Introduction

Key success factors and indigenous management practices in SMEs in emerging economies

In the international management (IM) literature, much research has focused on managerial policies and practices in the industrialized countries and the operations of multinational corporations (MNCs). In recent years, there has been growing interest among researchers on developments in emerging economies (EEs) (Luo & Tung, 2007), and small- and medium-sized enterprises (SMEs), including the launch of a new journal, the *Strategic Entrepreneurship Journal*, a sister publication of the *Strategic Management Journal.* This Special Issue (SI) seeks to address issues of interest in both areas, by identifying the characteristics of indigenous management practices as *key success factors* in organizational effectiveness of SMEs in EEs.

In 1981, the International Finance Corporation of the World Bank coined the term, "emerging economy" to denote middle-to-higher income economies in the developing world. Since then, the term has been broadened to include almost all developing countries with Gross National Income (GNI) per capita of $9265 or less. It is estimated that approximately 80% of the world's population live in emerging economies representing about 20% of the world's economies (http://www.investopedia.com/articles/03/073003.asp).

A 2004 survey of OECD countries revealed that SMEs accounted for over 90% of total number of enterprises in EEs. Furthermore, 60% of all companies in emerging economies are SMEs (*The Economist*, 13 November 2004). SMEs are responsible for 70% of foreign trade in China (Newberry, 2006). According to a recent report of Citigroup and Economist Intelligence Unit (EIU), SMEs in EEs are becoming more competitive and increasingly crucial for economic growth (Newberry, 2006). The report, based on a survey of 670 Asian organizations, revealed that almost one-half of the SME entrepreneurs expect to grow significantly in the future as "they think they can react and innovate more quickly and have closer customer relationships than their large corporate competitors" (Newberry, 2006).

Despite their potential to contribute to the world economy, SMEs face many challenges. The Citigroup/EIU report cited inadequate access to financial resources and investment capital as significant barriers to growth for SMEs (Newberry, 2006). These challenges might have accounted for the high rates of failure among SMEs, ranging from a high of 80% in the first 3 years of operation in the U.S. to over 50% in Australia, France and New Zealand (Mason, 2007; Switzer, 2007; http://www.mybusiness.co.uk/Running_a_successful_french_SME_is_no_easy_business.YcnrzR9oAI8d7Q.html). In the light of these daunting statistics, various initiatives have been launched to support and develop SMEs, such as the New Ventures Investor Forums, that bring together financial, government, and business communities to generate mechanisms to actively support SMEs. Business plan mentoring and management training for owners of SMEs are explored (Newberry, 2006). In general, the management know-how transferred to support the SMEs in EEs often emanates from North America (especially, the U.S.). The suitability and efficacy of North American management paradigms and practices in non-Western contexts have been questioned (Adler & Boyacigiller, 1996; Doktor, Tung, & Von Glinow, 1991; Gelfand, Erez, & Aycan, 2007; Jackson, 2002; Kanungo & Jaeger, 1990; Leung, Bhagat, Buchan, Erez, & Gibson, 2005).

To compound to the situation further, the countries that have been categorized as EEs are far from homogenous. While they tend to share similarities based on their historical background (e.g., autocracy, colonialism), subsistence system (e.g., heavy reliance on agriculture), political environment (e.g., volatility and instability, absence or under-developed institutional law and enforcement mechanisms), economic conditions (e.g., resource scarcity, insufficient technological infrastructure), demographic characteristic (e.g., young workforce, unequal opportunity to access high quality education), and socio-cultural context (e.g., high power distance, collectivism, high uncertainty avoidance) (Aycan, 2004; see also, Austin, 1990; Kanungo & Jaeger, 1990; Kao, Sinha, & Wilpert, 1999; Punnett, 2004), there are also significant differences among countries that are categorized under the broad rubric of EEs. For example, there are salient societal/cultural differences between EEs in East Asia than those in Central and Eastern Europe.

The differences between developed and emerging economies and the diversity within EEs themselves, coupled with the increasing evidence of success of business organizations in non-western contexts, have led to a growing interest in indigenous management theories and practices. In response to this need, specialized associations have been established to further our understanding of indigenous management practices. Some of these associations, with their respective publications, are the Asian Academy of Management and the *Asia Pacific Journal of Management*, the European Association of Work and Organizational Psychology, and the International Association for Chinese Management Research and the *Management and Organization Review.*

Marsden (1991, p. 36) defined 'indigenous management' as utilization of "...local, folk or vernacular knowledge and organizational methods, in the service of more appropriate developmental strategies." He asserted that "(I)ndigenous knowledge... may be the basis for building more sustainable development strategies, because they begin from where the people are, rather than from where development experts would like them to be. It is commonly maintained that these indigenous knowledge systems, if articulated properly, will provide the bases for increasing productivity." (p. 31). In this special issue, our objective is to motivate scholars to *articulate* these knowledge systems that can provide the bases for organizational success.

The papers included in this SI can potentially make significant contributions to the theory and practice of IM. From the theoretical point of view, understanding indigenous management knowledge and practices can facilitate our building of universally applicable theories and concepts (cf. Allwood & Berry, 2006; Kim, Yang, & Hwang, 2006). Furthermore, such knowledge can help us gain a better understanding of our own characteristics. As Punnett (2004) stated: "characteristics that are dominant in one culture tend to be recessive in another, and vice-versa.... By studying other societies where these features are dominant, they can develop concepts and theories that will eventually be useful for understanding their own" (p. xii; cited in Gelfand et al., 2007).

The issues and findings presented in this SI can also shed further light on the concepts of convergence, divergence or cross-vergence of management practices across countries. On the one hand, increasing economic interdependence in the era of globalization has facilitated the transfer of know-how among countries (Govindarajan & Gupta, 2001). On the other hand, the proponents of the convergence hypothesis (e.g., Kerr, Dunlop, Harbison, & Myers, 1960a,b) argued that industrialization would lead to greater similarities in management systems. Furthermore, scholars in this camp imply that convergence is towards the US management model, because the U.S. is the technology leader in the world: "Patterns in other countries were viewed as derivative of, or deviations from, the U.S. model" (Locke, Piore, & Kochan, 1995, p. xvi). The proponents of the divergence hypothesis (e.g., Oliver, 1991; Hofstede, 2001), on the other hand, have argued that cultural differences will remain as organizations are embedded in a complex system comprised of state,

regulatory structures, interest groups, public opinions and norms that limit their choices (DiMaggio & Powell, 1983). Full convergence is probably not likely to happen in near future (see also, Gooderham, Morley, Brewster, & Mayrhofer, 2004, pp. 18–19 for further discussion of this perspective).

A third approach that has been advanced is cross-vergence. Cross-vergence occurs "when an individual incorporates both national culture influences and economic ideology influences synergistically to form a unique value system that is different from the value set supported by either national culture or economic ideology" (Ralston, Holt, Terpstra, & Kai-Cheng, 1997, p. 183). Some scholars view *indigenization* as a process that resembles cross-vergence. For example, Sinha, Kao, & Wilpert (1999, p. 22) stated that "In essence, indigenization implies that what are useful and valuable in the two systems in the contemporary context are retained and integrated to generate a synergistic work culture that is not only congruent with socio-cultural realities but also functional and effective." We can perhaps go a step further by contending that the knowledge that is generated from this synthesis should be of value to both EEs and industrialized nations. Jackson (2002, p. 10) aptly stated that "Managing globally goes further than simply adapting effectively practices from one culture to another. Managers should ask themselves what could be learned from the humanism of South Asia and from Africa in managing global enterprises successfully." To attain this outcome, however, a fundamental conceptual shift is necessary: from a "hierarchical perspective of cultural influence, compromise and adaptation to one of the collaborative cross-cultural learning" (Holden, 2002, p. 58).

In this SI, we present seven papers that examine the management strategies of SMEs in six EEs: China, India, Kenya, Taiwan, Turkey, and Singapore. To uncover the key success factors of organizations, these articles followed the grounded theory tradition (e.g., Glaser, 1992), rather than test the fit of theories developed in the Western industrial context. This methodology is appropriate for the study of indigenous knowledge and practices. Radhakrishnan (1994), for example, criticized the examination of diverse practices through the lenses of Euro-American theories and constructs by referring to it as the 'I think therefore you are' syndrome.

The first five articles in this SI focus on the operations of domestic SMEs to capture the characteristics of indigenous managerial practices, whereas the last two articles delve into the internationalization process of SMEs to capture the hybridization process in management. The first article, "*Private Firms in China: Building Legitimacy in an Emerging Economy,*" by Ahlstrom, Bruton, and Yeh, examines various legitimization strategies of private firms in China and Taiwan. In line with our discussion on mutual learning, the article also highlights how MNCs in China learn from the legitimization strategies of domestic firms. The data were collected through semi-structured interviews with senior managers of 26 firms. The article identifies 12 legitimacy-building strategies used by firms in both China and Taiwan. The authors emphasize the importance of *guanxi* (relationships) and maintaining good connections with key

stakeholders in the region as a key strategy leading to organizational success.

The second article on African management, "*Untangling African Indigenous Management: Multiple Influences on the Success of SMEs in Kenya*," is based on the data collected from in-depth interviews with six CEOs of SMEs in Kenya. In this paper, Jackson, Amaeshi and Yavuz examine the operating culture, climate and commitment, motivation and reward, cross-cultural management, key success factors, and opportunities and constraints of six SMEs. The key finding derived from these six cases is that local managers tend to combine different approaches, as opposed to adopting purely Western managerial practices, to manage work relationships within a paternalistic framework. Paternalistic treatment of both in-group and out-group members is found to be an underlying success factor of SMEs in Kenya.

Similar findings with respect to paternalism are also revealed in the study of Saini and Budhwar, "*Managing the Human Resource in Indian SMEs: The Role of Indigenous Realities*," on human resource management in Indian SMEs. The authors present case studies pertaining to HRM practices, including recruitment, skill development, employee involvement, and law enforcement in two Indian SMEs. In this paper, the authors argue that paternalistic nurturance, benevolence and authoritarianism are essential to effective management of a workforce with low skills. As an extension of paternalism, informality in HRM policies and practices allow for greater flexibility in the overall management of these companies. A trusting and fraternal workplace climate also facilitates employee involvement.

In "*Performance Implications of Institutionalization Process in Family-Owned Businesses: Evidence from an Emerging Economy*," trust and interpersonal harmony are shown to be related to institutionalization and organizational performance in Turkey. Alpay, Bodur, Yilmaz, Boyvada and Arikan analyze the institutionalization process of 138 family-owned SMEs in Turkey. In the model proposed and tested in the study, interpersonal harmony within the family relationships was found to be associated with greater transparency, fairness and professionalism; which, in turn, resulted in higher firm performance as measured on both qualitative and quantitative indices. As in the case of India, formalization is not correlated with firm performance.

The fifth paper by Siu, "*Yuan and Marketing: The Perception of Chinese Owner–managers*," emphasizes the importance of harmony and trust in work relationships. The paper is based on a narrative analysis of interviews conducted with 46 Chinese, 26 Hong Kong, and 28 Taiwanese owner–managers and marketing executives of SMEs about how *yuan* (or fate) affects marketing practices. *Yuan* denotes predetermined relations with other things or individuals that are far beyond one's control. Some Chinese owner–managers believe that y*uan* can help them to identify prospective buyers and enables a more harmonious relationship between buyers and manufacturers. *Yuan* is also perceived to be an antecedent of effective relationship building, which, in turn, can lead to competitive advantage.

In general, the first five articles on the operations of domestic SMEs emphasize the pivotal role that trust and building good interpersonal relationships with stakeholders, employees, customers and other business associates can play in contributing to the success of SMEs in emerging economies. The importance of trust and good interpersonal relationships (in the form of social capital) has been acknowledged in the Western management literature as well. However, in industrialized countries, other factors such as empowerment, transparency, professionalism, accountability, and institutionalization tend to gain prominence over trust and good interpersonal relationships. In contrast, in EEs, where institutional laws are either absent or less developed, trust and interpersonal relationships take on extra significance in facilitating organizational performance and, hence, success.

The final two papers in the special issue describe the effects of SMEs' encounters with the international context. Based on an analysis of a longitudinal data set of 474 industries in China, in "*Dual-Edged Tools of Trade: How International Joint Ventures Help and Hinder Capability Building of Chinese Firms*," Li and Zhou found that forming international joint ventures (IJVs) with multinational corporations from industrialized countries has advantages as well as disadvantages for the capacity building (especially, innovative capacity) of local SMEs. The positive impact of IJVs on SMEs is salient especially for industries with low technology gap. In the last paper by Pangarkar, "*Internationalization and Performance of Small- and Medium-Sized Enterprises*," 94 SMEs in Singapore are surveyed to examine the impact of internationalization on firm performance. The findings revealed that internationalization of the SMEs positively impacts their performance. Knowledge transfer and learning occur especially in the areas of branding and marketing, technology development, financial and other managerial practices.

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