LUCIANO CIRAVEGNA • ROBERT FITZGERALD
SUMIT K. KUNDU

FOREWORD BY PROFESSOR FAROK J. CONTRACTOR

OPERATING IN EMERGING MARKETS

A Guide to Management and Strategy in the New International Economy

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Dedicated to our families and to all the people who helped us.

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Foreword

When the history of the late 20th and early 21st centuries is written by future generations, all the wars, terrorist incidents, and political upheavals will be reduced to a passing mention or a footnote. But one salient fact will be recorded—the emergence of 80 percent of the world's population from poverty to a middle class status, from ignorance to enlightenment, and the transformation of their somnolent, regulated markets into economic dynamism.

It will be remembered as the great rebalancing. As recently as the year 2000, emerging countries, despite comprising over three-quarters of the world's population, had only a 40 percent share of world GDP. A mere 10 years later, this share had grown to 49 percent, and is on its way to 60 percent by 2025. Emerging market companies, long reduced to playing a servile role as low-margin commodity exporters or mere assemblers of gadgets and toys, are now beginning to climb both ends of the "smiling curve" (a term popularized by Stan Shih, former CEO of Acer to suggest greater value capture in the R&D and brand portions of the value chain). Twenty-five years ago, almost no one in the West had heard of Lenovo, LG, Haier, Embraer, and Concha y Toro. Yet today, their research skills and brands out-innovate and outmaneuver the old champions like Apple, Electrolux, and Microsoft. Companies based in the BRICs punch above their weight class in global competition—as they indeed have to, because they are relatively new to international business, and their home base is still institutionally weak.

No manager should be let loose in international competition, no student of business should be given a diploma, no CEOs should cocoon themselves in the relative serenity of their advanced home nation without an exposure to the conditions, economies, business practices, and requirements of doing business in emerging countries. A tsunami of opportunities, with heady currents, awaits there.

Professor Farok J. Contractor
Rutgers Business School

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We wish to thank all the people who helped us through this project, in particular the entrepreneurs, managers, and workers who have been kind enough to share their experiences with us. We found amazing people in emerging markets, people who opened their doors to us, told us their stories, and, in short, helped us see a broader, certainly more complex and exciting picture of the realities in which they live and work. We thank all of them; this book would have been impossible without their help and generosity. We also owe a great deal to Susanna Siddiqui, who did an amazing job at integrating our work and improving its style and narrative. Thanks also to Melina, for her help in collecting and assembling data for the project.

—The authors

I owe special acknowledgments to several people, including my dad. The idea for this project initially developed through conversations I had with him during our walks through the countryside—and he believed in this work long before I did. I also wish to thank my wife, Sara, for supporting me throughout the project and especially in its most stressful moments; my mum and brother; Susanna; Sara Roberts; and my friends in Costa Rica, the UK, Italy, Brazil, Hong Kong, Nicaragua, Chile, Peru, the Czech Republic, and many other places. Thank you all.

—Luciano Ciravegna

My thanks, for many reasons, to Christina and Izabelle.

—Robert Fitzgerald

I would like to thank my former mentor late Professor John Dunning and Professor Farok J. Contractor, who supported me every step of the way in my professional development. Over the years my doctoral students have been an excellent pool with which to work and have stimulating intellectual conversations on new research projects. Their continuous encouragement and friendship made a profound impact on my career, and I dedicate this book to them.

—Sumit Kundu

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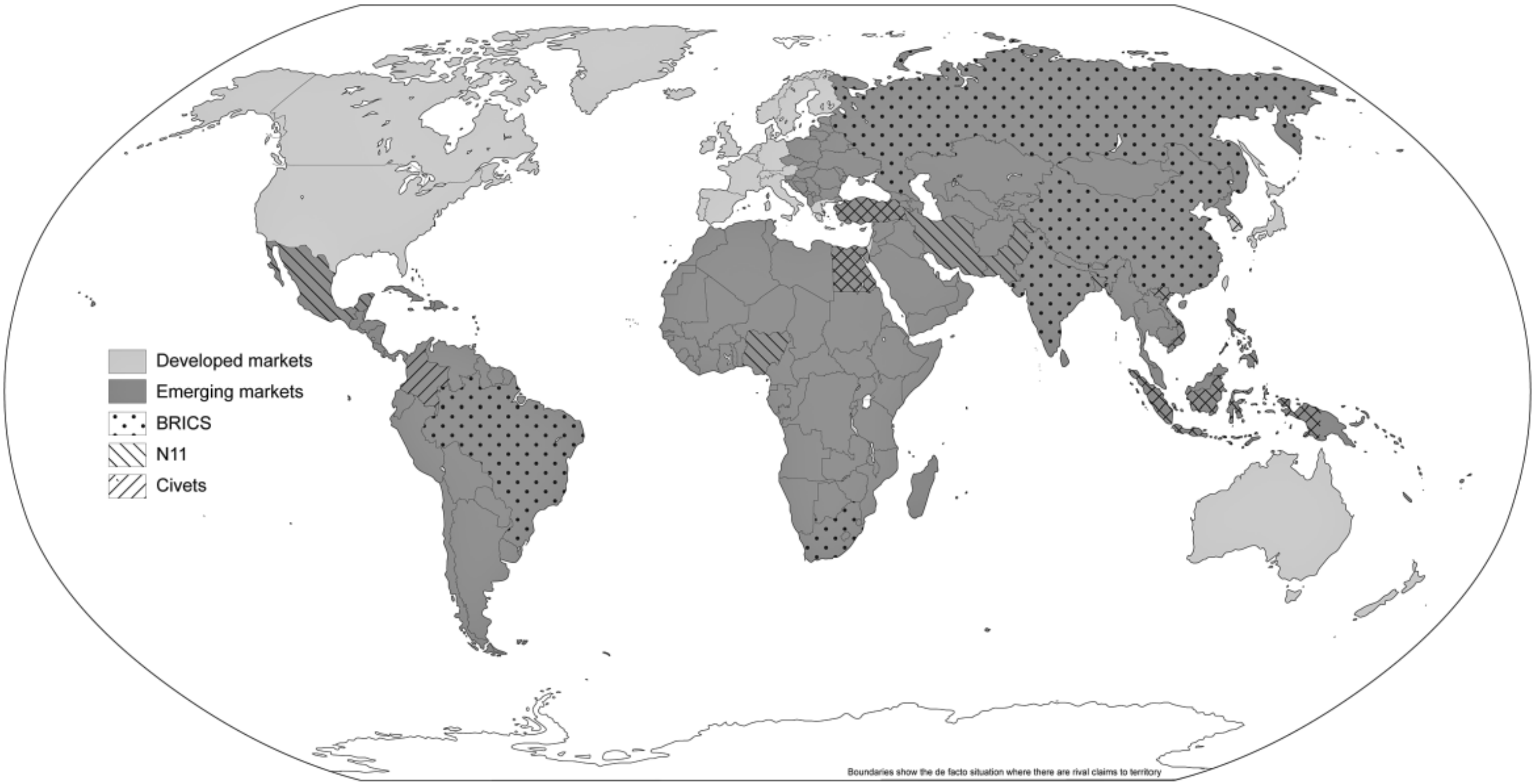
Dr. Luciano Ciravegna is an Associate Professor in Strategy and International Business (University of London, INCAE). His research interests include regional and global internationalization strategies, international entrepreneurship, and the impact of multinational companies on the countries where they invest. His focus is on emerging markets and emerging markets' businesses. His work has been published in several peer-reviewed journals, including the *Journal of International Business Studies,* the *Journal of Development Studies,* the *International Journal of Operations Management,* and the *Journal of Business Research.* He has worked on research, consulting, and policy advisory projects in Argentina, Brazil, China, Chile, Colombia, Costa Rica, the Czech Republic, El Salvador, Guatemala, Honduras, Hong Kong, Italy, Nicaragua, Peru, and the UK. His background includes a BSc at the London School of Economics, an MPhil at the University of Oxford, St. Antony's College, and a PhD at the London School of Economics. He is an alumnus of the United World College and a fellow of the Centro Studi D'Agliano.

Dr. Robert Fitzgerald is a Reader in Business History and International Management at the Royal Holloway School of Management, University of London, specializing in business history, comparative management, international business, and the economies of the Asia Pacific and Japan. He has written on human resource management and labor, business cultures, economic development, marketing and consumption, and business organization, often from an international and comparative perspective, and has recently completed a book on the rise of the multinational enterprise from the nineteenth to the twenty-first century.

Dr. Sumit K. Kundu is a Professor and James K. Batten Eminent Scholar Chair in International Business at the College of Business Administration at Florida International University. He has published several articles in prestigious journals—namely, *Journal of International Business Studies, Journal of Management Studies, Management International Review, Journal of World Business, Journal of International Management, Journal of International Marketing, Journal of Business Research, Journal of Business Ethics, Journal of World Business, Journal of International Management, Leadership Quarterly,* and *Journal of Small Business Economics.* He has served as a chair and member on ten dissertation committees. Dr. Kundu has presented numerous papers at the Academy of International Business, Academy of Management, and Strategic Management Society conferences. He served as the track chair for the AIB annual conference in Stockholm, Sweden in July 2004; Milan, Italy in June 2008; San Diego, California in

June 2009; and Nagoya, Japan in June 2011. Dr. Kundu organized the Junior Faculty Consortium at the annual Academy of International Business 2006 conference in Beijing, China and the Doctoral Consortium at the annual Academy of International Business 2012 conference in Washington, DC. He has also served as the president and program chair for the Midwest Academy of International Business Conference in 2003 and 2002. He has worked for several global companies, such as Boeing, MasterCard International, Ingersoll-Rand, and Novartis, to name a few.

Emerging Markets, BRICS, N11, and Civets



Introduction

Emerging Markets and the New International Economy

The dawn of new the millennium heralded a new era where emerging markets assert themselves as the new driving force of the world economy. An era where the United States still maintains its leading economic and military position in the world while Europe's economic power—a legacy of its imperial past and leading role in the industrial revolution—gradually wanes. The axes of the world economy are changing in irreversible ways. Year by year, developed economies account for a lower proportion of the wealth, consumption, investment, trade, and technology generated in the world. The rise of emerging markets—their emergence after more than 200 years of being relatively minor players in the global economy—is causing one of the most significant shifts in the global economic and geopolitical structure since the beginning of the industrial revolution. This shift is less sudden and less immediately visible than spectacular political changes, such as the fall of the Soviet Union. And yet, it is altering the way in which we see the world: the markets most coveted by consumer goods producers and investors, the companies that conquer their respective industries and become global leaders, the cities and landscapes that are changing fastest. This shift is generating new business opportunities, supporting a new breed of competitive multinational companies based in emerging markets, and forcing established global leaders to adapt their strategies or face an inevitable decline.

Financial investors have been quick to spot the trend, developing a variety of instruments designed to capture higher returns from these fast-growing markets. Goldman Sachs led the trend, back in 2001, and much before anyone predicted the financial crisis of 2008, pointing to the BRICS and then in 2005 to the N11 as locations for new investment opportunities (for more information on the BRICS, N11, and Civets, please see the Appendix). Management books and business guides have been less quick to adapt—the vast majority of texts covering the subject of emerging markets have been written by finance experts, targeting mainly a finance-oriented readership (Moebius, 2012; O'Neill, 2011; Sharma, 2012; Van Agtmael, 2007). In spite of the effort of authors such as Khanna and Palepu (2010), academics have been slow in developing new models, strategies, and theories aimed at the thousands of companies, managers, and entrepreneurs interested in running non-financial operations in emerging markets. Business schools and management departments across the world continue to rely on texts, theories, and case studies written with a strong developed economy-centric mindset, suited to training students for a world where companies had U.S., Europe, and Japan divisions, and the rest of the world was often bundled together as "the rest." The world has changed, however, and for the better.

Between 2008 and 2013, emerging markets have contributed to approximately 80% of the world's economic growth, while unemployment, public debt, and recession have continued to dominate the economic and political discourse in Europe, the U.S., and Japan. Emerging markets own the majority of the world's natural resources, ranging from fertile land to minerals and oil. They have accumulated almost 80% of the world's foreign exchange reserves and are contributing to a rising share of global trade and investment. Some of the most prestigious developed economy firms, such as Land Rover, Arcelor, and Volvo, survive thanks to emerging market investors. Others, such as Nestlé, McDonald's, and General Electric, are betting heavily on emerging markets for their future growth. Meanwhile, companies based in emerging markets have become global leaders in almost every sector, ranging from baked products to smartphones, oil, gas, solar panels, telecommunication equipment, personal computers, refrigerators, airlines, and commercial ports. All of these factors give much visibility in the media to the shift in the balance of economic power between developed and emerging economies.

For decades, the big question for multilateral organizations, such as the UN and World Bank, for policy makers and academics has been why other economies have failed to catch up with the "Triad" (the U.S., Western Europe, and Japan). Since 2009, the world has awoken to the fact that emerging economies actually are catching up—and fast. Old industrial powers such as the UK and France are becoming less and less important in the global economy, while China, Russia, Brazil, Indonesia, Vietnam, Turkey, and other emerging markets continue to expand. The U.S. remains the largest economy in the world, but it has been struggling to recover from the 2008 crisis. Japan has lost its second position to China, an incumbent that prior to the 2000s had a smaller total GDP than Italy despite its population being about 20 times larger. It may soon appear anachronistic to catalogue the UK, France, and Italy among the world's economic powers. And it may soon be obvious that all the world's largest economies, with the exceptions of the U.S., Japan, and Germany, will be emerging markets. As of 2013, the rest of the world, the South, or the Third World, as these countries were rather disparagingly referred to for many years, already generates a higher share of global wealth than the developed world. Emerging markets already account for the vast majority of the world's population and land mass. What is surprising is that for many years, they only contributed to a minor share of the world economy.

The shift has been occurring for several years now. Having an "emerging markets" strategy has become a priority, not a luxury. In this book, we discuss the implications for managers and companies, providing a guide to different types of emerging markets and examining the risks related to operating in these environments. One of the most important take-outs of this book is that emerging markets have not "emerged" yet. They continue to be affected by poverty, inequality, and infrastructural deficiencies. Many are ruled by authoritarian regimes, armed violence and endemic corruption are more widespread and have more nefarious consequences than in developed economies, and large shares of their populations still have poor access to health, shelter, and education. This means, in spite of their current popularity and positive economic performance, most people in emerging markets live shorter lives, earn less, and have a less comfortable existence than in developed economies. It is precisely because of these reasons that emerging markets will continue to generate important business opportunities in the future. In most fields, ranging from infrastructure to banking services, there is a long way to go before these markets come close to reaching the levels of saturation we see in richer economies. And, as we illustrate in the second part of this book, there is no shortage of opportunities to develop businesses that generate healthy profits. For companies and managers interested in having a wider impact, we explore opportunities to achieve healthy profits while also directly improving the quality of life of the citizens in emerging markets citizens.

Emerging markets have by no means solved all their structural problems, but their general condition has been improving at a remarkable rate, which seems to have unsettled a long established assumption about their status of "periphery." Millions of people in Asia, Latin America, and Africa have seen some improvement in their living conditions; every year they earn more, spend more, and acquire access to new goods and services that improve their standards of living further. It is this accelerating change that has shifted the axes of the world economy, generating unprecedented business opportunities. Change also causes disruption, forcing people to acquire new skills and migrate, in line with Shumpeter's description of "creative destruction." The transformation of economies can disrupt the lives of those reliant on traditional sectors and ways of working, such as those in small-scale agriculture, and can draw large numbers into urbanizing or industrializing areas to exist in insanitary slums. Growth, while bringing benefits to many, can likewise push significant sections of the population into poverty, making them losers in the battle for scarce resources, including, in known cases, access to drinkable water. Economic change can bring with it the danger of rising social tensions or conflict between ethnic groups. Yet, it means by definition unleashing a country's productive potential and the opportunity to invest and profit, and thus contributing to local economic and social development in the long term. We have written this book to aid those who are willing to take a leading attitude and drive creation and to inspire those who are desperately trying to avoid some of the inevitable, destructive aspects of change, to stop clinging on to old ideas and strategies that are no longer relevant when faced with the shifts we have described.

In the year 2012, amid the untangling of the Euro crisis, some articles we submitted to refereed academic journals were rejected because fresh empirical information about business in emerging markets was deemed to be irrelevant, and insufficient for advancing the theory. The suggestions we received hinted, much to our surprise, that theory had to be advanced from a Europe- or U.S.-centric perspective. Our misadventures in the academic publishing arena illustrate the need for a change in mindset to a perspective where emerging markets cease to be an afterthought, something exotic but rather secondary, and acquire the more central status they deserve to have in the theory and practice of management. The presumption that good ideas, innovative products, and creative strategies are only the realm of the Triad is not only unacceptable because of its pejorative attitude to emerging markets, it is also becoming obsolete. Only the companies, entrepreneurs, and strategists that take this into account will make it as leaders in this new global context.

We believe that preparing the leaders of tomorrow is perhaps the most important mission of good universities and business schools. We realize that many of the theories we and our colleagues teach fail to take into account the structural features that make emerging markets different, losing much of their appeal to students eager to understand the current economic order. This is why we have decided to offer a comprehensive account of emerging markets that can complement more conventional material and provide a useful guide to business in emerging markets.

After extensive reading of publications on the topic of management in emerging markets, we were left with the clear idea, shared by our publisher, that a new approach is needed, one that takes emerging markets as its specific focus (Cavusgil, Ghauri, and Akcal, 2012; Guillen and Garcia-Canal, 2012; *Harvard Business Review,* 2011). We thus decided to start from scratch with this book rather than recycling old material and adding emerging markets as an afterthought or a modification of old models. Our objective is to provide the reader with a good basic understanding of emerging markets and a tool to help in the development of suitable operational strategies for those looking to locate businesses there. To do this, we have been engaged in a four-year-long journey that started in the theoretical realm, discussing what was missing in the international business and strategy fields, and involved hundreds of trips to interview managers and entrepreneurs working in countries in Asia, Latin America, and Africa to establish what was happening in the real world.

Our fieldwork, though tiring and time consuming, was very refreshing. We found that where the theory was lacking, practitioners were already putting into practice innovative solutions. As always, theory had not yet caught up with real life. Following the fieldwork, we sat together and discussed the topic extensively. We identified three main conceptual blocs, which form the three parts of this book. First, we identify the structural features that distinguish emerging markets from developed economies, explaining their common characteristics and also factors that vary strongly from country to country. Second, we propose an analytical method to develop emerging market strategies. Third, we discuss how emerging markets have changed our discipline, introducing new types of firms and making older theories obsolete. The aim of these three conceptual blocks is not only to inform our readers about emerging markets, but also to equip them with a set of flexible strategic tools that they can apply to their own cases.

More and more knowledge will be generated from and about emerging markets. This book is only a first step in a long path toward thoroughly examining and discussing how emerging markets affect management theory and practice. Nonetheless, we do hope that it will provide students and managers interested in emerging markets with an improved understanding of these economies. The book also contains some useful tools and exercises to help managers identify opportunities and risks and formulate strategies.

The term “emerging markets” may soon go out of fashion, just like “less developed” and “periphery” did in the past (see the Appendix, “From Third World to Emerging Markets: Definitions, Contents, and Meanings”). But emerging markets are here to stay—their economic and geopolitical importance is anchored in structural trends that will not be reversed. Many of them may never fully emerge, but most are likely to continue on a positive evolutionary path, generating more wealth, reducing poverty within their borders, and developing endogenous skills and capabilities. The characteristics of these economies are changing, though notably not necessarily in ways that make them more similar to developed economies. They are growing and evolving in their own way, and by doing so are affecting the very nature of international business and management. This book is a guide to management in this new era. Marcos Hashimoto, a Brazilian management professor and friend of ours, once told us “Brazil is not for beginners.” We agree and extend the logic to argue throughout the book that emerging markets in general are not for beginners—they are exciting but difficult, at times dangerous, and often frustrating. Most significantly, they are different. Hopefully, we can provide a useful companion on your journey of developing emerging market strategies.

Globalization, the Financial Crisis, and the Rise of Emerging Markets

At the beginning of the 1990s, the U.S. and its allies cheered the end of communism, imagining a world where capitalism, now unchallenged by other systems, would lead to unlimited prosperity. Fukuyama (2006), a famous political scientist, promptly declared "the end of history," hinting that the world's economic, political, and social systems had moved away from the dramatic imbalances and rapid changes that characterized the twentieth century to a more linear evolutionary path toward economic liberalism and political democracy. The early cheerleaders of these trends thought that through financial liberalization, privatization, and market deregulation, the U.S. and Europe would continue to expand and, by doing so, drive global economic growth, which in turn would also benefit emerging markets as a side effect. The financial crisis of 2008 shook all assumptions about the robustness of their economic growth. How did the crisis unfold and how were emerging markets affected?

Since the 1990s, rich economies, primarily the U.S., Western Europe, and Japan, have established a multitude of bilateral free trade agreements. They have encouraged (or pushed, depending on your perspective) other countries to sign up to multilateral agreements, such as the WTO. Meanwhile, European countries have engaged in one of the most ambitious multinational and intercultural integration projects in history, strengthening the economic union between the founding economies and integrating the countries of Eastern Europe immediately after they emerged from communism. They also introduced a common currency, the Euro, which was quickly adopted by all of the major European economies but the UK. Advances in the information and telecommunications industry, notably the diffusion of Internet connectivity and the associated advantages, have opened up new frontiers for business by lowering the cost and time needed to transmit information, including virtual money, across organizational and spatial borders. It seemed for a time that political and technological barriers to trade and economic growth were being broken down and a new era of peace and prosperity had arrived.

U.S. policy makers, unexpectedly freed of the USSR, their political, ideological, and military counter-ego, began to set ever more optimistic and ambitious objectives. Western European policy makers also rode the wave of optimism—they committed to integrating countries that had just come out of several decades of authoritarian government and centralized economic planning. The European Union, it was envisaged, would become a giant, multinational, multiethnic, multi-religious federal entity. The Euro was pushed through, despite the diversity of economic structures and the lack of agreement over fiscal policy, exit mechanisms, and ways to ensure rules compliances by member countries—the thinking at the time was that surely confronted by such an ambitious and ideal project, local politics would certainly converge and act for the common good.

Meanwhile, Japan, the poster child of development economists, a country that had become the envy of the West and the benchmark for all Asian countries, entered into a period of crisis and economic stagnation that has already lasted over 20 years. Because Japan's achievements had been outstanding, growth was expected to return, but, mysteriously, it did not. On the contrary, it was Japan's economic malaise that spread to the U.S. and Europe. Japan was the first developed economy to stall. While Japan stagnated, other economies in Asia, ranging from South Korea to Thailand and Malaysia, continued to grow at a very fast pace up to 1999, when speculation and a stock market boom turned into a widespread regional crisis. Unlike Japan, these countries rebounded fast, diversifying their productive structure and attracting more foreign investment, though in a more controlled and pragmatic manner than in the pre-1999 years. During that same period, China provided the most dramatic example of economic transformation since the development of the U.S.—it went through over 20 years of continuous economic growth, developing its infrastructure, generating one of the world's largest markets, creating export-intensive and low-cost manufacturing, and pulling hundreds of millions out of poverty.

Asia, the most populous and fastest-growing region of the world since the 1970s, anticipated the changes that were to occur at the global level (Hobday, 2003). Japan, the region's most developed and advanced economy, an inspiration for policy makers and management gurus alike, stood still while its poorer neighbors raced ahead. During the 1990–2010 period, China, India, Brazil, Turkey, Vietnam, Thailand, Indonesia, Mexico, Colombia, Ghana, Uganda, and Poland, among others, entered into a long period of sustained economic growth, which, despite temporary crises, transformed their economic and social structures, as well as their weight in the world economy. Remarkably, up to 2008–2009, the economic and political elites of the Triad did not take much notice of this dramatic structural change. Throughout most of the 1990s and 2000s, the Japanese stagnation was discussed mainly as an aberration, not as a warning sign. Policy makers in the U.S. and Europe were too preoccupied with liberalizing finance and providing access to cheap credit to sustain domestic consumption. Statistics seemed to justify these policies—inflation was low, GDP growth was positive, and productivity was improving. Real estate and finance booms especially benefited the rich but also provided funds for charities and governments, ensuring that the model was scarcely criticized or even discussed.

As the finance and real estate boom came to its moment of truth in 2007, the West entered a period of economic crisis that revealed all of the structural problems it had tried so hard to hide. It became evident that it was impossible to continue boosting domestic consumption by extending credit and maintaining low interest rates—in many economies, notably the U.S., household indebtedness was already reaching worrying levels. The real estate boom, which had contributed to economic growth and generated many jobs, had gone bust, leaving a long stream of bankruptcies, dispossessions, and idle construction workers. Aging populations, especially in Japan and Europe, mean that a shrinking number of workers have to generate enough wealth to care for a rising number of older people who are no longer in the workplace. The growing macroeconomic imbalances of most rich economies, especially fiscal deficits, public debt, and trade deficits, have become a primary cause of concern. In spite of technological progress, most developed economies have reached a point where they find it very difficult to achieve any economic growth. Emerging markets, by contrast, benefit from younger populations, unsaturated markets, and great scope to catch up and converge with richer economies.

The crisis has had dramatic consequences for business. Up to 2008, American, Japanese, and European companies focused mainly on the Triad, investing millions of dollars studying the sophisticated Triad consumer and trying to anticipate or determine the latest trends. As consumers passed from acquiring their first car, fridge, and TV, to substituting their TV for the fifth time, putting one in their child's bedroom, and buying their third video game console, they also became more difficult to lure. Triad companies segmented the market, creating ever new product niches. They have made cars safer, faster, and more comfortable, filling them with all sorts of amenities and gadgets. They have experimented with advertising techniques, hiring stars to promote the virtues of their products, and making adverts so costly and complex they are equivalent to short movies. They have sold safety, comfort, speed, eco-credentials, and friendliness in struggling to "build" brands that could command loyalty from such difficult consumers. In short, consumer companies invested in R&D and attempted to come out with ever more advanced inventions, some of which were fantastically successful (for example, the DVD), others irrelevant (the Minidisc). They competed fiercely to capture a share of demand, becoming more diversified and sophisticated. And yet consumers are now less likely to be loyal. Indeed, they defect easily to other brands, happy to have the growing availability and choice of products. They will complain and return any item with a defect, and delay their consumption until the next model comes out, and are ever more informed by means of the Web and other sources.

The vast investments that Triad companies undertook to sell a few hundred thousand additional fridges or cameras in Europe or the U.S. did not pay off. In 2008, the crisis hit. Negative trends were about to get much worse—and to stay that way. Meanwhile, good news came from unexpected places, such as Brazil, Turkey, Indonesia, and Vietnam. Finally, after decades of recovery, growth, stabilization, and painful reforms, emerging markets got the attention of economic and political observers. Investing in emerging markets, selling in these markets, and mastering the art of operating in them was not a sideshow or a curiosity anymore—it became necessary for American, European, and Japanese companies to survive. Large firms, such as Procter and Gamble and Unilever, which had long-standing experience of selling in very diverse markets, have benefitted. Companies from emerging markets have benefitted, too. Being based in fast-growing economies has provided them with the resources to expand internationally, develop new competencies, and build their brands. Firms that have traditionally focused on developed markets, such as Mazda among car makers or Barilla among food companies, have suffered.

Structure of the Book

Since the crisis of 2008, internationalizing to emerging markets has become a priority for U.S., European, and Japanese companies. Nonetheless, most of them continue to operate with a "developed world" mentality—they first address developed markets and *then* adapt strategies and products to suit emerging markets. This often leads them to underestimate the difficulties and risks of managing a business in contexts that are fundamentally different from those of developed economies. Succeeding in emerging markets entails accepting that they are different, and that a retooling of business models, products, and strategies in ways that can best exploit these differences is needed. This book provides a step-by-step guide to business and strategy in emerging markets. It is structured in three parts: The first part sets the stage for our analysis. It discusses the main features of emerging markets that companies and managers should examine to improve their chance of being successful in these economies, framing them in a theoretical and historical context. The second part provides a set of analytical tools to support the development of emerging-market strategies. The final part of the book examines the empirical and theoretical implications of the rise of emerging-market multinational companies, explaining their main features and their internationalization. Some of our chapters, such as Chapters 2, 3, and 9, are more theoretical. Others, such as Chapters 4, 5, 6, and 7, are more practical and strategic in nature. We believe that the combination of empirical, theoretical, and strategic insights of the book make it interesting and hopefully useful for different types of readers and for different types of purposes. We structured it in a flexible manner, so that readers can choose whether to read the whole content in a sequential way, read the chapters in a different sequence, or pick and choose the topics they wish to spend time focusing on.

In Chapter 1, "What Are Emerging Markets?," we "open the black box" of emerging markets and their most important characteristics and the different ways in which they have been defined. We explain the dimensions in which emerging markets differ from developed economies and point out their relevance for business. In particular, we examine the obstacles that make operating a business in emerging markets more difficult and often more costly. The chapter introduces the topic in a structured way for students, managers, and entrepreneurs who are not familiar with the complex and highly diverse world of emerging markets.

Chapter 2, "Markets and Institutions," provides a theoretical background for the book, examining some key concepts related to the generation of wealth in different economies. It traces the evolution of markets and institutions through ancient history, demonstrating how these differ across societal and cultural contexts. It is an important corollary for readers who lack an economics or political science background and are interested in finding out more about markets, trade, and economic growth.

Debates over the causes and implications of the rise of emerging markets normally overlook the earlier history of multinationals, predominantly from European and other industrialized countries, which invested in developing and underdeveloped territories, mostly in the southern hemisphere. Chapter 3, "A Historical Perspective," addresses this neglect, looking at two distinctive periods of the global economy: 1850–1914 and 1948–1980. The chapter is aimed at students and practitioners interested in acquiring a historical perspective of internationalization toward emerging markets and the challenges it poses for business.

In the second part of the book, we develop our conceptual model, which is structured in four steps: the identification of the "Determinants of Attractiveness," the analysis of Four Dimensions, the examination of risk and development of risk-management strategies, and, finally, the structuring of strategies to target different segments of emerging-market clients. In Chapter 4, "The Determinants of Attractiveness and the Four Dimensions," we discuss the first two steps of the model. First, we explain how to use the Determinants of Attractiveness as part of a structured effort to identify the reasons why it may be attractive to do business in a given market. Next, we explain how to examine the context where a business may operate by looking at the Four Dimensions: geography, population, business environment, and economic performance. We provide a set of analytical tools to help readers go through the steps of the model, collecting information and putting together its different aspects.

In Chapter 5, "Managing Risk," we discuss the risks of operating in emerging markets and ways in which they can be managed. We explain the different aspects and effects of risk, and provide a tool to examine risk that focuses on two dimensions—the extent to which risk can be predicted, and the extent to which it is general or specific to the business we intend to operate. We explain how this information can be combined with the analysis of the Four Dimensions to develop the background information needed to formulate successful emerging markets strategies.

The next two chapters are aimed at students, scholars, and practitioners interested in businesses that sell to clients based in emerging markets. Chapter 6, “Targeting Emerging Market Clients I: The Rich and the Middle Classes,” discusses strategies to target rich, upper-middle class, and new middle class consumers. It illustrates how these groups of consumers differ from each other and the extent to which targeting them entails emulating strategies experimented in developed economies. Chapter 7, “Targeting Emerging Market Clients II: Strategies for the Base of the Pyramid,” examines consumers at the “base of the pyramid,” which make up the majority of the populations of emerging economies, discussing different strategies to target these consumers in ways that generate profits but also contribute to improving their livelihoods.

The third part of the book discusses how emerging markets are changing the theory and practice of international management. Chapter 8, “Multinationals Based in Emerging Markets: Features and Strategies,” looks at how companies based in emerging markets differ from firms based in developed economies and how they have conquered leading positions in many industries. Chapter 9, “The Internationalization of Emerging Market MNEs: A Critical Examination of International Business Theories,” discusses how international business theory can explain the global expansion of multinational enterprises based in emerging markets, anchoring the information presented in Chapter 8 in a structured theoretical framework. The Appendix gives a brief account of the definitions that have been used through history to categorize economies according to their various features.

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