Launching reverse-innovated product from emerging markets to MNC's home market: A theoretical framework for MNC's decisions

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**ABSTRACT**

A reverse-innovated product is a new product that is originally developed for an emerging market by MNCs. The increasing number of MNCs engaging in reverse innovation and the criticality of new products to MNC's performance and competitive advantage make reverse innovation an important area for academic research and managerial practices. This paper integrates relevant literature and proposes a theoretical framework to understand the mechanisms by which the characteristics of a reverse-innovated product affect management’s decision to launch that product in a developed market (e.g., the MNC’s home market). By means of literature review, the paper identifies two underlying evaluation mechanisms through which the reverse-innovated product characteristics are linked to management’s reverse launch decision: the perceived degree of needed adaptation and the perceived risk of cannibalization. The authors also derive several propositions for future empirical research and discuss implications for future research.

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**1. Introduction**

General Electric developed an ElectroCardioGraph (ECG) machine for the Chinese market and a portable ultrasound machine for the Indian market. Both products turned out to be very successful in the host markets. Similarly, Gillette developed the Guard razor for the Indian market, which also enjoyed good performance. Later on, General Electric and Gillette introduced these products to US consumers. What prompted managers to decide to introduce products developed for emerging markets back into their home country markets?

Extant literature in international marketing falls short in providing theoretical answers to the above question. The internationalization literature is informative for our understanding of why MNCs expand to countries outside of their home country. For instance, a firm’s knowledge and resources are important drivers of its international expansion (Qian & Delios, 2008; Zahra, Ireland, & Hitt, 2000). Such internationalization theory, however, is inadequate for explaining why an MNC would want to bring products developed elsewhere back to its home country. Moreover, the literature has focused on country-level or firm-level factors to explain why MNCs introduce products to foreign markets (e.g., Hutzschenreuter et al., 2010; Serra, Pointon, & Hussein, 2012). While firm-level factors may affect an MNC’s decisions to introduce products innovated for emerging markets (i.e. reverse-innovated products) back into its home market, a product-level analysis is more appropriate, as the decision has to be made for each product that is developed.

To advance our understanding of international marketing, scholars have called for research to “develop new theories to explain emerging international business phenomena” (e.g., Griffith, Cavusgil, & Xu, 2008, p. 1230). MNCs that engage in reverse innovation could potentially develop new innovation capabilities that could be leveraged in other markets, especially in its home country. Within this context, effective evaluation of the market opportunity for a reverse-innovated product in the home country market is critical for the long-term success of the MNC as a whole (Govindarajan, Trimble, & Nooyi, 2012; Zedtwitz, Corsi, Soberg, & Frega, 2015).

In this paper, we attempt to shed light on the following research question regarding reverse innovation: What characteristics of a reverse-innovated product would affect an MNC’s decision to launch it in the home market?

This paper contributes to the extant international marketing literature in several ways: First, it responds to the call of Griffith and colleagues to develop knowledge in a new international...
marketing phenomenon—reverse innovation. Specifically, it attempts to fill a research gap in the international marketing literature by addressing an MNC’s reverse-launch decision from a marketing strategy perspective. Second, this paper develops a theoretical framework to account for variations in MNC management’s intention to launch a reverse-innovated product in its host market and provides testable research propositions. These propositions can guide subsequent research on how reverse-innovated product characteristics are related to MNC management decision making, and they serve as a starting point for future thinking in reverse-innovation theory. Lastly, this research may also provide insight and implications for practitioners. MNC managers may find the theoretical framework presented in this paper useful in helping them reach more rational decisions in launching reverse-innovated products back into developed markets.

The rest of this paper is organized as follows. In the next section, we examine the possible factors that MNC management considers in reaching a reverse-launch decision by reviewing and integrating literature from several relevant fields, including new product development, export marketing, global marketing strategy, and product line and product portfolio management. Based on findings from the literature review, we then develop a theoretical framework and articulate several testable propositions regarding key mechanisms of the reverse-launch decision and the reverse-innovated-product-related antecedents of such mechanisms. The paper concludes with a discussion of theoretical and managerial implications of the proposed framework. Even though MNCs internationalize via a variety of entry modes, most of the reverse innovation efforts are in the wholly owned subsidiaries or majority owned international joint ventures (IJVs). Thus, our discussion will focus on these contexts.

2. Literature review

The term reverse innovation was first coined by Govindarajan and colleagues (c.f. Immelt, Govindarajan, & Trimble, 2009). Reverse innovation is loosely defined as the process of developing new products for an emerging market (Immelt et al., 2009; p. 56). The phenomenon expanded over the years (Economist, 2012) and garnered research interest (e.g., Zedtwitz et al., 2015). While we have gained a better understanding of its distinction from close concepts such as cost innovation or frugal innovation (Zeschky, Widenmayer, & Gassmann, 2014) and its different typologies (Zedtwitz et al., 2015), we still have very limited understanding of why MNCs would launch a reverse-innovated product into its home market, not the initial target market for the product.

Launching a reverse-innovated product to the home market could be considered similar to exporting a product to a foreign market because both involve transferring products from one market to another internationally. However, there are two notable differences between a reverse launch and exporting. First, the MNC management is introducing products from a developed market to a foreign market (including developing and/or developed markets) in the case of exporting, whereas the management is introducing a product back into its home market in the case of reverse launch. Second, exported products are usually developed based on domestic customers’ needs, familiar to the MNC. However, in developing reverse-innovated products, the MNC often must go out of its ‘comfort zone’ and rely on local teams from the emerging market to develop products that best address emerging-market customers’ needs, with which the MNC may not be familiar (Govindarajan et al., 2012). Historically, developed countries are often considered the lead markets that could influence the diffusion of new products to less developed markets, whereas emerging markets are generally seen as laggard markets with little influence on the adoption of new product innovations compared to their developed counterparts (Beise, 2004; Vernon, 1966). If an MNC decides to introduce a reverse-innovated product into its home country, it’s essentially testing the idea of emerging market as lead market (Tiwari & Herstatt, 2012), which may cause the MNC management to hesitate when evaluating the appropriateness of launching a reverse-innovated product into its home market.

3. Theoretical framework and testable propositions

When transferring products from one nation to another, MNC management often finds that products are subject to different customer preferences and tastes, quality requirements, and product usage situations, especially when the two markets are culturally or economically distant (Calantone, Kim, Schmidt, & Cavusgil, 2006b; Cavusgil, Zou, & Naidu, 1993; Tihanyi, Griffith, & Russell, 2005). As a result, firms often have to modify or adapt the physical characteristics or attributes of a product as well as its packaging to better fit the needs and desires of customers in different countries (Calantone et al., 2006b; Cavusgil et al., 1993). Such product adaptation often requires additional resources, which MNCs may not be willing to invest. Empirical research has indicated that many firms tend to export to markets that require a minimal degree of product adaptation and shy away from any major commitment to substantial product adaptation (e.g., Kacker, 1975). Currently, assessing the necessary degree of product adaptation continues to be an important aspect of export strategy for international marketers (Cavusgil & Zou, 1994; Dow, 2006).

More specifically, we define the first underlying evaluation mechanism, perceived degree of needed product adaptation, as the management’s perception of effort and resources required to modify a reverse-innovated product to achieve the desired performance goal in the MNC’s home market. This construct reflects management’s perceived amount of investment required, number of organizational changes needed, and amount of time needed to modify the reverse-innovated product to fit the needs of the customers in the home market. The domain of perceived degree of product adaptation needed includes: 1) the extent and ease of product adaptation; 2) the required cost for product adaptation. In some cases, only minor modifications (e.g., packaging modification) is required, and the modification cost is minimal. In other cases, one single modification can be both challenging and costly (e.g., designing a new battery with longer life).

Managers have a responsibility to maximize firm profit, which often may not necessarily be equivalent to maximizing new product sales. Therefore, when an MNC introduces a new product, it must consider the interrelationship of sales of the new product with sales of existing products. Quelch and Kenny (1994) suggested that firms may face a threat to overall profit due to new product introduction, especially when demand for the product category overall is stagnant or when the new product competes with the existing products for resource allocation. Using a set of experiments, Kim and Chhajed (2000) demonstrated that the introduction of a lower-end product would decrease customer valuation of the higher-end product and cause customers to switch to the lower-end product, resulting in cannibalization. Other researchers have utilized a modeling or game theory approach to demonstrate that concerns for possible cannibalization would affect management’s new product decisions regarding whether to launch (Wilson & Norton, 1989), when to launch (Wilson & Norton, 1989), and what to launch (Desai, 2001). Because reverse-innovated products are often partial substitutes of an MNC’s existing products in the home markets, risk of cannibalization becomes an important factor in considering reverse launch.

More specifically, we define the second underlying evaluation mechanism, perceived risk of cannibalization, as the
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