

Chapter 1

INTRODUCTION

SATYENDRA SINGH

Background to Emerging Markets

An emerging market generally refers to a developing market economy with low-to-middle per capita income. Countries in this category are usually undertaking a process of economic development and reform. The vast majority of countries in the world fall in this category. An important feature of most emerging markets is that they are in the process of moving from closed economies to more open economies. As part of this process, emerging countries generally experience rapid growth in both local and foreign investment. For foreign investors, the emerging market is an opportunity to expand its production and revenue. From the perspective of the emerging market, it gains access to new employment opportunities, transfers of skills and technology, and a source of economic growth.

In the last decade, many developing countries have been adjusting their economies through economic reform policies to attract a greater share of global foreign investment. The impact of these reforms on both domestic markets and consumers is significant; for example, in recent years, the fastest-growing countries such as Brazil, China, India, and Eastern European countries have attracted the most foreign investment, followed by promising emerging markets of the Middle East and Africa. While increased foreign investments bring much-needed jobs to the emerging markets, local firms that previously faced little competition are now forced to compete with the international firms that take advantage of relatively low investment costs.

Purpose of this Book

Growth in business developments has created germane grounds for conducting research with respect to emerging markets. Thus, this *Handbook of Business*

Practices and Growth in Emerging Markets aims to generate and disseminate knowledge by commissioning a series of chapters in one volume that describe the current business environment, organizational culture, consumer behavior, financial investments, and examples of best prevailing practices in emerging markets. Specifically, the goal of this research-based book is to provide a comprehensive guidance for business managers and students by discussing a range of issues from the diverse emerging markets, enabling them to develop a strategic thinking, and a market-oriented culture. This handbook contributes to four major areas of business: (1) marketing, (2) strategy, (3) operations, and (4) finance. Given changing business dynamics, government policies, and demands in the industry, this book is both timely and topical.

Why Another Book?

This is not a typical *how to* style conventional handbook, rather the objective of this handbook is to guide the readers into a new strategic thinking. To achieve this objective, and to stand out from existing publications, the focus of this handbook in each chapter is on the identification of different business issues in different emerging markets (e.g., Asia, Africa, and South America), and on the implementation of a proposed set of recommendations. Further, as several leading practitioners and experts in the areas of their expertise contribute to this handbook, the text is rich in its contents and has a balance of academic rigor and managerial implications.

Benefits to the Readers

This handbook is truly global in its scope and thus an ideal companion for business managers and an essential reference for business students. The carefully selected chapters make use of both qualitative and quantitative techniques to assist in decision making and in improving efficiency and effectiveness in organizations operating in emerging markets that are now exposed to global forces, stiff competition, and vast markets. Further, the readers will appreciate the easy-to-read style of writing, and a multidimensional view of financial and non-financial performance measurement of businesses. In fact, 26 diverse chapters, authored by 42 professors and managers in 18 emerging markets and supplemented by diagrams and case studies, cover the major areas of business in this handbook.

Key Features of this Book

This handbook has four key features: (1) it reviews current business practices relevant to current challenges in emerging markets; (2) it covers all the continents, and thus has a global representation of emerging markets; (3) it covers all the major functional areas of business such as marketing, strategy, operations and finance; and (4) it includes case studies and sections on implications for managers and policy makers in addition to empirical articles for a balance of academic and managerial implications.

Overview of Chapters

This handbook is divided in six parts representing six regions of the emerging markets: China, Commonwealth of Independent States, Latin America, Africa, Middle East, and Asia. Table 1.1 reports name of contributing authors, brief description of the chapters, nature of the study, and function of business and country.

Part 1: China

In Chapter 2, Grigoriou focuses on the factors that an international product planner needs to consider in researching, developing, and marketing consumer goods in emerging markets. With growing incomes and a greater awareness of foreign-branded goods, consumers in emerging markets are increasingly seeking such goods to satisfy their needs. In this backdrop, this chapter recommends international marketers the new ways to target emerging market consumers.

In Chapter 3, Xie and White address the question of how latecomers in emerging markets may compete against incumbent multinationals. This chapter proposes a generic process model for analyzing competition dynamics between latecomers and multinationals, examines the competition between local and foreign firms in China's handset manufacturing industry, and highlights the contingencies that may determine the likelihood that latecomer firms will emerge as initial and then sustained competitors vis-à-vis incumbent multinationals.

In Chapter 4, Liu and Wei examine resource management trends of top fortune global multinational enterprises from emerging markets. Drawing on the resource- and competence-based strategic management theories, it is

Table 1.1. Overview of chapters.

Chapter	Authors	Description of the chapter	Nature of the study	Business function	Country
<i>Part I: China</i>					
1.	Singh	Introduction			
2.	Grigoriou	New product development	Theoretical	Strategy	China
3.	Xie & White	Competing with multinationals: entry and evolution of latecomer firms	Theoretical	Strategy	China
4.	Liu and Wei	Current Business practices of top fortune global emerging multinationals	Empirical	Finance	Emerging markets
5.	Lee and Chen	Link between information system integration and performance	Empirical	Strategy	Emerging markets
6.	Chong	Legal cases and auditing practices	Theoretical	Finance	China
<i>Part II: Commonwealth of independent states</i>					
7.	Kuznetsova	CSR: business accountability and legitimacy	Theoretical	Strategy	Russia
8.	Kuznetsova	Corporate governance system: promises and realities	Theoretical	Strategy	Russia
9.	Martinovic and Branch	Brand management: the role of private labels	Case study	Marketing	Croatia
10.	McKenzie	Retail trade and shopping behavior	Theoretical	Marketing	Baltic

(Continued)

Table 1.1. (Continued)

Chapter	Authors	Description of the chapter	Nature of the study	Business function	Country
<i>Part III: Latin America</i>					
11.	Barbosa, Gassenferth, and Machado	Data mining as a decision tool for materials procurement management	Empirical	Operations	Brazil
12.	Felzensztein	Importance of natural resources-based industry clusters	Case study	Strategy	Chile
13.	Neves and Castro	Inserting small holders in the supply chain management	Case study	Strategy	Brazil
14.	Gauzente and Dumoulin	Franchise as an efficient mode of entry: the legitimacy point of view	Theoretical	Strategy	Emerging markets
<i>Part IV: Africa</i>					
15.	Lewa and Lewa	Public procurement reform	Case study	Operations	Kenya
16.	Quan-Baffour	Rural tourism	Case study	Marketing	S. Africa
17.	Alam and Hussain	Interest-free microfinance and Islamic banking	Case study	Finance	Sudan
18.	Madichie, Hinson, and Salifu	Challenges of Internet adoption of banks	Case study	Marketing	Ghana

(Continued)

Table 1.1. (Continued)

Chapter	Authors	Description of the chapter	Nature of the study	Business function	Country
<i>Part V: Middle East</i>					
19.	Mohamed and Hussain	Impact of religious nature of organization on firm performance	Theoretical	Marketing	Gulf
20.	Rao	Challenges and opportunities for international marketers	Review	General	Kuwait
21.	Yeganeh	Society and management	Review	General	Iran
22.	Thrassou, Vrontis, and Kokkinaki	Internet consumer behavior	Empirical	Marketing	Cyprus
<i>Part VI: Asia</i>					
23.	Fauzi, Rahman, Hussain and Priyanto	Corporate social performance of state-owned and private companies	Empirical	Strategy	Indonesia
24.	Tripathy, Rao, and Kanagaraj	Individual stock futures and stock market volatility	Empirical	Finance	India
25.	Garrovillas	Business opportunities and strategic marketing in the twenty-first century	Review	General	The Philippines
26.	Rena	Challenges and prospects in the South Pacific	Review	General	Papua New Guinea (PNG)
27.	Singh	Conclusion			

argued that firms that best manage their resources and possess hard-to-copy resources are likely to have a competitive advantage. Data from Fortune Global multinational enterprises operating in emerging markets show a trend toward spending more on research and development, registering more new patents, and better usage of assets from 2002 to 2007.

In Chapter 5, Lee and Chen test the link between informational technology (IT) and firm performance and argue that knowledge codification, a deliberate learning mechanism, must be developed for a firm to take advantage of its IT resources. Further, to what extent the firm can translate knowledge and information into performance outcomes depends on its ability to respond to the market. Drawing on the dynamic capabilities perspective and its extensions, the authors develop a conceptual model to examine the missing links — knowledge codification and market responsiveness — between information system integration and firm performance.

In Chapter 6, Chong reviews audit environment and legal cases in China, assesses the extent of audit changes in China based on the audit reports issued by the National Audit Office in 2005, and recommends the need for further improvement. These recommendations have implications for the policy makers, audit professionals, and users of the audit reports.

Part II: Commonwealth of Independent States

In Chapter 7, Kuznetsova explores corporate social responsibility (CSR) as business practice within the context of market transformation in Russia. This chapter introduces historic circumstances surrounding the development of CSR in the emerging market economy, and outlines particularities of CSR in the country and its potential to contribute to the socioeconomic development.

In Chapter 8, Kuznetsova scrutinizes the development of corporate governance within the emerging institutional context of the market economy of Russia, and looks at the forces that have determined the shape and performance of the corporate governance system in the period following the collapse of the centrally planned economy. This chapter is instrumental in formulating strategy for investors considering doing businesses in transitional, emerging, and developing economies.

In Chapter 9, Martinovic and Branch provide a brief overview of brand management and private labels in emerging markets, outline the evolution of private labels in Croatian grocery retailing, and present the case of Dona Trgovina D.O.O., one of the leading Croatian manufacturers of private grocery labels. Certainly, brand management has become challenging in

emerging markets that have attracted multinationals with their established brands. Private labels — sometimes called house branding — are a form of brand management which have their own peculiarities and which, in emerging markets, are racing to catch up to that of the developed world.

In Chapter 10, McKenzie presents an overview of the retail sector in the Baltic States of Estonia, Latvia, and Lithuania, and examines the retail sector from an historic perspective, including a discussion of the role of retail trade in these countries during the Soviet communist period through re-independence in 1991 and accession to the European Union in 2004. Although retailers may wish to view the region as a single market, there are significant differences in how consumers perceive retail service delivery, and thus these differences need to be taken into account for a superior retail performance.

Part III: Latin America

In Chapter 11, Barbosa, Gassenferth, and Machado recommend data mining as a decision tool for materials procurement in a multinational company based in Brazil. This chapter reviews decision making, data warehouse, and data mining relating to IT, analyzes the results, and suggests the use of data mining as a tool to obtain information that supports the decision-making process and develops business strategy in the procurement area. This chapter is useful for procurement managers.

In Chapter 12, Felzensztein discusses the importance of natural resource-based industry and explores the role of marketing and practices in clusters of three key natural resource-based industries in Chile. This chapter reviews the literature relating to geographic, location, social networking, and regional innovation from a Latin-American perspective.

In Chapter 13, Neves and Castro identify four fundamental dimensions of agribusiness that governments and development agencies use to attract the right investments: the technical and economical viability; the organizational aspects — the players' ability to efficiently coordinate their transactions; business competitiveness; and the environment sustainability. This chapter illustrates implementation of the dimensions through a project completed by PENZA (Agribusiness Intelligence Center) and CODEVASF (Sao Francisco and Parnaíba Rivers Valleys Development Agency) in Brazil.

In Chapter 14, Gauzente and Dumoulin explain why franchise as an efficient mode of entry can be a successful strategy in emerging markets, delineate the different suboptions within the franchise option, and introduce the concept of legitimacy as a critical success factor. Based on the institutionalism theoretical

framework, this chapter discusses different types of legitimacy — coercive, normative, and cognitive — in the light of emerging markets' characteristics.

Part IV: Africa

In Chapter 15, Lewa and Lewa examine the reform of public procurement in the emerging markets of Kenya. Based on the literature review on procurement, this chapter recommends that institutional and regulatory frameworks need to be revised and harmonized with the laws; suppliers need to be empowered; training of procurement staff need to be given a priority; a better system of remuneration be developed; political and other interests' need to be addressed, and key stakeholders must be allowed to play an important role in public procurement.

In Chapter 16, Quan-Baffour focuses on rural tourism in South Africa by discussing the case of two countryside destinations — Damdoryn and Bufflespoort. This chapter finds that rural tourism is a function of socio-economic factors. Although South Africa is naturally endowed with beautiful geographical features, game parks, and historical sites, most of these attractive tourism sites were exclusive to the Westerners before the democratic dispensation in 1994. This chapter explains the cause of the rapid growth of these tourist destinations and presents implications for managers.

In Chapter 17, Alam and Hussain explore the partnership mode of Islamic banking; that is, how and to what extent Islamic banking finance contributes to eliminating poverty and creating job opportunities for unemployed people in rural areas. Using the “Institutional-Network” theoretical approach, the findings suggest that the partnership mode of Islamic banking finance may work effectively in developing countries because lenders and borrowers join in a particular venture and develop a unique lender–borrower network relationship.

In Chapter 18, Madichie, Hinson, and Salifu highlight the challenges of the Internet adoption of banks in Ghana and the opportunities provided by IT for the development of competitiveness in banks. Given that IT has been largely adopted on a commercial basis by businesses across the globe, this chapter should be particularly useful for bank managers operating in emerging markets.

Part V: Middle East

In Chapter 19, Mohamed and Hussain state that the objective of Islamic Financial Service Industry (FSI) is not only to maximize a profit, but also to

improve the socioeconomic condition of the community while complying with the principles of Shariah, which actively advocate non-profit activities that support the needy and poor, and promote welfare programs that may or may not be financially viable. This chapter reveals that management accounting plays a moderate role in measuring both financial and non-financial performances in the Islamic FSI in Gulf countries, and that the nature and characteristics of organization (Islamic FSI) do not have a great impact on performance measurement practices, though it is generally held belief that Islamic FSI should conform to the principles of Shariah.

In Chapter 20, Rao presents an overview of the country's business environment, highlights the growth trends of the country's gross domestic product and the overall contributions of oil and non-oil sectors of the economy, and discusses Kuwait's business environment, demographics, and marketing conditions. In the light of the implementation of WTO regime in 2005, this chapter reviews challenges and opportunities for international marketers.

In Chapter 21, Yeganeh sheds light on some aspects of society and management in Iran. This chapter is organized in two parts: the first part examines the Iranian social context by taking into account demographic, economic, religious, political, and cultural factors; and the second part analyzes management practices in Iranian organizations and presents recommendations for managers willing to enter in Iranian market.

In Chapter 22, Thrassou, Vrontis, and Kokkinaki investigate the relationship of Cypriots with the Internet, comprehend their consumer behavior, and identify a set of critical factors influencing the behavior. Critical factors affecting Internet purchases include product variety, quality, and price.

Part VI: Asia

In Chapter 23, Fauzi, Rahman, Hussain, and Priyanto analyze the difference in corporate social performance between State-owned companies (SOCs) and private-owned companies (POCs) in Indonesia, and test the link between the corporate social performance and the corporate performance. The chapter indicates no significant difference in corporate social performance between SOC and POCs, and no association between corporation social performance and financial performance both in SOC and POCs.

In Chapter 24, Tripathy, Rao, and Kanagaraj test the impact of the introduction of stock derivatives trading on the underlying stocks volatility in India by applying both GARCH and ARCH model for a period from June 1999 to

July 2006. This chapter indicates that stock future derivatives are not responsible for an increase or decrease in spot market volatility and that other market factors contribute to increasing the stock market volatility.

In Chapter 25, Garrovillas explores business opportunities in the Philippines and studies its history, sociopolitical system, business environment, and economic indicators. Given the Philippines' affiliation with the ASEAN and WTO, this chapter offers a useful guide for business investors and marketers, as well as for the international business scholars and educators.

In Chapter 26, Rena examines the challenges in the PNG economy, explores the prospects for the future development of its economy, and highlights the recent economic trends in PNG. This chapter suggests that a prudent macroeconomic policy and favorable terms of trade trends have helped PNG maintain macroeconomic stability, strong external balances, and solid economic growth over the past 5 years. The country, however, faces difficult developmental challenges such as weaknesses in governance, infrastructure, human development, the business climate, public financial management, security, and service delivery.

In concluding chapter, Satyendra Singh gives an overview of the chapters' recommendations for managers for growth in the emerging markets.