Case Studies on

Emerging Giants from Emerging Markets

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OVERVIEW

Today, many companies from emerging markets[1] are making the world sit up and take notice. Over the past two-plus decades, waves of liberalisation have removed protectionist barriers in the developing countries. A wave of foreign competitive pressure started to ripple through the world economy, from companies in emerging markets like Brazil, Russia, India and China. These companies are seeking to become world-spanning multinationals – just as Samsung Electronics emerged from South Korea and Toyota sprang from Japan in earlier phases of globalisation.

As these emerging markets integrated themselves into the world economy, multinational corporations from North America, Western Europe, Japan, and South Korea invaded. Many local companies lost market share or shed off businesses. However, a few companies fought back to survive. They held their own businesses against the onslaught, restructured their businesses, exploited new opportunities, and built world-class companies that are giving their global rivals a run for their money today.

For example, Brazil-based Embraer has become a major supplier of regional jets for airlines in the US. Other Brazilian companies like Braskem, Embraco and Natura are also expanding in a variety of global markets. Russian companies like Gazprom, Lukoil and Rusal are using Russia's natural resources to expand into the US and other countries. India is producing powerhouses in technology services like Wipro, Infosys Technologies and Tata Consultancy Services and global competitors in manufacturing and pharmaceuticals. Topping it all, the world's largest steel company is headed by Lakshmi N. Mittal, an Indian living in Europe.

China is the largest single source of new multinationals. Lenovo has bought IBM's personal computer division. Haier is emerging in appliances, Huawei Technologies is competing against Cisco Systems to sell telecommunications equipment around the world and the Pearl River Piano Group is carving out a huge share of the piano market

The new ease of global communication, air travel and the availability of necessary expertise are attributed to many emerging giants' rapid growth to manage complex multinational operations. According to Accenture, the consulting firm, there were 62 emerging-market multinationals in the Fortune Global 500 in 2005, up from 20 in 1995. This number may go beyond 100 by 2015 from 70 in 2007.[2]

1 Emerging market is a term which refers to a country that has undertaken transition in its political or economic systems and experienced rapid economic development. Although there is no exact list of emerging markets, in 1994 the US State Department of Commerce named "Big 10 Emerging Markets", which are China, India, Indonesia and South Korea in Asia; Poland and Turkey in Europe; Brazil, Mexico and Argentina in South America and South Africa in Africa

2 Holstein William J., "Emerging Markets, Emerging Giants", http://www.nytimes.com/2007/04/22/business/yourmoney/22view.html, April 22nd 2007

William D. Green, chief executive of Accenture, says that in the near future companies that do not design business models that are competitive with those of the emerging multinationals will simply be blown away.[3]

The emerging giants have different strategies that reflecting their strengths. For example, Chinese companies have mainly used cheap labour to undercut established companies. Others, like Embraer of Brazil have learned to exploit the local base of excellent but low-cost engineering talent. Companies like Hong Kong-based Johnson Electric, which has the capacity to produce three million motors a day, have strong positions in a global product niche. And Russian companies have leveraged their natural-resource wealth to set up distribution channels and make acquisitions in the West.

Why do emerging markets throw up just a handful of world-class companies? What would it take to create many more world-conquerors like Sony, GE, Toyota, IBM and Nestle from less-well-developed economies? What strategies did these globally competitive businesses from emerging markets deploy to overcome the myriad obstacles that their home environments pose? Why and how did companies like China's Lenovo, Haier and others move from their dominant positions at home to establish an international presence? Must every emerging-market company follow suit? What sequence of steps should wannabe giants take to build stronger businesses at home or to enter markets overseas?

Tarun Khanna and Krishna Palepu at the Harvard Business School have done research on emerging giants.[4] According to them, there are logical reasons for why emerging giants succeed despite the disadvantages of operating in an emerging market. They succeed by either withstanding international competition in the international market, or by boldly taking on the international competition coming into their domestic markets.

So the first task for any entrepreneur from an emerging market is to develop a distinctive strategic position as a way to compete - rather than merely clamouring for protection. There are plenty of institutional voids in any emerging market, which present business opportunities for smart entrepreneurs.

One way to compete in an emerging market is to directly fill an institutional void. For example, India-based HDFC was able to create an institution between the buyer and seller of a house, at a time when most middle-class citizens in India had no property to put up as security for loan.

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3 "Emerging Markets, Emerging Giants", op.cit.

4 "Creating emerging giants", http://www.businessworld.in/index.php/Creating-emerging-giants.html

Another way is to build institutions inside the company, which allow to diversify and compete. For instance, the Tatas built a cadre of high-quality managers through the Tata Administrative Service at a time when the talent market was underdeveloped.

Tharun Khanna in a study identified 134 major companies in ten emerging markets – Argentina, Brazil, Chile, China, India, Indonesia, Mexico, Poland, South Africa, and Turkey – and analysed data on each company, from its strategies to its stock market performance. The companies implemented the following strategies:

- Blunt the Multinationals' Edge
- Exploit Understanding of Product Markets
- Build on Familiarity with Resource Markets
- Treat Institutional Voids as Business Opportunities
- Emphasise on the Importance of Execution and Governance

This casebook highlights a few examples of such emerging giants from emerging markets. Each one has followed one's own strategies to compete with global companies.

Do all the emerging companies have the best prospects for becoming global players? What are the challenges faced by such companies while going global? What strengths and capabilities do these companies have to succeed in the global arena? With a focus on these questions, this book attempts to analyse the emerging companies from the emerging markets.