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The INSEAD professor gives insights on emerging market economies that are unpredictable but highly profitable

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V. Paddy Padmanabhan says the developing world is one of rapid change—strict adherence to what worked yesterday may put you on the back foot.

Singapore: With a population of over a billion and growing, India remains a big consumption story, despite the economic slowdown, and is today attracting almost every leading multinational company to either expand its presence there or set up shop if it didn't have a presence there. One man in Singapore, V. Paddy Padmanabhan , is analysing this trend keenly, and studying what it will take for global companies to capture a slice of this lucrative market in India and other emerging economies.

Padmanabhan is the John H. Loudon chaired professor of international management at INSEAD-Singapore. He is also among the top 250 most highly cited scholars in the world in economics and business. His research has received numerous honours, including recognition as one of the top 10 most influential papers published in the 50 years of publication of Management Science.

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As the academic director of INSEAD's new Emerging Markets Institute, doing cutting edge research in this field, Padmanabhan presided recently over a workshop on campus titled Emerging Markets—Rebalancing the World. He says that the insights from that day gave a clear picture of a global business landscape undergoing tectonic shifts.

"To keep their footing in these uncertain times, business leaders will have to rethink not just one aspect, but the preconceptions underlying every step they take into unfamiliar markets and especially markets like India," he says.

Padmanabhan coaches some of the world's leading CEOs as well as leaders of start-ups across Asia, North America, South America and Europe, and provides them insights into how to break through emerging market economies that tend to be unpredictable but highly profitable.

His research focuses on business opportunities and challenges in developing economies as they relate to distribution, supply chain management and retailing.

Prior to joining INSEAD, he was the distinguished professor of marketing at the Olin School of Business, Washington University, and associate professor of marketing at Fletcher Graduate School of Business, Stanford University. He has also been a visiting professor at the Kellogg Graduate School of Management, Northwestern University, and INSEAD-France.

A question that he relentlessly pursues in his research these days is analysing what is the key to success for multinational companies in emerging markets.

"Is it a matter of strategy or execution, long-term coherence or the relentless pursuit of immediate market share and top-line growth?"

The question, he says, has been a trending topic in the business press lately, with no consensus in sight. What the debate has revealed is that multinationals, especially Western organizations, faced with an uncertain future, are trying to confine the changes expected of them to a single realm. "What may actually be required to stay competitive, however, is something else altogether."

As the global market faces a massive geo-economic realignment, multinationals are having to rethink every aspect of the way they do business.

How should they go about doing business to ensure success in the developing economies in this new world?

Most experts agree that in the decades to come, the faces at the forefront of the global economy will be much more diverse. Despite recent economic data suggesting a temporary emerging-markets slowdown, distinct changes have already emerged.

The number of North American companies in the Fortune Global 500 dropped by more than one-third between 2001 and 2013, while the number of Asian companies on the list more than tripled. Previously untapped markets in Asia, Africa, and Latin America are about to come into prominence with the emergence of a new global middle class that may comprise more than one billion people.

With this massive shift comes a host of challenges for major multinationals, including (but certainly not limited to) the finding, grooming, and retaining of local talent; innovating for a huge and diverse customer base who generally have less cash to spend than their Western counterparts; and managing the risks that follow from unfamiliar social and political tensions, said Padmanabhan.

Edited excerpts from an interview:

To keep ahead of the competition, what critical lessons should companies moving into emerging markets bear in mind?

First they need to get accustomed to scarcity.

“Two words Americans don’t understand are ‘debt’ and ‘scarcities,” Joergen Oerstroem Moeller, adjunct professor at Copenhagen Business School and Singapore Management University and former Danish ambassador to Singapore, told a recent EMI workshop held at INSEAD.

I could not agree more.

Essentially his point was that to repay debt, you have to under-consume in the future.

Moeller argued that global consumption will be crimped in future as many developed economies try to discharge massive debt burdens. The effect of debt combined with dwindling natural resources will also change the focus of the global economy from consumption maximization to sustainability. Major opportunities will thereby flow to businesses that find ways to eke out something extra from existing assets.

Alternatively, the enhancement of productivity; the development of more compact supply chains and moving to the “no-waste” model, will lead to the creation of “more from less” and ultimately, sustainability.

Hence, a clear global shift in consumption patterns from the developed world to the emerging one has commenced, as is evidenced in more production in Asia for the Asian consumer as opposed to the Western one.

What role will communication technology and innovation play in succeeding in emerging markets?

Serguei Netessine, chaired professor of global technology and innovation at INSEAD, and Karan Girotra, INSEAD professor of technology and operations management’s latest book, The Risk-Driven Business Model, looks at the way companies like Uber and Airbnb were able to disrupt ossified industries by creating innovations in their business models. These innovations may be easier to effect and require fewer resources than the much-touted technological innovations—namely big data, artificial intelligence and nano technology.

Netessine notes how even in the frantically innovating technology space, Chinese smartphone company Xiaomi was able to cash in on two-way communication with users—to the tune of more than $5 billion in annual revenue—by incorporating weekly upgrades that take consumer feedback into consideration.

These business model innovations require fewer resources and more creative thinking, which is no longer the domain of the Western innovator.

Many MNCs acquire negative goodwill in developing countries by focusing only on profits and ignoring the disenfranchised members of the economy. What should be done to avoid this misstep?

Businesses increasingly branching out into unfamiliar territories are finding themselves more and more dependent on partnerships both within and outside their organizations to help them adapt. Rather than seeing non-governmental organizations (NGOs) and the public sector as potential antagonists, multinationals may need to work more closely with them to manage the considerable risks that arise from attempting to tap opportunities at the base of the pyramid.

Supplying the neediest segment of the population with beneficial goods and services becomes less challenging when companies draw upon the local expertise and credibility of non-profits, foundations, and government agencies.

A more collaborative solution is also essential to bridging the talent gap. There is no shortage of hard-working and hungry employees in Asia; but in order to entice them to your company and keep them engaged, you will need to convince them that they'll learn something new every day. Widening the information funnel at the lower and middle management levels can help accomplish this. To improve their leadership pipeline, companies may also need to form close collaborations with local universities and recruiters.

What role will risk play in succeeding in emerging economies?

Corporations will have to become much more comfortable with uncertainty if they want to gain traction in emerging markets. As these markets rise to prominence, there will be growing pains and fluctuations in growth. Market supremacy over the long-term will belong to companies that are willing to ride out the dips.

In addition to fortitude, companies will need flexibility. The developing world is one of rapid change: strict adherence to what worked yesterday may put you on the back foot. The tension between short-term profits and long-term strategy is likely to increase. As always, it will take the firm hand of a gifted leader to guide the ship into safe harbour, and avoid being at the mercy of the winds.