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Brief Analysis of the Impact of Emerging Markets on the Way International Companies Operation

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Abstract: The growing productive activities and marketization is the driving force of globalization and emerging markets. However, countries like China have high production, factors such as their low per capita income qualify them as an emerging market. This article will discuss international companies how operate in emerging markets, as a result, emerging markets are very significant for how international companies operate.
Keywords: **Emerging Markets; Operation; International Companies**

1. Introduction

Globalization has enhanced the movement and exchange of goods, services, technologies, and capital. The effects of globalization have led to the internationalization of firms as the interaction between regions rises. According to Meyer and Grosse (2018), nations that are transforming from the developing stage to the developed stage are known as emerging markets. Additionally, a country as an emerging market embarks on an economic program that will result in a stronger efficiency in the capital market and economic performance levels.

2. Characteristics of emerging markets

2.1 Individual differences

The key is understanding that no emerging market is the same due to the different country-specific dynamics at play. For example, countries like Russia, Korea, and China are all categorized as emerging countries, yet they have characteristics of a developed economy (Nicolas 2009). Additionally, some emerging economies are built on exports such as Brazil and South Africa, which sell natural resources globally. In contrast, India and China are mass consumption economies (World Economic Forum 2020). As such, a firm internationalizing in these economies will be affected differently, such as by a shift in commodity prices.

2.2 Growth and Lower than average Gross Domestic Product per capita

Emerging markets have become important for the international companies as a result of the growth potential of these markets and the lower than average gross domestic product per capita available. Governments of developing markets incline to the implementation of policies that promote rapid economic and industrial development. These policies assist in boosting disposable income, infrastructure and investments. Additionally, emerging markets are characterized by a lower than average gross domestic product per capita; for example, in China, Mexico and Brazil, their gross domestic product per capita are $10,261, $ 9,863 and $ 8,717 respectively (World Bank 2020). However, low income offers an incentive for rapid development. Governments of emerging countries strive to take on a fast change to a highly-developed country to empower its citizens encouraging foreign direct investments by global companies.

2.3 Competition

Firms from emerging economies that are expanding to overseas markets raise the issue for competition for established firms. As these firms expand to find new opportunities for growth, they are exposed to dominated markets by dominant players. However, their different managerial style often puts consumers' needs first poses a challenge to established firms which mostly engage in maximizing profits.

3. Analysis of the institutional environment of emerging markets

Some factors shape the victory or failure of organizations in the arena of international business. There is a dynamic interaction between institutions and organizations. Institution theory concentrates on the question of how the political, economic, and social systems in the environment that firms operate to influence their actions (Palthe 2014). In emerging economies, government and societal influences are more powerful than in developed countries. Additionally, the role of institutions is to decrease information and transaction costs by establishing solid structures to boost interaction, and firms that expand to emerging markets need to adapt to changes in these markets to succeed. As a result, managers of multinationals need to be aware of the extent to which an industry is globalized. Yip's framework states that an industry is globalized in four facets that are competition, government, cost, and market (Zou and Cavusgil 1996). This shapes the strategy a multinational will adopt in investing in the emerging market. For example, concerning government, factors such as skilled labor, research institutions, and infrastructure are the result of government investment.

3.1 Specific company activities

Multinationals enter emerging markets to acquire strategic assets and enhance their core competencies. However, certain competitive disadvantages exist that multinationals must overcome such as varied legitimacy necessities from several institutional settings across the world. According to Palthe (2014), there are three pillars in which to analyze institutional contexts, namely, regulative, normative, and cognitive. The regulative post represents the rules and laws; the normative reflects societal values, while the cognitive represents cultural values. In emerging markets, institutional distance represents the environmental complexities that firms face to establish themselves in these markets. In Russia, there are substantial shortcomings in transport and service infrastructure, and this affects the strategy of a multinational moving to the market (Kolik et al. 2015). According to Porter's Diamond of National Advantage, government investment is the most significant ability for firms to compete (Porter 1990). Vaderstad's Group internationalized to enter the Russian market; however, the huge transportation cost is the pressure of the company since machines were transported across Europe to Russia (Kewitz et al. 2012). Additionally, the relatively backward infrastructure in Russia made it almost impossible for the firm to cover the whole market with subsidized interest rates for Russian farmers who purchased machines made in the country more difficult. According to Shepotylo and Tarr (2012), import bound tariff had been rescued from 10% to 7% in 2011; however, regulatory barriers still exist. Therefore, the company created a sales subsidiary in Russia that was responsible for its income and expenses and significantly reduced the risk of the mother company.

3.2 Modify activities and reasons

In addition to the formal institutions restrictions, the constraints of the informal institutions have also forced multinational companies to adopt changes.The regulative pillar of institution pressure underlines the power of governments and how multinationals conform as rules are enforced; however, they are less developed in emerging economies. Emergent markets such as Brazil and China have a large cultural difference, which multinationals may not easily overcome. According to Hofstede's Dimension of national culture, the power distance in individualism and uncertainty avoidance between the two countries vary (Hofstede Insights 2020). These differences pressure firms to conform to the practices of a particular emerging market.

Foreign direct investment has become a major trend by multinationals in emerging economies. China is one of the beneficiaries of FDI, recording over $ 130 Billion in 2018 (Textor 2020). However, due to the unique characteristics of emerging markets, multinationals demonstrate different patterns of internationalization to these markets. Firms seeking to

invest in emerging markets seek to establish a solid foundation in their home market first. The Uppsala model of internationalization shows that firms move to foreign markets after gaining substantial experience in their home market (Johanson et al. 2009). As a result, through the bargain model, multinationals and emerging countries relate as a function of objectives, resources, and limitations on both actors (Eden and Schuler 2004). At first, the bargain favors the multinationals, but in the long run, the bargaining power will moves to the government.

The institutional environment embodies a significant source of liability of unaccountability that the firm will incur that local firms would not incur. There are three competitive disadvantages for foreign firms that ensure they change the way they operate, which constitute relational, discriminatory, and unfamiliarity. Additionally, relational problems firms might find it challenging to communicate with host market players effectively; as a result, they change the way they operate due to divergent beliefs. The stakeholder's approach states that a business should utilize its resources to participate in doings intended to maximize profits for the firm (Parmar et al. 2010), such as firm could through a local partner with equity in the business can alleviate these concerns. As multinationals face larger pressures from the institutional environment, they tend to opt for a smaller ownership position to ensure value is created to all stakeholders.

4. Conclusion

Globalization has led to the internationalization of firms as a result of growth in cross border trades. This has led to firms investing in emerging markets, altering the way they operate. Additionally, the institutional theory highlights political, social, and economic systems in the environment that a firm operates to influence their actions. However, some move to reduce constraints in their home countries and negotiate in emerging markets with the government to seek a better working environment. Due to the individual differences and diversity of emerging market countries, the data and evidence referenced in this essay are based on the analysis of a specific object in a certain period, so it has certain limitations.

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