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Transforming Mental Models on Emerging Markets

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Economic growth in the Western world increasingly depends on meaningful engagement with emerging markets, such as Brazil, China, India, South Africa, and Turkey. Business schools are responding in their research and curriculums with increased attention to these markets. However, to understand and leverage these opportunities for teaching and learning, it is apparent that students and executives require a major transformation of their mental models, not simply incremental adjustments or extensions. Institutional economics can help prospective and established managers recognize the role of formal and informal institutions and enable them to work around the "institutional voids" in emerging markets (Khanna & Palepu, 2010). We draw on this framework to identify critical shifts in mental models required for managing effectively in emerging markets and suggest core elements of the management learning process required to accomplish such a change.

Emerging markets, such as Brazil, China, India, and others, have become important contributors to today's global economy. The combined output of the emerging world accounted for 38% of world gross domestic product (GDP; at market exchange rates) in 2010, twice its share in 1990. If GDP is measured at purchasing-power parity, emerging economies overtook the developed world in 2008 and are likely to reach 54% of world GDP in 2011 (*Economist*, 2011). Multinationals are turning their attention to these markets, and business schools have responded in turn by including such markets in their curriculums (American Council of Education, 2002; Doh, 2010; Friga, Bettis, & Sullivan, 2003; Navarro, 2008). In its recent report on globalization of business education, the Association to Advance Collegiate Schools of Business (AACSB, 2010) captures this:

> All signs point to a world economy with falling U.S. and European shares of world GDP, incremental demand, and sales to global firms. Companies must cultivate executives and managers skilled in overcoming distribution and service challenges to reach new markets and shift research and development (R&D), innovation, and design activities, over to new, emerging regions. The future of the world economy strongly favors business managers who can contribute to the great needs for talent in regions such as developing Asia.

Based on a recent survey conducted by the authors, (summarized in Fig. 1), the emphasis on emerging markets in curriculums is expected to grow even more in the coming years.

Research has demonstrated the critical role of mind-set in managerial effectiveness in international affairs (Beamish, 2008; Gupta & Govindarajan, 2002; Hofstede, 1991; Murtha, Lenway, & Bagozzi, 1998; Perlmutter, 1969). However, we find this insight has barely been applied to building a generation that must manage in the new global economy with its significant "power shift" toward emerging markets. This is evidenced by the fact

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that although the strategic implications of the emerging markets are clear, most executives stumble as the harsh realities of doing business in these [emerging] markets hit them. They recognize the long-term economic prospects, but agonize over the ambiguity and lack of transparency pervasive in many of these markets. Our observation, reinforced by several interactions with senior executives, is that managers have a mental model, a heuristic that works well in the developed markets, but does not extrapolate to the emerging markets.

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Our goal here is to argue that a shift in one's mental model is necessary to develop a deeper understanding of emerging markets and to present a learning approach to accomplish the same. We refer to the learners as "executives," as we think this message is applicable to all groups of learners who attend business schools: undergraduates; our prospective executives of the future; MBA students; and working professionals and senior managers, who attend our executive education programs. We begin by delving into the paradox of emerging markets: The growth opportunities attract investors but the lack of transparency, coupled with the ambiguity and the uncertainty pervasive in these markets, deter them. We then present a conceptual framework to understand these complexities in context by drawing attention to the fundamental arrangements that support the functioning of markets, namely, institutions (Alchian & Demsetz, 1972; North, 1991). We draw attention to the challenges associated with the absence of such institutions as commonly found in the "Western" world. Khanna and Palepu (1997) coined the term, *institutional voids*, which has been used by scholars to describe a wide range of issues in diverse markets (Baker, Gedajlovic, & Lubatkin, 2005; Deb & Marisetty, 2010; Jackson & Deeg, 2008; Li & Li, 2008; Miller, Lee, Chang, & Le Breton-Miller, 2009). We then identify five significant shifts needed in the mental models and lay out five core elements of an effective learning strategy to accomplish this shift.

THE PARADOX OF EMERGING MARKETS

The challenge of doing business in emerging markets is that although they offer phenomenal opportunities, they lack business safeguards familiar to most executives. Using a robust simulation model, Wilson and Purushothaman (2003), two Goldman Sachs economists, projected that by 2050, China's GDP could exceed that of the United States, and that the combined GDP of Brazil, Russia, India, and China, (which they termed as BRICs) would surpass the combined GDP of the G6, the six richest countries as of 2000. Their predictions have held up over the past decade. As of June 2011, China had edged past Japan to become the world's second largest economy, next only to the United States. The number of Chinese firms in *Fortune*'s Global 500 list presents an illustrative pattern of this trend. When the Global 500 list was introduced for the first time in 1990, hardly any Chinese firms were in the list. But the number grew steadily to six in 1999, 10 in 2000, 16 in 2005, and 46 in 2010. Three of the top 10 companies on the 2010 list are from China. Yet for all this, the Chinese capital market is to a large extent controlled by its government, and the regulatory systems remain unpredictable for most investors. The concerns for intellectual property (IP) rights overwhelm many of the investors whose sole competitive advantage is their IP.

Despite these dramatic changes in the global economy, the mental models of many of our students and executives remain stuck in the past. *Newsweek* columnist, Fareed Zakaria (2010), deplored the state of mainstream America by noting, "Americans do not really know how fast the rest of the world is catching *up*." To be fair, for much of the 20th century, many of today's "fast growth" economies were the same countries, which were in earlier decades being referred to as the "Third World," or "Developing World." As recently as a decade ago, the economic relationship of the West to these markets was dictated by trade in natural resources, punctuated by international aid toward poverty-alleviation. Postwar dominance of the global economy by the Western world meant that economists and business scholars paid scant attention to developing economies (Khanna, 2008). Mimicking the (modernized) Roman saying, "All roads lead to Rome," the economic equivalent during "*Pax Americana*" was that all business-roads led to New York for much of the past half-century or so. During this time, executives enmeshed in the developed world had the luxury of not needing to know much about the rest of it (Johnson, Lenartkowicz, & Apud, 2006). So, for a generation reared on affluence and predominantly domestic orientation, developing a new perspective on emerging markets is a significant challenge (Bingham, Felin, & Black, 2000; Earley & Peterson, 2004; Mintzberg, 2002; National Intelligence Council, 2008).

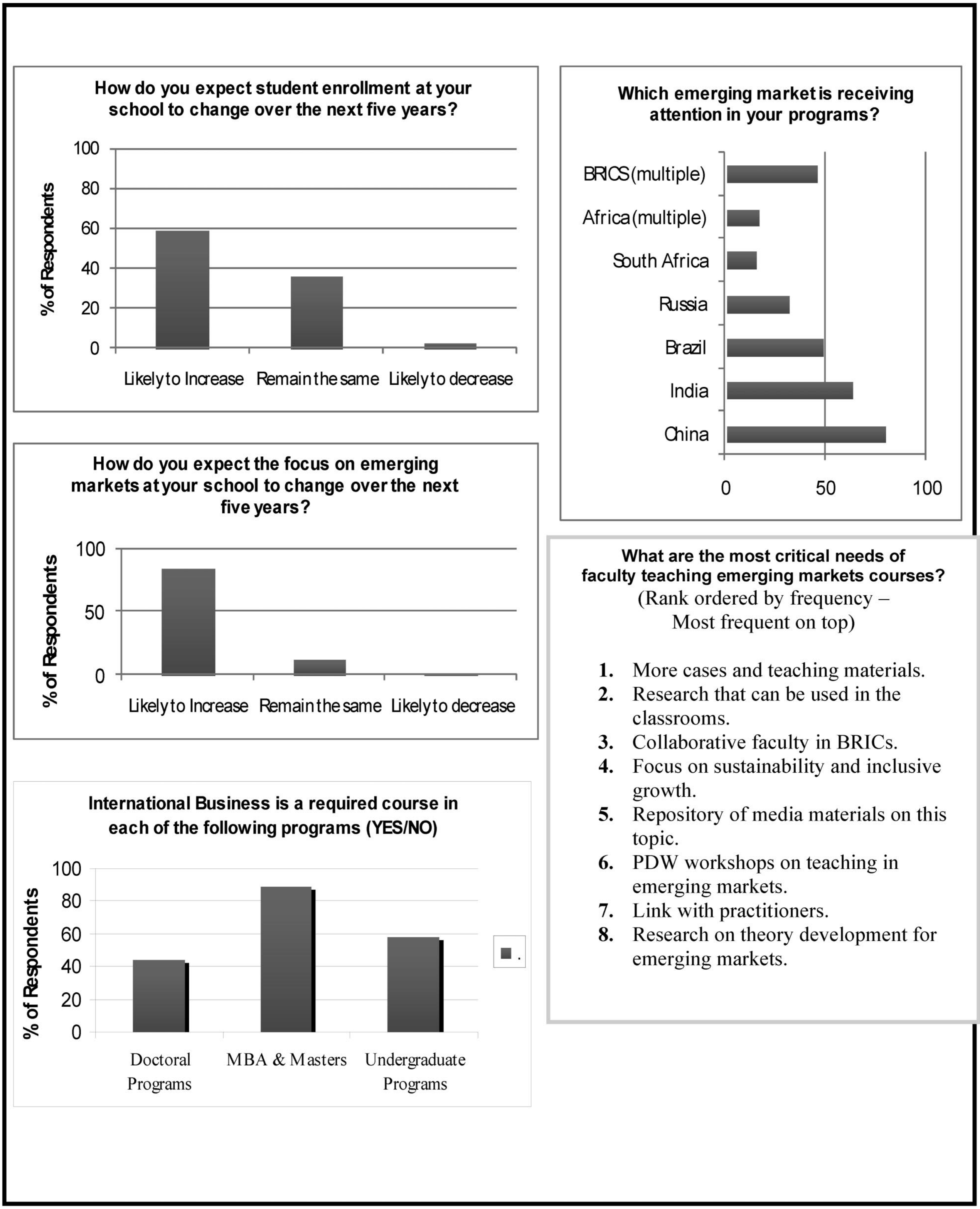

FIGURE 1

Survey of International Business Faculty on Emerging Markets. Survey by authors done in May 2011. *Note*: 69 institutions in 18 countries responded to the survey. Average student enrollmentinthese institutions was 285 MBAs, 438 undergraduates, and 9 doctoral students. Note that the percent respondents who expect an increase in the emphasis on emerging markets is higher than those who expect an increase in the school enrolment.

This context calls for a radical approach for educating Western minds on emerging markets. Critical to any such education is a conceptual framework that can address two important issues. First, it should impose some cognitive structure on the differences across emerging markets. Second, it should shed light on how these emerging markets evolve over time, perhaps along a multitude of paths. In essence, the institutional environment that directs and controls business activities should be brought to the foreground (Dhanaraj & Beamish, 2009). For example, Whitley's (2008) comparative institutional model integrates institutionalist approaches with the capabilities theory of the firm to help explain how environmental factors dictate how business systems evolve over time. London and Hart (2004), Ramamurti (2004), and Ramamurti and Singh (2008) present frameworks to deal with strategies of multinational enterprises (MNEs) in emerging markets. Here, we build on Khanna and Palepu's (1997, 2010) institutional voids framework, which provides a sound conceptual anchor for emerging markets.

EMERGING MARKETS, INSTITUTIONS, AND INSTITUTIONAL VOIDS

Nobel Laureate, Douglass North, had the insight that in order for economic markets to function in a country, there must be a set of "institutions" that direct the behavior of the citizens. North (1991: 97) defined "[i]nstitutions [as] the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights). Throughout history, institutions have been devised by human beings to create order and, in exchange, reduce uncertainty." Further, institutions "evolve incrementally, connecting the past with the present and the future; history in consequence is largely a story of institutional evolution in which the historical performance of economies can only be understood as a part of a sequential story. Institutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline" (North, 1991: 97).

The institutional approach helps to build a more realistic model than neoclassical economics, where perfect information flow between the buyers and sellers, frictionless transactions, and unconstrained market access for both the buyers and sellers are assumed (Alchian & Demsetz, 1972; Coase, 1937). It is well recognized that these assumptions do not hold true even in a developed market context, but in emerging markets, the violation of the assumptions has first order significance. Institutional economics posits that over time, socially constructed systems and practices—both formal and informal—assist in the creation of efficient markets. Consider intellectual property regime in a country. It consists of the patent laws that define the property rights of the inventor, an elaborate network of patent attorneys, an underlying system of education that supports the creation and maintenance of the property rights, and last, a court and arbitration system that enforces the rights of the patent owner. Along with these formal institutions, the intellectual property regime thrives on a culture of respect for intellectual property by individuals and organizations, aided by a social stigma for counterfeits. Institutions thus serve to create the "rules of the game" that govern the behavior. One of the critical observations of North was that while formal institutions may be created by legislation, informal institutions, which play a critical role in shaping a society, are harder to create and take a long time. In developed economies, when markets work well, "the market-supporting institutions are almost invisible," but when markets work poorly—as in most emerging economies—"the absence of institutions is conspicuous" (McMillan, 2007). Thus, a study of emerging markets is a study of the absence of the institutional mechanisms that permit buyer and sellers to efficiently come together, which Khanna and Palepu (1997, 2010) term "institutional voids." Their absence is pernicious.

Khanna and Palepu's (2010) contribution is to collapse the complexity of missing institutions into an easy-to-assimilate taxonomy of six classes of institutional voids. Figure 2 presents the typical voids that give rise to intermediary institutions. These voids might exist in markets for outputs (products, services), as well as markets for inputs (labor and capital markets). Being aware of which institutional voids characterize a situation at a point in time can allow managers to form a mental map of exactly how the context differs from others with which they might be familiar, and therefore, permit the identification of a meaningful adaptation of strategy and the formulation of a resultant action plan. Table 1 provides a summary of the description and examples of these intermediary institutions in each of product, labor and capital markets (see Khanna & Palepu, 2010 for a detailed description).[1]

[1] It is possible to complicate the model further. Thus, institutional voids are themselves influenced by the openness of society to the outside that might, for example, permit managers to access institutions from outside the emerging market in question. When capital markets are insufficiently developed, one might raise capital, to some extent, in overseas markets. When

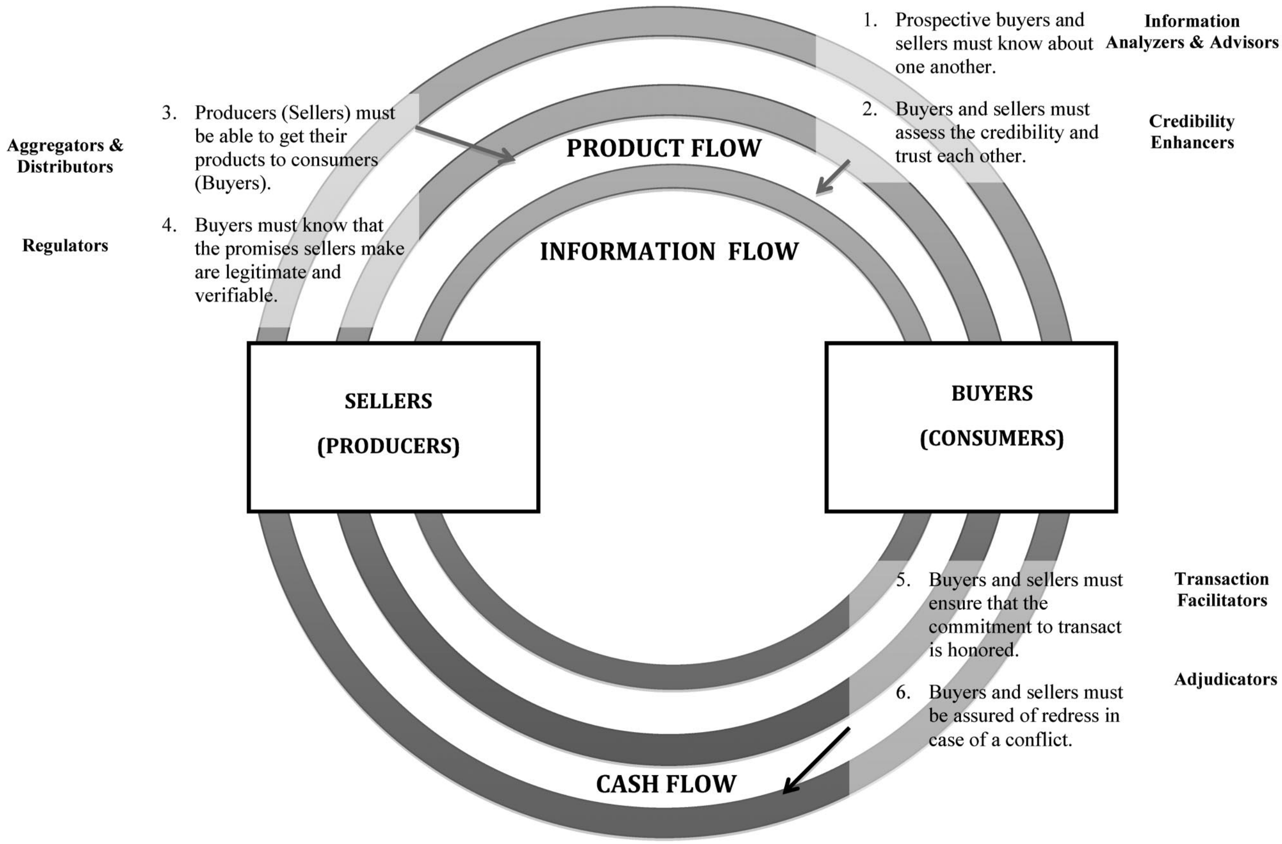

FIGURE 2
Markets and Institutions: Six Critical Intermediary Institutions

MANAGING IN EMERGING MARKETS: SHIFTING MENTAL MODELS?

The challenge for educators is to bring home this message and its implications to executive practice. Indeed, our goal as professional educators is to transform the mental model of the learners to the level where they not only understand the dynamics of these markets at an intellectual level, but also are capable of relevant action (Johnson, Lenartkowicz, & Apud, 2006; Mintzberg, 2002). For example, cultural generalizations and stereotypes often dictate executive thinking (Adler, Brody, & Osland, 2001; Levy, Beechler, Taylor, & Boyacigiller, 2007). Executives tend to interpret information to make it more consistent with stereotypes and often discount creative input from managers of countries associated with negative stereotypes as "primitive" (Alon & Higgins, 2005; Gupta & Govindarajan, 2002; Livers, 2007). The stereotypes persist, as many executives do not have a chance to travel and experience these places firsthand, making it a challenge to debunk and systematically confront them with facts (Hofstede, 1991).

Craik (1943) was an early proponent of the idea of a mental model, which he defined as a "small-scale model" of external reality and a set of possible actions for potential future situations (Argyris, 1991; Johnson-Laird, 1983). Peter Senge (1991) notes that mental models are "deeply held internal images of how the world works, images that limit us to familiar ways of thinking and acting" and that often, "we are not consciously aware of our mental models or the effects they have on our behavior." Mental models drive executive analysis and action, particularly, how executives interpret opportunities and identify risks (Gentner & Stevens, 1983; Rouse & Morris, 1986). If the models are obsolete, so will be the derived action (Gavetti, 2011). The criticality of mental models is reinforced by Foster and Kaplan (2001: 64), who suggest, "Few business strategies are elaborated today without recourse to mental models, which depict the corporation and its role in the market, the economy, the competitive landscape, and the world as a whole. More often they are implicit and inarticulate, and

local patent systems don't enforce intellectual property rights, one might file for patents in the United States or Europe, etc. See Dhanaraj and Beamish (2008) and Khanna, Palepu, and Sinha (2005) for such elaborations.

TABLE 1
Institutional Analysis Framework

Type of Market Institution	Function It Performs	Examples in Capital Markets	Examples in Product Markets	Examples in Talent Markets
Credibility Enhancers	Third-party certification of the claims by suppliers or customers	Audit committees; Auditors	International Standards Organization (ISO) certification; Capability Maturity Model (CMM)-level certification	The Association to Advance Collegiate Schools of Business (AACSB) certification; Educational Testing Services (ETS) admission tests
Information Analyzers and Advisers	Collect and analyze information on producers and consumers in a given market	Financial analysts; Credit rating agencies; Financial press; Financial planners; Investment bankers	*Consumer Reports* Magazine; J.D. Powers ratings; Press; Industry analysts (Gartner Group); Market research firms; Autobytel	Publications ranking universities and professional schools; Career counsellors; Human Resource consultants
Aggregators and Distributors	Provide low-cost matching and other value-added services for suppliers and customers through expertise and economies of scale	Banks; Insurance companies; Mutual funds; Venture capital and Private equity funds	Trading companies; Mass retailers	Universities; Professional training institutions; Labor unions
Transaction Facilitators	Provide a platform for exchange of information goods and services, support consummating transactions	Stock, bond, futures exchanges; Brokerage houses	eBay; Commodities exchanges; Credit card issuers; Paypal	Executive recruiters; On-line job advertisement websites
Regulators	Create and enforce appropriate regulatory and policy frameworks	Securities Exchange Commission; Financial and Accounding Standards Board (FASB); National Association of Securities Dealers (NASD)	Food and Drug Administration (FDA); Environment policy administration; Product safety commission; Federal Communications Commission (FCC)	Occupational Safety & Health Administration (OSHA); Equal Employment Opportunity Commission; Unemployment insurance agencies
Adjudicators	Resolve disputes regarding law and private contracts	Courts and arbitrators; Bankruptcy specialists	Courts and arbitrators	Courts and arbitrators; Union arbitration specialists

often hidden or invisible. But they are there nonetheless. We cannot function without them. They are essential to reasoning."

A key challenge for educators is to help managers discover their mental models about emerging markets and to ensure that they are aligned with reality. Our observation over almost two decades of teaching about emerging markets is that at least five major challenges bedevil students and executives, the contours of which are visible through the lens of institutional voids. First, given their primary experience with the smooth functioning of the markets in the West, students and executives view emerging markets as a problem to be solved rather than as an opportunity to be leveraged. For veteran businessmen, these markets are destinations for charity and not active candidates for business. The extensive role of governments in these markets appears overbearing to free-market enthusiasts. Most often, many freeze to inaction when confronted with the absence of familiar institutions, which may have served them well, albeit quietly, in their home markets.

From a Problem-Oriented Mind-Set to an Opportunity-Driven One

For an executive from the developed world, engaging with emerging markets can be a daunting experience. For example, India's poor infrastructure or China's government control can be a huge problem. Infrastructural bottlenecks, corruption, lack of transparency, and poor governance are ubiquitous in many emerging markets. These have fostered a mind-set of "Problem Ahead—Stay Clear" for many students.

Such a view of emerging markets purely as the locus of problematic regions is shortsighted. Executives routinely identify institutional voids as the underlying causes of the problems in emerging markets. Thinking *through* the institutional voids framework instead can allow executives to open their minds to explore these voids as opportunities; understanding the stages of institutional evolution can help executives see the problems in perspective. More than providing a positive impetus to the analysis, this new mental model can present new business opportunities. For example, creating a talent search firm to help sort through tens of thousands of workers and local executives so that users can effectively access talent, can be hugely profitable, as is the idea of creating a rating agency for products and services to fill in for the likes of *Consumer Reports*. Once such an intermediary business is set up to fill the void in question, strong entry barriers are created for others, and turns what was once a problem into an opportunity. Infrastructure in India is a trillion dollar opportunity with government signaling a serious commitment to it. China's fast changing IP regime is opening up a huge business opportunity for law firms and patent specialists.

From Charity-for-Desperates to Strategy-for-Confidents

If the uninformed view emerging markets as a "problem," there is another group with an anachronistic view for whom emerging markets are principally the habitat of the poor and the illiterate. These uniformed cannot conceive of a serious business exploration of such a market, and relinquish all engagement to the province of charity. For more than a century, the overwhelming policy approach to emerging markets has been dominated by what Stephen Cohen (2001: 4) terms the "charity" view. For example, Cohen describes American policy in the 1960s on India as being influenced by two contrasting viewpoints:

> The implications for U.S. policy were clear; India was barely a country; it was mired in caste conflict, social malignancies, and poverty. The Indian state had to look to its survival, not its greatness. Americans could, and should, help India climb out of this pit, but India was an object for American charity, not strategy. These two approaches, one optimistic about India's prospects, the other deeply pessimistic, have, when combined, created a bifurcated high-low American perception of India.

To be sure, every emerging market has a significant number of social issues it must contend with. Yet, the same countries also are the breeding ground for dynamic entrepreneurs and innovators (Khanna, 2008). General Electric has its largest R&D facility in Bangalore, India, which has and is investing substantially in innovative products for the health care industry. CISCO has just completed its $1 billion facility in Bangalore, India, which will serve as its second global headquarters. Microsoft has the second largest research center in Beijing, China. Eli Lilly and Company has 20% of its scientists in China—enough that its CEO shifted his office for a whole month to its Chinese subsidiary. There is a new breed of multinationals from these emerging markets with very innovative business models that are challenging the dominance of established MNEs (Ramamurti & Singh, 2008).

This generation of senior managers grew up at a time when international aid dictated policy discussions on emerging markets such as China and India. If the dynamics of institutions and markets are not factored in the mental models, executive thinking can remain frozen in the past and can be a major stumbling block to recognizing current reality. There are at least two reasons for this. First, aid has generally not worked, as is now widely acknowledged. Second, perhaps more significantly, the youth in emerging markets are more likely to respond to approaches that recognize their intrinsic talent, equal to that elsewhere in the world, than to patronizing charity. The newer generations entering business schools worldwide are, fortunately, less a prisoner of the charity view.

From Free-Market Stereotype to Moderated Market Reality

Although students and executives have a clearer notion of the divide between government and business in their home markets, they find the diversity of institutional environments they encounter in emerging markets confounding. For the Western mind, it is at first a shock to see the central role governments take in these emerging markets. In China, the 90-year-old Communist Party has a solid grip not only on political matters, but also is more actively interventionist in the nation's businesses. Government pervades every sphere of society, and it is inappropriate to equate government's ubiquity with inefficiency per se, as we often do with our experience of developed markets.

Even when the public sector is inefficient, it is gargantuan and a force to be reckoned with regardless. For example, the largely inefficient Indian public sector enterprises have a cumulative market capitalization that exceeds half a trillion American dollars, generate one third of the country's GDP, and employ a sizable portion of the labor force (Gupta 2003).

Much of the difficulty in comprehending the emerging markets stems from stereotypes that have not been grounded in history. Thinking about institutions as a product of history can help executives to see things in perspective. The dominant role of governments in the banking industry in most emerging markets is an example. The top banks in China and India are majority owned by the government, even though a significant number of shares are traded in the public domain. Much to the chagrin of the free-market economists, the United States' action to take an equity stake in Citibank and General Motors to stem the economic crisis was an effort to protect the economy from shock. Understanding the history behind the evolution of the banking industry in the United States and United Kingdom helps students to gain a perspective of the transitioning role of governments in emerging market businesses. How do we get our executives to think of the differentiated role of government in these communities, with differences of the order of magnitude of those illustrated above for China and India (see Khanna, 2008 for a comparative picture between the two countries)? At the risk of imprecision, a simple summary might be that the government in China (here, for "government" think of an ensemble of the local and central power structures) has alleviated the problem of physical connectivity of buyers and sellers (think roads and railroads), but has failed to address that of informational connectivity (free and unbiased information flows are underdeveloped), while India presents the converse situation. Institutional voids frameworks can provide a parsimonious way of incorporating such differences in the analysis of these markets; the framework clarifies the role of governments and of private collective action in attempting to respond to the voids, or to fill them (Khanna et al., 2005; Miller et al., 2009).

From Strategic Planning to Scenario Analysis

Most professional managers see strategic planning as critical to their success. While one can anticipate the evolution of the institutional environment in a country, it remains largely unpredictable over time (Mintzberg, 2002; Xiao & Tsui, 2007). When such uncertainty is coupled with fast growth, routine ways of planning for a market opportunity prove futile (Chang & Velasco, 2001). Growth opportunities may be stalled because of government indecision, or may suddenly emerge because of other unexpected policy decisions. Thus, emerging markets demand a dynamic approach (Khanna & Palepu, 1997). Further, a variety of differing development trajectories is consistent with any particular growth profile (Filatotchev, Dyomina, Wright, & Buck, 2001; Jackson & Deeg, 2008; Rodrik, 2008). To operate in such an iterative manner can be frustrating for many executives accustomed to long-term plans and strategy. Getting them to see the evolution of the markets and the relevance of scenario planning rather than strategic planning can dramatically improve their effectiveness (Chang & Velasco, 2001; Henisz, 2011; Schwartz, 1996).

Scenario planning is not specifically an emerging market issue. In many instances where there is high uncertainty, strategists have applied this successfully. Once executives accept the reality of uncertainty and the fact that uncertainty does not mean "unmanageable," they are able to work effectively. In a scenario process, as Schwartz (1996) suggests, "managers invent and then consider, in depth, several stories of equally plausible futures. The stories are carefully researched, full of relevant detail, oriented toward real life decisions." Such an approach prevents getting stuck within one preferred scenario, which can form the basis of a static strategy,whereas, remaining flexible and open to multiple possibilities allows strategic dynamism. The implication for strategy is significant. Rather than being shocked by policy changes, executives learn to expect the unexpected, and prepare for multiple scenarios so they are able to act on the changes. Strategy setting then entails a series of scenario planning exercises and careful investment in options that would enhance future growth (Deb & Marisetty, 2010; Mintzberg, 2002). For example, focusing on the emergence of specialist intermediaries, such as regulatory agencies, provides a concrete way for managers to understand the what, how, and why of the evolution of the underlying institutional environment and to help them factor those into a baseline scenario analysis.

From Searching for Data to Generating Data

Good information is necessary for planning. In highly institutionalized markets, managers are used to readily available market research data or other forms of information needed for decision making (Li & Li, 2008). In emerging markets, the short history of market reforms, the rapid pace of change, and the weak institutional environment create a situation where such data are unavailable. Businesses may need to be entrepreneurial and may have to adopt a learning-by-doing strategy. Unfortunately, companies that stay out of the market to wait until reliable information emerges often get shut out by the competition. Even when data are available, these can be biased or noisy, and interpretation may need a lot of context (Khanna, 2008; Filatotchev et al., 2001). Only by working in the market can one generate meaningful data and ideas for action. We interpret this absence of data as an institutional void, as executives in developed markets are used to the likes of credit registries, information analyzers, market research firms, all of which are underpinned by regulatory authorities that enforce accuracy of information.

In the case of global banking behemoth HSBC's entry into Poland, no credit registry existed, and the bank had to create its own data by partnering with a retailer (Khanna & Lane, 2006). Since 1990, HSBC had been present in Poland as an investment services company. In 2003 HSBC bought Polski Kredyt Bank S. A. in Poland, starting its activities on the consumer finance market under the brand of Beneficial Kredyt and continuing to grow over the years. Citibank's operation in India follows a similar profile, where the bank was the first to offer credit cards in the country and developed a sophisticated information network over the years to assess consumer credit. For most emerging markets, business information comparable to that available in the Western world is hard to come by, and such information has to be generated to be actionable. The challenge for the instructor then is to develop an openness to "learning-by-doing" approach in the minds of the learners (Anzai & Simon, 1979). We discussed earlier the necessary shift from a strategic planning to a scenario planning approach. Scenario planning thrives on a constant flow of new information. It infuses an action orientation that allows a business to make an entry into the market, and provides valuable information in real time that allows one to build better plans. Often, there are unplanned but exciting opportunities that originate from such actions that lead to new products for the home markets.

A synthesis of these required mind-set changes, difficult tasks assuredly, is to increase receptivity of students and executives to new ideas. In particular, reality is different from the stereotype, especially in the sense that development paths differ quite dramatically for different societies. For example, simply shipping money overseas to encourage people to adopt what we "know" to be good practice does not work; charity is good, but it is more of a supplement to underlying developmental processes, rather than a sufficient cure in and of itself. In addition, the larger emerging nations are too proud to accept handouts on the terms of the developed world. With this in mind, we need to avoid the trap of extrapolating from the recent past, and instead identify alternative scenarios. Experiments are essential to imagine the unimaginable, and require generating one's own data for analysis, rather than relying on extant data sources.

HOW TO TRANSFORM MENTAL MODELS

How does one transform mind-sets? Often one's mind-set is the product of concepts and contexts one has grown up with and developed over a significant portion of one's life (Craik, 1943; Johnson-Laird, 1983). It is a distinct cognitive orientation that determines how we interpret contexts, which in turn control behaviors (Langer, 1989; Taylor & Gollwitzer, 1995). International business research has much to say about the global mind-sets (Gupta & Govindarajan, 2002; Harveston, Kedia, & Davis, 2000; Jeannet, 2000; Levy, 2005; Lobel, 1990; Murtha et al., 1998; Perlmutter, 1969). To change a mind-set means to motivate an individual to challenge the status quo, search for alternatives, provide concepts and contexts for new cognitive structures, and provide sufficient logic and reasoning so the participants replace existing structures with new ones (Muñoz, Mosey, & Binks, 2011).

Shifting mental models demands that learners challenge their mental models, systematically expose the assumptions, and provide an alternative model that is coherent and compelling.

Shifting mental models demands that learners challenge their mental models, systematically expose the assumptions, and provide an alternative model that is coherent and compelling. We see five critical tools for creating such a shift. First, changes in mental models are more feasible when the instructor is able to anchor the learning content on a compelling theory. Second, it is convincing if the instructor can expose students' minds to diverse contexts, so that they get to see the variations across the emerging markets. Third, it is compelling if the instructor can emphasize diverse goals of business, so as to expand students' thinking beyond the profit-making model. Fourth, it is engaging if the instructor can bring a multi-method approach to the learning process, so as to bring the context as much as possible to the classroom. And finally, it is enduring if the instructor can build on experiential learning opportunities so that there is learning by doing. We expand on these ideas in this section. Table 2 presents a summary, specifically linking them to the types of shifts in mental models, as discussed earlier.

First, Anchor Content on a Compelling Theory

Celebrated successes and notorious failures in emerging markets are, by now, legend, but they are just that, stories. Exposure to disconnected vignettes is an inefficient way to build a mental model of emerging markets. Anchoring them to an underlying theoretical structure is far more helpful, as it provides a scientific base for the students to organize their learning (Christensen & Carlile, 2009; Trank & Rynes, 2003). Theory helps make sense of why conventional environmental scanning tools might suggest different answers for the same setting—industry, for example—in different geographies (Shuell, 1993; Tennyson & Cocchiarella, 1986).

The application of Porter's (1979) celebrated Five-Forces analysis to understand the distribution of rents in an industry is one such theory. The institutional voids framework is an explanatory complement to such an analysis, since it shows that the bargaining power of different constituents in the Five-Forces model, for example, is driven by a set of other structural determinants—the voids in question—not just by "technology" of the industry in question. The industry structure for the cement industry across OECD-developed countries, seems reasonably similar. The cement industry in Western Europe is not that different from that in the United States. But when one expands the sample to include a larger number and include countries at all levels and types of development, the differences are conspicuous. Even though the technology is the same over time and space, the way the rents in the industry are split depends on a number of institutional factors besides the underlying technology. It depends on the relative bargaining power of buyers and suppliers, which, in turn, are influenced by institutional voids. For example, suppose there are powerful buyers, and their power cannot be attenuated because it is difficult for new buyers to show up due to institutional voids that prevent de novo entry. The cement firms' ability to capture the rents is limited (by the powerful buyers). Thus we show that an equilibrium industry structure is derived not just from the technological primitives of the industry, but also from its interaction with the institutional context. This is seen in the comparison across emerging markets, or between emerging and developed markets, that is, by exploiting institutional variation (Khanna & Rivkin, 2001; Makino, Isobe, & Chan, 2004).

As Drucker (1994:99) pointed out, every organization has a theory of business, which includes "assumptions about the environment of the organization; society and its structure, the market, the customer, and technology." In most cases they extrapolate the theory that has worked in the Western world and look for confirmation of the same in the emerging markets. Unfortunately, obsolete and invalid theories can lead to wrong interpretation of the data, and hence, can be a cause for missteps. The institutional voids approach described above can be a useful framework for strategizing in emerging markets. Understanding the political and social environment and sizing up where the market intermediaries are in each of capital, product, and labor markets (as in Table 1) provide an anchor from which to see the challenges and opportunities that lie ahead.

Khanna and Palepu's (1997, 2006, 2010) institutional voids framework provides a conceptual anchor for developing mental models suitable to thinking about businesses dealing with, and originating from, a diverse range of the emerging markets. The framework provides the tools to conduct a rigorous institutional analysis to identify the state of the "emerging" market and decide on an appropriate and implementable strategic action. As students begin to see emerging markets from an institutional lens, it is easier to help them move away from a "problem-oriented" mind-set to a "solution-oriented" one. It allows them to see the duality of social and business opportunities in these markets. The diverse roles of the government as the markets emerge become explicit in such a model. Scenario planning and learning by doing fit in naturally, as the institutional voids approach emphasizes the dynamics of these emerging markets. In short, anchoring learning in good theory can address all five challenges of the mind-set change expected of executives. We recommend introducing the theory upfront in a course on emerging markets, and as the course progresses, getting students to analyze the market intermediaries for different countries.

TABLE 2
Shifting Mental Models

Desired Shift in Mental Models	Five Core Elements Needed for the Shift in Mental Models: Anchor Content on Compelling Theory	Expose Learner to Diverse Contexts	Emphasize Diverse Outcomes	Adopt A Multimethod Pedagogy	Build On Experiential Learning
Problem to Opportunity	Helps create conceptual models through theory that anticipates issues amidst opportunities. Institutional issues become explicit variables in the analysis.	Allows systematic unlearning of assumptions about markets and strategy and affords generalizability to models discussed in class.		Cases, videos, live speakers, and engagement with foreign students provide multiple sources of data that challenges the mind-sets of participants to see opportunities.	By engaging students in hands-on projects, they see bigger picture and how to translate problems to opportunities.
Charity to Strategy	Theory brings a better understanding of evolution of economic growth and builds in a better appreciation of the market realities and diversity within a country.		Understanding multiple stakeholder commitments and the complex interactions that drive strategy in emerging markets serves to break down stereotypes.	Absent a trip to countries, multimedia and real-time conferencing allow students to develop a grasp of advances in these markets—thereby getting a more realistic picture of what to anticipate.	Engagement in projects in emerging markets allows students to see firsthand the state of economy and the people dynamics in these markets.
Free-Market Stereotype to Moderated Markets	Theory enables one to see the interconnectedness between the state of institutional emergence and the role that governments play. Also helps students internalize the institutional issues in their mental models of strategy in these markets.	As students get exposed to governments in different countries (e.g., Brazil, Russia, India, China), they appreciate the continuum of variations on how governments intervene. That develops a nuanced understanding of government role in market emergence.	Understanding social and business outcomes enables learners to get an appreciation of role of government and collective action.	Bringing policy makers in the West, who deal with emerging markets or policy makers in the emerging markets to interact with students can provide a good grasp of nuances across markets as to role of governments.	Engagement opens a practical way to see the specific role of regulatory system's influence on business decisions.
Strategic Planning to Scenario Analysis	Theory provides basis on which scenario analysis can be performed; thus, helps to capitalize on uncertainty.	Exposure enables one to see differences in the way and the pace with which institutions emerge. Can prepare learner to anticipate possible scenarios.		Multiple interactions help learners grasp pace of change in markets and convince them to seek out a scenario-based approach to capitalize on rapid market evolution.	Action orientation forces one to think through multiple evolving scenarios rather than just extrapolating data.
Searching for Data to Generating Data	Theory helps to lay out relevance of variables that one likes to get. Helps learners to understand why some particular data are nonexistent. Provides guidance how to compensate for absence of such familiar data.			Cases and lives behind them help convince learners that they can take plunge rather than passively waiting for the market to unfold with type of data generally needed to make decisions.	Opportunity to interact with executives in these emerging markets creates an impetus to move from thinking to doing. Engagement is a powerful tool to move knowledge to action.

Second, Expose the Mind to Divergent Contexts

Consideration of diverse contexts in the classroom setting is helpful in breaking down stereotypes, especially the idea that evolution from emerging to developed market is a straight-line extrapolation process (Jackson & Deeg, 2008; Muñoz et al., 2011). This perspective is especially helpful in addressing moving the mind-set from strategic planning to scenario planning. One effective way to consider this is to pair conventional emerging market geography with an example of an emerging market set in a rich country context (Black & Mendenhall, 1990). There are plenty of "emerging markets" in the developed world. After all, the defining feature of emerging markets is that the intermediaries that facilitate exchange have not developed. This commonly happens when the "technology" for getting something done runs ahead of the underlying preexisting rules governing that type of exchange. This is exactly what happened in the United States dot.com crisis and the recent subprime loan fiasco; both situations were characterized by extensive institutional voids resulting in many characteristics common to those in the developing world (Day & Glick, 2000; Earley & Peterson, 2004; Egan & Bendick, 2008; Henisz, 2011).

The pharmaceutical industry provides a great example for understanding institutional voids. The drug approval process is so market specific that pharmaceutical firms have to develop strong local market knowledge in order to gain entry or market share there. As one looks at a market such as India, at first glance the price control comes across as a draconian device to curtail the profitability of firms. A U.S.-based executive without substantial exposure to how different markets exercise control on pricing could come to the erroneous conclusion that price control is an "emerging market-specific" feature. However, with more exposure to the pharmaceutical markets in countries such as Canada, Germany, China, and Brazil, one can get a better sense of the prevalence of the price control mechanism and the varied ways in which it is administered in different countries. We have also experimented with discussing a firm's strategy in multiple markets, such as Nokia in India and China (Dhanaraj, Mukherjee, & Bindu, 2010). Given similar market potential, but diverging institutional conditions, Nokia has adopted very different strategies in these two markets. Understanding the sources of these differences can help students appreciate how strategies can be developed around institutional voids. This helps students grasp that there is no single strategy that fits all emerging markets; one must understand the nuances of the institutional evolution in each market well in order to serve them well.

In terms of pedagogy, getting students to look at multiple markets is more beneficial than giving them focused courses such as "Doing Business in China" or "Doing Business in India." The emerging markets course that the authors teach at their institutions typically takes the students through seven to eight emerging markets, each representing different stages of institutional evolution. We begin with an overview of the constellation of the emerging markets using Figure 3, where we map the different country groupings to highlight the shift in economic power from G7 to G20. The course also takes the students to different industries, as this can help students gain a better understanding of the varying ways in which institutional forces can influence the industry structure and competition.

One must understand the nuances of the institutional evolution in each market well in order to serve them well.

Third, Emphasize Divergent Goals in Business

Business schools have traditionally focused single-mindedly on short-term financial outcomes as a metric for performance, which has come under increasing debate all over the world (Datar, Garvin, & Curran, 2010; Khurana, 2007; Margolis & Walsh, 2003). But this issue surely merits scrutiny in the emerging world, where not every entity interprets its mission solely in terms of shareholder returns (Maak & Pless, 2009). Consideration of diverse outcomes can help address the second and third mind-set changes depicted in Table 2.

In many emerging markets, where government does not provide the public goods needed to facilitate societal function, and civil society is underdeveloped, business is often among the better functioning institutions in society. It is, therefore, called upon to perform social functions. Regardless of what ideological position one espouses regarding this statement, it often, as it turns out, maximizes shareholder value. In a setting in rural India, for example, Fisman and Khanna (2004) show that Indian business groups are often able to benefit from wage arbitrage between rural and urban locations by incurring the social and infrastructural investments needed to circumvent rural institutional voids. Those that do so find it enhances, rather than diminishes, returns (Margolis

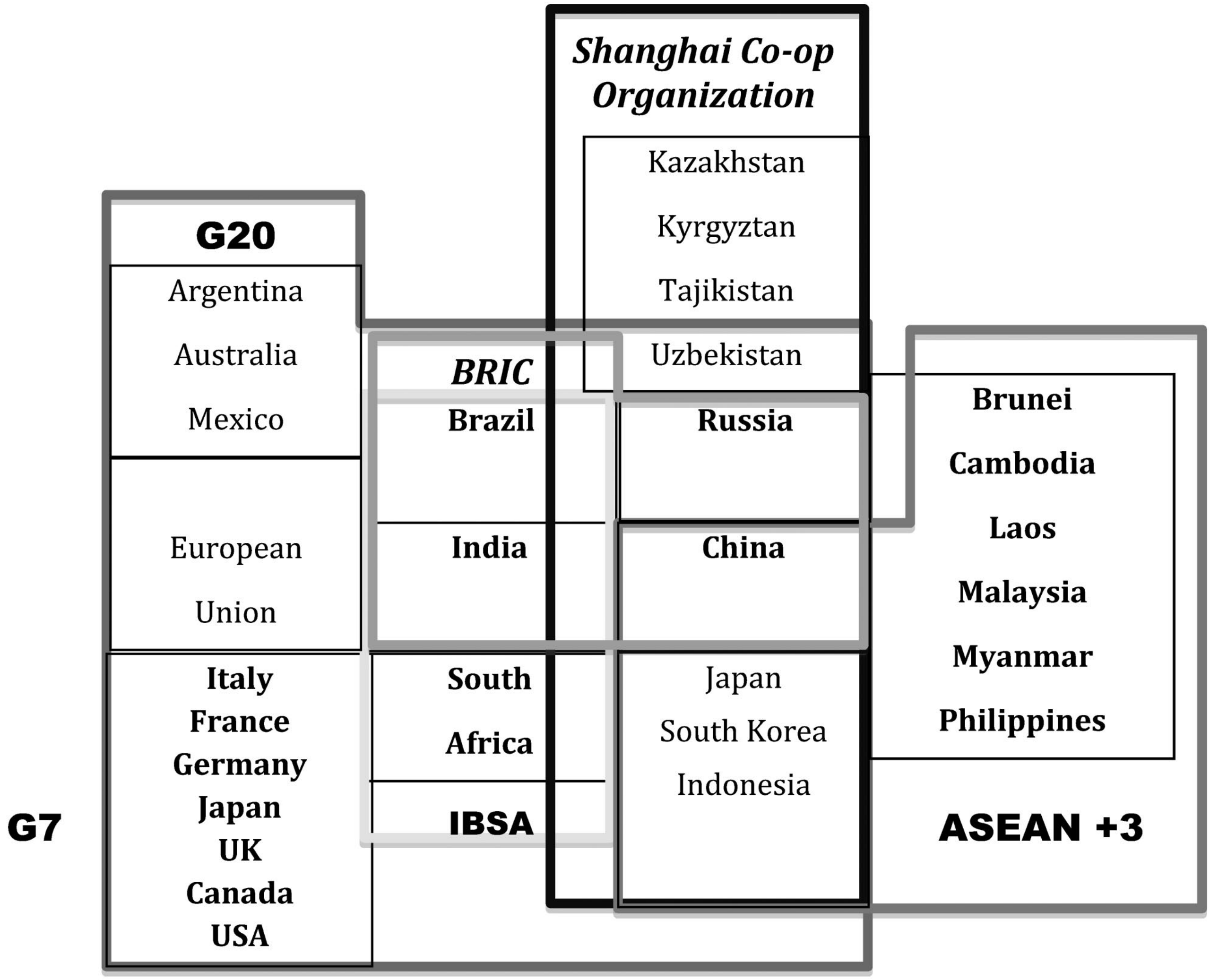

FIGURE 3
Country Groupings: From G7 to G20

& Walsh, 2003). In Western classrooms, such allegedly non-core investments tend to be dismissed, but that fails to account for the contextual institutional voids. It may even be that confronting the need for such social investments in emerging markets can re-energize the debate about the role of business in society (Capelli, Singh, Singh, & Useem, 2010).

Taking the students through business cases that go beyond the profit-maximizing model or the simple corporate social responsibility model can also help in moving their mind-sets (Christensen & Carlile, 2009). For example, one of the authors use the Bayer Corporation case set in India. Bayer Cropscience, a division of the Germany-based Bayer Corporation, had acquired an Indian company, Proagra, for expanding its hybrid cotton seeds business in India (Dhanaraj, Branzei, & Subramanian, 2010). After the acquisition, the company learned about the use of child labor in some of the farms where the hybrid seeds were produced. Even though Bayer had attempted to monitor and control the process, it remained a major issue. The nongovernment organizations (NGOs) raised the issue to the public eye, and the German T.V. aired a documentary on the issue in early 2000. Faced with this crisis, Bayer decided to do something extraordinary. From an economic perspective, it did not make sense to continue to hold on to the small volume business that was inflicting significant damage to the prestige of the company. Yet, rather than sell off the troublesome unit and walk out, the company executives decided to commit significant resources to build a child education program in the two regions where they had significant operations. Three years into the program, the company has managed to create a significant reduction in child labor in those two regions of India. A senior executive who spearheaded Bayer's initiative in India commented,

> Many asked me why should Bayer do this? My question to them was, why should Bayer not do this? Here is an issue where we as a company have a professed value of zero tolerance to child labor. We are an agricultural company, and India is one of the largest agricultural markets. It is an opportunity for us to mean what we say and walk the talk.

Tata Chemicals' development of a water purifier, Tata Swach, for Indian households is a case illustrating a similar story (Dhanaraj et al., 2010). The company applied its innovative prowess to tackle a significant social issue. These kinds of actions are not done purely as philanthropy or corporate social responsibility (CSR) activities, but are strategic to the company to give them a sense of identity and purpose. IBM's impact in shaping the rural education markets in China, or Pepsi's focus on contributing to water conservation in several emerging markets, serve to emphasize the divergent outcomes of emerging market strategies. Our own experience is that students find such cases not only inspiring, but also practical, as they provide ways to think about the economic and social needs of the markets they serve, while working in emerging markets.

Fourth, Adopt a Multimethod Learning Approach

Given the complexity of the topic and the unfamiliarity of the context for most learners, pedagogy becomes critical to accomplish the goal of shifting mental models. Business school education has become significantly tuned toward the use of cases. Often instructors are satisfied in bringing cases that are set in the emerging market contexts. Although the case method is a great tool to use, it has its limits. Students often find it difficult to get a "touch and feel" of the case's issue because many may have not been to any of these countries and, thus, they show vastly unfamiliar contexts. A multimethod approach, which can inject some reality to the classroom, is critical for transforming their mind-sets, especially in deflecting participants' impulse to extrapolate their familiar contexts onto the emerging markets (Avery & Thomas, 2004).

Multimedia is emerging as a powerful way to construct these unfamiliar contexts (Mallinger & Rossy, 2003; Ng, Van Dyne, & Ang, 2009). Digital video clips on businesses and markets in several countries are available, many in the public domain. YouTube has become a potential source of clips that can be either assigned as an off-line assignment or in-class viewing. Radio interviews with CEOs or audio files of conversations with experts, CEOs, and political leaders are now available on different topics. Audio files can be used as podcasts that students can listen to while they drive or walk. Augmenting case studies with speakers who can provide live perspectives provides an interactive platform for the students to challenge their assumptions. More importantly, video-conferencing facilities that are becoming increasingly common in classrooms enable the instructors to bring key executives live to the classroom to have an interactive conversation following a case discussion.

For example, in one session on India's business environment, we used publicly available videos on India to open the class, and discussed a previously assigned podcast of Charlie Rose interviewing the Prime Minister of India to set the context. We then discussed a case of Nokia's strategy in India, at the end of which we video-conferenced with the CEO of Nokia, India (Dhanaraj et al., 2010). In another situation, we used the case of the Chinese appliances company, Haier, and its globalization strategy (Khanna, Vargas, & Palepu, 2006), following it up with Haier's CEO interacting with the class over a live video-conference to bring home the complexities of marketing an emerging market company's product in the United States and some European countries. Bringing together multiple elements of technology can pose a logistical challenge, but over time, the power of technology will enable us to reach across the oceans.

Much has been said about the use of movies in business education (Champoux, 1999; Mallinger & Rossy, 2003; Tyler, Anderson, & Tyler, 2009). Teaching emerging markets can be a great context for the use of movies from different countries. There are several in particular, that can bring home the social context of life in these countries, and with English subtitles, they can provide the second-best experience of getting to know these countries. Often this works best as a take-home exercise, where students are assigned specific movies with some broad exploratory questions, and the class discussion meets to get a debrief from the students. News channels such as Cable News Network (CNN; e.g., Fareed Zakharia's show, Global Public Square, which is digitally archived in the CNN Website), and PBS (e.g., Charlie Rose' interviews with various business and political leaders) have rich content that address topics in depth. A guided learning environment to use these materials can provide a rich context for students to develop a holistic experience about the topic or the country discussed in class.

Fifth, Build on Experiential Learning Opportunities

We discussed above the need for looking at emerging markets' operations as learning-by-doing experiments. What better way to enforce that than to actually use an experiential-learning process? There are two ways to go about this, either work with local companies that want to expand to emerging markets or take the students to emerging markets to undertake projects with companies in these emerging markets (Pless, Maak, & Stahl, 2011). Projects that focus on developing feasibility plans in emerging markets for local companies provide a sense of realism and, at times, can be of much benefit to the local companies. Getting students to work on projects of relevance for local companies with minimal advisory role from senior executives can enrich the learning as well as embed some of the principles in students. Where students can travel, consultancy projects in emerging markets have been effective in motivating the students to learn intensely about these markets as well as in providing them a context to engage in practice (Schuster et al., 1998). Business schools in the United States and Europe are increasingly adopting this strategy in partnership with local schools in emerging markets. Students are paired together and engage in solving a business issue for a local company. Engagement in a local problem-solving exercise and working alongside local executives provides an invaluable experience to Western students (Ng et al., 2009).

Another idea that can work well is to leverage technology and create virtual networks of student teams from different geographies. Collaboration technologies such as Skype conference calls, Google docs, and Skype video-conferences provide inexpensive ways for students to connect and work together. We have tried creating multinational student groups, students drawn from the United States, India, and China, working on an identical project (case study). Students are encouraged to communicate through forums such as Google talk or Skype, and produce a joint report. They can meet by way of video conferencing with easy to use tools such as Cisco's Web-Ex or Adobe's Adobe Connect (previously known as Breeze). Often such interactions highlight the deep differences in how managers from different contexts look at the same issues. These experiences allow students to hone their skills in interacting across cultures, often learning how to negotiate and resolve conflicts as they work through solving the assignments (Yamazaki & Kayes, 2004). The experiential learning approach can be significant in developing the learning-by-doing mind-set, and in addressing the first mind-set change, to move students from problem-oriented pessimists to opportunity-oriented optimists.

CONCLUSIONS

We have addressed the question of how to build executives who can leverage the new opportunities that emerging markets bring. While the issue is real and widespread, we also see many excellent cases of companies reinventing themselves by their engagement in emerging markets. The specific challenge is to educate a broad base of Western executives who lack the historical and institutional context to work effectively in these markets. As emerging markets take the center stage in the global economy, more and more business schools are responding by expanding related course offerings. We have argued that many of these efforts run the risk of expanding information, surely useful but only minimally so, and that the academy is better served by attempting a more far-reaching transformation of the managerial mind-set. Viewing emerging markets as characterized by a plethora of institutional voids (Khanna & Palepu, 1997, 2010)—that is, by the absence of the several intermediaries that are vital to the creation of effective markets—provides a helpful conceptual anchor.

Drawing on the learning literature and cognitive psychology, we suggested that mental models are at the base of analysis and action for executives and that these need to be changed in order to identify the opportunities in the emerging markets and to exploit them. We outlined five salient mind-set changes demanded by the needs of operating in emerging markets and interpreted these through the institutional voids framework. From seeing the emerging markets as a problematic arena, effective managers have to see them also as repository opportunities, break down the stereotypes, and adapt to an action orientation that promotes learning by doing. Our suggested ensemble of pedagogical tools can, we believe, move us toward addressing these mind-set changes, including, at its base, a sound theory, and embracing an orientation to diverse contexts and outcomes through multiple methodologies and an emphasis on experiential learning.

Integrating institutional economics with management theory has a rich potential to advance theory and practice in today's global economy. Understanding how institutions evolve and the factors that determine the ultimate state of institutions and associated business models in an economy remains an active area of research today (Tsui, 2007; Tsui et al., 2004). Bringing such research to the classroom can significantly contribute to developing better mental models in the managers we train. Such an approach would equip these managers well for handling the complexity in these high growth markets.

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