



# Towards a higher socio-economic impact through shared understanding of product requirements in emerging markets: The case of the Indian healthcare innovations

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## ABSTRACT

Emerging markets are considered to have huge economic potential, both for entrepreneurs and established firms. To foster innovation in these markets, it is important that customers and companies use the same terminology, with the same understanding of key terms. But is this really the case? Based on eight product requirements, this research empirically analyzes the perception of emerging market innovation terminologies. For this, we use the case of the Indian healthcare sector. On the one hand Voice of Customer method was used to gather the product requirements from the customers. On the other hand, Analytic Hierarchy Process technique was employed to identify the preferences for both product managers and customers. Our results confirm the high level of importance of 'affordable value innovations' and 'ease of use functionality' for new products introduced in emerging markets. Interestingly, the category 'products with low or no maintenance or consumables' comes high on the preference map for the customers but seems to be a blind spot from the manufacturers' perspective. This result opens opportunities for entrepreneurs focusing on new customer bases in emerging markets and also for various corporate entrepreneurship activities.

## 1. Introduction

Multinational companies (MNCs) are acknowledged to play an important role in wealth creation and wealth distribution in low-income groups (Pearce, 2005). Management literature offers several evidences to showcase the socio-economic impact of these MNCs, specifically in the context of emerging markets (Fritsch, 2008). For the last two decades, in line with Prahalad's proposition of business potential at the Bottom of the Pyramid (BoP), MNCs have been playing an increasingly bigger role in facilitating sustainable societal growth by generating profits at BoP. Multinationals are successfully engaging in resource-efficient innovation processes and are adopting different strategies to design solutions specific to emerging market requirements (Yin and Jamali, 2016). Success of Village Phone Program (VPP) is a testimony to this trend (Aminuzzaman et al., 2003; Bayes, 2001).

Due to the vast difference in customer requirements and environmental conditions of emerging markets (Viswanathan and Sridharan, 2012), MNCs engage in innovation through localization. Localization strategy includes setting up local research and development (R&D) centers in emerging markets and hiring local workforce, among others.

These local set-ups have entrepreneurial culture and are given the needed autonomy to operate independently. In entrepreneurship literature, such type of entrepreneurial activities within large companies is also known as Corporate Entrepreneurship (Sharma and Chrisman, 1999; Muñoz et al., 2016), and their success is often linked with opportunity recognition and need identification in the target market (Park, 2005). In particular for emerging markets, as these entrepreneurship activities generate employment opportunities and support local ecosystem, they have positive socio-economic effects (Agarwal and Brem, 2012; Rashid and Rahman, 2009). However, for the success of such endeavors similar to the other markets, a thorough understanding of customer requirements is critical (Chen and Li, 2006) and even more in emerging markets, due to their unique conditions (Agarwal et al., 2017).

Success in these markets is greatly influenced by awareness of local market and product compatibility with (local) standards such as laws, languages or infrastructure setups (Estorilio et al., 2017), and preferences. Therefore, we argue that deeper understanding of the customer requirements and buying preferences is essential for leading any form of entrepreneurial activity in emerging markets. So far there is no

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or limited research on assessing and analyzing these requirements and buying preferences from customer's perspective. There are several case studies of successful BoP products from different MNCs, however, the product requirements are often identified and discussed from the manufacturer's point of view. Comparative analysis of product requirements from manufacturer's and customer's perspective is missing for idea and knowledge exchange (Suddaby, 2010). Following this argument, this study attempts to verify and establish a shared understanding of product requirements between the manufacturers and customers. This shared understanding will presumably have major implications for the success of entrepreneurship models of MNCs in emerging markets and also for their potential socio-economic impact.

In order to address this research objective, set in Indian healthcare context, this study first identifies and maps the specific requirements from both the perspectives and second compares the relative prioritization of the identified requirements by the manufacturers and customers. The study uses the Voice of Customer (VOC) methodology as well as the Analytic Hierarchy Process (AHP) technique for identifying and prioritizing the requirements, respectively.

The paper is organized in five sections. The first part introduces the relevant literature background on how MNCs are influencing the BoP segment, and the current understanding of product requirements in emerging markets. In the second section, the authors describe the research design including the innovation framework, VOC methodology and AHP technique. In the third section, the findings are presented based on the empirical analysis. The fourth section discusses the comparison of the preferences and illustrates the implications. Finally, the article closes with a section on *Limitations and further research* suggestions.

## 2. Background literature

### 2.1. MNCs at BoP

Prahalad coined the term BoP in 2002 to describe a big chunk of population living in emerging markets and earning less than \$2000 per year (Prahalad and Hart, 2002; Prahalad, 2006). He was among the earliest researchers to realize the potential economic benefits of addressing these customers on a global scale. The service divide and large customer base with unmet needs offered huge economic opportunities for MNCs (Srivastava and Shainesh, 2015). Prahalad even envisaged a bigger role of the MNCs in bringing sustainable societal impact by generating profits at BoP. Doubting the role of both governmental and non-governmental organizations (NGOs) in reduction of poverty, he argued that by selling to the poor, MNCs can bring prosperity to BoP customers (Prahalad and Hammond, 2002; Prahalad, 2006). Examples such as VPP, a joint initiative of Grameen bank and the Norwegian MNC Telenor AS in Bangladesh, strengthened his argument. VPP not only significantly reduced the transaction costs of the mobile phone services, but also had positive effects on the empowerment and social status of phone-leasing women and their households (Aminuzzaman et al., 2003; Bayes, 2001). Apart from developing the telecom infrastructure, VPP improved law enforcement as well as effective communication and enabled the creation of communities (Rashid and Rahman, 2009). Success of several other such cases in emerging markets indicated that any form of inclusive economic activity at BoP induces positive socio-economic effects in the society.

BoP markets are key areas for MNCs, and their entrepreneurial activities enable not only economic growth, but also social progress. Considering the peculiar characteristics of these markets and unique customer requirements, MNCs have adopted several strategies to create products bottom-up and customized to local environment. Localization is one of those prominent strategies for understanding local requirements. Localization is done through activities such as setting up of local R&D centers, hiring local population and collaborating with local partners (Agarwal and Brem, 2012). Here, MNCs promote

entrepreneurial culture and offer autonomy to local R&D teams to apply clean-slate approach for development of products bottom-up. Furthermore, the inclusive nature of the localization strategy also offers socio-economic benefits (Rashid and Rahman, 2009) as was seen in the cases of GE and Siemens (Sharma and Chrisman, 1999; Muñoz et al., 2016).

### 2.2. Product development at BoP

Significant amount of research has been conducted in recent years to understand the BoP market and their economic potential (Ernst et al., 2014; George et al., 2012; Immelt et al., 2009; Nakata and Weidner, 2012; Prahalad, 2006; Radjou and Prabhu, 2012; Schuster and Holtbrügge, 2014; Zeschky et al., 2011). Although most of this research work has been conceptual and qualitative in nature, it provides an understanding of the unique conditions of emerging markets. Lack of formal institutions, scarcity of resources, missing regulations and infrastructural gaps differentiate these markets from the developed markets (Ernst et al., 2014). Ernst et al. (2014) state, "Customer preferences in low-income segments in emerging markets are often radically different from those in high-end segments" (p. 66). They are highly price-sensitive and value-cautious customers. Advancing from non-users to first time users of commercial offerings, these customers strive for tailored and localized solutions. Therefore, core value identification and acquaintance to the local environment plays a critical role in the commercialization process (Agarwal and Brem, 2012). Simple de-faturing of products developed for Western markets has often failed to create an impact in emerging markets as they neither bring value to the customers, nor are tailored for the market-specific needs (Agarwal and Brem, 2012; Ernst et al., 2014; London and Hart, 2004). Therefore, success in these markets requires a new product development approach that involves co-creating with BoP customers and tailoring products to their needs, rather than forcing features and specifications onto them (Ernst et al., 2014; Nakata and Weidner, 2012).

MNCs are adopting different innovation approaches to develop specific BoP-oriented products (Agarwal et al., 2018; Brem and Wolfram, 2014; Corsi and Di Minin, 2013; Prahalad and Mashelkar, 2010; Radjou and Prabhu, 2012; Rao, 2013; Trimble and Govindarajan, 2012; Von Zedtwitz et al., 2015; Zeschky et al., 2011). For example, companies in China, still hosting a large portion of BoP population, are focusing on technological innovations and local entrepreneurship. Focus is shifting from manufacturing capabilities to human capital as well as research and development (Li, 2017).

Most of these innovation approaches, also known as constraint-based innovations (Agarwal et al., 2017), are about "spotting the opportunities in the most adverse circumstances and resourcefully improvising solutions using simple means" (Radjou et al., 2012, p. 6). They start with customer needs and work backwards to design an appropriate solution, which is low on resource use, cost and complexity (Baker and Nelson, 2005). While product managers get engaged in ethnographic studies to gather information on customer needs (Sheth, 2011), not all customer needs (problems customers intend to solve, or benefits to be fulfilled with the purchase of goods or services) are easily identified. BoP customers are often not able to specify their needs clearly enough (Agarwal et al., 2017); therefore understanding the underlying meaning and their respective prioritization is critical for commercialization of innovation in emerging markets. Furthermore, this understanding is also necessary as these innovations have positive social implications (George et al., 2012; Acosta et al., 2011; Mair et al., 2012; Mendoza and Thelen, 2008; Agarwal et al., 2017; Stiglitz, 1989).

## 3. Research design and methodology

### 3.1. Sample selection

Emerging markets suffering from infrastructural gaps and inadequate resources often find it difficult to provide basic services, such

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