

Strategic Innovation And Management In Emerging Markets: Business Strategies And Firms Innovation For Development

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Abstract

It has been suggested here that innovations in emerging economy firms are largely the result of linkages with multinational enterprises as a result of globalisation. This is not entirely true from my experience because there is a shift in production, investment and market flows which is culturally dependent and contingent on the structure - environment inter phase. Sometimes cyclical processes inherent in the economical and technological dynamics on its own causes a shift in focus from the west to the east or north to the south. This could have hastened the liberalisation and globalisation processes, but not due to it. Otherwise one cannot explain the sudden transformation taking place in respect of countries like India and to a certain extent China, since these countries have developed the base or endogenous capacity to reap the benefits whatever from globalisation, since they had systems that matured to that level and facilitate interactions influenced by environment through their structure to evidence the influence of the techno-economic as well as culture specific cyclical process. In fact opening up their markets had deleterious effects in the case of Latin American countries earlier, and elsewhere recently, until they earned the maturity based on the cyclical polity, in terms of economic and technological cycles. The internal dynamics merely found an external expression and even molded or mounted the globalisation processes as such.

Keywords: International Competition; Innovation; Management Practices; Firm Performance; Emerging Markets

INTRODUCTION

Serving the majority of emerging market consumers and industrial buyers will often require manufacturers to design products tailored to the special needs of emerging market customers, often priced far below their offerings in developed markets. Roughly three quarters of the executives surveyed who said that their company offered very different product features in emerging markets anticipated a substantial increase in revenues over the next three years, compared to half of those who said the product features were the same in emerging markets. Tailored products also were more likely to be associated with higher margins. Fifty-four (54) percent of companies that achieved higher margins in emerging markets compared to their home market said they offered significantly different product features, compared to 43 percent of companies where the gross margins were the same or lower than at home. Manufacturers that develop new product offerings keyed to the unique needs of individual emerging markets will be likely to achieve the greatest success. Emerging markets present a unique profile of risks—geopolitical, regulatory, financial, currency, and governance risks among others. Among the greatest concerns facing manufacturers in emerging markets are potential threats to intellectual property rights, whether through outright theft of proprietary know how or

counterfeiting of products. Companies must not only protect themselves from these “unrewarded” risks, they also need to guard against the risk of failing to capture the upside potential of these markets. The goal is to achieve risk intelligence by systematically identifying, evaluating, and managing all the risks faced by a company across all the markets in which it operates. A key aspect of this comprehensive approach is to manage explicitly the interdependencies that inevitably exist among the different types of risk that a company faces. The ability to take a holistic approach to risk management will continue to grow in importance as companies develop increasingly complex global value chains to support their worldwide operations.

Emerging markets are becoming the catalysts for new product and service innovation. But tapping the talent and growth potential of these rising economies often requires manufacturers to shed many of their assumptions about customer needs, employee expectations, operations, and innovation that they have learned in the developed economies. They will need to look beyond traditional strategies in order to meet the unique needs of these markets, while still leveraging the efficiency and expertise provided by their global networks. Those that do so successfully will be most

likely to thrive as the rules of global competition are rewritten in the years ahead.

The friendliness of the business environment is also a crucial factor. The practicalities of doing business, the regulatory environment, corruption levels and the skills available in the workforce can all make or break a business. Business can thrive in countries where these factors are not favorable but a carefully thought out strategy is a must.

- Is there a level playing field between domestic and foreign investors?
- Is the rule of law sufficient?
- How can the business beat corruption?
- How can the business recruit and retain talent?

A weak business environment adds costs in terms of both time and money and this should be factored into any expansion plans. The World Bank's *Doing Business Report* can be useful in gaining an overview of the business environment. In terms of emerging and developing economies, Malaysia ranks highest in 6th position overall, beating the UK, Australia and Canada amongst others. At the other end of the rankings comes Chad – the most difficult country in which to do business from a ranking of 189 economies. In practical terms this means that it takes 16 days to start a business in Malaysia compared to 183 in Chad. Chad might not be at the top of mind for many businesses looking to expand into emerging markets for the first time, but even large economies such as India (134th) and Brazil (116th) fare badly.

What is the impact of trade integration with low-income countries on firm dynamics in high-income countries, including firm policies such as innovation and business strategy? A large empirical literature has documented that imports from low-wage economies such as China had a dramatic impact on manufacturing firms in high-income countries. Establishments and firms in the US and Europe have either cut jobs and lost market shares or have shut down altogether; see Bernard, Jensen and Schott (2006) and Bloom, Draca and Van Reenen (2015). These results are symptomatic of a relocation of manufacturing production from costly high-wage economies to cheaper low-wage economies and therefore reflect the static benefits for rich countries of more import competition.

RESEARCH LITERATURE

To assess the strategies that global manufacturers are using to succeed in emerging markets, Deloitte conducted an extensive research effort that included a survey of more than 400 executives, as well as in-depth interviews with senior executives at global manufacturers. The economic statistics are breathtaking. The aggregate GDP of the 10 largest emerging economies was roughly US\$6 trillion in 2004, almost

the size of the German and Japanese economies combined. But when calculated using purchasing power parity exchange rates, which take into account differences in the prices of goods and services across countries, the economic output of the 10 largest emerging markets was valued at US\$18 trillion in 2004—larger than the roughly US\$11.7 trillion GDP of the United States.³ Using purchasing power parity exchange rates, China's GDP of US\$7.2 trillion already places it as the second largest economy in the world, trailing only the United States. India comes in fourth with a GDP of US\$3.3 trillion. Many emerging economies are also growing rapidly. Real GDP growth in 2005 was estimated to be 9.9 percent in China, 8.7 percent in Argentina, and 7.6 percent in India.⁴ China and India alone are expected to grow from 6 percent of world output today to 20 percent by 2025. These countries have become the largest and most dynamic markets for many products. For example, China and India are the two fastest growing cell phone markets in the world.⁶ China already has 350 million cell phone subscribers and that number is expected to reach almost 600 million by 2009.

The Indian cell phone market is growing even faster, from just 5.6 million in 2000 to 55 million today.⁸ China's auto market is now number three in the world, trailing only the United States and Japan, and growing rapidly.⁹ That is why global manufacturers see a rosy outlook in emerging markets. Manufacturers are increasingly locating and expanding their R&D operations in emerging markets. One important motivation is cost reduction, through lower costs for skilled engineers and also the potential for tax credits and other government incentives. But perhaps even more importantly, placing R&D close to suppliers and customers in emerging markets allows design by engineers who better understand their needs, facilitates collaborative product design, and simplifies the resolution of engineering related problems. When it came to introducing new products in emerging markets, almost half of the executives surveyed said they had designed these products locally. There is a long list of global manufacturers now conducting R&D in emerging markets including Caterpillar, Unilever, Ericsson, Pfizer, Alcatel, Honda, Cummins, and Whirlpool to name just a few.¹⁶ Fiftythree (53) percent of the executives from companies headquartered in developed markets that sell products in the ten emerging markets examined said they also conducted R&D in at least one of these countries; another 30 percent were planning to do so.

While the benefits from locating R&D in emerging markets can be substantial, realizing them is far from assured. Unless a company's research activities are integrated effectively across both developed and emerging markets, the synergy from the flow of ideas

across borders and cultures will never materialize. Without integration, companies will also forego the cost savings and faster time to market from having research staff located in different time zones collaborate around the clock as if they were a single unit.

In contrast, a number of recent studies have argued that product markets in rich countries are segmented and that some segments can shield firms from the adverse effects of low-cost import competition. One example is segmentation along the product space, as firms with novel products or with higher quality products might lose less market share to low-cost Chinese competitors; see Khandelwal (2010) and Sutton (2012).

A recent National Bureau of Economic Research (NBER) working paper sheds light on the relationship between innovation and globalization in emerging economies. One of the researchers' interesting conclusions: In an emerging market, one factor that induces local firms to innovate is involvement with multinational corporations -- whether through supplying them domestically or by exporting or importing.

Yuiy Gorodnichenko, Jan Svejnar and Katherine Terrell analyzed existing survey data from 27 "transition" economies in Central and Eastern Europe and the former Soviet Union. The researchers used a quite broad definition of innovation (on the theory that, in developing economies, innovation may involve some form of imitation, such as adopting an existing technology). Developing or upgrading a product, acquiring new technology or obtaining a new quality accreditation like an ISO certification all qualified as innovation for this study. The study had a number of findings -- including that innovation rates by local firms were not affected by having a higher proportion of skilled workers, but that companies with more university-educated workers were more likely to innovate.

Simple study to see which countries showed most interest in terms like "innovation", "creativity" and even terms like "six sigma". America came second to India across all these terms with a marked preference for seeking out information on incremental innovation, rather than more creative approaches.

Two recent surveys on innovation and global economics confirm the suspicion that interest in innovation is stronger outside the USA than inside.

GE publishes their annual state of innovation report, The Innovation Barometer. There are plenty of nuggets in there - of course there would be after interviewing 3,000 executives around the world.

What struck me immediately about the report is the degree to which emerging market executives embrace innovation practices (they simultaneously look for protection from external innovators!!).

But herein lies a paradox, one you will see replicated wherever people talk about innovation.

The executives interviewed perceive the United States as the most innovative country on the planet. The interviews, however, point to far more innovative attitudes, and practices, elsewhere.

The report gives top marks to Vietnam, Nigeria, Canada, China and Brazil for recognizing innovation as a top executive priority.

The biggest champions of big data as a source of innovation are Mexico, Brazil, Turkey and Nigeria.

China, Vietnam, Russian, India, Mexico, Brazil all score highly when asked if they strongly agree that using collaboration to innovate is likely to grow revenues. The USA is at the lower end of this trend. 23% strongly agree compared to 41% in China.

While the USA scores more highly for its actual use of collaboration (35%) Germany, China, Brazil, Sweden are out in front with 40+%.

In addition the USA is one of those countries where confidence is decreasing in the ability of a company of any size to innovate.

The GE report should be read alongside one from Boston Consulting Group on the new challengers. This is a list of 100 companies in emerging markets that are globalizing quickly.

The interesting feature of these companies is that they are quick to collaborate, so they can get local markets right, and they are focusing their M&A strategies on other emerging markets. They go fast into new markets and are ready to adopt and adapt new products. In other words they typically seem far more ready to adopt radical adjacency strategies, a factor that pointed to a few times as a source of Amazon and Apple's success. Emerging market champions seems less hide-bound by MBA theory.

The headlines belong to companies that buy into US and European markets, but the hard graft is going into creating champions in high growth markets, instead.

They are also doing that old fashioned thing - strong shareholder returns:

Global challengers have generated long-term value for their shareholders. Over the past 12 years, they have outperformed the S&P 500, the MSCI Emerging

Markets Index, and their global peers (multinationals from the same industry and based in a mature market). Their average annual TSR of 17.3 percent is nearly 3 times greater than that of the MSCI Emerging Markets Index. The average annual TSR of the S&P 500 and global peers, by comparison, is negligible.

And are increasingly focused on innovation

Global challengers increasingly see the need to become more innovative and are rapidly increasing their research spending. About 46 percent of Huawei's 150,000 employees are in R&D. Mindray generates more U.S. patents per revenue dollar than many global leaders. Many other companies in emerging markets are making similar moves. In 2011, companies from China were granted more U.S. patents than companies in Israel, Australia, Italy, Netherlands, Sweden, and Switzerland. India also ranked in the top 15 for the first time.

In the past five years, the number of patents granted by the U.S. Patent and Trademark Office to companies based in RDEs (Rapidly Developing Economies) increased at a rate more than three times faster than that of companies in other countries. If this growth continues, up to 25 percent of the patents issued in 2018 may originate in RDEs—up from just 1 percent in 2006. While we have had our eyes on Google, Facebook, Amazon and Apple, Samsung has emerged as a technology leader. The same is true of many areas of innovation. Europe is a dead cert to lose out, though will use its huge market and colonial relationships to minimize the impact of its lack of innovation power.

America on the other hand is complacent and self-congratulatory. Self-congratulation worked well in the era of the iPhone. Post-Peak Apple though America needs to wake up. A question will address is whether lean innovation is the answer.

The hypothesis is “to capture emerging markets, firms should (i) transfer their universal and global organizational capability, related to technology, and research & development (R&D), to the emerging countries; (ii) accumulate local-specific organizational capability as appropriate for each emerging country; (iii) combine it and create new synergies.” And we would test this hypothesis through the case study on motorcycle industry.

In recent years, the global oil & gas industry has been undergoing a significant transformation that looks likely to continue in spite of the recent recovery in the price of crude oil.

Chief among the drivers of this change is that governments, private companies, financial institutions and others are investing in the development of

technologies and policies that will reduce greenhouse gas emissions globally and achieve lower carbon footprints in the coming decades. As a result of these technological advances, our reliance on fossil fuels such as coal will gradually decline as cleaner energy sources in natural gas and renewables become more prevalent.

Gas, which is able to generate power on a consistent and steady basis, will remain a primary source of electricity as a backup to renewables that generate power only intermittently. Furthermore, as the planet experiences a sustained period of economic growth in the coming decades, many economies are turning to renewables and natural gas in order to meet their growing electricity needs.

These trends mean that natural gas is predicted to grow into one of the world's leading energy sources by 2040, when global oil demand is set to plateau due in large part to developments in electric vehicles and renewables for power generation. It's not all bad news for oil, though: economic growth will see billions of people enter the middle classes in the coming decade, and increased demand for consumer goods will boost demand for petrochemicals.

With the industry facing an exciting yet uncertain future, Mitsubishi Heavy Industries (MHI) Group has released an Oil & Gas Outlook that examines key trends that figure to impact the industry in the coming twenty years. Among other topics, the report explores:

Shifting Demand: As fuel efficiency improves across the board, EV technology develops further, and rapidly-developing economies continue to develop, the industry is poised to see a plateau in oil demand and increased consumption of natural gas.

Changing Strategies: In the next two decades, operators will need to meet global energy demand while running successful businesses and remaining in compliance with environmental standards. This trio of factors will drive advances in technology and fundamental shifts in business strategy.

New Technologies: From improved energy storage and distribution to automation and digitalization, new technologies in the global oil & gas industry will drive advances in efficiency and sustainability that will meet the industry's demands for decades to come.

For companies to deliver commercially viable products at dramatically lower prices, an efficient global value chain is essential. In its ongoing benchmark research across more than 850 manufacturers around the world, Deloitte has found that only 15 percent of the largest, most global and most complex companies have successfully mastered the growing complexity of their

value chains. Yet these companies have been rewarded handsomely—growing faster and generating profit levels up to 50 percent higher than those achieved by their less capable peers.²¹ As they expand sales in emerging markets, companies will need to balance the efficiency that a global value chain provides with the responsiveness needed for local subsidiaries to compete effectively. One promising approach is to create “micro” operations that can flexibly customize products to meet the needs of local markets or customer segments, while basing them on the efficiency and expertise provided by a global platform.

Looking at The Heritage Foundation’s 2014 Business Freedom indicator, which represents the overall burden of regulation as well as the efficiency of government in the regulatory process, Georgia, the Maldives and Lithuania are the best-placed emerging and developing economies with North Korea, Eritrea and Cuba at the bottom. In terms of the largest emerging markets (those with a GDP above \$200 million), Malaysia is the best performer followed by Colombia and Mexico, and India brings up the rear. India is overly bureaucratic and has inefficient administrative and judicial systems. Foreign investors do not receive the same treatment as their local counterparts and foreign ownership caps exist in some sectors. In Malaysia, the government has been liberalizing the rules governing foreign direct investment (FDI) and the opening up of the economy has extended to most economic subsectors.

At the country level, corruption is strongly linked to economic stability and inflows of foreign direct investment. It affects competition, government efficiency and income distribution. At the business level, it is fraught with risk, not only legal and financial but also reputational. Transparency International collects the most well-known corruption data. Their Corruption Perceptions Index 2013 ranked 177 countries against perceived levels of public sector corruption. Chile, UAE and Qatar were the three best-placed of the large emerging market economies (with total GDP of more than \$200 million) while Iraq, Venezuela and Nigeria were the worst performers.

Both finding and keeping talent can be a huge challenge in emerging markets. Recruiting local talent can really help in building a successful brand. Local managers will have a deep understanding of cultural norms which is crucial to success. However, skills shortages can be a problem and staff retention is often difficult. These kinds of pressures lead to wage inflation. Between 2008 and 2013, China saw a 45.2 percent increase in wages in manufacturing compared to a 1.5 percent rise in the USA. The days when emerging markets were seen as a source of cheap labor are now over in many countries.

Godrej and Boyce launched what has been fêted as the world’s cheapest refrigerator in 2010. The refrigerator retails for \$69 and was designed to target poor, rural consumers. In a country with 854 million rural inhabitants, this market is huge with a lot of potential. The ChotuKool refrigerator from the outside looks like a box, consumes half the electricity of a standard refrigerator, and stays cool for hours with no power due to its superior insulation. There could be important dynamic gains for rich countries that reinforce the static gains from more import competition, as in models of Amiti and Khandelwal (2013) and Bloom, Romer, Terry and Van Reenen (2014).

DATA AND METHODOLOGY

The survey is stratified by (NAICS 4-digit) industry, firm size and region, and we use the population weights provided for all summary statistics and regressions. Firm size classes are based on employment bins and throughout the paper we use the WES classification of “small” (between 1 and 19 employees), “medium” (between 20 and 499 employees) and “large” (500 or more employees). We use data from the 1999, 2001, 2003, and 2005 waves of the survey. The data is a panel with re-sampling due to firm exit or attrition. After a first investigation in relation to innovation for and from emerging markets respectively developing economies the following keywords were identified: ‘reverse’, ‘frugal’, ‘jugaad’, and ‘bottom of the pyramid / bottom of pyramid / bop’. These keywords were used for searching the database of Google Scholar.

CONCLUSION

Reverse innovation’ refers to the case where an innovation is adopted first in poor (emerging) economies before ‘trickling up’ to rich countries. Although examples of reverse innovation are still rare, it raises interesting theoretical questions, such as what kinds of innovation emerging economies are likely to spawn, why such innovations might diffuse to rich countries, what competitive advantages local and foreign firms enjoy in this process, and how it affects the global strategy and organization of established MNEs. Research on reverse innovation can enrich and extend mainstream theories of innovation, internationalization, MNE management, and FDI spillovers.

All markets are not the same. All have unique challenges and opportunities. The first and most important step when planning an expansion strategy is to select the market(s) that are right for your business. An emerging market strategy is a long term one, and step one on the path to success is to choose wisely. business can strive to be Producers of intelligence, analytics and insights defining the needs, attitudes and behaviors of consumers, organizations and their employees. With that essential understanding,

leaders can make intelligent decisions and deploy strategies and tactics to build trust, inspire innovation, realize the full potential of individuals and teams, and successfully create and promote products, services and ideas.

Inadequate infrastructure adds significant costs to doing business in many emerging markets. Roads, ports, railways, airports, telecoms and electricity supply help businesses and the economy run efficiently. Yet poor infrastructure can and is being overcome by corporations, and can also offer additional opportunities for business. Electricity is a key challenge because stable power is needed for running factories, shops and consumers' homes if they are to purchase electrical products. In India, urbanization, an increasing middle class and economic growth have all put a strain on electricity infrastructure. Many businesses have installed their own generators to combat the frequent power outages, but this cost affects the bottom line.

A closer look at innovation for and from emerging markets respectively developing economies reveals that a variety of different terms and concepts related to this type of innovation exist. The goal of my conceptual paper is to present a comprehensive overview of related terms and concepts and to suggest theoretical based classification criteria in order to differentiate them. After a first investigation in relation to innovation for and from emerging markets the keywords 'reverse', 'frugal', 'jugaad', and 'bottom of the pyramid / bottom of pyramid / bop' were identified and used for searching the database of Google Scholar. For further investigation only texts were considered with at least eight various terms. 19 different texts were identified which classified for a further analysis. As results 33 identified terms in relation to innovation for and from emerging markets, various spellings and synonyms and references with at least two mentions in the identified texts are presented. As theoretical based classification criteria 'market orientation', 'determinants' (of innovation for and from emerging market), 'nature' (of innovation for and from emerging markets), 'sophistication', 'sustainability', 'novelty' and 'innovator type' were identified.

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