Introduction and shrinking world the sites of power

Introduction The world that we livein today is changing at a fast pace. Never in the history of the mankind, we moved so fast and the pace isaccelerating with each passing day.

The change is driven by the knowledge thatwe have acquired since ages and the resulting huge advancement in informationtechnology, communication and the infrastructure of transportation. Now, welive in a world that is highly interconnected politically, socially andeconomically. We call this process of integration ‘ Globalisation”. Thoughnational boundaries, political and ideological barriers still exist but their significance has started declining inthis highly globalized world. They are not as powerful as they use to be.

Itthe era of real-time global communication and shrinking world the sites ofpower and subject of power may be continent apart. The countries of theworld can largely be put into three blocks: — The first world whichis highly developed such as The USA, Europe, Australia, Canada, Japan and a fewother East Asian Countries. – Those who aredeveloping at a fast rate. China, India, South Africa, Brazil, Indonesia, Vietnam, Egypt, Mexico, Turkey etc are a fewof this block. – The underdeveloped whichare mostly in Sub Sahara Africa.

In the last decade or two, the developing economies have taken the lead in driving theworld growth. Seeing their success, the terms such as BRICs, E20 were coined. These economies are integrating with rest of the world with a fast pace and theflow of resources such as human, technology, financial, etc is happening bothways. These economies are not onlyabsorbing the exiting multinationals but there are many emerging from these economies as well.

An emerging market multinational (EMM) is acompany or business based in an emerging economybut has engaged in business operations in international markets. As a newgeneration of multinational firms emerging on the stage of internationalbusiness, EMMs have already made a big impact. The emerging economies have gained ground in wealth and influence overthe past two decades, bringing about radical changes in the global economiclandscape. The 20% of global outward investment flows today are accounted forby E20 economies.

Similarly, about 30% ofthe firms in the Fortune Global 500 list (based on revenues) are enterprisesfrom emerging markets; less than 10% of their value, ten years ago. The newplayers come mainly from China, Korea, India, Brazil, Russia, Mexico andIndonesia. China is second only to the USAwith 98listing in compassion to USA’s 128 in fy2015. We have Alibaba, Tencent, TCS, Infosys, TATA etc all originated from emerging economiesand are giants to reckon with. The overseas expansion of emerging market multinationals has disruptedthe global competitive landscape. Thesefirms have been deploying themselves not only in their natural markets – mostlyother emerging economies– but also more recently and quite effectively indeveloped markets, conquering in the process industry leadership positions. The competition from these new leaders has become acuter both in developed and emerging marketshowever to achieve this success the businesses in emerging economies need to conquer quite a few challenges.

The Challenges 1. Going up in the ValueChainThe problem facing many EMMs is that theyentered as OEM the global marketplace at the bottom of the value curve andstuck there, because of lack of brand equity. The biggest challenge for EMMs asa latecomer is how to create newcompetitive advantages in the market. Organization learning is crucial for themto fulfil a successful catch up strategy.

The learning process is likely to belong and expensive, especially where the technology continues to advance rapidlyand competition from the incumbent firms remains fierce. The EMMs must be goodat learning and accumulating new knowledge and expertise in order to move from cost-based competencies and location-basedadvantages to ownership or firm-specificadvantages. The key to the success of EMMs has been theability to treat global competition as an opportunity to build capabilities, togo beyond being OEM to become primary suppliers and move up into moreprofitable industry segments and adopt strategies that turn latecomer statusinto a source of competitive advantage.

2. ProtectionismThe protectionism is gaining the ground around the world. The Europe andthe US over the past year has encouraged the economic policies which arestonewalling the free trade and movement.

The British vote to leave the EU andthe election of Donald Trump in the US have shown that a sizable proportion ofcitizens in developed world are ready to oppose free trade and economic integrationwith rest of the world. Populist leadersand their parties garnered a broader support base and made considerable inroadsinto European parliaments throughout 2016. The trend has started catching up in otherdeveloped nations such as Australia, Italy etc as well.

The US president Donald Trump has threatened to cancel NAFTA and itseems likely that he will not favour new FTAs. Deemed a form of “ economicmalpractice” by IMF Managing Director Christine Lagarde, protectionism indeveloped nations threatens to hinder economic growth in emerging economiesover the course of 2017. 3. Investment ChallengesThe investment challenges can be broadlyput into two buckets: – a. first being the limited availability of capitalin comparison the counterparts fromdeveloped world for overseas expansion. b. the poor exchange rates which again poses astrong challenge for exploiting thebusiness potential across the globe.

The home currencies are weak which makesit difficult for them in the initial face of business when investingoverseas. 4. Cultural BarriersThe attitudes and behaviors of consumers are highly influenced by culture. Whena company moves into a new market, business models need be modified to reflectlocal preferences, customs, and habits. Unless the local cultures drivebusiness models, the risk of failure are high and the cost associated with itcould be too high.

The “ one-size-fits-all” approach may not workat international level. EMN need to learn the art of Glocalisation. Whereas globalization involves standardized worldwide processes, products, andservices, localization involves processesand product offerings tailored to meet specific local markets. The hybrid of standardizationand adaptation is glocalization. It involvesthe integration of local features and requirement and the globalideas, products, or processes. 5. Counter Attack by EstablishedmultinationalThe large corporations from developed economiesshould not be underestimated in their capacity to react to this newcompetition. They have the expertise, the experience of operating in verycompetitive markets, vast knowledge base, and the huge amount of resourceswhich result in a capability ofovercoming challenges like this.

The turf could be home or overseas, but the competition has increased. Inthis highly globalized world, the innovation and efficiency is the key tosurvival. Merely tapping the resourcesand markets cannot help anymore. The businesses are dying at the rate fasterthan ever heard. 6. Slower World Growth The lower world growth in recent years including in many of the emergingmarket multinationals' home markets has also affected such businesses. This isnot really to the advantage of those firms that have surfed on this growth wave. Many of these firms emerged as a resultof globalization, technologicaladvancement, better communications and indeed a fast world growth.

The most of these businesses are chasing the growth as the cost ofprofits, and the tapering of growth will hurt them badly. 7. Legal and RegulationsAlong with getting your company structure inplace, gaining a comprehensive understanding of the local lawsand regulations governing your target markets is key.

From taximplications through to trading laws, navigating legal requirements is a central function of any successful international business. Eligibilityto trade is a significant consideration, as are potential tariffs and the legalcosts associated with entering new markets. It's important to note that employmentand labour requirements also differ by country.

Forinstance, European countries stipulate that a minimum of 14-weeksmaternity leave be offered to employees, while on theother hand, there is no such requirement for U. S. employers.

With thecomplexity involved in foreign trade and employment laws, investing inknowledgeable and experienced corporate counsel can prove invaluable. 8. Global Pricing StrategyUnlike the home turf, setting the price for the products and services can present challenges when doing business overseas. The cost and revenue structure could be totally different and even the brandposition could change.

Researching the prices of direct, local-market competitors can give abenchmark, however, it remains essential to ensure the math work in the favor of the entrant. For instance, the cost of production andshipping, labour, marketing, and distribution, as well as the margin, must be ataken into account for the business to be viable. The pricing can also come down to how the EMNcan choose to position its brand— luxury status? Or a predatory pricing for penetration in a new market? 9 Currency RatesWhile price setting and payment methods are major considerations, currency rate fluctuation is one of the mostchallenging international business problems. Monitoring and hedging the exchangerates is a critical part of international expansion for any business specially originatingfrom the emerging economies. The global economic volatility makes theforecasting of the investment, financing, and the profitability very difficultand unpredictable. The major fluctuations can seriously impact the balance of businessexpenses and profit. For instance, if any EMN paying suppliers and productioncosts in $, but selling in markets with a weaker or more unpredictablecurrency, it could end up with a lower profit or even loss.

ConclusionThe globalizationis here to stay and economies will keepintegrating with rest of the world.

Adaptabilityto changing technology and focus on the core strength is key to survival. Some of the mantrasare as follows: 1. Go GLOCAL- Think global but act locally. One may have the grand strategies but until or unless the customer ishappy all is in theory.

2. Have a clear and deep understanding of themarket before entering. It might differ totally from the way EMM does businessat home.

3. Build a strong foundation before entering intoany market. The essential toolkit may include the information and readiness on:– Organizationalstructure formultinational operations- Foreignlaws and regulations- Accounting at internationallevel – Globalpricing strategy- Paymentmethods- The currencyexchange rates- Logistics &Supply chain complexity- Culturaldifferences &Communication Challenges- Political & Legal Risks- Riskof labor exploitation- Awareness on environmentalissues4.

Focus on the core strengths, however, don’t getconstrained by these. Build on these strengths and rise high on the value chainto grow and stay relevant in the highly competitive scenario. 5. Assess and strategizeto meet the political, economic, social, and infrastructural challenge beforetaking the plunge.

6. Embrace the technological and regulatorychanges and disruptions and keep evolving. 7.

Bridge the cultural gaps.