Blind spots in global strategy: applications in emerging markets

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Abstract

Purpose – The purpose of this paper is to apply the concept of blind spot to illustrate the misapplication of extant global strategies to emerging markets. The authors discuss cases of multinationals and indigenous local companies to draw insights on firm operations in emerging markets. The authors unpack four specific blind spots that have resonated repeatedly in their operations: an adherence to unqualified scaling, the intractability of localization, the opacity of non-government intervention, and an undue attention to disruption rather than transformation. The study concludes with recommendations that can help companies be better aware of the blind spots and manage more effectively in emerging markets.
Design/methodology/approach – Conceptual.
Findings – Four blind spots: an adherence to unqualified scaling, the intransitivity of localization, the illusion of non-government intervention, and an undue attention to disruption rather than transformation.
Practical implications – The paper is primarily for practitioners.
Originality/value – This study presents some of the key findings from our previous studies on emerging market issues. The authors recently published four different books on various themes on emerging markets. The findings presented in this paper come strictly from these previous projects.

Keywords Scaling, Emerging markets, Blind spots, Marketing-centric and production-centric modalities, Surface and deep structures, Unbalanced growth

Paper type Viewpoint

In his narrative about transformational generative grammar beginning in the late 1950s, the renowned Linguist Noam Chomsky (1957, 1965, 1975) distinguished between the surface and the deep structures of language. While there have been numerous derivations and interpretations of this work since then, the essentials remain: surface structure refers to language that is explicitly evoked or formally expressed, while deep structure refers to tacit rules that govern and determine its enactment. Interpreted more broadly, deep structure is what makes surface structure accessible, meaningful and interpretable.

Even so, there are occasional lapses in language, ranging from mere "slips of the tongue" to more serious transgressions. In such cases, what is uttered is not what is intended. In the context of global strategy, our adaptation of Chomsky's work underscores the inconsistencies in global strategy, specifically the unintended gap between intentions and actions. Surface structures depict the elements of global strategy that are visible and observable, whether they are grounded in generic cost leadership, differentiation, strategies, strategic partnerships or notable extensions in a global context. On the other hand, deep structures inhabit underlying assumptions, the "rules of the game," and intended applications governing the context in which the

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strategies are directed. In an ideal world, surface and deep structures are consistent; in the case of global strategies, actions correspond to strategic intent.

Another nuance of linguistic inconsistencies is that the person might not be immediately aware of her erroneous utterance. A "slip of the tongue" illuminates this tacit and non-reflective dimension. And yet, the person becomes aware of the error with proper attention, prompting the oft-used phrase "I did not see this coming." In this regard, this nuance can be similar to a blind spot. Because global strategies tend to be intuitively appealing, managers and analysts can minimize or ignore transitional signals and key changes in underlying assumptions. Hence the overarching argument of this paper: when underlying assumptions are not readily reassessed, blind spots arise that might be visible and interpreted only with purposeful attention.

The particular application of this paper is emerging markets, which we have extensively examined over the past ten years. Our findings have been disseminated in various research journals and highlighted in four recent books (Table I). While it is

Book title and publisher	Description	Sample	Principal methodologies
Park *et al.* (2013) *Rough Diamonds: the Four Traits of Successful Breakout Firms in BRIC Countries.* San Francisco: Jossey Bass	A study of the best-performing private enterprises in Brazil, Russia, India and China	16 Chinese firms 16 Russian firms 22 Indian firms 16 Brazilian firms	Rigorous five-step process using quantitative and qualitative data to identify the best sustained high performing firms Case analyses & profiles In-depth interviews
Park *et al.* (2015) *Scaling the Tail: Managing Profitable Growth in Emerging Markets.* New York: Palgrave Macmillan	A study of new competitive landscape and strategies for profitable growth for multinational firms in emerging markets	253 companies in the consumer goods and retailing industry – food, beverage, home and personal care, tobacco, apparel, and grocery retail in 10 Asian emerging markets including China and India	In-depth interviews with selected experts and industry representatives Questionnaire to 253 respondents, administered by the Economic Intelligence Unit of the Economist Case analyses and profiles
Alvarro *et al.* (2016) *Emerging Market Multinationals: Solving Internationalization Challenges.* Cambridge: Cambridge University Press	A study of operational challenges for emerging multinationals along the entire process of managing internationalization	106 emerging market multinationals from China, Russia, and Latin America	In-depth case studies and profiles Interviews and company workshops on related issues Annual survey of Chinese and Russian multinationals
Park *et al.* (2017) *ASEAN Champions: Stalwarts of Regional Integration.* Cambridge: Cambridge University Press	A study of high performing companies in ASEAN countries for the drivers of their success and the implications of the regional economic integration	58 diverse companies that are local champions in 10 ASEAN countries: Brunei, Cambodia, Laos, Malaysia, Indonesia, Philippines, Singapore, Thailand, Myanmar, and Vietnam	Rigorous screening and selection process for local champions (best-performing private firms) Field interviews Case analyses and profiles

Table I. Primary studies on emerging markets used/cited in this study generally acknowledged that emerging markets differ markedly from those in advanced and developed countries (Hitt, 2016), we argue that the adaptation of global strategies is still tethered to assumptions that fail to account for significant changes that might not be as visible or as often tracked in emerging markets. In such a case, these assumptions become blind spots that can hinder or obstruct successful implementation. Collectively, this paper delineates four specific blind spots that we have observed and extracted from our studies of multinationals as well as indigenous local companies in emerging markets.

To be clear: we ourselves were subjected to the blind spots that we will be talking about. It was upon reflection of our previous studies and findings that we arrived at the conclusions in this paper. Thus, we are not claiming to have had the acuity nor the foresight to have correctly anticipated the changes that we will discuss in this paper.

By way of organization, we introduce the context with a brief narrative about emerging markets and some recent cases of well-known multinational firms that have stumbled in implementing their global strategies. Then we unpack four specific blind spots that have resonated repeatedly in our research: an adherence to unqualified scaling, the intractability of localization, the opacity of non-government intervention, and an undue attention to disruption rather than transformation. Following this discussion, we present generic recommendations for becoming more aware of blind spots that can lead to more effective management in emerging markets.

Emerging markets – a promising region or overhyped mirage?

The concept of an emerging market is generally attributed to former World Bank Economist Antoine Van Agtmael (2007), who had sought to describe countries whose economic development was in transition in the 1980s. Largely considered a euphemism for "least developed countries" at the time, the term gained traction as these countries began to grow rapidly and evolve into a special class of financial investment. The acronym BRIC (Brazil, Russia, India and China), famously coined by a Goldman Sachs study (Wilson and Purushothaman, 2003), spurred heightened interest in emerging markets as the next bastion for growth opportunities, market entry and investment. Reflecting the popularity of this acronym, other countries have since been labeled as emerging markets and manifested in a proliferation of labels, such as "Next 11," "CIVETS" and "VISTA" (Sharma, 2012).

But what is an emerging market? Definitions of emerging markets span the full range from economic to political considerations, though they are generally couched under the rubric of economic and social development (Wilson and Ushakov, 2011, 2012). On one end, emerging markets are defined in terms of distinctive growth, notably GDP growth of 5 percent per annum or higher, with the potential of maintaining a higher growth trajectory when compared to developed markets. However, growth is qualified by the uneven stage of economic development; emerging markets are characterized by minimal – if not a complete lack of – supportive brokering institutions (institutional voids), which limits market transactions and raises transaction costs (Hitt, 2016; Khanna and Palepu, 2010). Emerging markets have also been defined as volatile and transitionary stages of capitalistic development, bereft of free market operations and often tainted by authoritative or anti-democratic regimes (see review by Wilson and Ushakov, 2011, 2012). For these reasons, emerging markets can be both a blessing and a curse for erstwhile investors or prospective market entrants[1].

Unsurprisingly, optimistic narratives assess the growth potential of emerging markets in positive and triumphalist declarations. These markets are lauded for above-average growth (5-7 percent per annum), their allure of fast-growing middle-class sectors (approximately 100 million to 247 million in China with comparable growth rates in India, Russia and Brazil; Wikinvest, 2013) and their potential profit sanctuaries for maturing products and services (software, semiconductors, printers, computer peripherals and PC clones, among others).

Nevertheless, there are also alarmist tones when emerging markets are analyzed in terms of actual costs and benefits. In an ominous op-ed, The Great Unraveling of Globalization, the *Washington Post*'s Jeffrey Rothfeder (2015) describes how exemplary firms, including Cisco, General Motors, IBM, Caterpillar, Qualcomm and McDonald's, reported lower-than-expected profits and/or a litany of difficulties faced in implementing their strategies and operations in emerging markets.

Facing downward-spiraling forecasts in 2013, Cisco CEO John Chambers, was quoted to state, "We're the canary in the coal mine." In his analysis, Rothfeder (2015) opined, "Yet despite all this activity and enthusiasm, hardly any of the promised returns from globalization have materialized, and what was until recently a taboo topic inside multinationals – to wit, should we reconsider, even rein in, our global growth strategy? – has become an urgent, if still hushed, discussion." But the failure of attaining projected growth might only represent the tip of the various challenges presented by emerging markets. As we detail later in this paper, many renowned multinationals have likewise experienced public crises in China, reflecting a serious misunderstanding of new public expectations and requirements.

So are emerging markets the wellspring of future growth opportunities, or are they simply an overhyped mirage? On the surface, the argument that emerging markets have little or no potential appears arbitrary. It is hardly the case that the potential for growth is no longer present, as growth, while volatile at the present time, still remains an important strategic objective, or that emerging markets have disappeared in a puff of strategic irrelevancy. Emerging markets, despite their volatility, continue to grow significantly faster than developed economies (Dobbs *et al.*, 2015). This is underscored by their relatively higher rates of recovery following the disastrous wake of the 2008 financial crisis (Dobbs *et al.*, 2015).

But if emerging markets still hold considerable promise while prominent multinationals continue to fail, can it be that some well-weathered assumptions underlying global strategies that worked so well in developed economic conditions might be misapplied? Can core assumptions that are intended to guide and clarify the formulation of global strategies become blind spots that obscure and hinder effective implementation? Reverting back to our earlier language analogy, is deep structure consistent and co-aligned with surface structure? Our next section elaborates on the latter point based on our past and ongoing studies.

Adherence of unqualified growth through scaling

A major assumption underlying strategic management is that growth is consequential for success, if not a proxy for sustained progress. As one example, a recent McKinsey study, Grow Fast or Die Slow by Kutcher *et al.* (2015), punctuates this advocacy for growth. In their analysis of the life cycles of about 3,000 software and online-services companies from around the globe between 1980 and 2012, they report that growth leads to higher returns, long-term success, higher profit margins and more competitive cost structures. Without sustained growth, these authors argue, any firm will eventually lose ground to competitors, which can hasten its eventual demise.

All told, it is reasonable to assume that growth is a necessary and desired objective. Even so, we argue that, under particular circumstances, growth might not work in emerging markets (Park *et al.*, 2015). The limitations of growth hardly constitute a new question or inquiry. Historically, there have been cautionary accounts offered by thoughtful interlocutors on this issue. At a country level of analysis, the study Limits to Growth, by Meadows *et al.* (1972, 2004), provided scenarios of what the world might look like without controls on population growth and the utilization and replenishment of resources. At the organizational or firm level, researchers have likewise presented empirical evidence that large size, measured by the number of employees, can also create unanticipated control problems, unproductive slack and bureaucratic inertia (see Kimberly, 1979). Altogether, these studies attest that too much growth can tax a country's natural resources and a firm's financial and human capital. Given these cautionary narratives, the relevant question is: under what circumstances can growth lead to higher performance?

The principal strategy to achieve growth and market share is scaling, which is the mantra echoed repeatedly by investors who seek above-average returns. Achieving large scale is associated with decreases in costs arising from economies of scale and scope. Large size that is achieved through scaling affords opportunities to average out high fixed costs. Moreover, managers can then focus on managing variable costs. When successfully applied, scaling yields above-average profit margins.

Significant savings from scaling is well founded in the extant literature. It resonates with earlier studies relating to learning effects and the experience curve (Wright, 1936; Henderson, 1972). In studies of aircraft production, costs were found to decrease in a systematic proportion with continued repetition or iterations, which is typically correlated with larger size or scale. Moreover, this positive relationship between market share and profit margin is further demonstrated in the Profit Impact on Market Share studies (Farris *et al.*, 2004). It should be noted, however, that these findings were developed in the context of advanced economies. Specifically, firms derived their sources of advantages from progressive and supportive institutions underpinned by assumptions of modernization (Hitt, 2016).

Does this growth mantra apply to emerging markets? We examined the growth-trajectories of exemplary firms in the fast-growing emerging markets of BRICs, which we metaphorically referred to as "rough diamonds" (Park *et al.*, 2013). For perspective, these firms have grown at a phenomenal average rate of 43.12 percent percent over ten years (2002-2011). In other words, they were able to double their sales every 1.93 years – an extraordinary achievement. In assessing how growth was achieved, we initially looked at a broad sample of firms ($n = 105{,}260$ from the BRIC nations), specifically comparing firms that initially pursued sales growth or profitability.

Our primary interest was what their core emphasis might be at the outset and whether this initial emphasis would be on profits or on sales growth. Our assumption was that these firms would achieve long-term profitable growth, regardless of their choice of initial strategy. But after delineating two distinct time periods for analysis (2002-2006; 2007-2011), we found out that firms that had initially opted for high sales growth were less likely to attain profitable growth over time (42 percent were unsuccessful, vs 15 percent of profit-oriented firms), in contrast to firms that pursued profitability at the very outset (35 percent were successful, vs 9.5 percent of growth-oriented firms).

Testing the viability of four growth scenarios

To validate the presence of four types of growth, we compiled firm data in key sectors (including industrial goods, consumer products, financial services, energy and utility, technology, media, transportation, infrastructure, and life science) in each of the BRIC countries from the period 2002 to 2011, totaling 105,260 firms in the BRIC countries. From the data, we determined that the initial decisions made by these firms relating to how to grow, either through sales or profits, depend upon their intent and circumstances. The overarching question of this research is: Which path leads to sustained growth over time?

To examine performance, we divided the time period into two phases: Phase I (2002 to 2006) and Phase II (2007 to 2011), and classified firms in each phase into four scenarios: high sales growth/high profit (HH), high sales growth/low profit (HL), low sales growth/high profit (LH), and low sales growth/low profit (LL). High or low sales growth and profit is determined by using the average industry sales growth and profit during each phase as the baseline.

We then tracked the transition of firms in terms of the four cells. Which strategy has a better prospect of leading to profitable growth in emerging markets? Table II summarizes the growth trajectories in these two stages.

The table reveals different patterns for sustaining performance. For firms that started with high sales growth and high profits, they are likely to maintain such a level over time (36.7 percent), and maintain high profits even with low sales growth (31.1 percent). Of interest are the firms that pursued high sales growth or high profits. For sales growth-oriented firms, only 9.5 percent are able to achieve profitable growth over time and are likely to fail (41.6 percent). In contrast, firms that pursued high profits are more likely to achieve profitable growth (35.3 percent) and have less likelihood of failing over time (15.3 percent). The data suggest an initial profit-oriented strategy has better prospects of leading to both high sales growth and profits in the future than an initial sales-growth strategy.

In our follow-up study (Park *et al.*, 2015), we interviewed leading experts in the consumer goods and retailing industries and conducted a cross-sectional survey of 276 managers from multinational companies in ten Asian emerging markets to identify further reasons why growth through scaling did not work as well in emerging markets. One respondent, Anthony Tsai, a former Manager with Proctor and Gamble and the General Manager of Beijing Hualian Hypermarket Ltd. attributed the failure to differences between manufacturing and merchandising applications in China. In the case of manufacturing, the problem was due to sheer logistical difficulties (such as the lack of adequate infrastructures). In the case of merchandising, however, multinationals made erroneous assumptions about their targeted consumers in their mass marketing initiatives. Tsai opined that consumers in the rapidly growing affluent Chinese middle class are much less attracted to lower-priced items than to luxury or

Phase I (2002 to 2006) status	Phase II (2007-2011) HH (%)	Phase II (2007-2011) HL (%)	Phase II (2007-2011) LH (%)	Phase II (2007-2011) LL (%)
High sales/high profit (profitable growth), HH	36.7	16.9	31.1	15.3
High sales/low profit (sales-oriented strategy), HL	9.5	40.5	8.4	41.6
Low sales/high profit (profit-oriented strategy), LH	35.3	13.2	36.2	15.3
Low sales/low profit, LL	11.5	34.3	10.8	43.5

Note: *Numbers in parentheses depict percentages of firms
Source: Excerpted from Park *et al.* (2013, pp. 112-124)

Table II.
Growth trajectories

differentiated products. But they also seek prestigious products at the lowest price. The lack of awareness of this paradox of price and value led multinationals to pursue a mass marketing logic that was based on misplaced branding strategies in this market.

Similarly, in an interview with Ehab Abou Oaf, Asia-Pacific President of Mars Chocolate, he indicated that the success of scaling and mass merchandising in general depended on several variables, including "imports, logistics, nontariff barriers, hiring and retaining local talent" (Park *et al.*, 2015). Accordingly, successful scaling could be even or uneven, depending on the above factors. In his assessment, there is no "one-size-fits-all" growth strategy. In the list below, we reproduce the fuller context based on our field interviews and cross-sectional survey (Table III).

Taken collectively, scaling up is not guaranteed, nor can it be assumed to be efficient. Moreover, affordability is important as assumed by the business model, but compatibility between the product/services and targeted consumers might be as consequential (compiled from interviews and published materials. Also see Letelier *et al.* (2003) and Shankar *et al.* (2008). Excerpted from Park *et al.* (2015, p. 16).

In all, we identified two explanations for the relative effectiveness of scaling (or the lack thereof) in emerging markets (Park *et al.*, 2015). The first relates to the type of growth of particular market segments. Consistent with extant theories, scaling is best applied in segments with undifferentiated products or commodities, in which incremental costs are systemically decreased with increases in size. But in highly differentiated market niches, growth also tends to be coarse and lumpy, defined formally by McKinsey Company as "granular" (Viguerie *et al.*, 2008). Because of uneven demand patterns, the aggregation of similar consumer demands did not fit a mass merchandising strategy. While this appears to be logical and intuitively clear, and in fact is prescribed in extant strategy theories, we argue that the difficulty lies in the prevalence of a mass merchandising strategy that is lodged in a production-centric modality.

The precedent for this argument was earlier echoed by Mills (1980) in describing differences between production (manufacturing) and service (marketing) industries. As detailed in our work (Park *et al.*, 2015, p. 27), uneven demand patterns in marketing reflect a constantly evolving consumer mindset: "consumer preferences are still evolving, loyalty is more idiosyncratic because of the mix of secure and insecure consumers, and the 'sweet price point' is confounded by both countervailing views on desired luxuries and price consciousness ('the cheapest of high-end Rolex watches')."

Table III. Why traditional scaling up fails-obstacles and barriers

1. Institutional voids, specifically the lack of adequate infrastructure, raise the costs of scaling up and geographic expansion
2. Even with adequate scaling, there might be inadequate demand and the absence of purchasing power needed to absorb the increased volume of products and services; However, even when purchasing power is present, consumers might not purchase the lower priced items, which they regard as exhibiting low quality
3. Diseconomies of scale can result from significantly higher localization costs, administrative complexity, and emotional issues
4. There can be a backlash against MNC expansion-activities in some geographical quarters

Notes: Taken collectively, scaling up is not guaranteed, nor can it be assumed to be efficient. Moreover, affordability is important as assumed by the business model, but compatibility between the product/services and targeted consumers might be as consequential

Sources: Compiled from interviews and published materials. Also see Letelier *et al.* (2003) and Shankar *et al.* (2008). Excerpted from Park *et al.* (2015, p. 16)

As a result, the unqualified juxtaposition of a production-centric to a merchandising-centric mindset can be deceptive because the two are designed to support different requirements for marketing and management (Park *et al.*, 2015). Of interest would be the underlying motivation, or why firms would pursue profitability or growth in the first place. Given that our research methods had initially focussed on archival data analysis, we were not able to uncover these predispositions or strategic intent and had to rely on the attendant logic of these two strategies[2]. Because successful scaling is lodged primarily in a manufacturing logic, its application in a marketing and merchandising context will depend on the granular patterns of growth of the targeted market segment. When the two are confused and misapplied, this can lead to blind spots in application. Moreover, the logic behind scaling can also be obscured by what is considered to be the conventional or normal state of affairs – the subject of the next section.

The intractability of localization

The term "localization" has become a popular lexicon in emerging markets (Luo, 2016). In fact, many pundits, ourselves included, refer to localization as the new normal when applied to emerging markets (Park *et al.*, 2013). Such markets have not simply grown in terms of demography and economics; they have likewise enhanced the sophistication of their local talent markets. For this reason, it is acknowledged that emerging markets have developed more nuanced preferences for particular products and services that are developed in advanced economies.

In our studies, which span close to 150 firms, we have found that localization is less tractable, as consumer behavior in emerging markets continues to change (Park *et al.*, 2017). Nevertheless, there appears to be an evolving pattern of localization (Park *et al.*, 2017). In traditional marketing theory, localization in a global context is generally regarded to be "transferable marketing" (see Yip and Hult, 2012; Park *et al.*, 2017). This means a few features of a product or service are adapted to meet the demands and preferences of a given local market or segment. It is assumed that while changes are necessary, they are peripheral and do not significantly change the cost structure of the product offering

However, when local markets deepen in terms of local preferences and proclivities, the decision to buy imported products and services tailored to a mass market becomes less compelling. In our research, we argue that the benefits of scale and scope economies – requisite elements for a global strategy – become secondary and local adaptation becomes the overriding objective, which is in line with the points raised by Dow (2006) and Ghemawat (2007). Minor adjustments, as in traditional transferable marketing, will not be sufficient to meet or satisfy local demands. On the other hand, the risk is that a firm might readily overextend itself by localizing to such an extent that it cannot fully recover its added expenses relating to differentiation. As such, what should a firm do?

In one study, we learned that successful local firms (referred to earlier as rough diamonds) took proactive steps to become more aware of deep local preferences than more established multinational firms (Park *et al.*, 2013). We cite a case of a Russian firm, Velkom that recognized early that its consumers were becoming more skeptical about the quality and origin of sausages. This was a result of constant interaction with consumers in local markets. Velkom successfully changed its strategy by securing new suppliers and establishing methods to increase quality. Similarly, China's Beingmate capitalized on its deep knowledge of the customs and practice of raising babies given its history of providing domestically produced, high-quality infant products to introduce new products.

Rothfeder (2015) relates (deep) localization to significant local investment. He cites the case of the auto manufacturer Honda, which invests in full-scale operations in selected regions in order to anticipate changes and to offer customized products.

Even so, localization becomes less tractable in the fast-growing affluent segments of emerging markets, particularly the middle-class sectors with increased purchasing power of China and India. In our study (Park *et al.*, 2015) we found that successful firms used an assortment of multi-brand and product extensions to afford breadth and choice to an idiosyncratic middle-class consumer. Because demands at this point were deeply nuanced and more difficult to track, localization became the central staple of the marketing strategy. Surprisingly, consumers expected not only extensive product/service adaptation but also a higher level of good behavior from multinational firms, including an emphasis on human resources, an issue that we revisit more thoroughly in this section.

As far as tapping local talent, we learned that those successful firms did not simply hire local workers as a way of signaling their commitment to the local market, but pursued a proactive strategy of training these employees and participating in local community activities (Park *et al.*, 2013, 2015). India's Titan, a leading manufacturer of watches and clocks, took the bold step in empowering its people, mostly locals, to make decisions, assume risks and innovate on products in its international operations. Brazil's Arezzo, a family owned women's footwear company, encourages risk-taking, even tolerating mistakes, in an effort to assure that every employee understands the importance of the branding concept. In our follow-up study involving interviews and a cross-sectional survey of 276 managers in ten emerging markets, more successful companies had significantly higher levels of decentralization, reflecting their confidence in local managers (Park *et al.*, 2015).

Beyond marketing and human resources, localization had assumed an emerging social context. In a study of public scandals and crises afflicting well-renowned multinationals, Zhao *et al.* (2014) uncovered a different layer of local consumer requirement: deep-seated nationalism. Based on extensive case analyses, this study discerned that more nationalistic consumers had even higher moral and ethical expectations for multinational firms than in any other time period. They attributed this sentiment to the lack of regulations and supportive institutions in China relating to corporate governance. In what they regarded as an ironic twist, their study shows that Chinese consumers expect more from multinationals, as they desire to see these firms behave in good moral suasion just as they would in advanced markets where they are required to do so by extant regulations.

Collectively, localization is reflected in significant investment in local communities, as well as what Zhao *et al.* (2014) see as the emerging need for multinational firms to be socially adaptive. As we argue in our previous studies (Park *et al.*, 2017), localization embraces its own logic and consequences. Firms have to unpack deep and evolving features of consumer behavior that are not as easily tracked, but without overinvesting in localization (see Table IV). Unless some type of balance is reached, extant conceptions of localization can lull the ability of unsuspecting firms to discern deep-seated assumptions and can blindside them (Luo and Zheng, 2016). And some assumptions do not necessarily pertain to consumer behavior alone. One such assumption that has been theoretically upheld in mainstream narratives is the role of governments. In contrast to treatises about government in the context of free market operations, the role of government in emerging markets is neither inconsequential nor arbitrary, but it can influence ensuing dynamics of market competition. We address this topic in the next section.

	Description	Underlying logic
Level 1: Standard market segmentation	Viability of the segment based on size, access, and responsiveness	Marketing budget dictates strategies
Level 2: Mass consumption market	With maturation, segment loses differentiation to become a commodity that is then marketed as an undifferentiated product in global markets	Decreases in incremental costs cover international expenses
Level 3: Transferable marketing	To enhance marketability, some features of the product or service are changed or offered to meet nuances of local market	Transferable costs should be equal or less than additional costs of differentiation
Level 4: Localization	Significant presence in local market, including catering product/service, prices, locale, and distribution	Local sales should equal or cover localization costs
Level 5: Deep localization	The above including major investment in human resources and social adaptation	Local sales should equal or cover localization costs and the risks of public scrutiny (or crises)

Table IV.
The changing context of localization

The opacity of non-government intervention

Historically, the conundrum faced by mainstream economists is the role and function of national governments in economic and social development. Largely because of nuanced interpretations of classical economic theory, these economists regard the role of government to be minimal, as it is limited to military security (the ability to wage war) and construction of the necessary infrastructure to facilitate efficient market exchanges. While it is acknowledged that governments engage in fiscal policies, this function is still subservient to its overarching goal of supporting modern capitalism indirectly and not intruding into the strategies and operations of the private sector.

Following the fall of the Berlin Wall in 1989, the renowned Political Scientist Francis Fukuyama boldly predicted "the end point of mankind's ideological evolution" and foresaw "Western liberal democracy as the final form of human government" (Fukuyama, 1992, p. xi). In Fukuyama's treatise, the tenets of liberal democracy are strongly tied to free market orthodoxy (Fukuyama, 1992). Pulitzer Prize Winner Daniel Yergin and Financial Guru Joseph Stanislaw also exalted the superiority of the free market system when compared to the weaknesses of centrally planned economies (Yergin and Stanislaw, 1998).

While the assumption on non-government intervention in the private sector continues to hold sway in mainstream economics and business, it has been challenged by heterodox researchers who build contrarian arguments based on the historical record of economic development. These prominent pundits include Cambridge Economic Historian Ha-Joon Chang (2003), who after an arduous study of the economic development in the UK and the USA concluded that the two countries initially succeeded through strong government intervention in trade and commerce. Ironically, it was only after the two countries – poster children of modernization theory – came into dominance that they, or their advocates, rallied for free market operations that curtailed the role of government (Chang, 2003). According to a more nuanced and provocative account by Political Journalist Naomi Klein, free market policies as embodied in neo-liberal economics could not have been operational without active and even ruthless government support, purportedly under conditions of duress and disasters (Klein, 2007).

Among researchers who have examined economic and social development of certain countries in depth, there is no question that government plays a direct and pervasive role. Political scientist Chalmers Johnson (1982), who has written extensively about Japan, considered to be the post-war miracle of development, firmly attributes Japan's development to the role of the Ministry of International Trade and Industry, an uber-professional government group that formulated industrial policy for Japan. Alice Amsden, a former MIT Economic Historian, examined the dynamics of late industrialization with particular attention to South Korea. In an extensive analysis (*Asia's New Giant*), Amsden (1989) argued that systemic learning underpinned the "catch up" strategies of late developers (South Korea, Taiwan). Three particular strategies resonate in this assessment: government policies that favored big and strong local conglomerates (chaebols), the entrepreneurial activities of such enterprises, and organizational skills and competencies in shop-floor management. In all, these strategies transformed chaebols from fledgling enterprises into export powerhouses. Similar observations have been raised in regard to the relative success of Taiwan, Singapore, Hong Kong and other Asian "tigers."

In our own examination of local firms (rough diamonds) in emerging markets (Park *et al.*, 2013), we noted the beneficial (and occasionally obstructive) aspects of government policy in promoting local economic development. Hence, the operative question for us was not as much whether governments should or should not interfere in the private sector – they often do. As such, we focussed on how they are able to do so under different circumstances and the consequences of their interactions on the level of market competition. Governments play a significant role in terms of enacting favorable regulations and policies (such as market liberalization, incentives for privatization or import substitution). Even so, government policy per se might be a necessary but hardly sufficient requirement to avail enterprising firms of these opportunities.

As detailed in our study of rough diamond firms (Park *et al.*, 2013), these firms have displayed adeptness in recognizing market signals from government. In the specific case of town and village-owned enterprises in China, the government encouraged villagers to manufacture specific products as a method to include excess labor from the agrarian sector. Historically, this overture was intended to introduce a market system in some areas in China to replace the former planned economy. While many local firms eschewed this policy, the Qinghua Group took this important cue, readily capitalized on this policy, and, with first-mover advantages, became the largest refractory material manufacturer in China.

Another government initiative in the 1980s and early 1990s was privatization, expressed by the slogan "grasping the large, releasing the small," to transform SOEs into private firms (Park *et al.*, 2013, p. 36). Shengli Qilfield Highland Petroleum Equipment led this directive toward privatization, despite losing money for a number of years. Fortunes turned when Yang Xianping took charge in 1998 and used his business and managerial experience, sensing governmental support of smaller non-SOEs, to rebuild the company. Similarly, Shandong Molong Petroleum took over a town-owned agricultural machine repair plant that was in poor condition to capitalize on privatization. A leading expert of the company opined, "Molong benefitted from the loosening of regulations over the company, implicit in the opening and reform policy. If not for privatization, the firm would not have materialized" (Park *et al.*, 2013, p. 37).

Another government policy that paved the way for some firms to become successful was import substitution (see Park *et al.*, 2013, 2017). In economic theory, import substitution is generally not as favored as exporting, though it is recognized that the policy can promote a degree of self-sufficiency. Arguably, import substitution can be particularly effective under two conditions: first, when the prices of imported goods are significantly higher; and second, when local firms are able to hone and nurture skills and capabilities that are needed to manufacture products at a competitive rate.

In our work, we have noted several examples in this regard. When imports became severely disrupted in Second World War in India, a new initiative toward import substitution materialized. Asian Paints was among the very few companies that took full advantage of this development, developed the necessary skills and eventually became one of the leaders in the industry. Similarly, Brazil's Forjas Taurus SA, whose development of close, nurturing relationships with the national and local governments was beneficial, produced firearms products that were co-aligned with evolving interests toward national security (Park *et al.*, 2013).

In addition to import substitution, local governments can grant some type of protection through the form of taxation of imported products to allow the local industry to develop (Park *et al.*, 2017). This is generally known as the policy of infant-industry protection. Historically, the policy was applied to basic critical industries such as food and beverages or natural gas resources. Without government protection, there was little possibility for local industries, typically latecomers, to become competitive in local markets.

In our study of exemplary ASEAN firms (Park *et al.*, 2017), one such firm – the Dao-Heuang Group, founded in 1991 as Dao-Heuang Import-Export Company Limited – ook advantage of this government policy that encouraged and gave early protection to local enterprises. The company, originally focussed on the import of whiskey, wine and tobacco products, benefitted from government support to diversify into coffee beans, retailing, real estate rental, pharmaceuticals and airline booking services. Similarly, Thailand's Siam Cement Group benefited from the Thai Government's championing of the local cement industry. At the time, economic development was focussed on light industries, such as rice mills and sugar factories. But with governmental overtures to develop infrastructural projects, SCG became Thailand's first company to venture into the country's heavy industry.

Notably, two issues are prominent in this discussion: the condition of economic underdevelopment, pronounced largely due to the lack of supportive institutions required for rapid development, and the imperative of "catch up" dynamics for emerging markets in the later stage of development. In these cases, governments had a decisive role in influencing the direction of selected firms. Both conditions impel the necessity for supportive policies in trade and commerce, as well as the need for assistance in building infrastructures and institutions. Without government assistance, it would have been extremely difficult, if not impossible, for local firms to develop and prosper over time.

Recognizing the vital role of governments in addressing economic underdevelopment, more thoughtful multinationals have invested time in nurturing governmental relations. In China, the advantages enjoyed by Motorola, Volkswagen and AIG were due to their early entry, which was viewed favorably by the Chinese Government. Because the government relied on multinationals for expertise and the possible transfer of intellectual capital, and given the absence of formidable local competitors, these multinational firms benefited from tax breaks, special privileges and other amenities. Nevertheless, it is important to note that government support might dissipate over time as local enterprises become more competitive. Accordingly, nurturing government relations resembles a constantly moving window of opportunity. Evolving governmental policies can signal anticipated increases in demand, a preference for local champions, new resource commitments, or changes in the level of market competition – all of which are not as easily tracked. Hence, one option for multinationals is to partner with local firms to maintain any leverage, or in some cases, to even take a proactive role in developing infrastructure, such as in the cases of Wal-Mart and IKEA in installing logistical support in India[3].

Taken altogether, ideology based on the belief that government should not intervene in the private sector runs the risk of over-generalizing the current context of developed economies at a later stage of economic development. As such, this creates a blind spot in underestimating the performance of selected local firms in emerging markets. And yet, underestimation is confined not to broad macro-governmental issues, but to firm level or micro considerations that are based on traditional theories. One such example is an overgeneralization of an otherwise prudent prescription, a subject of our next section.

Undue attention to disruption rather than transformation

In the developed world, discourses about enduring success feature cohabitation between mainstream management theorists who have built an advocacy for well-threaded concepts and models and the cabal of disruptive propagandists who argue that success is fleeting and short-lived.

The popular trend among strategic management scholars is disruption, following the lead of Christensen (1997). Historically, the topic was popularized by the renowned Economist Joseph Schumpeter (1942/2014) to explain the dynamism underlying capitalism. Interestingly, Christensen himself invokes the concept of a blind spot in arguing that if incumbents too intently listen to their lead consumers, they are not able to discern disruptive technologies and are blindsided by rivals that might not be as efficient as mainstream products, but whose products align well with overall consumer expectations. Hence market leaders are historically displaced and they, in turn, are dislodged by new entrants with their own arsenal of disruptive technologies.

Disruption is popular because of its intuitive appeal. As Michael Porter notes, however, not everything is disruptive, and some changes occur with purposeful intent and strategy. A blind spot can occur when differences between disruption and transformation, albeit subtle, are not recognized. Disruption is likely to be transformative, but not all transformations are necessarily disruptive. Unlike disruptive events that impel sudden and significant junctures, transformations can take on a slowly evolving character.

In our work on rough diamonds (Park *et al.*, 2013) and ASEAN champions (Park *et al.*, 2017), disruption is potentially relevant in discerning why and how successful local firms are able to recognize and enter nascent market niches, while these same niches may be ignored by incumbents, market leaders or multinational firms. Market niches can be plentiful, but not all are viable. In fact, marketing theory postulates the requirements of viability: size, growth potential, access and responsiveness. In emerging markets, such criteria are often not met or fully substantiated. Unless disrupted, multinationals and established local firms prefer to wait until development occurs before entering the segment.

However, our local champions assumed this risk and opted to develop the market themselves in a transformative manner. These local champions do not necessarily see themselves as disruptors. For them, an unfilled or neglected market segment is an institutional void that can become more viable and accessible over time. But this difference is not consequential to a local incumbent market leader or an established multinational because it is hardly disruptive in nature. Over time, local champions nurture this segment through incremental market inclusion.

We quote two cases that defied the odds to create inclusive market niches:

> In Brazil, three enterprising brothers—Luiz Eugenio, Jose Antonio, and Wilson Donizetti Bassi – formed the Açotubo S.A. At the time, steel was already an established industry with mainstay incumbents. Nevertheless, the brothers were unwavering in this effort – they started literally from scratch in producing steel disks from sheets from Caterpillar to be sold for scrap steel. Over time, the company expanded the operations and even offered consumers with competitive prices with an attractive hook: rapid delivery of up to "24 hours in a 200 km radius" of its targeted region.

> Titan, India's leading producer of watches, assumed enormous risks in tapping into unexplored Indian market segments. Titan saw the opportunity for quartz technology watches in India. While quartz technology was well accepted globally, the Indian watch market was still comfortable with mechanical watches. And yet, Titan bucked this trend by offering quartz technology, slowly with incremental sales, and then building more acceptance and buy-in to the technology. (Park *et al.*, 2013, pp. 51-53)

Disruption is visible and manifest, while transformation is nascent and less transparent. Established market leaders, both local and multinational, can afford to wait for segments to develop (unless inferior products disrupt their product lines). In contrast, local champions are more likely to view an unfilled nascent niche as evolving and potentially transformative. The strategic challenge for prospective local firms lies in further consolidating the segment, thereby aggregating supply and demand. Aggregation comprises a proactive but risky strategy if the segment fails to materialize.

In our study (Park *et al.*, 2017), we examined the correlates of success in 58 leading-edge firms from the ten ASEAN communities (called ASEAN Champions). When analyzing how most of these firms entered previously unfilled market niches, we noted that some of these firms employed demand aggregation to consolidate market niches, which would have been highly risky given the presence of an established market. Thai Metal Public Company Limited (Thailand) became the "total steel solution provider by consolidating high value-added service across the entire supply chain." Thailand's Pruksa Real Estate Public Company Limited used forecasting to link various supplies of real estate in Thailand to build an industry. Indonesia's PT FKS Multiagro Tbk used "whole fish to produce food oil and import soybeans to meet fast-growing local needs" (Park *et al.*, 2017).

In all, ASEAN champions were not deterred by economic underdevelopment but proactively transformed institutional inadequacies into long-term competitive advantages. Whether their strategies were based on purposeful design or a lack of options, these firms were able to mobilize human and financial resources in a manner that provided solutions to institutional voids. Because economic conditions at the time resembled fledgling states of economic and social development, the actions by these ASEAN Champions could be grassroots by their very nature. In contrast, more established firms, including leading multinationals, were focussed on examining disruptive features of marketing, while what had been occurring was a transformation of the market niche from a fledgling to a maturing state of development.

Recommendations for practice

How can we perform reverse thinking about emerging markets to avoid if not mitigate the deleterious blind spots? In this concluding section, we offer a generic set of recommendations based on our studies.

Emerging markets – how the game has changed

There is no lack of books and periodicals – even best sellers – that have extolled the virtues of continuous reassessment of our underlying assumptions. It would serve firms from developed countries well to rethink some of their underlying conceptions about emerging markets. The challenge facing firms operating in emerging markets is the countervailing tendencies for growth, owing to the market size and potential of these markets, and the conditions of economic and social underdevelopment (see Park *et al.*, 2015, p. 26). It is not all that surprising, therefore, that many multinational firms have been hesitant and reticent about entering these markets. For those that have, more often than not, their business models that had worked so well in developed markets failed to translate effectively in this environment.

Altogether, it behooves aspiring firms to move away from relying exclusively on macroeconomic growth data and to study the fine-grained elements of growth. Specifically, is the market characterized by granular growth, or is it consolidated enough to warrant a high mass consumption strategy? In our studies, granularity is not a permanent fixture but one closely tied to the development of a market segment. In relatively fragmented markets, such as slowly developing middle-class sectors, the markets exhibit granular growth. While alluring because of market potential, this impels a change in mentality from a production-centric to a merchandise-centric mode of operation. Scaling in production might not readily translate into the benefits of multi-branding.

Taken in perspective, the rules of the game in emerging markets are constantly in flux and evolving over time. What might have worked several years ago might no longer be efficacious in the present. Historically, new and emerging firms tend to be shadowed by incumbent leaders, but when they attain economic prominence, they are based on new strategies derived from non-traditional sources. For example, Samsung, Hyundai or Kia products, which were once viewed as subservient to higher-quality products, provide graphic testimony that catch up dynamics can be attained with innovation, highly attractive features, competitive cost structures and a relentless drive to succeed in the global market (Park *et al.*, 2013).

Whither the new normal?

It is popular nowadays to invoke the "new" normal as an indicator of some major shift in assumptions. In our studies, this is no more pronounced than the topic of localization. We invoked it ourselves in arguing that localization is the new normal. But far from a condition of sheer stability, this new normal congeals underlying shifts in industry transitions, consumer expectations, and competitor dynamics. It is much like the proverbial tip of the iceberg, where the visible tip is a mere figment of the underlying mass below it.

Localization has become a staple for local enterprises to succeed despite global competition (Luo, 2016). But localization in itself is evolving. In our studies, the growth of the middle class, favorable government policies, and industry change are continuously transforming the middle class into viable market segments that create propitious opportunities for erstwhile firms.

Even so, such advantages are not endowed; multinational firms can proactively transform their products rather than offering minor changes. For example, Procter & Gamble became a presence in the Chinese toothpaste market when it offered new products that addressed the local preference for herbal elements and whiter teeth (Shankar *et al.*, 2008). Similarly, Coca Cola significantly widened its distribution channel and market presence in Russia through its acquisition of the local company Multon (Shankar *et al.*, 2008, pp. 22-23).

Be aware and reduce ethnocentric tendencies

Even when the need to learn from the local level is acknowledged, firms might not be able to successfully meet the requirements of the local market. This is due not to a lack of strategic resolve or resources, but to innate characteristics of our cognitive mindset. Specifically, ethnocentrism is the tendency to think of a given culture as the primary one, and, in some cases, superior to other cultures (Summer, 1907/2012; Barger, 2014). It is readily acknowledged, but rarely eliminated. Because ethnocentrism is embedded in our mindset, it serves the function of a defense mechanism in uncertain settings.

Our advocacy for awareness of ethnocentrism is hardly new. Management Guru Henry Mintzberg (2004), in his provocative book, *Why the MBA is Wrong for Managers*, questioned whether the business curriculum and case method, developed largely in Western intellectual traditions, comports with other cultures, particularly in many Asian societies where, in case discussions, group harmony is favored over individual rhetorical prowess. Social anthropologists have likewise criticized the wholesale adoption of theories of economic development derived from successful advanced economies to more impoverished settings (Maruyama, 1980).

While ethnocentrism might not be readily eliminated, it can be significantly reduced. One manner of reducing ethnocentricity is to be aware of this tendency and its attendant consequences. In our studies, we recommend a reflexive mindset that takes into account the differences and nuances in cultures and how they are consequential in practice (Park *et al.*, 2013; see also Barger, 2014). Other pundits have proposed the creative integration of management skills and philosophies that are imparted from Western intellectual traditions, such as supply chain innovations and supportive management systems, along with local, honed-in competencies that are derived from their relativist cultural traditions (Chen and Miller, 2011; Gupta, 2011).

Another finding that arose from our study is the growing importance of deep-seated nationalist tendencies. Its importance comes from the difficulty in tracking or accessing it from formal surveys and data analysis. The populist interpretation of emerging and developing markets treats underdevelopment as a negative factor. Arguably, underdeveloped institutions present a myriad of challenges: inadequate governance, poor property rights, the lack of transparency, muddled market incentives, the lack of consistent contractual enforcement and the absence of accessible distribution channels (Hitt, 2016). It is not all that surprising, therefore, that many multinational firms have been hesitant and reluctant to enter these markets. But notably, local exemplary firms have taken this condition as an opportunistic one, occasionally driving their passion and hunger for recognition and achievement. As indicated, in the consumer sphere, there have been mounting expectations for multinationals to behave ethically, perhaps even at higher standards than local companies, precisely because of the lack of supportive institutions for good governance.

Conclusions

Much like a blind spot, hidden assumptions can be tacit and insipient, not visible to the naked eye. This does mean that they are inaccessible, as one can purposefully locate the blind spot by turning one's head or by tilting the car mirrors. But even when it is visible, rarely does the blind spot get prolonged attention, since the driver can adjust the rearview mirror back to the normal range of sight. But what is particularly insidious about blind spots is that they appear to be reasonable and evident, even mundane, with later reflection. Reading through this paper, it would not be surprising for the reader to react by saying that, of course, growth is different in differentiated market segments, or that governments should matter, or that localization deepens with development. And so, the ensuing criticism might be: what is really new here?

As indicated earlier, the gap between actions and intentions is hardly new, and other thoughtful researchers have examined the topic before. But given the prevalence of misapplications in emerging markets, it might be appropriate to reassess some fundamental premises. One popular recommendation is to state the assumptions that underlie a particular concept or theory. We note that while intuitively clear, it is seldom done (which explains the popularity of papers and books about theories of change). Except for during unusual times, such as a financial crisis or a crisis-induced scandal, it is rare for these assumptions to be critically examined.

One possible explanation is that theories are de-linked from context application. In effect, theory and application are dissociated, or the theory and the context of application take on an underlying logic of their own. Economic historians, particularly Chang (2003), whom we referenced earlier, decry mainstream economists who fail to account for the historical circumstances underlying their theories. The flurry of commentaries in the aftermath of the 2008 financial crisis underscores the importance of history in explaining the boundaries of what should legitimately be examined (Reinhart and Rogoff, 2009). In invoking the concept of a blind spot, we emphasize that such occurrences are not only unobserved but non-reflective in character.

Central to our narratives about emerging markets is the problem of institutional underdevelopment as a determining factor in firm development (Hitt, 2016). In our studies, the lack of institutional development is, in fact, prominent, but instead of having a passive and reactive disposition toward this lack of development, rough diamonds and ASEAN champions found it to be a source of motivation and urgency. Extant formal theories of development cannot fully account for all these intangibles in describing the growth process due to the difficulty in tracking and measuring them. As is widely recognized in practice, but not as prominent in economic theories, this drive to succeed or its colloquial variant – the underdog role or hunger – cannot be ignored or deemphasized when describing the experiences of successful local firms.

Finally, we conclude this paper by acknowledging the limitations of our inquiry. Our treatises on growth were based largely on research on the consumer and retailing goods sectors, and our arguments about affluent middle classes center largely on China. Given our selection methodology, which emphasizes historical performance, we might have excluded enterprising firms, mostly lodged in digital-based strategies that might not have been within the radar of our selection process. Also, reflecting our initial emphasis on archival data analysis, we were not privy to more fine-grained insights on what led firms to initially opt for growth or profitability. The limitations notwithstanding, we hope that our advocacy for reassessing basic assumptions to uncover blind spots is informative in understanding the changing landscape of emerging markets.

Notes

1. To illustrate the volatility of emerging markets, a recent assessment by Sharma (2016) indicates that among the original BRIC countries, only India has sustained modest growth, China's growth has slackened, and Russia and Brazil have negative growth rates.

2. We are grateful to an anonymous reviewer for this suggestion. While we were not able to address this, we note the emerging interest on the micro-foundations of strategy that would further inform this issue in any further study (see the special issue on the Micro-foundations in Strategy Research, *Strategic Management Journal* (edited by N. Foss and T. Pedersen, December, 2014).
3. We acknowledge this suggestion and examples from an anonymous reviewer. Other examples of partnering have been observed by Khanna and Palepu (2010).

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