In the last decade, emerging markets have become a significant feature of the world economy. The allure of vast new markets for growth along with fresh opportunities for low cost offshoring have goaded droves of global corporations to invest in emerging markets. In 2012, global corporations invested more in emerging markets than in the core economies of the United States, Europe, and Japan (Rapoza, 2013). Emerging markets have also become a platform for a new breed of multinationals. Many of these emerging multinationals such as Haier from China, Reliance from India, and Vale from Brazil have not only become formidable competitors in the global arena, but are making sizeable investments in the developed markets. In fact, foreign direct investment (FDI) flows from the BRICS countries (Brazil, Russia, India, China, and South Africa) grew from US$7 billion in 2000 to US$145 billion in 12 years, representing 10% of the world’s overall FDI flows (United Nations Conference on Trade and Development, 2013).

These developments provide new opportunities for management scholars not only to examine a novel occurrence unfolding before us, but also to uncover new theory or new patterns in management practice from new data. Our objectives of this special issue are rooted in such determinations. Our particular focus for this special issue is on the practice of innovation within the context of emerging markets. As such, we are mainly interested in innovations both emanating from developed country multinationals for emerging markets and innovations from emerging market multinationals developed to be introduced in the advanced world. We invited scholars working on these topics and selected a set of studies that examine different facets of this practice. In this paper, we not only summarize their work, but also place their findings within the broader context of what we understand about innovations for and from emerging markets. Furthermore, we propose certain broad directions for future research that could push the frontiers of our understanding of emerging markets.

Innovations for and from Emerging Markets: What Do We Know?

Given the increased importance emerging markets play for firms as well as their resulting inherent appeal to academicians, it is not surprising that research on innovation in the context of emerging markets has captured more and more attention in recent years (see Figure 1).

Research on innovation in the context of emerging markets could be usefully categorized—along the lines of our theme for the special issue—into two groups. The first group of studies focuses on how multinationals from advanced countries (AMNCs) could effectively develop innovations for emerging markets. These studies highlight special characteristics of emerging markets that make them different from just any other (advanced) foreign country, and the special approaches required for AMNCs to effectively manage innovation in the context of emerging markets. Some of these studies also provide ideas for AMNCs to leverage their innovation efforts in responding to emerging markets to better compete also in advanced markets. The second group of studies examines multinationals from emerging countries (EMNCs). They highlight differences in the capabilities of EMNCs as compared with AMNCs, differences in the approaches they take for innovation, and the special opportunities available to them for success. Each of these groups are elaborated and reviewed below.

Innovations from AMNCs for Emerging Markets

It is common knowledge that successful innovations effectively cater to market needs and creatively find ways to satisfy unique customer requirements (Griffin, 2013). Indeed, establishing a sound comprehension of market characteristics and customer preferences are fundamental to effective innovation. Not surprisingly, highlighting the special features of emerging markets and their unique

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characteristics was one of the first tacks taken by emerging market scholars—as adapting to such unique characteristics could be safely assumed as a key success factor for AMNCs developing innovations for emerging markets.

How are emerging markets different? Sheth (2011) proposes five key characteristics that are not only common to all emerging markets, but collectively separate emerging from advanced markets. These characteristics are market heterogeneity, sociopolitical governance, a chronic shortage of resources, unbranded competition, and inadequate infrastructure. Khanna, Palepu, and Sinha (2005) offer the concept of “institutional voids” as a common hallmark of all emerging markets. Evidently, the lack of resources, infrastructure, or masses of low income consumers in emerging markets appear to be rather apparent features underlying the factors categorizing how emerging markets are different from advanced markets. However, even in pointing to the obvious, these constructs provide valuable frameworks for AMNCs to comprehend tangible approaches to respond or adapt to these differences in emerging markets. One such powerful framework stemming from a feature that makes emerging market different is that of the “bottom of the pyramid” (BOP) (Hart and Christensen, 2002; Prahalad, 2012). BOP captures the fact that a large proportion of emerging market consumers has substantially low disposable incomes. Viewing emerging markets collectively from the BOP lens, however, enables AMNCs to think of several specific ways to effectively adapt their innovations for emerging markets and create new value (Nakata and Weidner, 2011; Ray and Ray, 2010).

How should AMNCs develop adequate responsiveness in their innovation efforts for emerging markets? Several prior studies focusing on this question have relied on case studies that exemplify successful AMNCs and their key success factors. For example, Bell and Shelman (2011) describe KFC’s winning approach in China and attribute their success to radically altering prevailing business models while paying special attention to, among other things, localizing product offerings across regions, moving with speed in establishing broad presence, and controlling the supply chain (with a view to overcoming institutional voids). In a study of successful global retailers in six emerging market countries, D’Andrea, Marcotte, and Morrison (2010) highlight the significance of recognizing the deep distrust emerging market consumers hold for large corporations and chain stores that AMNCs typically epitomize. Secret of success among these global retailers was to show particular “concern” for their local consumers.

Not all AMNCs find responding to such emerging market characteristics either obvious or easy. Ichii, Hattori, and Michael (2012) highlight how several Japanese AMNCs lag behind their competitors in emerging markets because of their “distaste” for middle- and low-end segments, and their “aversion” to mergers and acquisitions in emerging markets, among other reasons. Similarly, addressing middle- and low-end consumers may be easier said than done for most AMNCs given how radically different the emerging market context is for most managers in advanced countries. Several studies focused on the lower end of emerging markets offer suggestions to overcome such barriers. For example, Halme, Lindeman, and Linna (2012) argue that nurturing a novel approach within large corporations called “intrapreneurial bricolage,” encompassing the refusal to enact intrafirm constraints, the utilization of the means at hand, and the resourcefulness as a mindset, helps to develop offerings tailored to the needs of lower market segments. In a similar vein, Nakata and Weidner (2011) make a case for redesigning the established new product development (NPD) process in such a way as to work “backward,” that is, starting with the severe limitations of emerging market environments that hamper product adoption. Beyond remodeling intrafirm processes, the creation and management of new external networks with (unorthodox) local and global partners can be an effective strategy in emerging markets too (Chesbrough, Ahern, Finn, and Guerraz, 2006; London and Hart, 2004; Radjou and Prabhu, 2012; Ray and Ray, 2010).

Studies also offer ideas to use emerging markets as platforms for a wider set of innovations that could be
leverage for broader global markets. The concept of “reverse innovation” is one such idea. A reverse innovation is first adopted in emerging economies before being accepted in advanced countries (Govindaajan and Ramamurti, 2011). This concept challenges AMNCs to alter their prevailing typcasts of emerging markets as destinations merely meant to extend the tail end of established product or innovation life cycles (Vernon, 1979). It also presents emerging markets as a valuable source providing many ingredients for spurring successful innovation opportunities in advanced markets. For example, emerging market innovations may be particularly relevant for a critical mass of “poor” people in advanced markets and hence end up providing value for AMNCs. Unilever—the British-Dutch FMCG firm—has already started to adapt its products to the financial crisis ridden markets in Southern Europe (The Telegraph, 2012). Based on learning from Asia, the company offers smaller packages of detergents and food in Greece or Spain. Similarly, P&G introduced the syrup VickMiel first in Mexico as a homeopathic remedy against coughs and colds. VickMiel was later rolled out in markets with large Hispanic populations in the United States and other countries, such as Britain, France, and Germany (Jana, 2009). Similarly, ultra-low-cost innovations developed for emerging markets may actually end up expanding overall demand of a product/technology globally (Govindarajan and Ramamurti, 2011; Immelt, Govindarajan, and Trimble, 2009). Also, reverse innovations can disrupt advanced market competitors and hence provide value to the AMNCs introducing them (Hart and Christensen, 2002; Prahalad, 2012). For AMNCs to effectively execute reverse innovations, however, requires a significant revamping of their prevailing mindsets and established structures and routines (Govindarajan, 2012; Immelt et al., 2009; Washburn and Hunsaker, 2011).

It is important to note that while reverse innovation is a useful idea enabling AMNCs to use emerging markets as a platform for global innovation opportunities, its usefulness is not restricted to AMNCs. EMNCs too can use this framework to gain global advantage from their innovation efforts that originate in their local emerging markets. For more on what we know of such and other EMNCs’ efforts to innovate for advanced country markets, we move to the next section.

Innovations from EMNCs for Advanced Markets

The rationale for AMNCs’ innovating for emerging markets is arguably intuitive, given that AMNCs already possess valuable resources such as technology, brand, sophisticated routines, and other assets that are “extendable” to emerging markets. However, for EMNCs who operate in home markets with underdeveloped institutions and with significantly lower resources, the rationale to successfully introduce innovations in advanced markets is less intuitive. Existing research studies show that EMNCs can either leverage their existing strengths or try to turn their initial disadvantages into some kind of advantages, allowing them to effectively compete on the new international turf.

First, several EMNCs can fall back on cheap labor, state assets, deep local market knowledge, or abundant natural resources. Williamson and Zeng (2007), for example, coined the term “cost innovation” to describe a strategy of Chinese MNCs that leverage their local cost advantage to offer Western customers dramatically more for less. This strategy allows introducing products and technologies so far restricted to certain premium segments into mass markets. These can be, for instance, high-tech solutions in lower market segments, an above-average variety and customization at mass market prices, or specialty products turned into volume businesses. In a similar vein, Prahalad and Mashelkar (2010) introduce “Gandhian innovation,” and Radjou, Prabhu, and Ahuja (2012) refer to “jugaad innovation” as a uniquely Indian approach allowing firms to develop products with fewer resources and subsequently sell them at modest prices for the benefit of broader customer segments. This special capability can be rooted in the combination of leveraging local market constraints, local market knowledge, and market actors’ ambitions.

The resulting product offerings exhibiting both attractive prices and a satisfactory performance level can potentially disrupt advanced markets and threaten incumbents (Markides, 2012; Prahalad and Mashelkar, 2010). The EMNCs’ success will in particular be lasting if the source of their cost advantage remains sustainable over time, which seems more probable with a better business model than with low-cost labor alone (Markides, 2012). Such a superior business model may still include cost-effectiveness, however, paired with high product quality as some leading Indian hospitals demonstrate (Govindarajan and Ramamurti, 2013). Several spectacular success stories from Japan and South Korea in the last decades show that EMNCs can indeed push incumbents out of mainstream markets (Hart and Christensen, 2002; Markides, 2012).

Second, EMNCs in different industries seem to rapidly convert their initial disadvantages into advantages (Cuervo-Cazurra and Genc, 2008). Forced to constant...
experimentation on their learning curve, EMNCs may be particularly well equipped to excel in process innovation (Govindarajan and Ramamurti, 2013). Or their scarce resource base might be particularly suitable to offer environmentally friendly products (Haanaes, David, Jurgens, and Subramanian, 2013). Overall, resource constraints of EMNCs that are inherent in their home markets may actually offer an opportunity for these firms to innovate successfully in emerging markets and also in developed markets when cost-based competition is prevalent (Gibbert, Högl, and Valikangas, 2014).

Moreover, technological insufficiencies of EMNCs when compared with industry incumbent AMNCs can be leveled via technological catch-up by means of sourcing, licensing, alliances, or by acquiring firms in advanced economies (Awate, Larsen, and Mudambi, 2012; Markides, 2012). The greater the institutional distance, that is, the degree of dissimilarity of institutional environments, between the EMNC’s home market and the target advanced market, the more innovative the EMNC can become as a result (Wu, 2013). Being the “technological follower” can even help avoiding many of the pioneering costs incurred by AMNCs. Nevertheless, Awate et al. (2012)—using the example of the wind turbine industry—conclude that EMNCs are catching up primarily in terms of output, not innovation capabilities. In other words, they may derive parity in terms of manufacturing excellence and advancing existing products, yet experience difficulties to innovate at the technological frontier. However, there are some exceptions, too, especially in emerging industries like regenerative medicine. Because such fields are new both to AMNCs and EMNCs, the latter have to focus on their own technology and innovation capabilities rather than rely on advanced markets for technology transfer (McMahona and Thorsteinsdóttir, 2013).

The Papers in This Special Issue

The aim of our special issue was to highlight new developments in the field of NPD for and from emerging markets and focus on specifics of innovation management in this environmental context. We received 62 manuscripts following our call for papers for this special issue. Forty-five percent of these submissions came from emerging markets. The received manuscripts covered a variety of topics and applied multiple methods to study different phenomena. Of the 62 manuscripts, 45 pieces were desk-rejected, mainly because of a missing fit with the theme of the special issue and/or lacking advancement of our theoretical understanding with regard to the specific impact of the emerging market context on the studied phenomenon. We selected the remaining 17 papers for further review. They were reviewed according to the usual JPIM double-blind process. The JPIM editor in chief handled the review process for the manuscript that involved the guest editors of this special issue. Four papers were finally accepted for the special issue.

The three empirical and one conceptual paper in this special issue look at different facets of innovation for and from emerging markets. The empirical papers report on specific differences concerning the management of innovation in or for emerging markets. The conceptual paper offers typologies of a new practice related to innovation from emerging markets, namely reverse innovation.

The study by Story, Boso, and Cadogan compares the organizational and environmental contingencies impacting the relationships between firm-level product innovativeness and new product performance across firms in the United Kingdom and Ghana. It reports that both in the United Kingdom and Ghana, the basic form of the relationship between firm-level product innovativeness and NPD performance has an inverted U-shape. Depending on the levels of market orientation, access to financial resources, and environmental dynamism, however, the strength and/or form of this relationship changes. In both countries, market orientation helps firms to leverage their product innovativeness. Interestingly, however, access to financial resources enhances the relationship between product innovativeness and new product performance in Ghana, whereas it does not in the United Kingdom. While we all recognize that access to financial resources is difficult in emerging markets, this study singles out how such access can become a unique resource in these economies. The study also finds that firms in the United Kingdom benefit from dynamic environments in becoming more innovative while, in contrast, dynamic environments hurt Ghanaian firms in their innovation efforts. This finding highlights some specific vulnerabilities of emerging market firms.

The study by Liu, Chen, and Tao reports on unique success factors in the management of NPD teams in China. Drawing on social cognitive theory and behavioral integration research, the authors examine the relationships between multiple behavioral integration dimensions (i.e., collaborative behavior, information exchange, and joint decision-making) and innovation performance. They further examine the moderating effect of collective efficacy on these relationships. Prevailing theory by and large lauds the benefits of open information exchange, collaboration, and joint decision-making when managing NPD teams. This study finds that while information
exchange is beneficial, collaborative behavior is only marginally beneficial. More surprisingly, joint decision-making is not found to be beneficial for innovation performance in these NPD teams. Furthermore, collaborative behavior and joint decision-making are more positively associated with innovation performance when collective efficacy is higher. In contrast, information exchange is less positively associated with innovation performance when collective efficacy is higher. This study therefore highlights the varying conditions under which multiple dimensions of behavioral integration facilitate or inhibit NPD team innovation performance in China with its collectivist and high power-distance culture.

The study by Ernst, Kahle, Dubiel, Prabhu, and Subramaniam reports on a special facet of innovation for emerging markets, that is, affordable value innovation. Affordable value innovations are defined as new products that meet the low price expectations of customers in emerging markets while at the same time offering value to them. The authors find that a firm’s capability to develop and launch affordable value innovations is key to success in emerging markets. The authors draw on institutional theory to identify three antecedents of affordable value innovation in emerging markets: bricolage, local embeddedness, and standardization. While bricolage and local embeddedness are positively related to the level of affordable value innovation, standardization exerts a negative impact. The latter finding seems to be counterintuitive, as we typically associate standardization with lowering costs and making products more affordable to price-sensitive consumers in emerging markets. The main findings hold across multiple emerging market regions such as Latin America, Africa, and Asia.

Finally, the conceptual paper by von Zedtwitz, Corsi, Søberg, and Frega offers a new and systematic view of reverse innovation—a unique phenomenon referring to an innovation initially launched in an emerging market and then later introduced in a developed market. The authors expand the definition of reverse innovation beyond its market introduction and suggest distinguishing reversals in the flow of innovation in the ideation and product development phases. This distinction leads to a typology of 16 different forms of innovation flows between developed and emerging markets, 10 of which represent reverse innovation. Six of these new reverse innovation flows have not yet been mentioned by prevailing research. The authors illustrate their typology by means of multiple case examples. They discuss the managerial implications from this typology and highlight avenues for further research.

Where to Go from Here?

Clearly, emerging markets are transforming the global competitive landscape, and this unfolding phenomenon provides a useful platform for management scholars to extend and deepen our understanding of innovation. Extant research has given us a great start. We provide below a set of broad directions future research could take to further extend their efforts.

Innovation and Emerging Markets: Uncovering New Phenomena and New Theory

The context of emerging markets has already provided us with some new frameworks to examine innovations and innovative capabilities. Two examples are those of the “BOP” and “reverse innovation” frameworks. Both provide powerful lenses to observe innovation practices that are substantially different from prevailing practices. Both these concepts also help focus and channel management efforts toward discovering and leveraging new innovation opportunities. The challenge ahead for management scholars is to uncover more such useful frameworks or refine those already identified.

We believe that studies should continue to empirically examine the practice of innovation in the emerging market context, identify new patterns, and theorize their underlying rationale. Our understanding of reverse innovation, for example, stemmed from observing and identifying a counterintuitive pattern among AMNCs—namely to innovate first in an emerging market and then extend that innovation to advanced markets. Future research could attempt to isolate more such patterns that run counter to what we routinely expect to observe as well as refine those already identified patterns. For example, although the reverse innovation phenomenon becomes increasingly popular, there is still little knowledge about its specific organizational, process-related, or cultural drivers within firms. We lack a sound understanding of what it takes to successfully transfer an innovation from an emerging market into a developed market. It would be useful to further investigate if and how that subsequent transfer of innovations should be built into the initial development process.

Similarly, our intuitive expectation may be to see EMNCs enter advanced markets with low-cost innovations and then upgrade into more high-end segments. After all, this is what most Japanese MNCs (who were also then—in the 1970s—from emerging markets) have successfully done; this also is what we observe from many South Korean companies such as Samsung and the
stated objective of Chinese companies such as Haier. However, are there exceptions to this pattern? Should EMNCs follow these traditional development paths, or should they find new ways rather than following the approaches of Japanese and South Korean firms? How do EMNCs that continue dominating low-end markets in emerging and developed markets manage their innovation processes? How do EMNCs that “leap frog” into high-end markets manage their innovation processes? Are there new phenomena to be discovered in the process of examining such practices? Is there any potential here to develop new theory for innovation management and best practices?

Another approach is to look for contingencies that influence the success of the prevailing practices of innovation for and from emerging markets. For example, under what conditions are reverse innovations or BOP innovations more likely to be disruptive? Are reverse innovations more likely to be effective in low-end or high-end markets? Under what conditions are they likely to end up being effective either for the low end or the high end? Identifying such new contingencies not only refines our understanding of the special characteristics of innovation for and from emerging markets, but is also likely to lead us to new theory or help us uncover new phenomena or conceptual frameworks for innovation management in general.

Understanding How Capability Gaps Drive Innovations

One of the unique attributes of innovations in the context of emerging markets entails comparisons between AMNCs and EMNCs. The most apparent factor underlying these comparisons is the belief (or fact) that EMNCs and AMNCs operate with fundamentally different capabilities (Guillen and Garcia-Canal, 2009; Mathews, 2006; Williamson and Zeng, 2007). Future research could further explore how these capability differences drive the trajectories of innovations for and from emerging markets.

For example, some research has hinted at EMNCs being better than AMNCs at developing low-cost or “affordable” innovations. However, to what extent is such a capability intrinsic to the EMNC because of its history or culture as opposed to its location and the unique characteristics of its home environment? Put differently, could an AMNC that is operating in an emerging market develop comparable capabilities for creating “affordable” innovations? Conversely, could an EMNC develop capabilities for creating high-end innovations comparable with AMNCs by operating in advanced countries? Which of these capability gaps are easier to overcome? What do EMNCs or AMNCs need to focus on to overcome such capability gaps?

Future research in this direction would also encourage scholars to consider how mergers and acquisitions or alliances play a role in acquiring relevant capabilities and managing innovation. Are acquisitions or alliances made by AMNCs easier to leverage for innovations in emerging markets as opposed to acquisitions or alliances made by EMNCs for innovations in advanced markets? What intrinsic advantages or disadvantages do AMNCs or EMNCs bring to the table when executing mergers or alliances? How do they better leverage their advantages? How do they overcome their disadvantages?

Need for a Broader Database and the Application of Specific Methods

Most of the existing empirical studies on emerging markets, also a large number of papers submitted to this special issue, are based on data from China. While this is perfectly fine, we perceive the need to broaden the database and to collect more data from other emerging markets and regions. Markets in regions like Latin America and Africa are understudied and require a stronger research focus. This is necessary because emerging markets are not homogenous. They also tend to follow different development patterns. In this context, it is further important to conduct cross-market studies comparing innovation patterns between multiple emerging markets and between emerging markets and advanced markets. These studies promise to yield very useful insights with regard to differences between these markets and their impact on innovation activities. They are therefore particularly well suited to advance theory on differences or similarities with regard to the management and impact of innovation in varying types of markets. The study by Story, Boso, and Cadogan in this special issue is a good example for this approach.

The collection of broader, ideally cross-country data sets could facilitate the application of specific methods. Studying the effect of certain market characteristics on the management of innovation may require a cross-level study design. Cross-level studies, for example, by means of hierarchical linear modeling, allow a better empirical assessment of the underlying mechanisms by which specific characteristics of an emerging market impact the innovation activities at other levels, especially the firm, the project, and the individual level. These studies promise to add valuable new theoretical insights on the
management of innovation for and from emerging markets. Cross-country studies enable the application of multigroup analyses that help to detect country-specific differences and to make inferences with regard to the generalizibility of results across multiple emerging markets. The study by Ernst, Kahle, Dubiel, Prabhu, and Subramaniam in this special issue is an example for this approach. Finally, as emerging markets change dynamically over time, longitudinal studies are desirable to shed more light on the nature of these dynamic processes and their implications on the management of innovation for or from these changing markets.

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