Companies based in developing countries like Brazil have learned to be extremely adaptable," said Sergio Averbach, president, South America, Korn/Ferry International. "They’ve dealt with economic and political shocks, and not only survived but thrived. To do well in emerging markets, you have to learn to samba. These companies know how to dance."

Emerging-market multinationals (EMMs) do things differently from their Western counterparts. They are particularly adept at operating in other emerging markets. Because developing markets have the fastest-growing consumer demand in the world, this skill is becoming vital. Economic growth has slowed in the industrialized world. But G.D.P. growth in India surged to almost 9 percent in the second quarter of this year. China’s growth, while slowing, is still in the double digits.

Consumer demand among the vast numbers of people occupying the bottom of the pyramid is exploding, and no one is as well equipped to take advantage of that growth as corporations based in the developing world. EMMs know the cultures, the struggles and the mind-sets of the world’s poorest and most remote consumers. They are attacking these markets with energy and creativity, armed with an understanding of how to navigate the uncertainty rampant in less industrialized parts of the world.

Like the markets in which they operate, EMMs have experienced enormous growth. In 1995, just 20 companies on the Fortune Global 500 were based in nonindustrialized countries; this year, EMMs accounted for nearly one-fifth of the corporations on the list. The BRIC countries (Brazil, Russia, India and China) were well represented; China weighed in...
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FROM THE BOTTOM UP
By Victoria Griffith
with 39, India with eight, Brazil with seven and Russia with six. But smaller economies, such as South Africa, Vietnam and Malaysia, are also starting to make their presence felt.

South-to-south investing is booming. According to a recent KPMG International study of cross-border deals, merger and acquisition activity originating in emerging markets jumped 25 percent in the first half of this year, compared with the second half of 2009. “Deal-making confidence is returning far quicker in emerging economies than in their developed-market counterparts,” said Ian Gomes, chairman of KPMG UK’s High Growth Markets practice. “It is where the multinationals of tomorrow are being created.”

These changes are making an impact not just on financial performance but on accepted management techniques as well. “We tend to think of best practices as something belonging to Western companies,” said Michael Bekins, a specialist in Asian conglomerates with Korn/Ferry International. “But emerging markets have their own best practices, and in many cases they are working very well.”

The big picture is being painted with small strokes. When women in India throw their laundry into a washing machine made by the South Korean group Samsung, for example, they can rest assured that their traditional garments will come out just fine. They just turn the dial to a special “sari cycle.”

The Jordanian pharmaceutical group Hikma, which now operates in 42 countries, discovered that its generic medicines were unsuited to sub-Saharan Africa. High humidity levels, high temperatures and the lack of reliable refrigeration meant that the products were often going bad before they could be used. The group came up with ways to make its medicines more stable in these extreme weather conditions. Hikma also makes heavy use of illustrations in its instructional materials so that they are comprehensible to the large number of illiterate people who use the company’s medicines.

The success of the EMMs is forcing Western managers to re-examine their own techniques. Increasingly, they are looking to replicate some of the practices of the developing world. Here are a few of the principles worth following.

1. **Familiarity with local culture is vital.**

   Context can be everything when it comes to targeting underserved consumers. Take the expansion of Malaysian banks into Indonesia. Indonesia is home to more than 200 million Muslims, who make up almost 90 percent of the country’s population. Yet just 2 percent of banks in the country follow the rules of Shariah, or Islamic law, which, among other things, prohibit the charging of interest on loans. But, the number of banks adhering to Shariah law is expected to skyrocket.

   Financial groups in nearby Singapore and Malaysia are moving into this market in a big way. In June, Maybank of Malaysia announced it would convert its Indonesian unit, PT Bank Maybank Indocorp, into an Islamic bank.

   Islamic banking satisfies customers’ religious constraints by structuring transactions in different ways. For home mortgages, for instance, a home buyer does not borrow money from the bank. Rather, the buyer presells the house to the bank at a loss. The asset, in the hands of the Islamic bank, is technically assigned a higher value than it would have on the market. The home buyer then purchases the house under an installment plan, making monthly payments. The Malaysian and Singaporean banks have recognized the need for this kind of product and are moving quickly to secure their foothold in the market.

   When EMMs first move outside their borders, they tend to establish a presence in a nearby country. Neighboring nations do not always have a great affinity with each other. (Israel and Egypt, India and Pakistan come to mind.) But they usually do. Chileans, speaking Spanish, find it easy to make their way in Argentina, for instance. Jordanians are quick to relate to their fellow Muslims in Egypt. And even when emerging countries appear to have little in common, their differences often mask underlying similarities.

   Products that fit the needs of one poor market often do the job in another. Samsung, for instance, has come up with a memory chip that allows its washing machines to continue their cycles following a power failure, a common occurrence across the developing world. Trucks made by the Indian company Tata sell well in many poor countries. That is because most developing countries have a lot of bad roads, and Tata’s hardy, low-maintenance models were designed to take a lot of abuse on the road.

   A sketchy understanding of bottom-of-the-pyramid culture has caused corporations headquartered in industrialized countries to stumble at times. For example, Western telecommunications companies made a grave error when they tried to expand their operations to Latin
Take, for instance, the case of the Mexican construction company Cemex. After the economic downturn in the country in the mid-1990’s, Cemex executives began to look for new ways to make money. But most Mexicans, they found, were too poor even to dream of building their own home; 60 percent of the population earns less than $5 per day.

For decades, many poor Mexicans have financed big celebrations, including weddings, through a savings club known as a tanda. Participants, mostly women, form small groups, usually of no more than a dozen. Each week, they pay a small amount of money into the tanda. When enough money has been collected, a lottery selects one lucky member of the tanda to receive the entire pool. The social club continues to collect funds until every member has won the pool once. The default rate is low because members of the community police each other.

Cemex decided to adapt the tanda system for the purpose of home construction. Under Patrimonio Hoy, as the innovation is known, social clubs that offer winners home building materials and technical support are formed. More than 235,000 families have participated in the program over the last 10 years, collecting more than $110 million. The default rate of payment into the tanda system is less than 1 percent.
The program has proved so successful, in fact, that Cemex has expanded the initiative to Colombia, Costa Rica and Nicaragua.

Grupo Bimbo of Mexico, one of the largest bakeries in the world, knows its sales depend heavily on the financial health of the 450,000 retailers — mostly mom and pop shops — that distribute its product. Four years ago, the group launched a joint venture with a local credit union, FinComun, to extend microfinance support to these stores. Almost 20 percent of Bimbo’s retailers now take advantage of the program.

Hikma, the pharmaceutical group, recognizes that the lack of a regulatory structure in less developed countries can hinder market growth. Without a government vetting system, consumers have no way of distinguishing fake, possibly harmful, medication from the real thing. Over the last decade, the company has worked closely with the ministers of health in less developed countries to erect some kind of regulatory structure. “If the system is not safe and efficient, it’s not good for our business,” said Mazen Darwazah, former CEO of Hikma Pharmaceuticals Limited — Jordan and now vice chairman of Hikma Pharmaceuticals.

Local knowledge is important at all levels of management.

EMMs pay close attention to global experience, not just for their upper-level managers, but also for those just starting out.

Take Olam International, a Singapore-based agricultural company. The group recruits M.B.A.’s from Indian business schools and sends them for on-the-job training in remote villages in western Africa. There, they learn about the coffee and cacao crops. They get to know local farmers and discover which have better produce and which are better credit risks. The program has allowed Olam to lend hundreds of millions of dollars to small African farmers in return for better-quality and better-priced produce, with a very low default rate.

“It gives them a huge advantage over Western companies, who really come into the picture only once the coffee and cacao reach the ports,” said Peter Williamson, a professor at Cambridge Judge Business School. “American and European M.B.A.’s would probably not want to live long in an African village, and if they did, they’d want a driver, and their kids’ school fees paid for. You have to spend two or three years at the grassroots level, and that experience will follow you all the way up. You won’t get that experience if you’re in a high-rise glass building in the country’s biggest city.”

Bekins of Korn/Ferry said the shortage of local talent is a challenge for EMMs’ growth. Yet in many cases, these companies are approaching the issue much more aggressively than corporations in the West. In five to 10 years, their investments will pay off in a big way, Bekins predicted. Look, for instance, at the Chinese telecommunications giant Wawei Technology, he said.

“They are recruiting thousands of young managers to work in emerging markets all over the world,” said Bekins. “They are figuring out the business models needed to succeed. These managers don’t have anywhere close to the experience level of what you’d expect in the West for that kind of job. But they don’t need for all of them to succeed. Even if they get hundreds back a few years later with the right experience, that will serve them well. They are seeding their organizations, because they realize that these people may in five or 10 years become their senior executives.”

At the upper levels of management, too, EMMs often have an advantage over their Western counterparts. Many top executives at EMMs have studied in the West, so they know both their own culture and that of developed countries. They are usually fluent in English and often speak other languages as well.

Some observers believe Western multinationals should respond by stepping up their recruiting in emerging markets. “They really need to take more initiative in developing partnerships with foreign universities,” said Govind Hariharan, chairman of the economics department at Kennesaw State University Coles College of Business in Atlanta. “Few of them take this seriously.”

Yet these recruiting efforts may not be successful unless Western multinationals can convince emerging-market recruits that they will be able to climb the ladder. “There is a fear, in emerging markets, that if they take a job with a Western multinational, they will at some point hit a glass ceiling,” said Williamson. With emerging markets growing so quickly, aspiring emerging-market executives may sense that developing countries will give them better opportunities.

Know how to deal with risk, but do not be afraid of it.

Emerging-market managers seem to have an intuitive sense of how to make their way in other developing countries. They are accustomed to coping with uncertainty and chaos in their own cultures and take that knowledge with them.

Ramamurti gives the example of an Indian pharmaceutical company that sent a young executive to Argentina a few years ago to test the waters in that market. The young man had no experience in Latin America and when he left India, he did not speak any Spanish. His bosses had low expectations for his success. But the cost of sending the low-level manager overseas was small and worth the risk, in their estimation. A few years later, the man had built up a successful operation in Argentina and using his contacts, he had begun to expand into other Latin American countries. Needless to say, by that time he had become fluent in Spanish.

EMMs do not view political instability, hyperinflation, economic shocks or even war as a reason to avoid certain markets. If they can see a way to make money, they will find a way to make it work. Commerce can survive all but the most precarious of situations. During the 1983 war in Lebanon and the decade of unrest that followed, visitors were often amazed to
see that commerce continued. Sidewalk cafes cleared when tanks came down the street, only to fill up again when the tanks had moved on.

When unrest and civil war hit Syria and the Sudan in recent decades, their financial systems teetered. Their currencies became so unstable as to be useless, and traditional banks were unwilling to finance trade. “We used barter to sell to these markets,” said Darwazah. “We got peanuts, marbles and other goods. When war hits, the Western multinationals close down. We find a way to continue to do business. And when things calm down, we’re usually in a better position to take advantage of that market.”

**Corporate structure is different in emerging markets.**

The corporate structures of EMMs often differ substantially from those of their Western counterparts. Industrialized countries are enamored with clarity. Western multinationals tend to focus on a single business — their core competency. If they stray too far from their main mission, they may be punished by stockholders looking for pure plays in a single industry. Gillette, for instance, known mainly for its razors, spent much of the 1990s facing analysts and shareholders disgruntled by its failure to spin off its battery and cosmetics units.

Emerging-market companies are messier. Some are huge state-owned corporations, like China National Petroleum. Others, like Reliance Industries of India, are privately held. They commonly have their hands in more than one industry. Tata of Mumbai has operations in steel, automobiles, trucks, tea, consulting, hotels (the Taj chain) and telecommunications.

The tendency of EMMs to operate in more than one
from their EMM competitors. General Electric, for instance, has adopted a policy of “reverse innovation” to develop products specifically for emerging-market consumers. The company used the approach to come up with its hand-held electrocardiogram device. Yet the group was following the lead of Mindray Medical International of China, a pioneer in developing low-cost medical equipment with its popular portable ultrasound device. “A few Western multinationals are getting the message and changing their ways,” said Ramamurti. “But we can’t forget that a lot of these techniques are originating with the emerging market multinationals.”

Mazen Darwazah

In the midst of the bombing of Beirut during the Israeli-Hezbollah war in 2006, the pharmaceutical group Hikma, based in Jordan, received a desperate call from the Rafik Hariri University Hospital in Beirut.

“They were running out of some important biotechnology drugs,” said Mazen Darwazah, vice chairman of Hikma Pharmaceuticals and former CEO of Hikma Pharmaceuticals Limited – Jordan. “The patients’ lives were in danger.” It turned out that the medicine was sitting at the airport. In the midst of the chaos, the drugs had not cleared customs.

Darwazah asked his managers in Lebanon to intervene. They drove to the airport, retrieved the drugs from the depot and delivered them to the hospital. “There weren’t even any invoices or anything,” said Darwazah. “But they had to do it. It was the right thing to do. It also showed that when everyone else runs away, our company is still there. It’s important for business ties.”

Forging strong local bonds has helped Hikma become one of the fastest-growing pharmaceutical companies in the world. Since its founding 30 years ago, its annual revenues have surged to almost $700 million. Last year, profits grew 36 percent. And the company’s expansion has been based in some of the world’s most challenging markets, mainly in the Middle East and northern Africa.

Establishing a reputation as a reliable local player has been key to the company’s success, according to Darwazah. “You have to have an understanding of local roots and culture,” he said.

The hardest people to build ties with are the poor and often isolated populations that account for a large portion of the demand in emerging markets. Hikma stresses charitable works that put its employees in direct contact with the poor. Under its Ramadan initiative, for example, the group not only donates food to the underprivileged but also encourages workers to share meals with the poor at the company’s facilities.

“By getting to know this group, we obtain valuable and hard-to-get information,” said Darwazah. “Some diseases, like AIDS and sometimes cancer, are taboo in certain cultures. People don’t talk about them. If you don’t have ties to the community, it will be very difficult to find a way to serve this market.”

A long-time correspondent for The Financial Times, Victoria Griffith covers business from Boston.