

Role of emerging economy: Challenges and strategies with reference to Indian it sector

¹Yasmin Begum R Nadaf, ²Shamshuddin M Nadaf

¹Asst. Professor, Dept. of Commerce, Rani Channamma University Belagavi, Karnataka, India

²Asst. Professor, Dept. of Commerce, Government First Grade College, Dharwad, Karnataka, India

Abstract

With developed world markets becoming increasingly saturated, multinational corporations (MNC's) have turned to emerging economies such as India, Indonesia, Brazil, China, and Mexico, as key locations for future growth. Trends show a renaissance in entrepreneurial activity that is fuelling innovation particularly in the BRIC nations of Brazil, Russia, China and India. China enjoys a comparative advantage in manufacturing, India in services and Brazil and Russia in energy and commodities. Evidence would suggest that Europe and the United States are more dependent on the BRIC trading nations for earnings and profits. In a fast paced technological and knowledge based age the rise of multinational enterprises in a dynamic and strategic context gave way for strategic relevance in the globalised emerging market.

This articles overview the role of emerging economy and its opportunities. The articles stresses on the challenges faced and strategies to overcome these challenges.

Keywords: BRIC nations, MNC, knowledge based age, challenges strategies, growth, success

Introduction

"...To be successful you must have a hungry spirit, make quick decisions and act fast, and work like a horse...."

- A senior Japanese business executive, 1996.

With developed world markets becoming increasingly saturated, multinational corporations (MNC's) have turned to emerging economies such as India, Indonesia, Brazil, China, and Mexico, as key locations for future growth. Trends show a renaissance in entrepreneurial activity that is fuelling innovation particularly in the BRIC nations of Brazil, Russia, China and India. China enjoys a comparative advantage in manufacturing, India in services and Brazil and Russia in energy and commodities. Evidence would suggest that Europe and the United States are more dependent on the BRIC trading nations for earnings and profits. In a fast paced technological and knowledge based age the rise of multinational enterprises in a dynamic and strategic context gave way for strategic relevance in the globalised emerging market.

Theoretical Framework

In the field of business administration definitely there is a relation between the organization and its environment. Strategic management includes management team, the Board of Directors and other stakeholders of the organization. It is a level of managerial activity goals are over Tactics. It provides overall direction to the enterprise.

According to Arieu (2007), "there is strategic consistency when the actions of an organization are consistent with the expectations of management, and these in turn are with the market and the context." Recent studies and leading management theorists have advocated that strategy needs to start with stakeholders expectations and use a modified balanced scorecard which includes all stakeholders.

Strategic management as a discipline originated in the 1950s

and 60s, the most influential pioneers in this subject were Alfred D. Chandler, Philip Selznick, Igor Ansoff, and Peter Drucker. Alfred recognized the importance of coordinating the various aspects of management under one all-encompassing strategy.

In his 1962 groundbreaking work *Strategy and Structure*, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction, and focus. Chandler also stressed the importance of taking a long term perspective when looking to the future. He has rightly said it concisely, "structure follows strategy."

In 1957, Philip Selznick introduced the idea of matching the organization's internal factors with external environmental circumstances. The core idea was developed which is known as SWOT analysis by Learned, Andrews, and others at the Harvard Business School General Management Group. Strengths and weaknesses of the firm are assessed in light of the opportunities and threats from the business environment.

The MNC operates within a global political, economic, and social environment and emerging issues in IB, such as cross-cultural links, labour and environmental standards, MNC corporate responsibility, intellectual property rights, developmental aid and economic development, outsourcing/off shoring, and risk management.

To define a global strategy, the authors define five different dimensions of being global. They are introducing a model of external drivers that would enable the globalization of an industry: Market, Economic, Environmental, and Competitive Factors. The ability of a company to be global depends on the organization structure, management process, people and culture. Research focusing on an emerging economy can help lead to the emergence of an institution-based view of strategy, in conjunction with the traditional resource- and industry-based views (Peng, 2005; Peng *et al.*, 2008) [23]. The rise of the institution-based view as an influential theoretical tool is an outcome of Kiggundu, Jørgensen, & Hafsi's (1983) call for

new theoretical tools to capture the complex and rapid change in the organization–environment relationships in emerging economies.

Traditionally, there are two perspectives of strategy.

An industry-based view, represented by Porter (1980) [24], argues that conditions within an industry, to a large extent, determine firm strategy and performance. A resource based view, exemplified by Barney (1991) [4], suggests that it is firm specific differences that drive strategy and performance. The resource-based view suggests that a firm can gain a competitive advantage through deploying its valuable, rare, inimitable, and non-substitutable resources (Barney, 1991) [4]. Firms can develop competitive competencies with respect to competitors in a specific industry through the strategies either of cost leadership or of differentiation (Porter, 1980, 1986) [24, 25]. The literature has provided supportive evidence for the link between these two competitive strategies and firm performance (e.g., Aulakh *et al.*, 1997; David, Hwang, & Pei, 2002; Spanos, Zaralis, & Lioukas, 2004) [3].

Firms pursuing a cost leadership strategy aim to enhance performance and increase market share based on competitive advantages through a low-cost position relative to their rivals. In order to achieve cost leadership competencies, firms have to outperform their competitors in activities of producing, selling, and delivering goods and services to customers by providing consumer value at lower costs. Cost leadership competencies require large-scale production facilities, rigorous process improvements, cost reduction through experience, cost control, and cost minimization in R&D, advertising, sales, and services. Because of the ability to match competitors' offerings at lower prices, firms with realized cost leadership competencies can achieve above-average returns (Porter, 1980, 1986) [24, 25].

Firm characteristics and competencies are considered as important determinants of export behaviors (Zou & Stan, 1998) [30]. Moreover, firms with cost leadership competencies can rely on their domestic competitive advantages to compete in international markets. Therefore we expect that firms from China that have developed cost leadership competencies in the domestic market are more likely to become exporters and have higher export volumes.

Review of Literature

There have been many empirical studies conducted on the determinants of export performance (Fernández & Nieto, 2006; Filatotchev, Dyomina, Wright & Buck, 2001; Zhao & Zou, 2002; for a review, see Aaby & Slater, 1989; Zou & Stan, 1998) [12, 1 30]. At the macro level, researchers have investigated variables including comparative advantage, government policies, exchange rate fluctuations, and domestic market characteristics. Micro-level research focuses on factors including export strategies, managerial perceptions and attributes, firm resources, and firm capabilities/competencies.

In an effort to better synthesize and assimilate the fragmented knowledge on export performance, and to overcome the weaknesses pointed out in previous reviews, Zou and Stan (1998) [30] conducted a review of the empirical literature on export performance by including both internal and external determinants of export performance. Specifically, internal determinants are informed by the resource-based view, whereas external determinants are supported by industrial

organization theory.

Indeed, as institutions in emerging economies significantly shape the strategies and performance of both domestic and foreign-invested firms, omitting institutional environments in examining the drivers of export behaviors and performance has seriously limited our understanding of exporting.

The global dynamics create great challenges in emerging economies. Major governmental restructurings in parts of the world during the last two decades have altered both constraints and stimuli impacting companies large and small. Technological advances have dramatically accelerated communications processes, but recent terrorist attacks have increased security concerns and slowed air transportation in many places. In addition, internet-based commerce supports buying and logistical operations over most of the globe.

Challenges

The field of strategic management has grown significantly as organizations find new and better ways to gather information about operational and financial performance. Today, quality management systems have created a strategic framework based on a statistical tool driven by business software applications and process improvement methodologies. The challenge is finding a point of common ground. Low-income markets in emerging economies present both tremendous opportunities and unique challenges. Similarly, emerging economy strategies that emphasize overcoming limitations in the business environment may be viable only in high-income markets that are integrated into the global capitalist system.

These are challenges to strategic management like:

1. Globalization
2. Liberalization
3. e-commerce
4. corporate social responsibility
5. management of diversity
6. health
7. recession

The followings re the reasons why strategic plans fail, especially:

- Failure to execute by overcoming the four key organizational hurdles
 - Cognitive hurdle
 - Motivational hurdle
 - Resource hurdle
 - Political hurdle
- Failure to understand the customer
 - Why do they buy
 - Is there a real need for the product
 - inadequate or incorrect marketing research
- Inability to predict environmental reaction
 - What will competitors do
 - ✓ Fighting brands
 - ✓ Price wars
 - Will government intervene
- Over-estimation of resource competence
 - Can the staff, equipment, and processes handle the new strategy
 - Failure to develop new employee and management skills
- Failure to coordinate
 - Reporting and control relationships not adequate

- Organizational structure not flexible enough
- Failure to obtain senior management commitment
 - Failure to get management involved right from the start
 - Failure to obtain sufficient company resources to accomplish task
- Failure to obtain employee commitment
 - New strategy not well explained to employees
 - No incentives given to workers to embrace the new strategy
- Under-estimation of time requirements
 - No critical path analysis done
- Failure to follow the plan
 - No follow through after initial planning
 - No tracking of progress against plan
 - No consequences for above
- Failure to manage change
 - Inadequate understanding of the internal resistance to change
 - Lack of vision on the relationships between processes, technology and organization
- Poor communications
 - Insufficient information sharing among stakeholders
 - Exclusion of stakeholders and delegates

In spite of these apparent challenges, however, a growing number of MNCs are now beginning to recognize and explore the enormous business opportunity at the base of the economic pyramid (Hart and Milstein, 1999; Prahalad and Hart, 2002) ^[17, 27].

In 1989 Richard Lester and the researchers identified seven best practices and concluded that firms must accelerate the shift away from the mass production of low cost standardized products. The seven areas of best practice were as follows

- Simultaneous continuous improvement in cost, quality, service, and product innovation
- Breaking down organizational barriers between departments
- Eliminating layers of management creating flatter organizational hierarchies.
- Closer relationships with customers and suppliers
- Intelligent use of new technology
- Global focus
- Improving human resource skills

Opportunities

Globalization and the rapid growth of international trade have further made it imperative for firms to seek opportunities for market expansion. Governments in emerging economies have increasingly provided incentives for both local and foreign-invested firms to actively export and compete in foreign markets (Aulakh, Kotabe, & Teegen, 1997; Kotler, Jatusripitak, & Maesincee, 1997; Luo, 2007) ^[3, 18, 29].

Today MNCs are increasingly viewing low-income markets in developing countries as potential sources of future growth. The opportunities associated with low-income markets are becoming increasingly apparent to both scholars and managers. There is clearly more than meets the eye when considering customers with annual purchasing power parity (PPP) of \$1500 or less (Prahalad and Hart, 2002) ^[27]. As a result, in emerging economies, the informal sector plays a different and more substantial role than what is found in the developed world.

The vast majority of the populations operate primarily in the large, but hidden, informal economies that are not recorded in official gross national product (GNP) or PPP statistics. In addition to assets, the value of economic transactions in these markets may match or even exceed what is recorded in the formal economic sectors in developing countries (Henderson, 1999). The following are Opportunities Company receives,

1. Increase in rate of return on investment:
2. Reduction in Cost of Capital:
3. Increase in Trading on Equity:
4. Increase in Profitability:
5. Reduction in fixed and flexible expenses:
6. Motivation to group activity:
7. Increase in the efficiency of the employees:
8. Alertness in employees:
9. Prevention of overlapping of work:
10. Prevention of organizational gap:
11. Acceptance of Organizational Changes:

Indian It Sector

The National Association of Software and Services Companies, NASSCOM, in association with consulting firm PricewaterhouseCoopers, today announced the key findings of the Germanic report, 'Opportunities for Indian IT – BPO industry in Germanic countries'. The report focuses on identifying partnership opportunities for both India and the Germanic countries in the area of IT services, business process outsourcing (BPO) and engineering services.

According to the report, Indian companies earning less than USD 2.6 Bn from this region across the IT, BPO and engineering services space as against the addressable market size of more than USD 53bn. Business from this region which is the largest market in Europe has the potential to grow to USD 10 Bn by 2020, provided Indian companies take the strategic and tactical steps required to succeed in this market. The BPO market alone is estimated to be around USD 4 Bn and offshored engineering services around USD 3.4 Bn. Germany and Austria; each spends close to 2.5% of the GDP on IT, whereas Switzerland leads the norm by spending over 5%.

"Long term commitment and effective partnerships would emerge as the biggest deciding factor that will sway client contracts towards Indian IT companies in the region. There is a huge demand in the SME sector that has largely remained untapped, and verticals like Automobile, Manufacturing, and Logistics have emerged as quick-win opportunities for Indian companies." Said, Sankar Ramamurthy, Executive Director, PricewaterhouseCoopers, said

At the launch NASSCOM President, Mr. Som Mittal, said, "Germany, Austria and Switzerland have emerged at the economic forefront of Europe and present significant opportunities for the Indian IT sector as we continue to build inroads into newer and emerging markets. The Germanic countries are facing acute talent shortages in the knowledge based sectors like IT and Engineering services. India is a natural partner, complementing the needs with a large technically qualified talent based, global experience and lower cost credentials. Current European uncertainties are short term in nature and we are confident that the European bloc as a whole will continue to be one of the largest markets for the Indian IT – BPO Industry."

There also lies huge opportunity in the large mid-market

segment in the Germanic region. More than 95% of the enterprises in the Germanic countries in the fields of chemical, machine building, automotive and electrical belong to the small and medium size enterprise segment.

As per the pointed following are the opportunities for Indian firms.

1. Opportunity of over \$ 50 Bn across IT-Services, BPO and Engineering Services.
2. Access to 3rd largest IT-Services market.
3. Excellent social, economic and political stability
4. Opportunity to leverage the strong cultural, trade and historical affinity with India
5. De-risk from over dependence on the English speaking markets

New technology allows companies to bring their services to more customers and to apply economies of scale to new areas. Globalization allows them to cut costs by serving ever more customers.

Strategies

Researchers have investigated the determinants of firms' export behaviors indicated by export propensity and export intensity (Buck, Liu, Wei, & Liu, 2007; Zhao & Zou, 2002) and the effects of different product strategies and capabilities on export performance (Brouthers, O'Donnell, & Hadjimarcou, 2005; Brouthers & Xu, 2002; Zou, Fang, & Zhao, 2003). However, more studies have examined the effects of internal, as opposed to external, factors on firms' export behaviors (Zou & Stan, 1998) [30].

Exporting, as opposed to other modes of foreign market entry, is the quickest and easiest way for firms to penetrate foreign markets and engage in internationalization (Johanson & Vahlne, 1977, 1990; Root, 1994). It requires fewer organizational resources, provides greater flexibility for managerial actions, and involves lower business risks than other modes of entry such as licensing and equity investment (Leonidou, Katsikeas, Palihawadana, & Spyropoulou, 2007) [19].

Entering low-income markets in emerging economies may require a different strategic approach. Reaching these markets involves bridging the formal and informal economies. In the informal economy, relationships are grounded primarily on social, not legal, contracts (de Soto, 2000), and the organizations with the most expertise in serving these markets--government and civil society--have a strong social orientation (Aturupane *et al.*, 1994; Chambers, 1997; Sen, 1999) [2].

Successfully operating in this business environment requires a capability to understand and appreciate the benefits of the existing social infrastructure (Chambers, 1997).

Philip Crosby, and Armand Feignbaum suggested quality improvement techniques like total quality management (TQM), continuous improvement (kaizen), lean manufacturing, Six Sigma, and return on quality (ROQ). According to Pierre Wack, scenario planning is about insight, complexity, and subtlety, not about formal analysis and numbers.

In 1988, Henry Mintzberg concludes five types of strategies:

- Strategy as plan - a direction, guide, course of action - intention rather than actual
- Strategy as ploy - a maneuver intended to outwit a competitor

- Strategy as pattern – a consistent pattern of past behaviour - realized rather than intended
- Strategy as position - locating of brands, products, or companies within the conceptual framework of consumers or other stakeholders - strategy determined primarily by factors outside the firm
- Strategy as perspective - strategy determined primarily by a master strategist

NASSCOM focuses on emerging markets Identifies opportunities for Indian IT-BPO industry and Strategies to succeed for the Indian IT-BPO companies:

- Develop German language skills and flexibility to offer near shoring as well as off shoring
- Provide high domain expertise, quality and project management
- Mergers and Acquisitions within the region
- Target sectors like manufacturing, BFSI, automobile and logistics
- Tap the huge demand in SME sector
- Services to target
 - ✓ IT services: Package product maintenance and implementation services
 - ✓ BPO: Non- voice services like financial services, back office, F&A and HR Engineering Services: Automobile, Energy, Telecom and Industrial Design and Research

Suggestions

Business strategies that rely on leveraging the strengths of the existing market environment outperform those that focus on overcoming weaknesses. These strategies include developing relationships with non-traditional partners, co-inventing custom solutions, and building local capacity. Together, these successful strategies suggest the importance of MNCs developing a global capability in social embeddedness.

The following are the Strategic reasons for expanding business internationally,

1. Increasing sales
2. Saving on cost of supplies
3. Saving on cost of development
4. Saving on cost product ion

Today, there are six strategic imperatives that every company must plan and manage. These six areas are at the heart of strategic planning.

1. Customer focus
2. Talent
3. Cost
4. Innovation
5. Increasing Sales; Expansion
6. Technology

The following are the most valuable strategy tools are:

1. Porter's 5 Forces
2. Value Chain Analysis
3. SWOT Analysis
4. BCG Portfolio Matrix
5. EVA (Economic Value Added)

Suggestions and Conclusion

Business innovation in the emerging world has got to the point where all those individual advances add up to more than the sum of their parts. Most companies in developing countries have access to large domestic markets and all of

them have opportunities for mergers and acquisitions that did not exist a few decades ago. But they are also extending economies of scale into new areas, potentially gaining bigger markets

Over the past couple of decades his interests have shifted from the West to emerging markets, not just because he feels the call of his native India but also because he thinks that this is where the cutting edge of innovation is High-level and low-level innovation is often combined to excellent effect in emerging markets. Emerging countries in general continue to rely on cheap labour rather than innovation to drive their growth. The only way that companies can prosper in these markets is to cut costs relentlessly and accept profit margins close to zero.

A company must change flexibly according to the initiatives of its people as they create and exploit opportunities growing from the marketplace. A CEO's job is to direct financial and human capital into the best opportunities a company can find or create. Management's role must be one of support, cross-feeding, and inspiration. Every company must drive commitment, innovation, and inspire initiative.

In emergent strategy the plan grows from the action, and hence is inherent in the daily work people do. Knowing and willing are not enough, companies must act and apply. Do not tie people to a set strategic plan. Instead, Define the Game, Define the Fitness Criteria, and Stimulate Action.

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