



# Scenario development for an evolving health insurance industry in rural India: INPUT for business model innovation

Tobias Gnatzy\*, Roger Moser

EBS Business School, Soehleinstrasse 8A, 65201 Wiesbaden, Germany

## ARTICLE INFO

### Article history:

Received 30 September 2010  
Received in revised form 26 April 2011  
Accepted 1 August 2011  
Available online 24 August 2011

### Keywords:

Scenario development  
Strategic analysis  
Delphi  
Rural India  
Health insurance  
Expert judgement  
Business model innovation

## ABSTRACT

The article discusses the use of Delphi-based scenarios for the development of business model innovations in emerging markets. Motivated by insights from information processing and institutional theory we present a scenario development process combining a PEST (political, economic, socio-cultural, and technological) and a stakeholder approach. We exemplify its use for the evolving health insurance market in rural India and present how our approach can be used to study possible future developments relevant for business model innovations. Key insights are that NGOs might play a crucial role along with the regulatory support of the Government of India and significant advances in mobile payment technologies.

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## 1. Introduction

Innovations are a major driver for economic growth and have successfully contributed to societal and corporate wealth in developed countries in the past [1,2]. In order to stay competitive societies and companies alike have to innovate on a regular basis and introduce new products and services successfully [3,4]. Today, innovations are especially gaining importance for companies and societies in emerging markets as they are now facing global competition after a long period of only domestic competition if at all [5] and need to tackle multifaceted challenges of economic, ecological and social change.

A new and promising playground for future innovations exists therefore in emerging markets such as India. Up to 75% of the world's economic growth is expected to be generated in these markets in the short- to mid-term future [6]. Attracted from the enormous growth potential in those countries, multinational as well as domestic corporations put considerable efforts into the understanding of how to optimally benefit from the developments in these markets. The literature reveals that companies simply transferring their business models and operations of established markets to emerging markets are often not successful. Anecdotal and empirical evidence rather suggests that substantial adaptations to successful business models need to be applied in order to successfully operate in emerging markets [7–9].

In the case of India, various adaptations to business models and operations are normally necessary to serve both the urban and rural areas as these markets nowadays often substantially differentiate in their specific product and service requirements. Business models appropriate for the specific conditions of rural areas in emerging countries should also aim at leveraging the strengths of this special market rather than focussing on overcoming their weaknesses from a developed market perspective [9].

\* Corresponding author. Tel.: +49 611 7102 2127; fax: +49 611 360 18 802.  
E-mail address: tobias.gnatzy@ebs.edu (T. Gnatzy).

An essential requirement for successful business model innovation in emerging markets seems the information gathering and processing of the current industry environment from a political, economic, social or technological perspective and the adjacent analysis of how these dimensions may evolve over time.

The challenge of collecting and processing information regarding the environment of an industry becomes even more complex when the focus is set on emerging markets such as India. This also results from the fact that emerging markets are characterised by dynamic institutional change, a lack of transparency of decision-making in many governmental and other relevant institutions, and the opaqueness of regulations [10]. Dynamic institutions and frequent changes in governmental regulations such as tax laws or FDI limits, business practices, competitive behaviour, or market growth boost the level of uncertainty for decision makers. Hence, it seems beneficial to think about alternative futures as emerging markets do often not develop in a linear, predictable way [10,11]. In such an environment, it is increasingly difficult for managers to process information and make effective decisions. It becomes even more difficult when the familiarity with a specific market environment is rather low due to geographical distance or missing cultural understanding. This phenomenon can frequently be observed in multinational companies operating in India being headquartered in Europe or the US. In such situations, the likelihood to accidentally neglect relevant factors, filter out important information, or draw misleading clues is high [12]. It becomes more difficult for senior executives to obtain, analyse, and verify information about the relevant environment for their industry [13].

The objective of our paper is to present how future-oriented information can be generated in order to successfully develop and adapt business models for emerging markets especially in the case of evolving industries where fully developed business models do not exist yet. In the remainder of this paper we discuss how Delphi-based scenarios can be developed and used to analyse how an industry in an emerging market may evolve in the future and to understand which elements of business models might be required to get substantially adapted, radically changed or newly created in order to be successful. First, we discuss the theoretical background for future-oriented industry analyses and explain our approach based on information processing and institutional theory. We then draw on the results of a Delphi study in which we surveyed more than 35 local experts to present how scenarios for the health insurance industry in rural India might look like by 2020 and how a business model might accordingly be developed or adapted.

## 2. Literature review

Emerging markets such as India are characterised by a dynamic institutional context, a lack of transparency in the decision making process of governmental and other relevant institutions such as business associations, courts or the civil society and the opaqueness of many regulations [10]. Consequently, decision-makers are forced to develop a greater tolerance for errors in their strategic decision making. The alignment of their information processing demand with their information processing capacities is increasingly difficult in such environments [13]. As a reaction to these high levels of uncertainty, more information have to be processed [14]. When decision makers assume changes in the environment, they are more likely to increase environmental scanning and information collection activities [15]. Thereby, decision makers should not only extrapolate past experiences into the future since information from past events may miss important weak signals for changes in the future [16]. From this perspective, it is necessary for senior executives to broaden their information processing activities through future oriented information which can be included in their decision making process. This anticipation of future developments and potential scenarios is acknowledged in the literature to support successful business model adaptation and innovation, and allows better investments into the right resources [e.g. 17–19].

Many researchers have underlined the importance of conducting future-oriented analyses in fast-moving, dynamic, and unstable market environments such as India. A common statement to be found in accordant articles indicates that companies have to generate future-oriented information in order to foresee and detect important changes in their industry environment and to prepare for them [20]. The literature suggests different approaches to conduct such studies including Delphi panels [21], scenario development [22,23], stakeholder analysis [24], or nominal group techniques (NGT) [25]. These approaches improve the information level of the respective decision makers. Prior studies confirm that effective information processing activities influence the success of innovation processes and business model adaptations [e.g. 26,27]. Ottum and Moore [28] observed that the commercial success of business and innovation development is closely linked to the access to market information and the actual use of it. This access supports companies in identifying changes in their environments in the early stages and to prepare proactively for new markets [29,30].

As an early example, Chakravarti et al. [31] discuss the importance of technological forecasting activities in India. According to them, developing economies have to be aware of technological changes in the future and their possible consequences for the country. Foresight activities are thus necessary to analyse how to cope with resulting future challenges and to prepare for a sustainable development. The current focus of the Chinese government on technologies for electro mobility is another example. Likewise, Gonzalez [19] emphasises the importance of studies for effective information processing in uncertain environments and for deriving appropriate strategies for these environments. The author argues that information about possible future environments are crucial as they significantly affect strategic planning activities. Furthermore, the author underlines the importance of Delphi studies and scenario planning for future-oriented environmental analyses but criticises the lacking connection to strategic planning. Further supporting arguments for the generation of future-oriented information are provided by Blanning and Reining [32]. The authors argue that in fast changing environments or in environments which might change easily, it is necessary to analyse how those possible changes can impact business. Again, by conducting future analyses and generating future-oriented information it becomes possible to more effectively prepare for potential changes minimising a company's risk exposure. Similarly, Blanning and Reining [33] indicate that future-oriented information assist in uncovering future business opportunities.

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