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Going Global: Success Factors for Penetrating Emerging Markets

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Abstract

The objective of this qualitative research study using the Delphi technique is to identify the success factors that contribute to mass market penetration in consumer goods by multinational corporations. The research used the perceptions of a panel of industry experts to examine their lived experience and identify the factors that contribute to emerging market success. This research represents a significant contribution to the development of business strategy as it is applied to emerging global markets. It reflects a major paradigm shift from applied strategies to a process of cultural assimilation and integration as reflected by the primary success factors.

The primary success factors identified in this study are: (a) assembling and developing a strong organizational staff of experienced local managers; (b) that understand the local culture and marketplace and are able to translate that understanding; (c) into product features and options that meet the needs of the local marketplace. The top three success factors emerged as much more than simple elements of success; taken together, they represent a formula for successful market penetration and are foundational steps for business success.

Keywords: market penetration, globalization, business strategy, multinational corporations.

I. THE CHALLENGES AND BARRIERS OF GLOBALIZATION

The past 35 years have been characterized by an unprecedented amount of change. This change has manifested itself in our business communities through the powerful forces of globalization that are fundamentally changing the nature and dimension of business strategy (Eisenhardt, 2002). "Creating change, managing it, mastering it, and surviving it is the agenda for anyone in business who aims to make a difference." (Fishman, 1997, p. 64).

As world events have changed, the political, economic, and business realities have been forever altered; organizations with long histories of success often find themselves in a struggle for survival. The dynamics of the post modern era have forced business leaders to refocus their attention from traditional objectives to alternative measures of business success, such as core competence (Prahalad & Hamel, 1990), global marketplace penetration (Rugman, 2001), learning organization adaptability (Senge, 1990), emerging economy market share (Prahalad, 1990), reengineered efficiencies (Hammer & Champy, 2001), participatory management (Lawler, 1992), knowledge worker development (Nonaka, 1991), multinational growth rates (Porter, 1985), organizational adaptability (Ulrich, Halbrook, Meder, & Stuchlik, 1991), and the application of emotional intelligence (EI) in organizational leadership (Goleman, Boyatzis, & McKee, 2002).

These alternative strategies add both complexity and uncertainty to the business climate as business leaders concentrate on developing measures that produce the most beneficial results. As Prahalad (1996) said, “It is not enough to imagine the future-you also have to build it” (p. 66).

National boundaries and trade barriers have given way to open boarders and free trade agreements opening access to markets that have been historically closed to outsiders. Global investments and joint ventures have allowed foreign organizations to compete with nationals on what is perceived to be a level playing field. Throughout the emergence of global markets, “a few players have prospered by turning the environmental turmoil to their advantage, many more have merely survived--struggling to adjust to complex, often contradictory (market) demands” (Bartlett & Ghoshal, 1989, p. 3). Many business organizations intent on growing globally have yet to find the definitive road to riches.

II. MNC-S AND THEIR ROLE IN THE GLOBALIZATION

1. MNC-s presentation

As multinational corporations (MNC) expand beyond their national boundaries, they generally begin by adopting their domestic business models and attempting to apply these models to foreign market applications (Arnold & Quelch, 1998). Often, business enterprises that have achieved great success in their domestic markets have attempted to apply the systems that were developed and matured locally to new and foreign global marketplaces with disastrous results (Bartlett & Ghoshal, 1989). Effective business models developed in sophisticated, industrial, and mature domestic economies are often derisory and inapplicable to foreign markets due to inadequate infrastructure, insufficient resources, and local customs (Bartlett & Ghoshal, 1989).

Although there has been a considerable increase in investments in foreign markets in the past several decades by MNCs, much of this investment has been targeted at developed countries or countries that are at generally the same stage of economic development as the MNCs’ home countries (London & Hart, 2004). Many international management scholars in the final decades of the 20th century adopted a Westernization assumption, or the idea that emerging markets (EM) will develop in the Western tradition, and assumed that multinational organizations would simply wait for these markets to develop as a means of extending their global influence (Peng, 2001). These assumptions have not become a reality, and consequentially they have deferred or diluted the development of a unique and individual emerging market strategy, because MNCs defined emerging markets in relation to their existing paradigms. MNCs that are accustomed to creating market advantage through patents, brands, and contracts are wary of entering emerging markets in which their proprietary technology cannot be protected by legal systems (Delios & Henisz, 2000). EMs cannot be defined in relation to the existing western paradigms and their road to emergence is dependent on circumstance (de Soto, 2000).

2. MNC-s opportunities

Using domestic success criteria in foreign markets has proven expensive, redundant, and sometimes detrimental for many business organizations intent on expanding into global markets. Additionally, these MNCs have been applying business models that are characterized by invest and adapt cycles, which are costly, promote only one-dimensional trial and error learning, and often end with practices that are significantly different from the organization's natural skill sets and are difficult to sustain in a global arena. London and Hart (2004) said, "Emerging economies should not be viewed as following a homogeneous pattern of economic development in which all markets are evolving towards a more Western-style business environment" (p. 355).

The global business environment has absorbed a tremendous amount of change over the past 20 years. The elimination of trade barriers (Bartlett & Ghoshal, 1989),the demise of most economic forms of communism (Eisenhardt, 2002), and significant reductions in global transportation costs (Cavallo, 2003) have all altered the competitive landscape in the developed world as emerging and Third World economies compete for market share with low cost labor (Graham, 2001) and devalued currencies (Lai, Chang, & Chang, 1996). These changes have resulted in the saturation of major markets in the developed world and caused MNCs to turn their attention to emerging economies in countries, such as Brazil, Mexico, Hungary, China, India, and Indonesia, as target markets for sustaining future growth (London & Hart, 2004). These emerging economies provide substantial opportunities for business organizations that are intent on expanding their global markets and have a significant domestic market share (Arnold & Quelch, 1998).

However, the strategies required to capture market share in emerging economies are likely different from the strategies that contributed to the success of these organizations in the past. Prahalad and Lieberthal (2003) noted that most MNCs focus on selling products similar to those in their domestic markets to emerging economies. Often, these products are higher-quality, sell at higher price points, and therefore are targeted at wealthy consumers who may prefer these goods because of their inherent quality, their designer nature, and the status associated with owning imports (Prahalad & Hart, 2002). Prahalad and Lieberthal (1998) noted that MNCs use an "imperial mindset" (p. 70) to sell existing products to established upscale markets in emerging economies.

As global multinational organizations invest in both the means of production and the efficient distribution channels in emerging economies, competition will result in both lower cost and higher quality products for the mass consumer population (Balu, 2001). Global multinational organizations will also benefit from the economies of scales by tapping this emerging substantial consumer market (Ellison, Moller, & Rodriguez, 2003).

The identification and application of the success factors will allow businesses to acclimate more quickly to foreign markets and to tailor their products and services to meet the needs of these new consumers. This will result in an increase in competition, lower pricing, and an improved value equation for the end consumers. Additionally, improvements will result in more efficient distribution systems, supply chains, and local infrastructure, as well as an enriched overall domestic economy.

The history of trade among nations is more ancient than the recording of those transactions. Coins, clay tablets, and the walls of ancient fortresses tell the story of people engaged in economic transactions and weave the threads of civilization bind as well as to put people of different cultures in a competitive stance. (Wren, 1994, p. 415)
Trade has been the hallmark of great civilizations, in spite of vast distance, significant natural challenges, and the great difficulties associated with transport and logistics (Wren, 1994). Traditional civilizations established significant trading networks with one another in order to exchange both commerce and ideas. The ancient Phoenicians

pioneered seagoing commerce across the Mediterranean; they produced products such as dyes, fabrics, glass, and pottery (Encyclopedia Britannica, 2006).Adam Smith became the first advocate of free trade with the advent of laissezfaire economics (Encyclopedia Britannica, 2006). Smith intended to remove mercantilism and to show that national wealth depended on trade, not the balance of power, and on free markets, not on the care and feeding of the uneconomical enterprise (Wren, 1994, p. 415). This historical context has exerted a profound influence on the international business environment, which has been moulded by dynamic, economic, political, and social forces.

These strategic forces have exerted significant influence over the structure and organization of the business community. By the early 1900s, enterprises quickly learned that their survival was dependent on capturing the scale of economies made possible by mass production, and this propagated their expansion into international mass markets (Bartlett & Ghoshal, 1989). However, in these early days of global expansion, there were significant barriers to entry, such as language, currency, and culture, which made the process of globalization expensive and limited.

The primary goal of the MNCs, according to Narula and Dunning (2000), has been the maximization of the welfare of their owners, whereas national governments wish to do the same for the constituents within their jurisdiction. Narula and Dunning defined economic globalization as "the increasing cross-border interdependence and integration of production and market for goods and services and capital" (p. 142). The process of globalization can best be demonstrated by increases in the transnational flows of both portfolio and direct investment and in the number of cross-border strategic alliances. The most profound effects of globalization were felt in industrialized nations; however, there have been significant trickle-down influences in emerging economies.

Normally the process of globalization is not associated only with the wealth creation and distribution, but also with a continuous process of innovation. When we speak of the process of innovation we should bare in mind how Aghion & Durlauf characterizes it in his "The Future of Capitalism" (2018): 1- Innovation is a cumulative process i.e. you stand on the shoulders of predecessors, 2- You innovate, because you have incentives to innovate, 3- new innovations tend to displace old technologies and even companies(even gigantic multinational ones), which cling to such old technologies.

III. THE IMPACTS OF GLOBALIZATION PROCESS

Globalization has had a profound effect on both location-specific advantages and corporate-ownership advantages. Business organizations and governments alike have adjusted their strategies and policies to the realities of this new global environment. The nature and content of MNC activity have undergone marked shifts as their own specific intangible assets, particularly intellectual capital, have become more mobile; and national governments now increasingly compete with each other to attract this beneficial and mobile investment (Narula & Dunning, 2000). Milanovic is quite cute while illustrating the effects of globalization and the redistribution of wealth. He writes: In a fully globalized and commercialized world if the Italian income continued to fall relative to incomes in other countries and regions, the beauty of Italy would no longer be enjoyed by its original inhabitants and there is no reason why it should be (Milanovic 2019)

The process of globalization has not affected all countries in the same way. The nature and content of MNC activity have undergone marked shifts as their own specific intangible assets, particularly intellectual capital, have become more mobile;

and national governments now increasingly compete with each other to attract this beneficial and mobile investment (Narula & Dunning, 2000). Some nations have been able to leverage the significant advantage by attracting more Foreign Direct Investment (FDI), whereas others have fallen significantly behind. Thus, the process of globalization and the attraction of foreign direct investments have had an acute effect on emerging economies by having a significant impact on the means of production.

The effects of the globalization process have been most profound on business organizations that have significantly reduced the cost of production, and in some cases related development costs, in order to make their products more attractive to the consumer market. Additionally, benefits are derived from the nation states by attracting the investments and creating higher levels of employment in their country. As we are in the first quarter of the 21st century, the resulting effects of the globalization process are only beginning to be felt in the development of consumer markets in emerging economies. The development of these consumer economies represents a major opportunity for MNCs as these become viable markets for their products. Not for nothing Friedman in his "The World is Flat" published in 2006 emphasizes the fact that The ICT revolution, the deregulation of the economy in the developing countries, and increasing economic integration has resulted in a new reality: The nonexistence any longer of any "friction of distance" in economic relationship. Normally the entrepreneurs while operating in countries different from their mother country will use all the tools offered by the so called the Forth Industrial revolution (Check Schwab 2017), yet in using such tools a smart entrepreneur never forgets what Schwab emphasizes in his book that the human factor is of prime importance as all these new tools are first and foremost just tools made by people for the people.

Organizational success factors are often associated with the Business Excellence Models (BEMs). There are many models used throughout the world. One such model used in the United States is the Malcolm Baldrige Criteria for Performance Excellence.

The Baldrige Criteria for Performance Excellence provide a systems perspective for understanding performance management. They reflect validated, leading-edge management practices against which an organization can measure itself. With their acceptance nationally and internationally as the model for performance excellence, the Criteria represent a common language for communication among organizations for sharing best practices. The Criteria are also the basis for the Malcolm Baldrige National Quality Award process. (National Institute of Standards and Technology [NIST], 2006, p. 2)

The Malcolm Baldrige Criteria for Performance Excellence are designed to help organizations use an integrated systematic approach to organizational performance management that results in (a) delivery of the improving value to customers and stakeholders, thereby contributing to organizational sustainability, (b) improvement of overall organizational effectiveness and capabilities, and (c) organizational and personal learning (NIST, 2006). The Criteria are built on a set of interrelated core values and concepts: (a) visionary leadership, (b) customer-driven excellence, (c) valuing employees and partners, (d) agility, (e) focus on the future, (f) managing for innovation, (g) management by fact, (h) social responsibility, (i) focus on results and creating value, and (j) systems perspective (NIST, 2006). These values and concepts are embedded beliefs and behaviors found in high-performing organizations and become the foundation for integrating key performance and operational requirements within a results-oriented framework that creates the basis for action and feedback.

Teunissen & Andreoni in their "Globalization and Economic Growth" (2019) studies another impact of the process of globalization, namely the risk of the middle income trap in such economies as that of China, Brazil and South Africa. A company engaged in international trade or endevouring to invest in the international market should take into account different models or programs used in these three countries to escape the middle income trap. You cannot be successful in the market of Brazil if you are not aware how Embrapa System works in Brazil or how Innofound Model is applied in China. The old sying: When in Rome do as the Romans do works even in our XXI st century even for multinational companies!

Often, organizations successfully expand in the global marketplace by leveraging their competitive advantage (Dunning, 1995; Ghoshal & Moran, 1996; London & Hart, 2004), whether through low cost leadership or product differentiation. Figure 6 illustrates a model of competitive advantage originally developed by Porter (1985). This model suggests that organizations use their resources and capabilities to formulate distinctive competencies, which reveal themselves in either cost or differentiation advantages that ultimately are the value-generating competencies of the organization.

An improved understanding of the key elements of the consumer value equation in emerging economies provides insight into the success factors for MNCs in emerging economies and a strategic advantage to those organizations that are able to adopt and implement these strategies successfully. The adoption of these strategies provides reduced risk, lower-cost, and more competition within the emerging nation-states. Likewise, it will result in increased competition and have a beneficial effect on consumer pricing by improving competition, which will result in an environment of improved product quality, lower cost, product differentiation, and increased availability.

CONCLUSIONS

- First world markets have become increasingly competitive. MNCs have begun to focus their attention on emerging economies such as India, China, Mexico, Brazil, and Hungary.
- The traditional market strategies of most MNCs have focused on the wealthy elite in emerging markets using business models comparable to the models used in their home markets.
- MNCs' attentions have historically been focused on the wealthy minority at the top of the economic pyramid rather than the masses who make up the foundational base of this pyramid. The MNCs have capitalized on the smallest portion of the market and have ignored the emerging mass market on the bottom of the market pyramid. Some MNCs have significantly increased their market share in emerging economies by providing consumer products to the mass market. If elements could be identified that significantly contributed to a company's successful emerging-market penetration, then these elements could be extended to other organizations seeking to penetrate similar mass markets in similar conditions.
- This study has concerned with MNC ability to penetrate global markets in emerging economies and the identification of the specific success factors that have contributed significantly to that success. MNC analysis has

demonstrated that most MNCs have a significant market share in their home markets. However, in emerging markets, MNCs target to the designer, or affluent, market virtually the same products environment had profound effects on how businesses viewed global trade, international competition, and emerging markets.

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