Managing Rapid change: Fast-Growing Enterprises and SMEs from Emerging Economies

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Introduction

Rapidly-growing enterprises (RGEs) can play a crucial role in emerging economies with lasting impact on their economic growth. This type of enterprises must manage the change to remain both competitive and flexible in order to survive. Similarly, the emerging economies are characterized by rapid structural change in their socio-economic institutions and traditional practices for gaining competitiveness to face the competitive pressures of the increasing globalized economy. In general, SMEs have the requisite flexibility to adapt to changing circumstances, to become a vehicle for enhancing competitiveness by upgrading their capabilities in a country, and thus become major contributors to economic growth. The added feature of RGEs is that they grow faster and achieve higher growth while facing more constrained resources than their SME counterparts. We posit that emerging economies face similar barriers and challenges and RGEs can provide valuable lessons for more effective management. Change in emerging economies is inevitable and will manifest itself at the firm, industry and institutional levels. Regardless of the original source, the instability resulting from rapid change need to be managed with a view to long term growth. For a firm to succeed in a dynamic emerging market, the lessons from other firms managing in dynamic emerging industries can be highly instructive.

Emerging industries are characterized by a rapid change in terms of the definition of industry, member firms' production function, relation with buyers, suppliers and competitors. This dynamism is in part due to evolutionary changes in technology, knowledge and also is an inevitable outcome of specialization, which allows for faster growth; but results in higher interdependence of firms internationally. Emerging economies will inevitably compete with the members of those new industries; and therefore it may be efficient to learn from the players that are creating and shaping the new competitive structure. RGEs contribute to enhancing technical progress by increasing the rate of invention and innovation, and the speed with which new technology is disseminated and adopted by other firms. Globalization has forced countries to interlink their economies (Armijo, 2008), increasing their interdependence and thus forcing them to react to, and respond to change, accordingly (Hoekman and Porto, 2010). Therefore, emerging economies are facing similar situations to those of RGEs: a changing reality resulting from technological advances and shifts in macroeconomic policies due to internal and external factors such as the dynamics of WTO, Trading Blocs, among others. Given the present need of emerging markets to raise their competitive levels, RGEs are highly-suitable models from which to learn how to cope with and take advantage of the new emerging environments. In this paper we describe RGEs ´characteristics in order to learn about the crucial tasks of managing the complexity of rapid change due to the emergence change. We also explore how the emerging economies can bridge, and even close, the gap with the industrialized economies and whether or not the rapidly-growing enterprises may play an important role.

The Characteristics of the Emerging Economies

Emerging economies are a group of countries that play an increasingly important role in the global economy. The term "emerging economies" was originally coined by the IFC to describe a fairly narrow list of middle-to-higher income economies as a subset of developing countries. According to Hoskisson, Eden, Lau, and Wright (2000), "emerging economies" are those newly industrializing countries that have adopted market-based policies. Khanna and Palepu (1997: 42) suggest that in defining emerging economies, "the most important criterion is how well an economy helps buyers and sellers come together."

They point out that the lack of proper institutions—relative to developed countries—make emerging markets more inefficient and incomplete, whereby information problems, misguided regulation, and inefficient judicial systems hamper communication between buyers and sellers. Bureaucratic judiciary systems, for example, make registration processes lengthier and costlier than in developed economies with a negative impact on transparency and providing fertile ground for favoritism and corruption. Labor markets are frequently highly regulated imposing additional costs on SMEs making them less flexible than otherwise (see Table 1).

Table 1: FIRM-SPECIFIC CHARACTERISTICS IN EMERGING ECONOMIES

Output market	**Input market**
• Low competitiveness • Limited international experience • Liberalization policies • Globalization	• Asymmetric access to information & to technology • Limited access to local and international capital markets • Poor dissemination of information related to international markets • Labor market
Managerial constrains	**Ownership structure**
• Lack of managerial expertise • Lack of consulting services • Lack of administrative structure	• Social ties between senior managers • Family-owned business

Sources: Adopted from Hoskisson et al. (2000), Khanna and Palepu (1997) and Mody (2004)

The institutional aspects of the emerging economies

Mody (2004) proposes another definition that emphasizes a) a high degree of volatility due to the transitional nature of their economic, political, social, and demographic conditions, b) the inherent trade-offs between flexibility in policy commitments, and c) the transition from transaction-specific to institutional commitments. The idea of a transition from transaction-specific to institutional commitments is appealing in view of the fact that such institutions must also subsume the socio-cultural dimension of the problem. According to

North (2005), economic performance depends on institutional heritage, economic rules and, how those rules are devised and enforced, and the specific institutional constraints of each market. In order to reduce rent-seeking, free-riding and morally hazardous behaviors, it is desirable to evolve from a transaction-specifics situation to a rule-based situation, whereby the agents involved in the situation are not relevant to, or cannot influence, the due-process. Having strong and clearly-defined institutions that enhance the performance of firms is a necessary, but not a sufficient, condition to guaranty economic growth. Clague (1996) finds that the characteristics and stability of political regimes have an impact on economic institutions. Similarly, Mauro (1995) argues that bureaucratic and institutional efficiencies are positively correlated with political stability and that poor countries tend to have cumbersome bureaucracy and inefficient institutions. Not only the rules need to be adequate for the circumstances, but also they must be enforced. As North (1990: 107) points out, institutions "are the underlying determinant of the long-run performance of economies". The greater the transparency in terms of information and access to efficient judiciary systems the lowers transaction cost of engaging in productive activities. Artificial national asymmetries and deficiencies, for example, limited governmental support and/or biases in favor of large companies that lobby the government, creates barriers for smaller firms to access to key resources, hence, hindering their competitiveness

Characteristics of Rapidly-Growing Enterprises

Delmar, Davidson, and Gartner, (2003), Ala-Mutka and Etemad (2006), Fischer and Reuber (2003), Birch, Haggerty, and Parsons (1993) and Keen and Etemad (2011 and 2012) have identified a very interesting group of companies called Gazelles or, in this paper, RGEs. These companies are characterized as smaller firms experiencing explosive growth for a sustained period of time. There are not industry-specific and are found in many industries, ranging from shoes manufacturing, construction to knowledge-intensive and pharmaceutical development. Their main common characteristic is fast growth in revenues, number of employees and revenue per employee. Naturally, this rapid growth in employment and revenues are the consequents of their expansion and further penetration in local and international markets. Most of them internationalize rapidly as well by climbing over international entry barriers effectively. These aspects should be of particular interest to developing economies because of their impact at least in three ways:

i) Primary and direct impact. Not only do they generate employment and incremental income but they also increase the total production of goods and service, as well as wealth, in a much shorter period of time than other enterprises.
ii) Secondary impact by providing a model to learn from and emulate their action -- the spill-over effects of their success to the rest of the economy would further contributing to the well-being of their region and possibly beyond, otherwise absent (i.e., when normally growing firms are inspired, learn from and emulate local RGEs)
iii) Benchmarks for best practices and world-class competitiveness. By aiming to succeed in international markets from the very beginning, these companies need to set their strategic horizons very high adopting the best managerial practices and strategies to achieve the competitive that would enable them to compete internationally at the outset.

They tend to select partners, whether suppliers or buyers, that share the same working philosophy and follow similar strategies to complement them. They function collaboratively and interdependently mainly as members of networks as opposed to operating independently. RGEs are in many cases the fundamental core of potential industrial clusters that radiate their momentum to the rest of the economy. They may or may not be a part of a regional industrial cluster; but they actively manage a smaller cluster of their own value net: i.e., an efficient network of buyers and suppliers involved in the both the supply and value chains that collectively generate higher value than their counterparts. This paper will return to the topic or RGEs in the next section. It will present and briefly analyze RGEs in order to examine their main patterns of strategic operations and rapid growth for adoption by the emerging economies to speed-out the transformation of their economic growth and developments.

Discussion

This discussion builds on the arguments presented earlier and explores the possibility of emerging economies learning from, and emulating, RGES in the developed economies to shorten the time and the path of transformation. In so doing, five broad influential topics will assist in examining different aspect of this examination, as follows.

The Need for Re-evaluation and Re-configuration of Advantages

In changing environments, property-based assets lose their potency relatively faster than elsewhere. As Miller and Shamsie (1996: 522) observe ¨most competitors will be aware of the value of a rival's property-based resources, and they may even have the knowledge to duplicate these resources¨. However, the knowledge-based resources, more likely to have a higher potentials for generating competitive advantages and growth. Furthermore, the firm has more effective control over the creation and deployment of knowledge–based assets than those of property-based assets. As mentioned earlier, in dynamic environments, firms are forced to gain productivity and meet world-class standards to keep pace with others. A key suggestion of this paper, based on the experience of RGEs, is that without learning and knowledge acquisition to give rise to knowledge-based assets, capabilities and competitiveness, the probability of closing the technological gap and reducing the income inequality will simply not be feasible. Technological gap can be viewed primarily as knowledge gap combined with the lack of process know-how to exploit the technology in a timely manner. Income inequality is in part due to comparatively inefficient of firm operation characterized by their growth rates.

In to the case of property-based resources, where competitor may develop the knowledge of how to replicate such resources and thus reduce the competitors' advantage, the traditional barriers (such as legal constraint or historical endowments) did not allow firms to acquire those resources easily. As discussed earlier, those barriers are eroding rapidly. In contrast, knowledge-based resources cannot be easily imitated by firms that do not already posses the requisite know-how. It would be difficult, costly or risky to replicate and time may not favour imitators. As Miller and Shamsie (1996: 522) argue, "knowledge-based resources allow organizations to succeed, not by market control or precluding competition, but by giving firms the skills to adapt their products to market needs and to deal with competitive challenges". Firms in emerging economies will have to learn how to adapt and to respond to international market needs relatively fast to reduce the risk of falling further behind.

The relatively static characteristics of the closed-economies, firms were not forced to possess the requisite capabilities to deal with complex situations. Aspiring firms will have to develop collaborative skills to develop and share knowledge to devise new routines and processes to deal with increasing more complex situations. Therefore, the transitional period can be characterized by an ongoing process of unlearning the old routines and the learning the new ones, mainly from more progressive firms such RGEs in order to cope with the new requirements of increasingly more sophisticated demand conditions and tougher competition.

The Need for Change in Managers Mindset and the Firm's Out Look.

On the one hand, there is a need to understand the implications of the changes in order to develop potentially different courses of action available and how they affect the industry and business practices. On the other hand, according to Weick (1995), the strategic decisions of managers depend on their cognitive structures and how they make sense of the environment. Enterprises need to understand any pending or intended change in a way that "makes sense" to them, fits into some of their interpretative scheme or system of meaning (Bartunek, 1984; Ranson, Hinings, and Greenwood, 1980). When firms face a different environment, such as new international competition, new suppliers and customers, there is a need for a thorough revision because previous symbols, values, and historical attributes may no longer be relevant to the organization that faces the new reality. It is likely that there will be irreconcilable inconsistencies between key labels used in the organization and the key concepts needed for comprehending and dealing with the new reality. The awareness of alternative actions is the key to proper action “in regard to the changes occurring in the data of the markets” (Mises, 1949: 255). Past actions, thinking and experiences that were concretized in norms, standards procedures, and job specifications of the near past need to be revised and in some cases unlearned because they do not reflect the emerging reality anymore. In the entrepreneurial literature, the entrepreneur is the person who has the ability to make the transition possible, to develop new ideas and to set the strategic directions. Firms need to be alert (Kirzner, 1973) to the signal from the markets. The alertness of managers to take advantage of new opportunities and to meet changing market conditions through discovery may be considerably reduced if firms do not change their dominant logic (Prahalad and Bettis, 1986) in order to develop novel strategies. Firms that conducted business for years in a closed economy without much pressure to innovate and to reduce costs, face insurmountable pressures to reinvent themselves. They cannot remain indifferent because their customers will be more demanding, their supply sources will be evolving as well as the competition becoming less forgiving.

(continuará en la próxima edición de Letras Internacionales)

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