Chapter 1

MNEs Management Strategies in Developing Countries: Establishing the Context

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ABSTRACT

Multinational Enterprises (MNEs) operating in emerging or developing countries face a variety of complex and multifaceted challenges categorized into two broader spheres: conventional and contemporary. Conventional challenges are market forces (i.e., demand, supply, prices), industrial trends (structure, degree of competition, bases of competition) and national environment (i.e., political, economic, cultural and legal). Contemporary challenges include growth paths, strategic direction, new management styles, risk management, corporate social responsibility and new environmental dynamics in the context of the emerging global dynamics. The real challenge for MNEs therefore, is to achieve sustainable growth and profitability and facing effectively all these multi-faceted challenges simultaneously.

INTRODUCTION

Globalization as well as regionalization is the driving force behind the expansion of MNEs into foreign markets especially, into the markets of developing countries. Developing countries present enormous opportunities for MNEs, however, these countries are considered highly volatile as a marketplace because of the lack of institutional stability, insufficient infrastructure and weak economic base attributed to them. MNEs require to looking for sustainable approaches to establish and grow business operations in these marketplaces. MNEs need context-specific combination of relationships, resources and capabilities in these markets. Imperfect market conditions combined with fragmented industrial structure found in these markets make them highly investor-unfriendly. With the entry of new investors into these developing marketplaces and the un-ability to establish a conducive and fair market conditions by the national leadership of developing countries, the already downtrodden conditions may further deteriorate. Since early 1990s, most of the developing countries particularly in Asia and Latin America have been

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the fastest-growing markets in the world for most products and services. Companies can lower costs by setting up manufacturing facilities and service centers in these countries, where skilled labor and trained managers are relatively inexpensive. Moreover, several developing-country transnational corporations especially from China and India have already entered North America and Europe with low-cost cum push-marketing strategies. According to an estimated number more than 20,000 multinationals are operating in emerging countries and many more MNEs from western markets foresee China and India as their future business fields. In order to exploit the huge emerging market and at the same time to face off the troubles ahead for them, MNEs import their domestic models into emerging markets by lowering prices, selling smaller size and using lower cost labor, and materials. Locally fit business models and consumer responsive business strategies will help MNEs to tap the existing as well as the future opportunities in these countries (Eyring, Johnson & Nair, 2011). Moreover, a balanced strategic approach to managing operations in developing or emerging markets, will help MNEs avoid a number of potential strategic errors or management blunders as follows (Breemen, 2014):

1. Committing insufficient resources.
2. Implementing an international strategy.
3. Unwillingness to adapt product to fit local market demand.
4. Targeting a nation like India or China as one big market.

ENVIRONMENTAL CHALLENGES FOR MNEs

The literature review is dedicated to the analysis of diverse both conventional and contemporary challenges facing the MNEs doing business internationally, and especially in the context of developing countries or markets. In this chapter the terms developing countries and emerging markets are interchangeable used even though these terms are interpreted differently by different authors in the existing body of knowledge in the field. Some authors understand that a country or market is considered in the emerging stage because the nation is gradually improving its overall economic and business conditions for businesses and investments in comparison with underdeveloped countries or markets. So to say otherwise, these countries or markets are just emerging from the underdeveloped economic and business conditions on several fronts including economic stability, infrastructure development and good governance. Other authors are of the view that a nation or market is defined as an emerging country or market after the country or market has progressed from underdeveloped conditions into developing conditions before becoming an emerging country or nation. The overall business, economic and governance conditions in an emerging nation are relatively better than a developing country or market. For example, some countries or markets such as China, Mexico, India and Brazil used to be considered as developing countries but in the past several years these nations have achieved tremendous economic and business success and thus are directly competing with the global business and economic powers of Europe, Asia and North America.

What is an Emerging Market?

Fan (2008) suggests that 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