

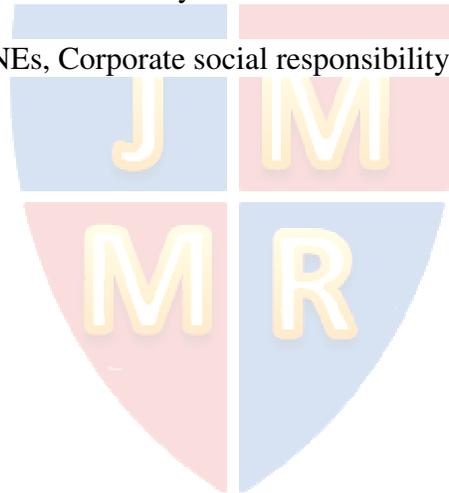
## Challenges for MNEs operating in emerging markets

Mohammad Ayub Khan  
Tecnológico de Monterrey, México

### ABSTRACT

This paper studies challenges faced by MNEs in emerging markets with a special focus on social responsibility issues. The emerging markets present great opportunities for MNEs in terms of huge consumer base, high demand for products and services and new business avenues. However, whether they are domestic or foreign, multinational enterprises (MNEs) operating in emerging markets face a variety of complex and multifaceted challenges. These challenges range from company-specific, to country-specific and global-specific issues. In broader terms challenges include MNEs' decision to pursue: growth paths; strategic direction; new management approach; risk management approach; and, social responsibility policies. The real challenge for MNEs is to achieve sustainable growth and profitability in these emerging markets while contributing explicitly and consistently to the overall well-being of the human-being.

Keywords: Challenges for MNEs, Corporate social responsibility, Emerging markets; Multinational enterprises



## INTRODUCTION

Majority of the world population lives in emerging markets which means that the world population is moving from basic need era to a more consumption oriented era. This tendency has created an environment for more new consumers of products and services across these emerging markets transforming them into huge consumption hubs for MNEs. Therefore, MNEs are looking at such developments as an opportunity to capitalize on and moving their business operations to these markets which traditionally used to be considered as low production or assembly centers. There are several examples of MNEs from developed markets moving into emerging markets such Brazil, China, India and Mexico to take advantage of the growing demands for a variety quality services and products from newly rich consumers. These markets are also experiencing a number of other positive developments in the field of institutional reforms, democracies, infrastructure improvement, information and communication technologies and international business agreements. Since, MNEs operating in the global markets influence and are influenced by the political, economical, social and cultural environment of the host countries (Diaconu & Cuza, 2008), for the last several years the emerging markets have been experiencing positive development in these areas too. Other positive influence of MNEs on host emerging markets is the overall contribution to the international trade balance of the host developing country by producing goods that used to be imported from developed nations. Lipsey (2002) suggests that MNEs have international experience and advanced technology and that is why they can be more productive than their local counterparts. They can offer better salaries to their employees and thus attracting quality local staff. Furthermore, MNEs have a positive influence on the other national firms such as making them more competitive, forcing them to implement modern methods and technologies, and to hire trained labor force (Malchow-Moller, Markusen & Shjerning, 2007). Emerging markets receive a number of other benefits from MNEs: improved balance of payments, increased exports; improved foreign currency reserves; reduced imports; reduced unemployment; improved fiscal position and access to higher technologies. To a greater extent both the host emerging market and MNEs can benefit from each other, but such benefits do not come without costs and challenges. Therefore, this paper is dedicated to study diverse challenges facing MNEs in emerging markets and propose some strategic actions for MNEs to overcome those challenges.

## LITERATURE REVIEW

### What is an MNE?

MNEs are companies or business corporations with operations (products and delivery of services) in more than one country. MNEs do not just mean Western or Japanese MNEs, but also a growing number of MNEs from emerging economies in Asia, Africa, and Latin America (Zhang, 2008). Other equivalent terms used for an MNE are multinational corporation (MNC) or an international corporation. A company or any overseas ventures are not considered MNEs unless they have substantial investment in foreign countries and actively manage those operations and regard those operations as integral parts of the company both strategically and organizationally (Bartlett & Ghoshal, 1998). Traditionally, the headquarter (HQ) or the corporate office of an MNE is located in the home country or the parent country of the company and its subsidiaries are located in foreign countries (host countries).

## **What is an Emerging Market?**

There is no one definition of the term “Emerging Market”. Some writers call these markets as developing markets or countries since their growth is fast, high and stable. Arnold and Quelch (1998) suggest few aspects which highlight the characteristics of an emerging market:

- Economic development based on the average GDP per capita.
- The relative pace of economic development, usually indicated by the GDP growth rate.
- Third is the system of market governance and, in particular, the extent and stability of a free-market system.

An emerging market is also described as a “society transitioning from a dictatorship to a free market-oriented economy, with increasing economic freedom, gradual integration within the global marketplace, an expanding middle class, improving standards of living and social stability and tolerance, as well as an increase in corporations with multilateral institutions (Van de Kuil, 2008).” Emerging markets/economies refers to those countries that are starting to participate globally by implementing reform programs and are undergoing economic improvement (Zhang, 2008). The phrase “emerging markets” is being adopted in place of the previous lexicon of “less developed countries,” “newly industrializing countries,” or even “Third World countries,” which emphasized the countries’ sources of cheap raw materials and labor rather than their markets (Arnold & Quelch, 1998). Emerging markets denote countries and markets playing catch-up: nations with an undeveloped industrial base and infrastructure on the one hand, but a rapid rate of growth (usually exceeding that of developed nations) on the other hand. In addition, emerging markets are often distinguished by some level of political and institutional instability, and ongoing demographic growth (Guillen & Garcia-Canal, 2013). Those economies outside of the developed world- US, Canada, Japan and Europe-are what are commonly referred to as the emerging market (Guarino, 2010). Fan (2008) suggests that emerging market is a term which refers to a country that has undertaken transition in its political or economic systems and experienced rapid economic development. Though there is no exact list of emerging markets in the world, however, China, India, Indonesia and South Korea in Asia; Poland and Turkey in Europe; Brazil, Mexico and Argentina in South America and South Africa in Africa are considered emerging markets. BRIC is another term widely used to describe the four largest emerging markets: Brazil, Russia, India and China. According to Boston Consulting Group (2013), China remains the most important emerging market in the world for multinational enterprises followed by Brazil and India.

## **Explaining the Challenges**

MNEs operating in emerging markets have good chances to establish, grow and sustain since these markets are getting stronger and better year after year. That being said MNEs should not forget that these markets are highly unpredictable, unstable and less profitable. Understanding diverse contemporary challenges facing MNEs will make them more comfortable and stable in these markets. Some of the challenges are described below:

- “Globalization may be a fact of life, but it remains highly fragile. Embedding global market forces in shared values and institutionalized practices, and bridging the gaps in global governance structures are among the most important challenges faced by policymakers and corporate leaders alike (Kell & Ruggie, 1999).”
- MNEs face other equally important challenges such as ability to adapt to the cultural differences, standards and practices (Sauvant, Maschek & McAllister, 2009).
- The challenge of political instability is traditionally associated with developing or emerging countries for MNEs coming from developed nations where MNEs from developing countries consider economic risk such as exchange rate risk as a greater challenge.
- Appropriate market segmentation, relating to the low spending power of the major part of the market and developing effective marketing strategies to apply in different sections of the transforming society (Zainulbhai, 2005) are other major issues facing MNEs in emerging markets.
- Balancing the price and quality; understanding the influence of institutions such as judicial system, political system, education system and mixes of traditional local culture and modern global culture (Zainulbhai, 2005).
- Industrial infrastructure is inefficient, lack of intellectual property right protection, high tariffs, expensive bureaucracy, ambiguous rules and regulations, monopolistic practices, control of distribution systems, unreliable and low quality suppliers and overall industrial manipulation (Bennett, 1995; Gutierrez, Spencer & Zhu, 2012; Luthra, Mangaleswaran & Padhi, 2005).
- High price sensitivity, local needs and limited purchasing power are the characteristics of emerging markets (Prahalad & Lieberthal, 1998).
- Absence of specialized intermediaries, regulatory system and contract-enforcing mechanisms are other critical issues in the emerging markets (Khanna, Palepu & Sinha, 2005).
- Other risks for MNEs are: transactional risks, income risks from operation, income risks from financing, and accounting risks due to fluctuations in the rate of exchange of the local currency. They also face political risks, inflation risks, bank instability, and legal risks.
- Corporate social responsibility is growing challenge for the MNEs operating in emerging countries. MNEs are expected to balance their role in economic development with social responsibilities toward the country in which they operate (Sauvant, Maschek & McAllister, 2009).

### ***The UN Challenges***

Since its inception the UN has owned the leadership role and a staunch advocate of promoting fairness and justice in different aspects of human societies concerning individuals, organizations and nations. The UN has always sought security, progress and prosperity for all mankind regardless of origin, ethnicity, ideology and political affiliations. As a universal belief that promoting equality and discard discriminations whether they base on gender, age, color or economic conditions have always remained the main principles of the UN. Since, the role of business and business organizations are critically important in uplifting the economic well-being of individuals as well as nations, the UN has not left a single stone unturned in establishing far

sighted guidelines for business organizations to follow while operating in different geographic areas in general and operating in developing countries in particular. For instance, the 10 principles of the UN Global Compact for business organizations to understand and respect while operating in different countries are (The UN Global Compact, 2013):

- Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence.
- Businesses should ensure that their own operations are not complicit in human rights abuses.
- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- Businesses should uphold the elimination of all forms of forced and compulsory labor.
- Businesses should uphold the effective abolition of child labor.
- Businesses should eliminate discrimination in respect of employment and occupation.
- Businesses should support a precautionary approach to environmental challenges.
- Businesses should undertake initiatives to promote greater environmental responsibility.
- Businesses should encourage the development and diffusion of environmentally friendly technologies.
- Businesses should work against corruption in all its forms, including extortion and bribery.

These different but interdependent elements of just and equal socio-economic development are grouped into four broader categories: Human right; labor relations; environment; and, anti-corruption (The UN Global Compact, 2013). In their global approach to do business MNEs are expected to voluntarily abide by these 10 principles by designing business management strategies and system that explicitly integrate areas like human rights, labor rights, environment protection and fighting the corruption.

### ***Human Challenges***

Diverse challenges facing the human society today are outlined below (The Millennium Project, 2014). Obviously MNEs are not operating in the space or in an open air and therefore, it is vital for them to understand and face these challenges successfully for the betterment of the human society at large.

- |                                 |                            |
|---------------------------------|----------------------------|
| • Global ethics                 | • Health issues            |
| • Science and technology        | • Rich-poor gap            |
| • Energy                        | • Global convergence of IT |
| • Transnational organized crime | • Long-term perspectives   |
| • Status of women               | • Clean water              |
| • Peace and conflict            | • Population and resources |
| • Capacity to decide            | • Democratization          |

### ***Business Challenges***

These challenges are directly related to business management issues including investment, profitability, competition and growth. Other broader management challenges facing MNEs operating in emerging markets such as:

- Market-segmentation
- Market-targeting
- Market-positioning
- Promotion
- Advertising
- Distribution

While remaining competitive in business and socially responsible at the same time is a tough call for MNEs operating in emerging markets. However, it is achievable by having an integrated approach to do business in that combining human needs with business aspirations and concurrently overcoming the most problematic factors (Schwab, 2014), as outlined below:

- Corruption
- Inadequately educated workforce
- Government bureaucracy
- Access to financing
- Inadequate supply of infrastructure
- Poor work ethic in national labor force
- Restrictive labor regulations
- Foreign currency regulations
- Poor public health
- Tax rates
- Inflation
- Crime and theft
- Tax regulations
- Government instability/coups
- Policy instability
- Insufficient capacity to innovate

### **Growth Paths Followed by the MNEs**

The growth path to follow by an MNE in emerging markets is another challenging task since there are diverse growth options available for MNEs to follow (Root, 1994; Bukley & Casson, 1998):

- Importing/exporting.
- Licensing & franchising.
- Direct investment (wholly owned subsidiaries).
- Strategic alliances (i.e., joint ventures).
- Or a combination of these options.

Several factors can cause the decision to opt for one or the other option. For example, the degree of risk associated with each of these paths; the need for control and coordination of your business; the need for locally responsiveness; the nature of your business; the relationship between the home country and host country of an MNE; and the size of the company. Other various characteristics of the target market such as market stability, industrial standards, level and type of competition and overall business environment can also influence the decision to select a particular growth option.

## Growth Strategies Used by MNEs

The decision to which growth strategies to be used by an MNE in emerging markets is also a critical task for the management to make. For example, in theory MNEs have the following strategies available to pursue in order to invest and grow locally and globally (Kourdi, 2009; Peng, 2006; Porter, 1985):

- Integration strategies including vertical (integrating suppliers and distributors) and horizontal integration (integrating with direct competitors).
- Product (offering a variety of products) and market (geographic expansion) diversification strategies.
- Aggressive strategies involving direct investment in emerging markets through wholly owned subsidiaries, acquisitions and take overs.
- Defensive strategies involving strategic alliances, mergers and equity participation for example.
- Generic strategies (cost leadership, differentiation and focus or specialization).

## Risk Management Approach of MNEs

The more risk you take the more profit you earn as the slogan goes in the business world. The business environment is dynamic and complex posing even greater risks for business organizations. Emerging markets primarily considered profit centers (i.e., low product and labor cost) by MNEs have grown tremendously creating new growth frontiers and consumer base. Operating successfully in these markets has become a business imperative for most sectors of the global economy. There are risks associated with investing in any new market, but the pace of expansion in these high-growth economies has resulted in rapidly changing and highly complex and diverse risk environments. Understanding market specific risk in early stages of the business expansion will help avoid many of these risks. There are all types of risks associated with the business environment in emerging markets such as bribery, corruption, facilitation fees, inappropriate gratuities, and gift giving. Other practices such as commercial bribery, vendor collusion, conflicts of interest, asset misappropriation, and fraudulent financial reporting have been reported in case of emerging markets (Boets, 2008). Guarino (2010) suggests that in the not so distant past, military coups, hyper-inflation and crippling foreign debt were also very common in the emerging markets. Emerging markets may present common risks as they get matured (Boets, 2008): Contract non-compliance; intellectual property theft; non-compliance with laws and regulations; and counterfeiting and gray marketing of high-value or high-margin products. Moreover, MNEs can face tough competition from the domestic companies who can focus on its homework; adapt more quickly to the changing conditions; and have access to the capital, technology and support from the local industry and government. They can take more risk at home and attract local talents (The Economist, 2013) by improving compensation programs, offering trainings and chanting the slogan of nationalism.

Given the diversity and complexity of the risks facing MNEs in emerging markets, Boets (2008) suggests establishing a risk culture, properly aligning organizational structure and risk management processes, and improving communications can create a strong foundation for better risk management in any market. MNEs may use the following approaches to handle risks:

- Investing in local markets (i.e. production, research and development, human capital development and infrastructure development);
- Offering quality products and services at convenience prices to host customers;
- Collaborating with local government, interest groups and industry players.

### **General Management/Leadership Challenge**

Managing an enterprise successfully in an emerging market is no easy task in many ways. The general management challenge for MNEs has three broader spheres:

- Management orientations adopted by the MNE (i.e., hiring managers from home country versus host country or other countries).
- Organizational architecture involving operational control mechanisms (i.e., relationship between HQ and subsidiaries and the division of decision-making authority).
- Corporate culture management (i.e. management practices, styles, work culture of home country versus host country). It involves either imposing home country's culture on host country, adopting local culture or bringing a cultural synergy between the two.

The general management philosophy and practice of MNEs should reflect not only business and transactional centered approach but also the general welfare of employees, managers, customers, community and small competitors must be safeguarded in a manner that should in-turn be beneficial for the MNE. Simply by having an inclusive management system whereby developing local skills and talent is a big step forward towards an integrated business management by MNEs. The negative perception of the MNEs of being rival to the local political and economic system and dangerous for the indigenous industries is removed by adopting integrated management philosophy and models. The Boston Consulting Group (2013) finds that MNEs with their entire top management team sitting in the headquarters can be outperformed by their competitors with some of their top managers handling frontline issues. Over the last few years, MNEs from mature economies have heavily increased their investments in developing countries (Dunning 2009), mostly in emerging markets. The role of foreign subsidiaries located in emerging markets has thus considerably increased. This evolution is raising new challenges for the relationships of MNEs with their foreign subsidiaries. In fact, subsidiaries of MNEs are embedded in their local environment (Hennart 2009), establishing relationships with different local actors including governments, suppliers, distributors, clients, etc.

Lenartowicz and Johnson (2007) find that there is no one size fits all solution for MNEs operating in foreign markets. Therefore, a combination of different strategies can be helpful here. These authors suggest few important steps in this regard:

- To attract the host nationals who are currently working or studying in the home country of the MNE.
- To hire people from the host country and give them intensive trainings involving corporate related issues, job related aspects and social issues.
- To improve the cross-cultural training provided to expatriate managers. And MNEs should invest in training their expatriates in both soft and hard skills.

MNEs have four possible management approaches to deal with subsidiaries as suggested by Bartlett, Ghoshal and Birkinshaw (2003):

- Coordinated federation: Strategic decisions, activities and assets are centralized in the HQ while operational decisions, activities and resources are assigned to local subsidiaries.
- Decentralized federation: Both strategic and operational decisions, activities and resources are assigned to local subsidiaries.
- Centralized hub: Both strategic and operational decisions, activities and resources are centralized in the HQ.
- Network or strategic business units: Both strategic and operational decisions, activities and resources are shared among business units based on the role and importance attached to each business unit. Under this management system, HQ and subsidiaries become strategic business units of an MNE sharing knowledge and coordinating jointly the operation and management of the company.

### **The General Environment Management Challenge**

Understanding and managing the general environment as shown in Figure 1 (Appendix) is critical for the establishment and growth of an MNE in an emerging market. An MNE environment consists of home-country stakeholders, host-country stakeholders and international institutions (i.e., financial institutions, regulatory bodies, trading agencies, and insurance firms). The global business environment is also characterized by: globalization and anti-globalization forces; regional trading blocs; privatization and deregulations; increasing use of information technology; workforce diversity; aging workforce; the emergence of strategic alliances; the emergence of new leadership and management philosophies and practices; quality-price imperative; short product life cycle; and outsourcing (Rugman, 2005). Other global emerging trends and risks facing the management and investors of MNEs identified by Krechowicz and Hiranya (2009) are listed in Table 1 (Appendix).

### **The Social Responsibility Challenge**

The social responsibility of companies is about the business contribution to sustainable development—how business can take into account the economic, social and environmental impact their operations will have on the society. It goes beyond philanthropy and compliance and addresses how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm (Zhang, 2008). The company social responsibility is defined as the duty of organizations to conduct their business in a manner that respects the rights of individuals and promotes human welfare (Manakkalathil & Rudolf, 2005). Recently, MNEs have been encouraged by many scholars to develop clear and specific codes of conduct that outline their objectives, duties, and obligations in the international markets in which they operate. The code of ethics should take into consideration the vested interests of both the host and home countries (Manakkalathil & Rudolf, 2005). While conducting business in emerging countries, MNEs are expected to be socially responsible in many ways:

- Being ethical.
- Law abiding.

- Economic contribution.
- Protecting consumer rights and interests.
- Respecting the natural environmental.
- Avoid all forms of discriminations.
- Promoting worker safety and welfare.
- Protecting shareholders.

MNEs have been and continue to be at the center of the debate regarding social responsibility, particularly the benefits versus harm brought by their operations around the world, especially in less developed countries. Consumer concerns and employee safety and welfare must be at the center of the MNE's growth and management policies and programs. MNEs should bring about positive impacts on host countries by providing managerial training, investing capital, new technology, creating jobs and improving infrastructure. MNEs responsibility has two extremes: one is producing goods and services and second solving social problems. A challenging task for the management of MNEs is to integrate the general social responsibility philosophy into its daily operational system. The general public (community) should believe that an MNE is serious about the issues like safe organization, quality organization and stakeholder orientation. MNEs social challenges also involve answering these critical questions and putting into practice actions in support of the belief that an MNE should not harm the social fabric of a society (geographic area) in which they operate (DeGeorge, 1993; DeGeorge, 1999):

- Should a company invest in a foreign country where civil and political rights are violated?
- Should a company go along with a host country's discriminatory employment practices?
- Whose standards should prevail if an MNE from developed country shifts facility to developing nations that lack strict environmental and health regulations?
- Whose standards should follow if an MNE chooses to fill management and other top level positions in a host nation with people from the home country?
- What is cultural relativism (do as the Romans do while Rome) and imperialism (expect others to do the way you do)?

One of the greatest challenges inherited by an MNE is to have a balanced approach to business objectives of cost efficiency, productivity and profitability, and social objectives (DeGeorge, 1993; DeGeorge, 1999). MNE's social objective should focus on producing more good than harm for the host country and respecting human rights and local cultures. Tan (2009) suggests that emerging economies gradually undergo fundamental institutional reform and become increasingly integrated into global economy; an improved understanding of corporate social responsibility issues in these markets has gained added significance for theory and practice. Bennet (2002) is of the view that multinational companies operating across borders should bear some responsibility for the effects of their operations on the local environment and population. Poverty reduction plans and business creation programs, as well as revenue-sharing schemes such as funding for foundations that support social development and environmental remediation, can all make a difference. Bennet, (2002), furthermore is of the view that many MNEs work under a social license and these companies are expected to help develop the region where they operate by hiring local employees, providing training programs, sourcing locally and consequently supporting the local economy. MNEs initiate community outreach projects to build

schools, hospitals and roads that may have little to do with their business interests. Multinational enterprises have both the power and the responsibility to foster goodwill among the people of the nations where they operate (Bryane, 2005).

## CONCLUSIONS AND RECOMMENDATIONS

Emerging markets are strategically important for MNEs. However, as described in earlier sections that these markets present:

- Political instability.
- Lack of rules and regulations especially concerning intellectual property right protection.
- Huge bureaucracy, red tapes and lack of transparency.
- Lack of availability of quality and reliable business partner.
- Local industries control of suppliers and distributors.
- Strong labor unions.
- Lack of financial resources and financial institutions.
- Lack of quality related and supporting industries.

MNEs may consider the following strategic actions in order to cope with these business hindrances:

- Collaborative approach to deal with the local government and bureaucracy.
- Strategic alliances with local suppliers and distributors.
- Investment in local infrastructure development.
- Developing local human capital by appointing host country managers and investing in training and development.
- Doing research and development activities in host country in order to avoid not invented here syndrome.

Both in the business and academia, it is a widely held belief that the overall impact of globalization of business organizations has brought positive outcomes for the host countries and as well as home countries. Such positive outcomes are economic, financial and social development including job creation, human resource development, infrastructure development including physical and technological and institutional reforms (establishing industrial standards, competition law etc.). Especially, such outcomes are even more visible in the context of emerging markets (countries) where development is at the embryonic stage and given the fact that emerging markets still struggle with uncertain and unstable political, economic and legal environment combined with poorly developed institutions, lack of market information and communication system. MNEs are expected to become more responsible socially in the larger interest of the business organization itself and the society at large. All relevant players including companies, social activists, investors, employees, consumers and government should establish long-term bonds in order to make this happen and identify further opportunities of collaborations and joint efforts. MNEs challenges in emerging markets are to exist and continue in one way or the other in future as long as it takes for these nations to bring about radical reforms and improvements in their existing modus operandi: economic reforms; institutional reforms, infrastructure development; human resource development; political stability and creating an investment friendly environment.

Zhang (2008) suggests that more than 2 billion consumers in emerging markets present profitable business opportunities and MNEs should focus on those markets to generate both profit and societal values. Zhang (2008) finds that while these markets are full of opportunities at the same time these markets are full of troubles and weaknesses such as: security, environment, health, bad or weak public governance and administration, lack of public transparency, high levels of bribery and corruption, poor records on human rights, inadequate environmental, safety and labor standards and high levels of poverty and inequality. MNEs operating in emerging markets have a number of viable options to counteract effectively and turn these challenges in their favor:

- Improve product and service quality.
- Improve information, production and marketing technologies.
- Improve economic competitive factors (labor costs, interest rates, exchange rates and economies of scale).
- Influence trade regulations by establishing close relationship with the Government and affiliation with associations (business, political or economic).
- Develop global orientation such as thinking and planning globally vis-a-vis locally.
- Hiring internationally experienced managers.
- Emphasizing on human resource and work policies and attitude.
- Investment in local research and development.

Furthermore, according Noorani (2001) MNEs should adopt long term business plans while doing business in emerging markets. Noorani (2001) is of the view that the high growth potentials of emerging markets will create social and economic imbalances which may make these markets unstable leading to political instability. MNEs should give greater responsibilities and flexibility to the managers of their subsidiaries in emerging markets in order to allow them to adapt best to the local needs. Many of the problems of the emerging markets can be solved by the local governments through introducing rules and regulations, developing soft and hard infrastructure and creating investment friendly environment. Khanna, Palepu and Sinha (2005) find that successful companies develop strategies focusing doing business in emerging markets and customize their approaches to fit each market's institutional context (locally responsive strategies). Arnold and Quelch (1998) recommend MNEs when planning to enter the emerging markets to consider a demand-driven model of market assessment and develop new frameworks to guide its product and partner policy decisions.

Finally, emerging markets will keep emerging and MNEs will keep profiting from these markets. Risk and challenges are part and parcel of business and business management. The more risk is taken the more profit is earned. These markets will contribute to the global economic and social development to a greater extent and MNEs should be partner in such development by playing their role of investors, job creators, tax-contributors, and social capital promoter. Businesses based on profit and loss sharing philosophy and practice are the ones to remain successful in the global economy.

**REFERENCES**

- Arnold, D. J. & Quelch, J. A. (1998). New Strategies in Emerging Markets. *Sloan Management Review*. Retrieved from <http://sloanreview.mit.edu/article/new-strategies-in-emerging-markets/>.
- Bartlett, A. C., Ghoshal, S., & Birkinshaw, J. M. (2003). *Transnational Management: Text and Cases*. McGraw Hill Higher Education. USA.
- Bartlett, C. A., & Ghoshal, S. (1998). *Managing Across Borders: The Transnational Solution*. 2nd ed. Boston: Harvard Business School Press.
- Bennet, J. (2002). Multinational corporations, social responsibility and conflict. *Journal of International Affairs*. pg. 393. Retrieved from <http://0proquest.umi.com.millennium.itesm.mx/>.
- Bennett, R. (1995). *International Marketing—Strategy, Planning, Market entry & Implementation*. London: Kogan Page Limited.
- Boets, I. (2008). Managing Risk in Emerging Markets: *An overview of common risk factors in emerging markets and lessons learned from organizations that have ventured into this arena*. Retrieved from [http://www.cga-canada.org/en-ca/AboutCGACanada/CGAMagazine/2008/Nov-Dec/Pages/ca\\_2008\\_11-12\\_bsin\\_feature.aspx](http://www.cga-canada.org/en-ca/AboutCGACanada/CGAMagazine/2008/Nov-Dec/Pages/ca_2008_11-12_bsin_feature.aspx),
- Boston Consulting Group (2013). Multinational Companies Target High Growth in Emerging Markets Despite Challenges. A BCG Survey Reveals That Execution Holds Back the High Ambitions of Global Companies. Retrieved from <http://www.marketwired.com/press-release/multinational-companies-target-high-growth-in-emerging-markets-despite-challenges-1830340.htm>.
- Bryane, M. (2005). Corporate social responsibility in International Development: an overview and critique. *ABI/INFORM Global*. pg.115.
- Buckley, P. J. & Casson, C. C. (1998). Analyzing Foreign Market Entry Strategies: Extending the Internalization Approach. *Journal of International Business Studies*, 29(3).
- De George, R. T. (1999). *Business ethics*. Upper Saddle River, NJ: Prentice Hall.
- De George, R. T. (1993). *Competing with integrity in international business*. New York, NY: Oxford University Press.
- Diaconu, L. & Cuza, A. L. (2008). The multinational companies and the emerging markets. Retrieved from <http://steconomice.uroadea.ro/anale/volume/2008/v1-international-business-and-european-integration/018.pdf/>
- Dunning, J. (2009). Location and the Multinational Enterprise: A Neglected Factor? *Journal of International Business Studies*, 40(1), 5-19.
- Fan, Y. (2008). The rise of emerging market multinationals and its impact on marketing. *Marketing Intelligence & Planning*, 26:4
- Guarino, P. (2010). Emerging Markets: Growth, Opportunities and Challenges. Retrieved from <http://www.elementiconsulting.com/insights/emerging-markets-growth-opportunities-and-challenges/>.
- Guillen, M. & Garcia-Canal, E. (2013). *Emerging Markets Rule: Growth Strategies of the New Global Giants*; McGraw-Hill, USA. Retrieved from <http://knowledge.wharton.upenn.edu/article/emerging-market-multinationals-new-giants-on-the-block/>.

- Gutierrez, B., Spencer, S.M. & Zhu, G. (2012). Thinking globally, leading locally: Chinese, Indian, and Western leadership. *Cross Cultural Management*, 19 (1): 67-86.
- Hennart, J. F. (2009). Down with MNE-Centric Theories! Market Entry and Expansion as the Bundling of MNE and Local Assets. *Journal of International Business Studies*, 40(9): 1432–1454.
- Kell, G., & Ruggie J. G. (1999). Global markets and social legitimacy: the case of the “Global Compact” available at [http://www.unglobalcompact.org/NewsandEvents/articles\\_and\\_papers/global\\_markets\\_social\\_legitimacy\\_york\\_university.html](http://www.unglobalcompact.org/NewsandEvents/articles_and_papers/global_markets_social_legitimacy_york_university.html).
- Khanna, T., Palepu, K. G. & Sinha, J. (2005). Strategies That Fit Emerging Markets. *Harvard Business Review*. Retrieved from <http://hbr.org/2005/06/strategies-that-fit-emerging-markets/ar/1>.
- Kourdi, J. (2009). *Business Strategy: A Guide to Taking Your Business Forward*. John Wiley & Sons. UK.
- Krechowicz D. & Hiranya, F. (2009). Emerging Risks: Impacts of Key Environmental Trends in Emerging Asia. Retrieved from <http://www.wri.org/publication/emerging-risks/>.
- Lenartowicz, T. & Johnson, J.P. (2007). Staffing managerial positions in emerging markets: a cultural perspective. *International Journal of Emerging Markets*, 2(3): 207–214.
- Lipsey, R.E. (2002). Home and Host Country Effects of FDI, NBER Working Paper No. 9293.
- Luthra, S., Mangaleswaran, R., & Padhi, A. (2005) When to make India a manufacturing base, McKinsey & Company.
- Malchow-Moller, N., Markusen, J.R., Schjerning, B., (2007). Foreign Firms, Domestic Wages, Working Paper 13001, NBER, Cambridge.
- Manakkalathil, J., & Rudolf, E. (2005). Corporate Social Responsibility in International Development: An Overview and critique. *Journal of Advanced Management*. pg. 29, 5 pgs. Retrieved from <http://0-proquest.umi.com.millennium.itesm.mx/>.
- Noorani H. (2001). Foreign Investment in Emerging Economies. Retrieved from <http://www.powerfulmethods.com/FIEE.pdf>.
- Porter, M. E. (1985). *Competitive Advantage*. Free Press. USA.
- Peng MW. 2006. Making M&A fly in China. *Harvard Business Review* 84(3): 26-27
- Porter, M. E. (1985). *The Competitive Advantage: Creating and Sustaining Superior Performance*. NY: Free Press, 1985.
- Prahalad, C.K. & Lieberthal, K. (1998). The End of Corporate Imperialism, *Harvard Business Review*, pp. 69-79.
- Root, F. (1994). *Entry Strategies for International markets*, San Francisco, USA: Jossey-Bass. pp. 1-3.
- Rugman, A. (2005). *The Regional Multinationals*. Cambridge: Cambridge University Press.
- Sauvant, P. K., Maschek, W. A., & McAllister (2009). Foreign direct investment by emerging market multinational enterprises, the impact of the financial crisis and recession and challenges ahead. OECD Global Forum on International Investment, OECD Investment Division. Retrieved from [www.oecd.org/investment/gfi-8/](http://www.oecd.org/investment/gfi-8/).
- Schwab, K. (2014). Reshaping of the World. The World Economic Forum 2014. Retrieved from <http://forumblog.org/2014/01/reshaping-world/>.
- Schwab, K. (2014). The Global Competitiveness Report 2013–2014 Full Data Edition. Retrieved from [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2013-14.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf)

Tan J. (2009). Multinational Corporations and Social Responsibility in Emerging Markets: Opportunities and Challenges for Research and Practice. *Journal of Business Ethics*, 1 (32): 55-75.

The Economist (2013). Multinationals in emerging markets, Must try harder. The ambitions of Western firms in emerging markets far exceed their efforts. Retrieved from <http://www.economist.com/news/business/21586320-ambitions-western-firms-emerging-markets-far-exceed-their-efforts-must-try-harder>.

The Millennium Project (2014). Global Challenges for Humanity. Retrieved from <http://millennium-project.org/challenges.html>.

The UN Global Compact (2013). The Ten Principles. Retrieved from <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/principle1.html>.

Van de Kuil, A. (2008). Strategies of multinational corporations in the emerging markets China and India. GRIN Publishing GmbH, <http://www.grin.com/en/e-book/117743/strategies-of-multinational-corporations-in-the-emerging-markets-china/>.

Zainulbhai, A. S. (2005) What Executives are Asking about India, McKinsey Quarterly, Special Edition: Fulfilling India’s Promise.

Zhang, F. (2008). Corporate Social Responsibility in Emerging Markets: The Role of Multinational Corporations; An Initial Paper for the Launch of the Foreign Policy Centre Project on “Corporate Responsibility in Emerging Markets” in association with Coca-Cola Great Britain.

**APPENDIX**

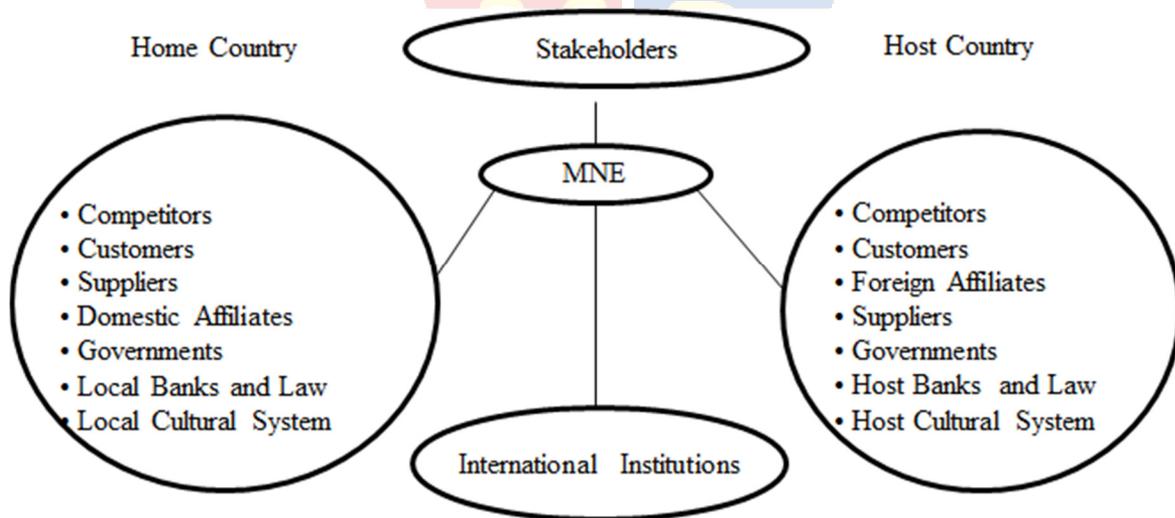


Figure 1 MNE Environment

Table 1 Global Trends and Risk Facing Investors

Trends	Risks
<ul style="list-style-type: none"><li>• Deforestation</li><li>• Water scarcity</li><li>• Climate change</li><li>• Food security</li><li>• Energy security</li><li>• Air pollution</li><li>• </li></ul>	<ul style="list-style-type: none"><li>Operational or physical</li><li>Regulatory and legal</li><li>Reputational</li><li>Market and product (standards)</li><li>Financing</li><li>Urbanization</li><li>Population growth</li></ul>

