Managing Rapid change: Fast-Growing Enterprises and SMEs from Emerging Economies (parte final)

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The Need for Re-examination of Industry Structure

In rapidly changing and complex environment, the rate of change may be overwhelming. Communication within the firm is crucial to assess weaknesses and strength, make sense of the new developments and reconfigure resources to respond adequately. Firms may have to collaborate with other firms, both local and international, to secure the scarce resources that may enable them to compete with the international companies in a timely fashion as opposed to developing them internally. Such resource-acquisition may require learning the necessary know-how for acquiring and deploying the new technology, or gaining the capability for developing them with others, which may also give them additional intangibles such as collaborative advantages, reputation, brand name by association with others.

The discussion suggests that smaller firms may seriously explore the option of becoming a part of a network (or networks) to attain the necessary requirements and accomplish their objectives, even though the costs may be high in the short-run; but they will enable increasing returns in the longer term. In this context, the resource-base view (RBV) of the firm provides a useful framework with which to identify valuable, rare, imperfectly inimitable and difficult to substitute resources (Barney, 1991). It also identifies the investments required to pursue international operations. However, the mere fact of identifying VRIN resources may prove insufficient to ensure competitiveness. The strategic process of renewal should emphasize resource reconfiguration, levering and deploying for catching-up with the international competition rather than mere resource selection as prescribed by the RBV. The focus not only should take into consideration the VRIN resources but also to include inimitable processes, transformation paths and positions that ensure SMEs' global competitiveness at the end, which also parallels the development of dynamic capabilities (Teece, Spence and Shuen, 1997) at the same time.

The Augmenting Impact of Networks

Smaller enterprises in emerging economies face major challenges in reinventing themselves rapidly and securing resources, which are further amplified due in part to the characteristics of emerging markets. Increasingly, networking is seen as a "primarily means of raising required for coordinating economic exchanges that fall in the continuum between market and hierarchies. Firms face increasing foreign competition in their domestic markets and the institutional inefficiencies that favor larger enterprises. In addition, they still do not have the requisite experience and industrial standards needed to expand into international markets. Joining, or operating through, a network can shield small firms as the network, as a whole, can be viewed as a larger firm in remedying, if not removing, some of constraints associated with the smaller and younger firms in terms of relative inexperience, limited flexibility, poor resources and capabilities . Regarding the necessary capability to navigate through macroeconomic and political fluctuations, or at times the unstable circumstances inherent in the emerging economies, Rauch argues that networks are different from markets because "their members are engaged in repeated exchanges that help sustain cooperation–collusion" and because "network members have thorough knowledge of each other's characteristics, which helps them match with each other or to refer each other to outside business opportunities" (Rauch, 200:1179). The ability to access, commercialize, and act as a broker of new resources, especially knowledge, is key to improving the competitive levels. In the case of RGEs, the concepts, and the associate practice, of social networks and the firm operating in a network are so intertwined in that it is difficult to distinguish one from the other. At the individual level, the entrepreneurs, or the owner-manager, who is the critical resource and the driver of business activities, can draw upon his social network to further enable the firm. At the firm level, the individual linkages can reinforce firm-to-firm or firm-to-network linkages. Etemad and Ala-Mutka (2006) report that the entrepreneurs of the fastest-growing firms in Canada called upon their social networks to help reduce, and even remove, barriers facing them, especially at the earlier stages of their life, at both the individual and firm levels. In the emerging countries, however, the above concepts may assume a different shade.

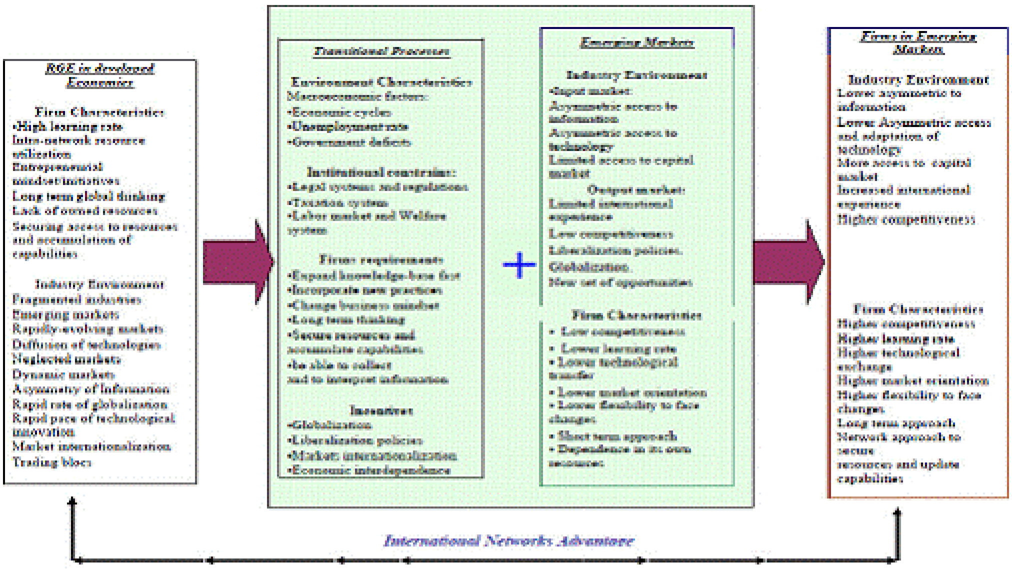
The ownership structure of SMEs in the emerging countries economies, as briefly discussed earlier, owner- managers are likely to be personally involved in most aspects of the operations of their firms. In particular, they tend to centralize important decisions and personally manage the relationships with the key players in their environment. Furthermore, SMEs from emerging markets have been insulated from international competition for a long period of time, which has affected the ways in which their managers conducted business. Neither were managers used to highly dynamic and competitive markets, nor were they familiar with collaborating with their international competitors. Consequently, such managers' perception of independence, individualism and trust plays important roles in their decisions in becoming a member of a particular network. However, their personal ties not only may increase the social capital of the networks, it may also reduce the likelihood of opportunistic behaviors, leading to increased cooperative and collaborative behaviours among individuals and their associated firms over time; but such personal ties are likely to be more national than international. Even those who act as brokers in enlarging the SMEs' opportunity set by creating exchange and sharing information among contacts can benefit from the flow of useful information. Such cooperative relations may enable SMEs to reduce, and even remove, the adverse impact of restricted access to information regarding markets standards, international tax systems, international market opportunities, demand and supply condition, among others, which help to compensate for the lower levels of institutional development in emerging economies. According to Burt (1992: 65), the existence of a "relationship of non-redundancy between two contacts" creates social capital for the actor who is able to link up with network member that possesses complementary resources. These discussions suggest that even redundant contacts can benefit firms as they can provide several benefits: a) increase the political leverage of firms at home, b) overcome institutional and managerial constraints, c) increase the SMEs' leverage in input markets and output markets and also d) facilitate SMEs' access to managerial experience and capabilities available in the network.

Bridging the Widening Gap between the Developed and Emerging Economies

As discussed earlier, technological innovation is taking place at unprecedented rate. A large part of such innovation is path-dependent by nature as they are the results of firm's long-term research and development (R&D), investment and commitments to cutting-edge knowledge and advancing technology for improving upon their knowledge-based assets, productivity, competitiveness and the consequent economic growth. This is in part a way to respond to the increased competition resulting from globalization, pro-market reforms and open-door policies, among others, which are demanding higher productivity and competitiveness from firms and countries alike. No one is immune: the more competitive and productive firms and countries gain higher market share at the cost to those who are less efficient. Firms and countries are subject to a lot of similar external pressures forcing them to experience instability and flux, continuous emergence and rapid change, and overall uncertainty; but they emanate from different sources and forces. For example, firms face the dynamics of rapidly-changing relations with both the external and internal stake-holders, which have their own motivations beyond the firm's control. Similarly, the relative state of flux and instability is inherent in the change and emergence of complexity in the emerging countries due to the ongoing dynamics of global trade and investment not fully controllable by any given country, or firm, regardless of size and stage of development. However, RGEs have shown the capability and resilience in adapting to enable their growth.

RGEs are also characterized by having entrepreneurial mindset, being market-oriented and adapting technology to meet their buyers' and suppliers' needs. They are learning organization in the sense that they constantly acquire, disseminate, and share both the information and its interpretation (Sinkula, 1994) with the final goal of sustaining growth in the long term. Furthermore, there is a common recognition that their growth depends on synergistic collaboration with the member of their supply and value chain. As discussed earlier, RGEs and emerging economies share relatively constrained resources and need to secure them to pursue their activities by devising innovative ways such as becoming a part of synergistic networks (Etemad 2004; Etemad, Dana and Wright 2001a), which forces a trade-offs between independent and interdependent modes of operations for securing access to vital resources to enable further growth. The added advantage of such networks is the possibility of learning from and with others through association as the rapid rate of change, emergence and complexity may not allow a firm or a country or learning by doing. Therefore, the above discussion suggests that RGEs not only are attractive models, and even instruments, for closing the gap between emerging economies, they can also grow faster than typical firms in their respective industries for augmenting growth-rates all around them. We have taken advantage of these similarities to propose a conceptual framework for the emerging economies to deploy, and learn from, RGE-like instruments to speed-up the emerging economies' growth rate. This framework is highlighted in Figure 1.

Figure 1 Key Characteristics of Rapid Growing Enterprises and Emerging Economies



Conclusion

In light of characteristics describe in this paper, the necessary condition for a SME to ensure long-term success in international activities is to aim their sights high, transform their organizational structures for responding to challenges ahead and attain the resources required for expanding to international markets at high rates and on sustained basis. It is also crucial that SMEs expand their knowledge base to meet world-class requirements and standards. Naturally, governments can play crucial roles in at least three influential fronts directly aimed at improving upon firms' productivity, competitiveness and internationalization: a) providing adequate education aimed at the basic tools to face the competitiveness and deal with the complexity of a global economy; b) putting infrastructural support systems in place to facilitate SMEs' transition towards networked firms at home and abroad; and c) Instituting transitional subsidies and inducements for SMEs to transform towards knowledge-based assets and increasing internationalization. Although the higher levels of education allow firm managers and investors to draw resources from a pool of qualified individuals and may also increase the likelihood of transforming inventions into innovations, which is another pillar of success in the international market, it takes some time and effort and will only pay-back in the medium to longer-term; but it needs to be done sooner than later, nevertheless. Similarly, infrastructural support systems are the necessary longer-term investments. However, inducements may be very effective in terms of time and costs as well as initiating an emulative process with high and rapid multiplier effects across the population of firms.

The sample of RGEs studied in this paper were young, small, pioneering and innovative firms that commercialized innovations not existing before and thus created incremental employment, income and additional wealth as opposed to resulting from shift in investments. Stated in popular terms, the RGEs presented in this paper enlarged the size of previously non-existing pie as opposed to increasing the size of the wedge of the pie at the cost to others. More importantly, their pioneering efforts set the standards for others to be emulated, thus diffusing the innovation in the allied industry. Stated differently, they rapidly constructed a bridge across barriers to unexplored landscapes that enabled further developments. From a country-level perspective, rapidly-growing enterprise may provide a viable model with an important role to play in rapid income- and wealth-creation. They may even have an important short-term impact on the economic growth of emerging economies while shifting the SMEs' emphasis is shifting from short-term aim of reaching profitability to attaining global competitiveness as soon as possible, which is the necessary condition for sustained growth in employment, revenue, income, tax-base and wealth. The distinction is noteworthy: the former is influenced by the local and short-term orientation of the investors and managers to see results, and probably exit, as quickly as possible; as opposed to international and longer orientation in the latter that invests for the long haul and expanded international opportunities, which reflects the operations of RGEs. By favoring the development of the latter-type of firms, governments will also develop an interesting policy instrument for both creating income and employment much more rapidly than the traditional models, while encouraging modernization in the industry and enhancing long-term competitiveness of the economy. The spill-over effects of RGE-type of operations should have a positive impact on the rest of the economy not only in terms of relatively-faster diffusion of knowledge, technology, best managerial practice and information about new market opportunities; but also on improve the subjective "business environment" of a country at a higher pace and in shorter time period. The demonstrative impact of such virtuous operations may even expand to the rest of the supply chain with a snowballing effect in the rest of the economy in term of improved quality-standards on the input side (e.g. intermediate goods, labor force, etc.) first and soon expanding to the entire economy.

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