from other industrialized countries are also targeting the same markets? Can we succeed with our current business models and policy approaches? What needs to be done?

The current business model of export-promotion agencies, such as the United States Small Business Administration (SBA), is to search for foreign markets for the goods produced by SMEs. As the SBA advises, “[t]o succeed in exporting, you must first identify the most profitable international markets for your products or services.”⁶ In other words, the approach is to find foreign consumer (and industrial) markets for goods currently produced by American small businesses. This presupposes a western lifestyle and consumption patterns among people in emerging markets.

I. THE “INDIGENOUS LIFESTYLE” SECTOR IN EMERGING MARKETS

Emerging market economies typically have three distinct kinds of markets: the traditional rural/agricultural sector, the modern urban sector, and an often large transitional sector.⁷ The rural sector generally lacks the resources to purchase even the most basic products.⁸ However, the urban and transitional sectors have substantially more resources and represent a significantly more attractive target for many companies, domestic and foreign.⁹ Although a small proportion of people in the upper strata of the societies in emerging markets might be affluent enough to adopt western lifestyles and use products similar to those used by the middle class in

4. Jeffrey E. Garten, *The Big Emerging Markets*, COLUM. J. WORLD BUS., Summer 1996, at 6, 10-11.

5. *Id.* at 9.

6. U.S. SMALL BUS. ADMIN., BREAKING INTO THE TRADE GAME: A SMALL BUSINESS GUIDE TO EXPORTING 51 (3d ed. 2006), available at http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_entire.pdf.

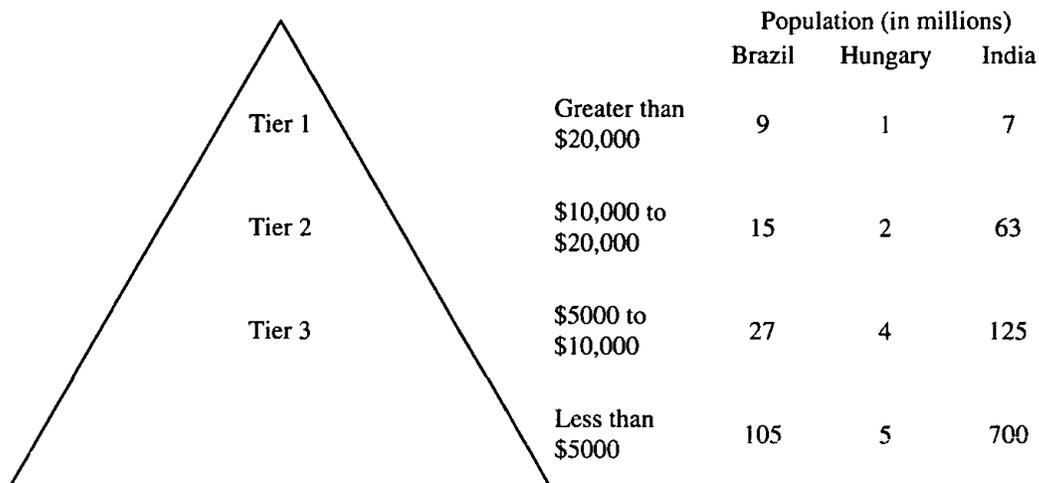
7. PHILIP R. CATEORA & JOHN L. GRAHAM, INTERNATIONAL MARKETING 256-58 (13th ed. 2007).

8. *Id.* at 258.

9. *Id.* at 259.

the West, there is a large and growing middle class in these markets whose incomes, although rising, are not high enough to sustain a western lifestyle.¹⁰

FIGURE 1. THE MARKET PYRAMID IN BRAZIL, HUNGARY, AND INDIA



The middle classes in emerging markets present great opportunities for growth and international expansion of SMEs. However, in order to seize these munificent opportunities and to compete and dominate in these markets, what is required more than cultural sensitivity is a new way of thinking about opportunity and recognition of innovative ways to reconfigure business models.¹¹ The emerging middle classes in the urban and transitional sectors continue to maintain a traditional “indigenous lifestyle” and use products that they have been using all along. These are what I refer to as “indigenous lifestyle products,” which are unfamiliar to western multinational firms.

A. Illustrative Examples from India, Brazil, and Hungary

In India the most widely used hair care products are coconut oil and gooseberry oil (“Amla”). No western multinational, including Procter & Gamble and Unilever, which had extensive operations in India, recognized indigenous hair care products as a market opportunity. Leveraging its local knowledge, the House of Tatas in India founded a separate company called the Tata Oil Mills Com-

10. See C.K. Prahalad & Kenneth Lieberthal, *The End of Corporate Imperialism*, HARV. BUS. REV., Aug. 2003, at 109, 110-11. See generally World Resources Institute, <http://earthtrends.wri.org> (last visited May 15, 2009).

11. Prahalad & Lieberthal, *supra* note 10, at 110.

pany, added preservatives and fragrance, bottled the coconut oil in PET plastic bottles to enhance portability, durability, and hygiene, and milked the cash cow for over seventy-five years, before divesting it to Hindustan (Uni-) Lever in 1984. Another Indian company, Dabur, captured the market for gooseberry oil with its patented brand of Dabur Amla hair oil, which now has a worldwide presence.¹²

Similarly, the Brazilian *babassu* nuts provided a variety of indigenous lifestyle products to the traditional communities of Maranhao in Northeastern Brazil for centuries. The organic cosmetics major, Aveda, recognized the potential of the nuts as a market opportunity, which could be exploited not only in Brazil but elsewhere in the world too. The company partnered with the Maranhao communities, financed the branding of *babassu* products with the green Aveda label, and thereby helped both the company and the local community flourish in a mutually beneficial partnership.¹³

In Hungary, the traditional diet of red meat, pork, and potatoes resulted in Hungarians having the third highest obesity rate in the region.¹⁴ Sensing this, young entrepreneur and fitness *guru* Norbert Schobert (affectionately known as “Norbi” in Hungary) single-handedly created a multi-million dollar Norbi brand of health foods, beverages, books, and videos with his fanatical commitment to “zero sugar, zero flours, and low carb” diet. He captured a significant market share in the weight-loss industry in Hungary in less than five years.¹⁵ With growing awareness of healthy dietary habits, rising incomes, and government efforts to promote healthy eating, the fortified and functional food sector in Hungary may present a great market opportunity to discerning SMEs from the United States.

12. Dabur, http://www.dabur.com/EN/products/personal_care/Hair_Care/Amla/ (last visited May 15, 2009).

13. Aveda, *The Aveda Babassu Community Project*, <http://aveda.aveda.com/protect/we/babassu.asp> (last visited May 15, 2009).

14. Dominique Patton, *Hungary's High Obesity Rate to Boost Health Foods Market* (Aug. 25, 2005), <http://www.nutraingredients.com/Consumer-Trends/Hungary-s-high-obesity-rate-to-boost-health-foods-market>; see also Leonie Taite, *Hungary for a Healthier Diet*, EUROMONITOR INT'L, Aug. 18, 2005, http://www.euromonitor.com/Hungary_for_a_healthier_diet.

15. Adri denBroeder Bruckner, *Norbi in the Fast Lane: Fitness Guru Gains First Mover Advantage in Weight Loss Market*, BUS. HUNG., Apr. 2006, <http://www.amcham.hu/BUSINESSHUNGARY/20-03/articles/03-tycoons.asp>.

B. *The “Indigenous Lifestyle” Sector*

The indigenous lifestyle sector encompasses a vast array of products including: herbal cosmetics; dietary supplements; traditional medicines and pharmaceuticals; mother care and pregnancy support; beverages including wine and beer; agro-based food and dairy products; spices, condiments, and seasoning mixes; bakery products and breakfast cereals; baby, child, and infant care products; and so on. The list is endless, but the question is how to find them, recognize them as market opportunities, and conceive strategies to seize such opportunities. The reality of the existence of an indigenous lifestyle sector was recognized even by Levitt¹⁶ himself, who had explained the persistence of culture-specific tastes and preferences as respectful accommodation of “fixed local preferences” by multinationals. Such persistence, he claimed, does not negate global homogenization but, in fact, confirms it.¹⁷ While large multinationals target global markets with standardized products, there is an opportunity for SMEs to successfully compete in the indigenous lifestyle sector.

In a recent article in the *Journal of World Business*, Luo described the far-reaching changes in the competitive landscape facing foreign firms in China that have necessitated shifts in the dominant paradigms and strategies for success in that market.¹⁸ Many of these changes, in varying degrees, are applicable to the other emerging markets in Latin America, Eastern Europe, and Asia. Unlike in the past, the biggest competitive threat in emerging markets arises from aggressive local enterprises that have an intimate understanding of their domestic markets and, therefore, are better positioned to adapt their operations and strategies to suit these markets. In order to successfully compete in these markets, foreign firms should cease being placid fringe players and instead become strategic insiders. This requires proactively working with local firms to reach untapped regions and market segments, diversifying into product lines to suit multi-tier consumers, participating in extended value-chain activities, and achieving massive localization

16. Theodore Levitt was a Harvard Business School professor and editor of *Harvard Business Review*. Press Release, Harv. Bus. School, Professor Theodore Levitt, Legendary Marketing Scholar and Former *Harvard Business Review* Editor, Dead at 81 (June 29, 2006), http://www.hbs.edu/news/releases/062906_levittobit.html.

17. Theodore Levitt, *The Globalization of Markets*, HARV. BUS. REV., May 1983, at 92, 97.

18. See Yadong Luo, *From Foreign Investors to Strategic Insiders: Shifting Parameters, Prescriptions and Paradigms for MNCs in China*, 42 J. WORLD BUS. 14 (2007).

and adaptation to cope with “cost-cutting pressures, quicker turn-around requirements and unique local demands.”¹⁹

With rising incomes and awareness, consumers of products in the indigenous lifestyle sector are increasingly becoming more demanding in their expectations of quality, reliability, safety, appearance, ease of use, and so on. In short, they want traditional products but with enhanced value. Local manufacturers in emerging markets are struggling to find ways to retain customer loyalty to their products. This is where there is an opportunity for American SMEs to fill an emerging gap.

II. THEORETICAL PREMISES OF THE STUDY

Issues relating to internationalization of small firms have attracted increasing attention of scholars in the fields of strategy, international business, and entrepreneurship in recent years.²⁰ Large and small companies differ in the ways that they internationalize. For instance, while large multinational enterprises (MNEs) occupy the center of an industry’s competitive scope, SMEs typically compete at the fringes of industries, often in niche markets.²¹ Small companies need “small” markets for internationalization. MNEs have slack resources; SMEs do not. MNEs can absorb the risk associated with international expansion, whereas mistakes can prove costly for small players. MNEs have extensive international experience and global managerial mindsets; SMEs typically do not.

None of this is surprising because small firms face a variety of internal and external constraints that go beyond the “liability of smallness.”²² Internal constraints include shortages of capital, as well as management and information deficits that could lead to suboptimal choices.²³ External constraints could arise from the

19. *Id.* at 19, 21. See generally Oded Shenkar & Aimin Yan, *Failure as a Consequence of Partner Politics: Learning from the Life and Death of an International Cooperative Venture*, 55 HUM. REL. 565 (2002); John W. Slocum et al., *Fermentation in the China Beer Industry*, 35 ORG. DYNAMICS 32 (2006).

20. See generally Alan Mulhern & Chris Stewart, *Long-Term Decline of Small and Medium Size Enterprise Share*, 21 SMALL BUS. ECON. 215 (2003); Shakar A. Zahra, R. Duane Ireland & Michael A. Hitt, *International Expansion by New Venture Firms: International Diversity, Mode of Market Entry, Technological Learning, and Performance*, 43 ACAD. MGMT. J. 925 (2000).

21. ISABEL DOOLE & ROBIN LOWE, STRATEGIC MARKETING DECISIONS IN GLOBAL MARKETS 144-48 (2006).

22. Jane W. Lu & Paul W. Beamish, *Partnering Strategies and Performance of SMEs’ International Joint Ventures*, 21 J. BUS. VENTURING 461 (2006).

23. Peter J. Buckley, *Foreign Direct Investment by Small and Medium Sized Enterprises: The Theoretical Background*, 1 SMALL BUS. ECON. 89, 94-95 (1989).

market, the risk of takeover, and a variety of institutional restraints, both governmental and nongovernmental.²⁴ SMEs are also more vulnerable to technological, political, institutional, and market changes. However, SMEs are more flexible, which could be an important competitive advantage, especially in industries in the early stages of the lifecycle when economies of scale do not prevail. Industries with specialized intermediate inputs and idiosyncratic customer preferences are other attractive avenues for SME expansion. An interesting research question that emerges from this line of reasoning in the context of emerging markets would be: what characteristics of the customer and product market segments in the indigenous lifestyle sector in emerging markets lend themselves to effective penetration by small foreign firms?

A. *Internationalization of Small Firms*

To date, research on the internationalization of small firms sought to understand the process by which small firms go international and attempted to delineate the factors that contribute to successful international diversification. Three theoretical perspectives were advanced to model the process of internationalization: the “stage models,” the foreign direct investment (FDI) theory, and the network theory.²⁵ The stage models argued that firms tend to internationalize their operations gradually and in stages so as to gain experiential knowledge incrementally by first entering foreign markets with lesser geographical, cultural, and psychic distance. The firms thus overcome the liability of foreignness before venturing into other markets.²⁶ In addition to a lack of consistent empirical evidence to support the stage model,²⁷ the phenomena of “born global” firms in certain technology- and knowledge-intensive indus-

24. *Id.* at 95.

25. See generally Hamid Etemad, *Internationalization of Small and Medium-Sized Enterprises: A Grounded Theoretical Framework and an Overview*, 21 CAN. J. ADMIN. SCI. 1, 1 (2004).

26. See S. Tamer Cavusgil, *On the Internationalisation Process of Firms*, 8 EUR. RES. 273, 278-79 (1980); Jan Johanson & Jan-Erik Vahlne, *The Internationalization Process of the Firm—A Model of Knowledge Development and Increasing Foreign Market Commitments*, 8 J. INT'L BUS. STUD. 23, 27-28 (1977); Jan Johanson & Finn Wiedersheim-Paul, *The Internationalization of the Firm—Four Swedish Cases*, 12 J. MGMT. STUD. 305, 308 (1975).

27. See Erkkö Autio, Harry J. Sapienza & James G. Almeida, *Effects of Age at Entry, Knowledge Intensity, and Imitability on International Growth*, 43 ACAD. MGMT. J. 909, 918-21 (2000); Patricia Phillips McDougall & Benjamin M. Oviatt, *International Entrepreneurship: The Intersection of Two Research Paths*, 43 ACAD. MGMT. J. 902, 905-06 (2000).

tries, and the episode-induced “born again global” firms even in traditional manufacturing industries, served to undermine the generalizability of the stage theories.²⁸ The FDI theory, based on Hymer’s thesis,²⁹ argued that superior firm-specific advantages are to be exploited in international locations to compete successfully against local firms. Interpreting this within the resource-based view, small firms expand globally to leverage unique firm-specific resources in an international context.³⁰ Lastly, the interorganizational-network theory unravels the possibility of marshaling such resources through interfirm collaboration with local firms in host countries (as well as home-country firms) for accelerated growth in international markets.³¹

Taken together, the prescription offered by the three theoretical perspectives suggests that a viable course for SMEs entering emerging markets would be through interorganizational partnerships. Thus, while stage theories caution against moving too fast in uncharted territories and recommend acquiring experiential knowledge of the foreign market, and the FDI theory emphasizes the liability of foreignness, the network approach addresses both these concerns by underscoring the value of interorganizational collaboration for international expansion.³²

B. *Complementary Resources and Interorganizational Relations*

The resource-based view explains differential firm performance by investigating factors internal to the firm, which are termed firm-specific resources.³³ Such resources³⁴ or distinctive competen-

28. See Jim Bell, Rod McNaughton & Stephen Young, ‘Born-Again Global’ Firms: An Extension to the ‘Born Global’ Phenomenon, 7 J. INT’L MGMT. 173, 176 (2001); Nicole E. Coviello & Kristina A.-M. Martin, *Internationalization of Service SMEs: An Integrated Perspective from the Engineering Consulting Sector*, 7 J. INT’L MKTG. 42, 42-66 (1999); Gary A. Knight & S. Tamer Cavusgil, *The Born Global Firm: A Challenge to Traditional Internationalization Theory*, 8 ADVANCES IN INT’L MARKETING 11, 13-23 (1996); Benjamin M. Oviatt & Patricia P. McDougall, *A Framework for Understanding Accelerated International Entrepreneurship*, in INTERNATIONAL ENTREPRENEURSHIP: GLOBALIZATION OF EMERGING BUSINESS 23 (R.W. Wright ed., 1999).

29. STEPHEN H. HYMER, INTERNATIONAL OPERATIONS OF NATIONAL FIRMS: A STUDY OF DIRECT FOREIGN INVESTMENT 33 (1976).

30. See *infra* notes 33-37 and accompanying text.

31. Nicole Coviello & Hugh Munro, *Network Relationships and the Internationalisation Process of Small Software Firms*, 6 INT’L BUS. REV. 361, 369-72 (1997).

32. See *id.* at 379.

33. See generally Jay Barney, *Firm Resources and Sustained Competitive Advantage*, 17 J. MGMT. 99 (1991); Paul Westhead, Mike Wright & Deniz Ucbasaran, *The Internationalization of New and Small Firms: A Resource-Based View*, 16 J. BUS. VENTURING 333, 337 (2001).

cies³⁵ are and should be valuable, rare, inimitable, non-tradable (or traded in imperfect factor markets), and non-substitutable, in order to yield Ricardian rents.³⁶ Competitive advantage of firms is founded on the possession and deployment of heterogeneous resources or combinations of resources. A firm would capture rents not simply because it has a stock of valuable resources but also if it has the distinctive competence or capability to combine them in competitively important ways. Being extremely valuable and non-tradable, the resources and distinctive competencies must be generated within the firm, and should be protected from imitation by erecting internal and external isolating mechanisms.³⁷

However, a firm's critical resources could span firm boundaries, and shared knowledge and resources at the interorganizational level could be a source of competitive advantage.³⁸ This becomes possible by disaggregating the firm and viewing it as a "value chain," meaning a collection of activities that add value between suppliers and customers.³⁹ Essentially, each firm focuses on activities that it does best based on its distinctive competencies, and the interorganizational network as a whole benefits from the resulting efficiencies, provided the transaction costs are kept in check with the help of longer term contracts, mutuality of benefit, and trust.⁴⁰ Many Japanese companies, such as Canon, were able to diversify widely by establishing strategic interfirm networks in which

34. See EDITH TILTON PENROSE, *THE THEORY OF THE GROWTH OF THE FIRM* 24-26 (1959).

35. PHILIP SELZNICK, *LEADERSHIP IN ADMINISTRATION* 50-56 (1957).

36. Barney, *supra* note 33 at 105-08; Ingemar Dierickx & Karel Cool, *Asset Stock Accumulation and Sustainability of Competitive Advantage*, 35 *MGMT. SCI.* 1504, 1506-09 (1989); Margaret Peteraf, *The Cornerstones of Competitive Advantage: A Resource-Based View*, 14 *STRATEGIC MGMT. J.* 179, 180-82 (1993).

37. See generally Joseph T. Mahoney & J. Rajendran Pandian, *The Resource-Based View within the Conversation of Strategic Management*, 13 *STRATEGIC MGMT. J.* 363 (1992).

38. See generally Gautam Ahuja, *Collaboration Networks, Structural Holes, and Innovation: A Longitudinal Study*, 45 *ADMIN. SCI. Q.* 425, 448 (2000); Elizabeth W. Morrison, *Newcomers' Relationships: The Role of Social Network Ties During Socialization*, 45 *ACAD. MGMT. J.* 1149 (2002); Wenpin Tsai, *Social Structure of "Coopetition" within a Multiunit Organization: Coordination, Competition, and Intraorganizational Knowledge Sharing*, 13 *ORG. SCI.* 179, 180, 188-89 (2002).

39. MICHAEL E. PORTER, *COMPETITIVE ADVANTAGE: CREATING AND SUSTAINING SUPERIOR PERFORMANCE* 38-39 (1985).

40. See *id.*; see also J. Carlos Jarillo, *On Strategic Networks*, 9 *STRATEGIC MGMT. J.* 31-41 (1988); Oliver E. Williamson, *Transaction-Cost Economics: The Governance of Contractual Relations*, 22 *J.L. & ECON.* 223 (1979).

each firm focused on activities based on its core competency,⁴¹ farming out the rest to other firms that could perform them best based on their own core competencies.

Relational rents—meaning supernormal profits attributable to interfirm collaboration that cannot be generated by the individual firms acting separately—result when partners pool together idiosyncratic assets, knowledge, and resources or capabilities, and install effective governance mechanisms that reduce transaction costs.⁴² Such rents would be especially munificent when the contributions of the alliance partners are characterized by *specificity* of the assets, *complementarity* of the competencies, and *completeness* of the resources.⁴³ Productivity gains in the value chain become possible when the collaborating firms make complementary contributions in terms of unique knowledge, resources, and capabilities. Complementarity of both firm- and country-specific resources between domestic and foreign firms was at the root of successful cross-border strategic alliances in the biotechnology industry.⁴⁴ The logic of these arguments is especially relevant to United States SMEs, which could penetrate emerging markets by leveraging the resources and capabilities that they either possess or develop and that the producers in emerging markets lack. They would thereby affect value enhancements that appeal to the middle-class consumers of products in the indigenous lifestyle sector. This line of reasoning leads to the following interesting research questions: First, what value enhancements are local producers unable to provide? Second, what complementary assets, resources, and capabilities could SMEs from the United States deploy to successfully penetrate these markets? And, finally, what interorganizational arrangements would facilitate symbiotic relationships between U.S. SMEs and producers of indigenous lifestyle products in emerging markets?

41. See C.K. Prahalad & Gary Hamel, *The Core Competence of the Corporation*, HARV. BUS. REV., May 1990, at 79, 81-84.

42. See Jeffrey H. Dyer & Harbir Singh, *The Relational View: Cooperative Strategy and Sources of Interorganizational Competitive Advantage*, 23 ACAD. MGMT. REV. 660, 662 (1998).

43. See generally ALEXANDER GERYBADZE, STRATEGIC ALLIANCES AND PROCESS REDESIGN: EFFECTIVE MANAGEMENT AND RESTRUCTURING OF COOPERATIVE PROJECTS AND NETWORKS 87 (1995); OLIVER E. WILLIAMSON, THE ECONOMIC INSTITUTIONS OF CAPITALISM: FIRMS, MARKETS, RELATIONAL CONTRACTING (1985).

44. See generally Weijian Shan & William Hamilton, *Country-Specific Advantage and International Cooperation*, 12 STRATEGIC MGMT. J. 419 (1991).

III. THE NEW PARADIGM

A. *Competing in Emerging Markets: A New Paradigm*

Enhancing the international competitiveness of SMEs thus involves: (1) identifying the characteristics of the major customer and product market segments in the indigenous lifestyle sector that lend themselves to effective penetration by small foreign firms; (2) ascertaining the deficits in the resources and competencies of the local producers in emerging markets that inhibit them from affecting the value enhancements desired by the emerging middle-class consumers in these segments; (3) discovering the portfolio of complementary assets, resources, and capabilities of U.S. SMEs that would meet their demands; and (4) proposing win-win interorganizational relationships with local producers for U.S. SMEs to effectively seize the munificent opportunities.

To succeed at this, United States SMEs should modify their current business model of considering exporting as the only mode of international expansion. What is required of them is to integrate their “value chain[s]” both upstream (R&D, product development) and downstream (production, marketing, packaging, branding, and distribution) with those of the major segments in the indigenous lifestyle sector in the emerging markets.⁴⁵ The SMEs need to explore and establish new forms of collaboration with midsize companies in emerging markets, add value wherever they can and where it is desired by customers, and thereby derive healthy margins. This requires them to marshal new and relevant “dynamic capabilities,” such as “product development routines” that assimilate varied skills and knowledge to create new products and services; decision making that “integrates business, functional, and personal expertise” while making strategic choices; and aligning routines to access outside knowledge and competencies to successfully achieve such value-chain integration for long-term growth in emerging markets.

Examples of such dynamic capabilities include: (1) “[P]roduct innovation capabilities,” such as acquisition, assimilation, transformation, and deployment capabilities,⁴⁶ as well as international new

45. Marian V. Jones, *First Steps in Internationalisation: Concepts and Evidence from a Sample of Small High-Technology Firms*, 7 J. INT’L MGMT. 191, 195 (2001).

46. Oana Branzei & Ilan Vertinsky, *Strategic Pathways to Product Innovation Capabilities in SMEs*, 21 J. BUS. VENTURING 75, 77-78 (2006).

product development capabilities;⁴⁷ (2) Manufacturing flexibility, like “machine, labor, material handling, mix, new product and modification” flexibilities;⁴⁸ (3) Marketing and brand-equity development capabilities, such as the ability to deploy “technical know-how,” marketing expenditure, advertising expenditure, investment in customer relationships and installed customer base,⁴⁹ as well as “sources of brand equity . . . [including] brand awareness, . . . attribute perception[]” biases and “nonattribute preference”;⁵⁰ (4) IS/IT capabilities, by increasing governance capability of IS/IT, “[b]usiness systems thinking . . . capability” and “[r]elationship building . . . capability”;⁵¹ (5) Alliance management capabilities, such as “alliance scanning, . . . alliance coordination, and . . . alliance learning”;⁵² and (6) Franchising capabilities through examination of the capacity and capability of development of existing international franchising.⁵³

This perspective offers the exciting prospect of exploring and investigating the little-known indigenous lifestyle sector in emerging markets and discovering novel strategies for American SMEs to successfully compete in these markets. It adopts a fresh and innovative perspective characterized by intellectual curiosity, strategic pragmatism, and humility in approaching the issue of competing in emerging markets, replacing the attitude of “corporate imperialism” that was the bane of larger multinational enterprises in the past.⁵⁴

47. See generally Ulrike de Brentani & Elko J. Kleinschmidt, *Corporate Culture and Commitment: Impact on Performance of International New Product Development Programs*, 21 J. PRODUCT INNOVATION MGMT. 309 (2004).

48. Lori L. Koste, Manoj K. Malhotra & Subhash Sharma, *Measuring Dimensions of Manufacturing Flexibility*, 22 J. OPERATIONS MGMT. 171, 172 (2004).

49. Shantanu Dutta, Om Narasimhan & Surendra Rajiv, *Success in High-Technology Markets: Is Marketing Capability Critical?*, 18 MARKETING SCI. 547, 552 (1999).

50. V. Srinivasan, Chan Su Park & Dae Ryun Chang, *An Approach to the Measurement, Analysis, and Prediction of Brand Equity and Its Sources*, 51 MGMT. SCI. 1433, 1441 (2005).

51. Hans Van Der Heijden, *Measuring IT Core Capabilities for Electronic Commerce*, 16 J. INFO. TECH. 13, 14-16 (2001).

52. Destan Kandemir, Attila Yaprak & S. Tamer Cavusgil, *Alliance Orientation: Conceptualization, Measurement, and Impact on Market Performance*, 34 J. ACAD. MARKETING. SCI. 324, 326-27 (2006).

53. Karin Fladmoe-Lindquist, *International Franchising: Capabilities and Development*, 11 J. BUS. VENTURING 419, 430 (1996).

54. Prahalad & Lieberthal, *supra* note 10, at 109-10.

B. *The New Paradigm: Dividends for Academics*

Earlier studies on internationalization of small firms sought to explain and interpret *post factum* the process of internationalization and the factors that facilitate it.⁵⁵ This approach, instead, adopts a prospective method of understanding the dynamics of competition in the indigenous lifestyle sectors in emerging markets and proactively attempts to discover expansion strategies for SMEs to successfully compete in these markets. While doing so, SMEs must avoid the pitfalls of advancing generic, one-size-fits-all models of international competitiveness, and instead adopt a market-specific approach to finding the ingredients of competitiveness.

Most studies on small firm internationalization to date have typically equated internationalization with exporting, and the resulting firm performance with export growth.⁵⁶ This is in part a reflection of the current widespread identification of international expansion with exporting by policy planners, public agencies, and small firms alike. Emerging evidence, however, suggests that while trading might be the most common form of cross-border activity for small internationalizing firms, many firms also establish “production and research links . . . [as] an integral part of the international expansion process.”⁵⁷ The new approach underscores the possibility of SMEs integrating their activities with the value chains of mid-size producers in emerging markets both upstream as well as downstream to create value through collaborative endeavors. Deploying the required complementary resources, knowledge, and dynamic capabilities to integrate and reconfigure the existing stocks of resources and competencies is hypothesized as the means to effectively achieve such value-chain integration. In the process, it makes two important contributions. First, it adds to and extends current thinking on small-firm internationalization and ways to enhance the international competitiveness of SMEs. Second, it applies and extends the concept of “dynamic capabilities” hitherto studied in the context of high-technology industries to the rapidly changing environments in emerging markets.

55. See generally Charles Dhanaraj & Paul W. Beamish, *A Resource-Based Approach to the Study of Export Performance*, 41 J. SMALL BUS. MGMT. 242 (2003); Jane W. Lu & Paul W. Beamish, *The Internationalization and Performance of SMEs*, 22 STRATEGIC MGMT. J. 565 (2001); James A. Wolff & Timothy L. Pett, *Internationalization of Small Firms: An Examination of Export Competitive Patterns, Firm Size, and Export Performance*, 38 J. SMALL BUS. MGMT. 34 (2000).

56. See sources cited *supra* note 55.

57. Jones, *supra* note 45, at 204.

The principal approach of not considering exporting as the only means of international expansion, and instead exploring inter-organizational collaboration as an avenue to achieve value-chain integration with the producers of indigenous lifestyle products in emerging markets, has significant policy implications for the promotion of foreign economic activities by SMEs. For instance, public agencies such as the U.S. Small Business Administration could promote the formation of partnerships between universities, foreign trade promotion agencies, and regional business associations to identify industry and market-specific segments in the indigenous lifestyle sectors of emerging markets that regional SMEs could target. They could commission research to assess the current stocks of entrepreneurial resources and competencies of individuals and small firms in a region, ascertain the indigenous lifestyle products of an emerging market, and suggest approaches for regional SMEs to acquire the relevant dynamic capabilities in order to integrate their activities with the value chains of emerging market producers, and, thereby, compete more effectively in these markets. Finally, the new paradigm affords an exciting opportunity to apply the theories of international business and strategy developed primarily from the perspective of large multinational enterprises from the industrialized West to smaller businesses and emerging markets, with potential to yield remarkable insights.