



ROUND TABLE

Local innovation: The key to globalisation

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Innovation;
Emerging markets;
Frugal innovation;
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Abstract The round table discussion draws the panellists to weigh in on how multinational enterprises from developed countries are innovating in and for emerging markets, the challenges faced, and lessons learnt. The key takeaways are that MNEs are increasingly innovating for the Indian market, alongside their contribution to global products. They are doing so by developing close relationships with field facing organisations, co-creating with customers, empowering engineers, and taking a clean slate approach to product development. This approach has given them dividends not only in the local market but also in the global market.

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Academic perspective

Progression of MNE R&D centres in India

Over the past two decades, India has become a much sought after destination for innovation activity among multinational enterprises (MNEs). According to a report by Zinnov (2012), between 2000 and 2010, the number of MNE R&D centres in India went up from 162 to over 700. Further, the R&D investment has come from all over the globe – North America, Europe, and Asia Pacific (APAC) – and spans multiple sectors such as automotive, information and communication technology, and pharmaceutical (Basant &

Mani, 2012). As a result, India has rapidly emerged as a hub of MNE innovation activity.

Over the years, the R&D work undertaken by these companies in India has undergone a qualitative change. Most of the MNE R&D centres began as resource augmentation centres or extension units (Jha, 2013), driven by the availability of low-cost skilled personnel in large numbers (Mrinalini & Wakdikar, 2008). During this initial phase, the centres worked in a “project mode”, executing to the specifications provided by the corporate headquarters (HQ) and making a marginal contribution to the company’s global products. Over time, the centres have matured and developed advanced capabilities in one or more technical areas. Consequently, they are more intimately engaged in the product development process and have taken on the technical ownership for certain products within the MNE, making a substantial contribution to MNE R&D (Jha, 2013; Kumar & Puranam, 2012). Through this evolution, the focus of the India centres has largely remained on serving the traditional markets of the MNE i.e., the developed markets of North America, Europe, and Japan and the innovations originating in these centres have been packaged into global products and remained mostly invisible (Kumar & Puranam, 2012).

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However, more recently, MNE R&D centres are turning their attention to the local market (Jha, 2013). In other words, having developed technical capabilities over the years, these centres are exploring how they can innovate to address the needs of India and India-like markets, which have grown rapidly in the past few years.

These developments pose two challenges. First, R&D centres have to move beyond pure technical capability and develop an intimate understanding of the business environment. This can be challenging for centres that have been primarily inward facing and have few connections with the local business context, and more so when few individuals in the local innovation ecosystem have experience of managing innovation across the value chain (Krishnan, 2010). Second, MNE R&D centres that have thus far played a contributory role in global product development efforts with clear roadmaps now have to lead the product development effort for a new, unexplored market. This requires a substantial shift in mindset and capability (Govindarajan & Trimble, 2012). To gain further insight into this phenomenon, we explore

- What challenges do MNE R&D centres in India face as they try to innovate for India-like markets? How do they plan to overcome these challenges?
- What specific steps are the R&D centres taking to understand the local business environment?
- What is the nature of engagement of R&D centres with the customer facing functions of the company? What are the challenges in engaging with these functions that are driven by quarterly quota and less inclined to focus on long-term initiatives such as R&D projects?
- How can MNE R&D centres compensate for institutional voids in the emerging market environment?

Frugal, jugaad, and reverse innovation

In addition to understanding the business context, innovating for emerging markets such as India challenges deeply entrenched R&D principles within the MNE. Countries like India have a large number of people with an annual purchasing power parity of less than \$1500 (Pralhad & Hart, 2002). Govindarajan and Trimble (2012) describe these countries as “mega markets with micro customers”. In order to tap into this customer base, MNEs need to develop low-priced, value products that can drive profits through volumes. These are also referred to as “frugal innovations” i.e., affordable, value products that meet the needs of resource-constrained customers (Bound & Thornton, 2012; Sehgal, Dehoff, & Panneer, 2010; Zeschky, Widenmayer, & Gassmann, 2011).

The guiding principle of frugal innovation is to start from a clean slate and bring cost discipline in every step of the innovation process as opposed to stripping down costs from existing products (Sehgal et al., 2010). In other words, value and affordability are the key drivers of innovation, in place of affluence and abundance (Pralhad & Mashelkar, 2010), which have traditionally guided the innovation process in MNEs. Some observers have recommended developing a more flexible approach to innovation – Jugaad – which refers to the ability to innovate in unconventional ways, in the face of adversity (Radjou, Prabhu, & Ahuja, 2012) to take on this

challenge, while others (Krishnan, 2010) have questioned the appropriateness and scalability of such alternate approaches.

Given that innovating for emerging markets would require a fundamental change in how MNEs approach innovation, the question arises if it is worth the effort. Would the volume in these markets compensate for low margins and recoup the R&D costs? Would the value products not erode the company’s profits from premium offerings? Scholars have persuasively argued in favour of innovating for emerging markets, saying that innovations originating in these markets often find applications in developed countries and go on to become successful products for the MNE (Govindarajan & Trimble, 2012; Immelt, Govindarajan, & Trimble, 2009). Such innovations that flow from less developed countries to the developed countries are called “reverse innovations”. Govindarajan and Trimble (2012) further argue that if MNEs do not reverse innovate, firms from emerging markets will.

In the light of increasing importance of innovating for emerging markets and the challenges associated with it, we explore the following questions

- Is frugal innovation the new innovation paradigm? If so, how do you bring about a frugal mindset in a company, especially in companies that have traditionally believed in trying to make more sophisticated products and technologies based on big ticket R&D investments?
- Can reverse innovation be a deliberate strategy? Or is reverse innovation just a desirable “side-effect”?
- Will Jugaad play an important role in a large MNE? How would it relate to the existing approaches to innovation in the company?

Local Innovation: The Key to Globalisation: Discussion*

Anchor

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Rishiksha T Krishnan: Good evening and welcome to this panel discussion. We have an eminent set of speakers to focus on the links between local innovation, global

* This panel discussion was organised by the Karnataka chapter of the Indo-American Chamber of Commerce.

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