Strategic Process Applications to Emerging Economies

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Abstract
This paper suggests and elaborates selected factors that are important to the strategic process of organizations within emerging economies whether the organization is public or private, for profit, or, provides a product or a service. The assumptions are that the strategic process applies in any organization, however, the results of strategic analysis, and the implementation of strategy differ between organizations generally, and between emerging and well-developed economies specifically. The paper can stimulate discussion and critical thought which will further identify and refine those strategic process considerations and factors which are important to organizations in emerging economies, and which are useful to practitioners and to researchers.

Introduction

This paper is to suggest considerations important to the strategic process of firms within emerging economies. The goal of this paper is to stimulate the discussion pertaining to those considerations which are important and useful to practitioners in firms within **emerging economies,** and which are also important and useful to those conducting research pertaining to **emerging economies.** It is intended that this paper and its elaboration will apply whether the organization is public or private, whether for profit, and whether it provides a product or a service. The importance of organizational strategies in emerging markets is recently underscored by the call for papers pertaining to this topic in the April 1998 *Academy of Management Journal* (1998).

Freedom to compete, freedom to fail. In a competitive, relatively open, market economy some firms within emerging economies will survive and some will not, i.e., there are winners and losers. A well-developed and well-implemented strategic plan should improve the organization's ability to survive in a competitive environment. Ultimately the market place, which might be in the form of customer's, client's, government, or donor's support, determines whether the firm survives.

In the very short-run the strategic choices for the firm within an emerging economy can be very limited. Commitments of the immediately available resources, the skills immediately available, the equipment in place, the firm's experience base, the infrastructure development, etc., all dictate that which is possible in the short-run. Just as for firms in advanced economies, the greater the time horizon the greater the number of strategic choices and options available to the firm.

Risk and uncertainty are inherent in organizational life. While all decisions and actions have risk and uncertainty, the elaboration below may help practitioners within emerging economies assess the risk, and perhaps, help reduce or avoid some of the risk and uncertainty.

The intent is to stimulate discussion and critical thought, which will better 1. identify considerations and factors, which are most important or crucial to the strategic process in organizations within emerging economies, and 2. elaborate how those considerations and factors influence an organization's strategic process within emerging economies. The testing of the conclusions can be by researchers' organizational studies or by practitioners' applications of them.

Importance of Strategy

If there is a clear perception of the organization and of its goals, and there is a reasonably good plan for reaching those goals, then managing day-to-day is much easier. Many of the day-to-day decisions are dictated by the perception that the organization's members have of the organization, and by the goals toward which they are directing the organization.

That is, the decision-maker *does* select the option A because it *does* fit the plan and the goals. The decision-maker *does not* select the option B because it *does not* fit the organization's plan and the goals.

Assumptions

The assumption is that the strategic process applies in any organization. The emphasis, the alternatives selected, and the decisions that are made when they are developing and implementing their strategy vary among organizations generally, and particularly among organizations in economies at different stages of development.

The results of strategic analysis and the implementation of their strategy differ between organizations generally, and between emerging and well-developed economies specifically. It is important for the decision-makers to accurately understand their own specific environment and not to project their beliefs and perceptions about other organizations or economies to their own specific **emerging economy** situation. Further, the situation faced by **emerging economies** can vary greatly and one cannot necessarily know all emerging economies by analyzing one.

The basic steps required in the strategic process apply in any organization whether that organization is functioning within an **emerging economy,** or a well-developed and advanced economy. Further, the fundamental concepts of the strategic process apply and are important to any organization whether it is within an economy that has relatively more, or relatively less, central control and/or government regulations.

The elements which need to be considered when developing and implementing a strategy are the same for all organizations without regard for the type of organization or the economy within which it is located. The answers to strategic questions and the implementation of the organization's strategy, however, will vary with the economy within which the organization is located, the goals(s) of the organization, the culture within which the organization functions, the degree of external control, and so forth.

To emphasize, the strategic process is applicable to any organization. The strategic process can apply as an analysis, forecasting, planning, and implementation tool without regard for the organization's setting. The factors that apply to an organization's strategic process can be generalized to any organization. The factors most important to a specific organization or economy can, however, vary considerably among organizations.

It is assumed that there is no one best strategy for organizations. It is possible that any one of a number of strategies is satisfactory for an organization. Making decisions and selecting courses of action almost certainly result from choosing a *satisficing* alternative, not from identifying the single best alternative. The *best* strategy for a specific organization results from a combination of the organization's unique environment, its resources, its goals, and its abilities to execute its strategy.

Definitions

Emerging economy**,** for the purposes of this paper, is defined as:

1. An economy in which organizations are relatively less able to compete with organizations in well-developed, advanced economies. In **emerging economies** *however*, that ability to compete is being enhanced.
2. It can also be defined as an economy in which organizations are just becoming prepared to effectively compete with organizations in advanced economies.
3. A hallmark of an emerging economy can be the extent to which the nation's natural resources are processed as finished goods. A nation with an undeveloped economy might have its natural resources removed for processing into finished goods elsewhere. An advanced economy, by contrast, might either import raw materials for processing or, process its own raw materials into finished goods.
4. It can also be defined as an economy that is in transition from a centrally controlled economy to one in which market (or customer forces) will exert a strong influence, if either condition 1, 2, or 3 also applies.

On a continuum of economies an **emerging economy** can be placed to the right of the center of the continuum, i.e.,

Figure 1.   Stages of Economic Development

undeveloped --> early development --> emerging economy--> well developed / advanced

Figure 1. can be extended to include the stage of redevelopment, i.e., a stage of adjustment and adaptation to a changed environment.   A nation in the redevelopment stage would have had a well-developed and advanced economy, but is no longer perceived as being competitive among those nations with the advanced and well-developed economies.

A country might be a less developed country (LDC) but not an **emerging economy**. While there is considerable economic disparity between the so-called LDC's (Lessor Developed Countries) and advanced countries, a LDC does not necessarily have an **emerging economy**. A LDC's economy might not be making any movement toward development and will not meet the above definitions.

An **emerging economy** is one that is clearly moving toward the economic activity of a well-developed advanced economy. While we leave the refinement of this definition to future work, the writer suspects that many will accept these less than perfect definitions.

The *strategic process*, as the words are used here, includes all organizational activities from analysis to implementation, and the adjustments necessary after implementation. It includes, as categorized by some, formulation, implementation, and control. (Pearce & Robinson 1995).   As used here it includes those activities one would include within the organizational activities of *plan, direct,* and *control*, i.e., the strategic process as used here includes, but is not limited to, such organizational activities as analysis, forecasting, product and service choices, produce or purchase decisions, resource identification, marketing and selling, implementation, and adjustment for change.

Figure 2.   Strategic Process

analysis ---> establish strategy ---> implement strategy ---> adjust and modify

Some will suggest, "*why not use the words strategic management*?". The writer's reason is that organizational activities are an interactive and interrelated *process,* and the word *process* needs to be emphasized. All of the activities, decisions, and actions in organizations are linked and interdependent.

Competitive Forces for Emerging Economies

The four primary competitive situations faced by firms in **emerging economies** are: 1. competition with other firms within their own specific country; 2. competition between the firm in the emerging economy and firms in other emerging economies; 3. Competition for sales into nations which have *undeveloped* or *early development* economies and; 4. competition between the firm in the emerging economy and the firms in the advanced economies. The firm can be competing in one, two, three, or all four of these competitive situations at the same time.

These distinctions may seem unimportant or even trite. The firm within an emerging economy can, however, face very different competitive conditions in these four competitive situations. The factors which may be most important to the firm's strategic analysis, and decisions whether to compete within a specific market, will almost certainly vary between these four competitive situations. For example, the strategic impact of a rising standard of living, and of an increased discretionary income, can be different in each of these four competitive situations.

It may be feasible for the firm to compete with a specific product or service in one, or more, of these competitive situations and not in the other competitive situations. As examples: The firm may have a cost *advantage* as compared to a competitor in the advanced economy. The firm may have a distribution *disadvantage* as compared to a competitor in the advanced economy. The firm may have the resources to compete with firms in other emerging economies but not with firms in advanced economies, and so forth.

Strategic Factors Related to Emerging Economies

While the separation is somewhat artificial, to simplify the work the many factors that are important to the firm's strategic process can be considered within the categories of:

1. those related to the analysis of the organization's environment;
2. those related to establishing the strategy for the organization;
3. those related to implementing the strategy;
4. those related to adjusting and modifying the strategy and the tactics, i.e., the ongoing adjustment resulting from environmental change and from organizational experience.

These categories are not mutually exclusive. There is overlap between categories and there are factors that apply to, and influence decisions in, each of the four categories, e.g., governmental regulation, the resources available to the firm, and the competitive forces both internal and external to the emerging economy. For the purpose of analysis and understanding however, it is useful to make explicit which of the above four categories is being addressed.

Adapting from the Pearce and Robinson (1995) list of the components of the multinational environment, the considerations important to strategic analysis in an emerging economy can include: government laws, regulations, and policies; political and legal restraints; type of government and its structure; important or key economic projections and economic restraints; the business system and its structure; and the social and cultural customs and practices. It seems reasonable to assert that each of these considerations is applicable to each of the above four categories (*analysis, establishing strategy, implementation, and adjustment*).

Selected Considerations Applicable to Emerging Economies

Transportation systems: Emerging economies may have less well-developed transportation systems, which are being improved.

Economic Environment: Emerging economies may have less well-developed sources of investment capital that are becoming better developed and more readily available. "The economic environment covers a vast territory and is of arresting significance to business.... The range of economic forces of concern to a company is from overall economic activity as measured by...(GNP), to what a competitor is doing in a local market. It covers economic forces internal to a business as well as the external forces."(Steiner, Miner, & Gray, 1986. 25.)

"Capital…is mostly concentrated in advanced industrialized nations. The relatively high per capita GNP in these countries has enabled them to save the necessary funds that are needed to generate a high level of investment.... in 1984, of the total amount of investment in the world, about 77 percent was undertaken by the advanced industrial nations..." (Asheghian & Ebrahimi. 1990. 666)

Private capital inflows to emerging economies can reasonably be expected to flow to those nations where the risk-return expectations are believed to be best, e.g., "Net private capital flows to emerging economies fell more than 30% in 1997, to $200 billion, down from a record $295 billion in 1996…due to a collapse in capital heading for the five economies most affected by the Asian financial crisis.… almost half the net private capital flowing into emerging economies went to Latin American in 1997." (The Economist Feb 1998.110).

Financial systems and financial facilitation: Emerging economies may have less well-developed financial systems which are changing to meet the requirements of the changes in economic activity. For discussion of some constraints and facilitation of investment see Rusz(1993) and Wright et al(1998). Some specific categories for financial system analysis, as well as consideration in other areas of the strategic process include, e.g., banking capability and services, access to equities markets, and access to lenders and investors.

Emerging economies have lower per capita income than do nations with advanced economies, but per capita income is increasing. Discretionary income is also less than that in developed advanced economies, but increasing toward the level found in advanced economies.   It seems reasonable to expect that as per capita income and discretionary income increase, more money will be available for investment.

The nations with emerging economies may have debt that will constrain expansion of their economies, and thus limit the opportunities for organizations within those economies. For economic data and trends in this regard see *The Economist* (1997) and *The Economist* (April 1998).

Nations with emerging economies may have unfavorable monetary exchange rates for purchasing outside their nations and favorable rates for selling outside their nation, i.e., currency rates can either help or hinder the firm that is in an emerging economy. This may be especially the situation when the exchange rate of an emerging economy is compared to the exchange rate in those nations with advanced economies.

Legal environment: The legal environment can facilitate, or constrain, the development of a competitive market economy in emerging economies. The legal environment in some emerging economies is changing. And (or) the underlying basis or assumption in the legal environment has or is changing. As examples and elaboration see Sheptycki (1997), Klein (1993), Gabor (1993), Granik (1993), Kristiansen (1996), Preston (1996),

Energy sources: In emerging economies less well-developed energy sources and choices may be available to the firm. Presumably, by definition, in an emerging economy the energy sources and choices are being developed to provide the energy availability needed in the emerging economy.

Communication infrastructure: The emerging economy may have an advantage in developing communication because the country does not have an existing well-developed system with a commitment to an older technology. The firms can embrace new communication technology.

Experience and skill: The needed experience, knowledge, and skills may not be readily available within the emerging economy. Again, by definition, the availability of these human resources is increasing.

Political and social climate: In nations with emerging economies political and social pressures may result from those individuals in the population who are not prepared with, or not readily able to obtain, the needed knowledge, skills, and experience to participate in the emerging economy. For a discussion see Woods (1998) under the subheading *People-centred: The Impact of Globalization on Inequality, Culture and Values.*

Attitude and experience: In the firm, the management attitude and experience, and the employees' attitude and experience, strongly influence the performance of the firm. The firm's participation in an emerging economy implies change, perhaps relatively rapid and volatile change. Both managers and employees can delay the implementation of change by *foot dragging* and *soldiering* because they do not understand the need for change, or, they just prefer the existing practices of the firm.

Forecasting: The desired data for forecasting and analysis might be unavailable, incomplete, or inaccurate. Further, economic and business conditions in emerging economies can be changing to such an extent that historical data has little or no importance to the forecasting of future economic or business conditions.

Because of the risk, the firm in an emerging economy may have a relatively greater need to correctly position its product or service in the market. This places a greater emphasis on accurate forecasting to reduce the risk or cost associated with being wrong.

Given that *knowing the future* is perhaps always the weakest link in the strategic process, the uncertainty of future conditions in an emerging economy can make strategic choices and decisions even more risky than in advanced economies.

Technology: Technological change in emerging economies might be more frequent and with greater volatility than in advanced economies, e.g., technology being used by organizations in emerging economies may change more rapidly, change more drastically, and have greater impact on organizations. Firms in emerging economies however, may be able to move directly to applications of the most advanced technology. Presumably, they can by-pass several levels of technological applications and development that are a part of the applications experience and learning curve of firms in advanced economies.

Advanced economies are presumably now applying advanced technologies. Firms in emerging economies that are competing with firms in advanced economies, or competing with multi-national firms that have an effective presence in advanced economies, are presented a challenge. They must either catch up with their competitors' technology, that will permit them to effectively compete, or they must avoid competing head-to-head with technologically advanced firms.

It is possible that firms in emerging economies will have fewer resources committed to existing or older technologies and can adapt to new technology early on; thus, obtaining a competitive advantage. An important variable will be the cost of initiating new technology at the scale required to make that technology economically feasible.

Managing market forces. Forces such as demand, price competition, and quality expectations of the customer are major influences on all organizations' success. For organizations in emerging economies, however, market forces such as these and others, may be changing relatively rapidly and thus be very difficult to forecast with any degree of accuracy. Thus, anticipating the need for change and adjustment can be very difficult; a *reactive tactic* might be a good choice under such conditions. If the situation is relatively volatile for the firm in the emerging economy, that firm needs to be flexible in adjusting its strategy, (and perhaps change its goals), to adapt to the changes in the environment.

Barriers to Entry

While not specifically addressing firms in emerging economies, Porter (1980, 7-17) lists seven major barriers to entry. Here they are adapted to apply to the strategy of firms in emerging economies.

1. The impact and importance of *Economies of scale* may apply in manufacturing processes, purchasing power, research and development capability, marketing expenditures, service ability, sales force size, and the distribution network.

2. Product differentiation can be costly when entering a market in which to compete with established brands, established products, established firms, and existing customer loyalties.

3. *Capital Requirements* can prevent some firms from entering into competition. The firms in an emerging economy may have difficulty obtaining capital; especially when the requirement for capital is substantial and the risk is high.

4. If the *costs for buyers* to change to a new supplier are high, it limits the newcomer's ability to obtain adequate market share. The cost might be particularly high in emerging economies if the firm or individual purchasing the newcomer's product or service must train employees in its use, must replace equipment, etc.

5. *Distribution Channels* might be inadequate or new distribution channels may be needed, which might disrupt existing relationships and ways of doing business.

6. *Cost Disadvantages* exist which may be independent of scale or firm size, e.g., lack of access to technology, raw materials availability, location, lack of experience, etc.

7. *Government policy* such as controls, licensees, subsidies, regulation, taxes, and so forth can limit or completely prohibit firms in emerging economies from effectively competing with firms in advanced economies. Of course, the opposite can be true, and the government's policies and practices can facilitate firms in emerging economies.

Some of these barriers can be insurmountable, or, the firm might find a way of modifying or reducing the barrier. Their importance will vary between firms and between emerging economies. It is important, it might be crucial, to evaluate their influence on the firm and on the firm's strategy.

Resistance to Change

Resisting change is mentioned above under the subheading *Attitude and experience*, here resisting change is emphasized. Resistance to change by the members of firms in emerging economies can be a major obstacle to the firms' development. (see also Wright et al 1998). Resistance to change by governmental units can delay or prohibit firms within emerging economies from obtaining the needed legislation, or the modification of existing legislation, necessary for the firms to compete.

To adapt from Etizoni, "Each collectivity [organization] has a cultural system which includes sets of values and cognitive perspectives …. Participants in a given collective [organization] differ in their orientation to this cultural system. Some, usually the elite, accept it more fully than do others and tend to represent [positively] in interaction with insiders as well as outsiders. Others accept it in part, while still others are opposed to most of its elements and attempt to maintain a subculture of their own." (Etzioni (1975. 231.) While this organizational fact of life is not unique to organizations within emerging economies, it may be both more pronounced and crucial for those organizations requiring rapid adaptation and change.

Development in firms infers change, and change means people will be impacted (whether favorably or unfavorably). The people in the organization, and the organization as a whole, must adapt to new *rules of the game*. Some people, and organizations in which they work, are less prepared to adapt and participate than are others; presumably some organizations will survive and some will not.

Entrepreneurship/Small business

Entrepreneurship is an important segment of, and influence on, the economic growth in emerging economies. Brunner (1993) describes four possible strategies for entrepreneurial development. Summarized they are:

1. The capital strategy based on the concentration of assets to exploit the economies of scale.
2. Privatization of enterprises to make less concentrated the control of present production assets.
3. The nucleus strategy, which is expected to create a nuclei of firms that will display outstanding performance.
4. The evolutionary strategy which, of the four, Brunner asserts has the best potential to unleash the entrepreneurial potential of Eastern Europe. "The evolutionary strategy of transformation builds on the present comparative advantage of an economy. It then identifies entry points into the world market in industries where the country has a potential comparative advantage." (Brunner 1993) (page unavailable).

By whatever classification one uses for small businesses, small businesses within emerging economies, just as in advanced well-developed economies, 1. will employ much of the work force, 2. are an important source of new jobs and, 3. are important customers and suppliers for larger firms. Entrepreneurships and small businesses are a very important group of firms that will substantially contribute to the economic growth in emerging economies.

Summary and Conclusion

Marcus and Buffa (1986) in their discussion of *Productivity /Exchange Rate Effects in Global Competition* assert that:

"...from a strategic point of view, many of these success components reduce to the operations advantage of being more productive that one's competitors. The advantages that accrue from experience, strategic advantages resulting from economies of scope and scale, technological innovation, the choices made considering the activities in the value-added stream in which to participate, and the choice of business units that lend synergy and reinforce experience effects in activities, all support the concept of increasing productivity leading to lower costs, and thereby being more competitive. " (Bogue III & Buffa, 1986. 65-66).

These authors then assert that increased productivity in an industry leads to market growth and ultimately to profitability. If this is true at the industry level then it seems reasonable to assert that it is true at the firm level. Thus, it seems that the challenge to firms in emerging economies is for their strategy to lead to increase productivity, lower costs, effective competition (if not gain an absolute competitive advantage), and thus improve profitability.

Not-for-profit organizations will prefer an outcome measure other than profit, and will not define productivity or competition in profit seeking terms. The above can, however, be generalized to not-for-profit organizations.

Conclusion: For organizations in emerging economies, just as for organizations in advanced economies, some of the crucial questions will be: 1. What are our goals? 2. What are the exact differences between our present situation and attaining our goals? 3.How will we attain these goals? 4. What are the deficiencies between the resources we have now and the resources we will need? 5. Can we, (how can we) remove the differences and deficiencies?

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Endnote and request for feedback:

Endnote: Your comments for improvement and changes in the above paper will be carefully considered for the revised final version. (Praise is also welcome). In either case please send your comments prior to 2 August 1998. Thank you.

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