The Competitive Advantage of Emerging Market Multinationals

Chapter 3: **Innovation by Indian EMNEs**

Authors: Nikhil Celly, Jaideep Prabhu, Venkat Subramanian

Presented by: Marcela Naves C. Ribeiro

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The Central Idea

- Examine the links between Indian firms' internationalisation and their innovation capabilities (over the last 2 decades);
- Discuss the implications of recent trends for developments in Indian Firms' innovation and internationalisation (in the future).

phases

Phases

1. Phase 1: 1990 – 2000
   - Arbitrage-based internationalisation
2. Phase 2: 2000 – 2005
   - Innovation for the Indian market
3. Phase 3: 2005 – 2010
   - Leveraging innovation into international markets

Phase 1 – 1900 to 2000

- Context of India:
  - Groups of large oligopolistic firms;
  - Family-owned business groups;
  - **Government** allocated licenses to firms to undertake a specific industrial activity:
    - Consumer goods and medicines
  - Regulatory barriers removed
    - Foreing competitions could enter: Pepsi, Coca Cola, Ford
    - Companies had to adapt to the new reality

context

Phase 1 – 1900 to 2000

- Context of India:
  - Lack of infrastructure that makes markets work efficiently, as other emerging countries:
    - Supply-chain partners
    - Regulatory systems
    - Market researchs...

    Institutional settings
  - Difficult to:
    - Access capital or talents
    - Invest in R&D
    - Build global brands

Phase 1

Phase 1 – 1900 to 2000

- Starting point in terms of the development of the innovation capabilities;
- Involved the arbitrage of a low cost base in India;
- Internationalisation focused on developing markets (ex-Soviet bloc, Africa, South-East Asia).

Resume ph 1

Phase 1 – 1900 to 2000

- Emerging market firms found attractive opportunities under specific institutional and industry conditions:

1. In product innovation:
   - Basic consumer goods: tea, toothpaste, t-shirts and tables
   - Cost and quality
   - Prices attractive to a population that suffered a loss of purchasing power (collapse of the Soviet system).

2. In process innovation
   - IT sector
   - Processes done at lower cost and higher productivity than in overseas markets.

3. In business models
   - Develop unique value propositions based on distinctive value chains.

Charact ph 1

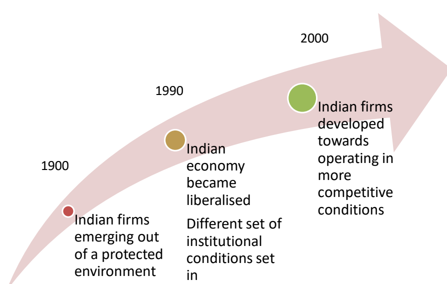
Phase 1 – 1900 to 2000

Characteristics

- Innovation based on labour or factor arbitrage;
- Entrepreneurial skills that drove the ambition to enter and succeed in international markets;
- Focus on developing or emerging or transtion economies;
- Arbitrage to a limited extent on institutional and industry conditions.
- Restrictions imposed by regulation and the firm-level capabilities;
- Restrictions on foreign exchange;
- Overseas investments were still prevalent;
- Few market-seeking innovations.

Time line

Phase 1 – 1900 to 2000



Phase 2

Phase 2 – 2000 to 2005

- Context of India:
  - Liberalisation process was irreversible;
  - Restrictions on capital and foreign exchange transactions were relaxed;
  - Indian economy more integrated with the global economy;
  - Competitive conditions became more intense across a range of industries;
  - Companies became more efficient;
  - Indian economy grew, putting India in the world map;
  - One of the more attractive markets.

Resume ph 2

Phase 2 – 2000 to 2005

- Indian firms with more confidence in their ability to compete;
- It had inplications on how they choose to innovate:

1. Product innovation:
   - Pharmaceutical industry began to develop new molecular entities in biotec.
   - More research intensive activities and investments on R&D.

2. In process innovation
   - IT sector
   - Seeking industry specific knowledge.
   - Developed client relationships.

3. In business models
   - Focus on the customer side.

Resume ph 2

Phase 2 – 2000 to 2005

- Indian firms felt the need to focus their resources in the domestic market;
- Domestic strategies became increasingly integrated with global strategies;
- Limited efforts to internationalization.

Ph 3

Phase 3 – 2005 to 2010

- Search for new markets and internationalisation;

1. Product innovation:
   - Industries of vehicles.
   - Established success in the domestic market.
   - Export to overseas markets where industry conditions allowed for market penetration.

2. In process innovation
   - Pharmaceutical firms: directed their sales abroad.
   - IT firms: morphed into business process outsourincg firms.

3. In business models
   - The more interesting and profound developmetn in innovation for international markets.
   - Applying unique BM that were first developed for the indian market, and then adapted for the overseas market.

ex

Phase 3 – 2005 to 2010

- Ex:
  - Diamonds industry
  - Moved up the value chain
  - Started offering a range of services such as:
    - Financing;
    - End-to-end logistics;
    - Creating a unique business models for their buyers.

conclusion

Conclusion

- Innovation and internationalisation in Indian firms has changed significantly over the last 20 years;
- The competitive and institutional context has changed and firms have adjusted their strategies to compete.

conclusion

Conclusion

- Innovation not only in product and process;
- But in adaptation or adoption of business models;
- Typical process followed:
  - 1st: develop and fine-tune the innovation in India;
  - 2nd: adapt it to specific industry and institutional conditions overseas.

conclusion

Conclusion

- Indian firms' use innovation capabilities to choose locations:
  - Emerging markets
  - OR
  - Developed markets
- MNEs who first entered in these markets benefit from:
  - Resources
  - Capabilities
  - Strategies
  - Experience of developing complementary or primary resources in their home countries

Developed in India

conclusion

Conclusion

- Indian firms' with higher technology innovation;
- The Indian economy continues to integrate with the global economy, in terms of products, markets and institutionally;
- So this trend is likely to increase;
- But Indian firms' ability to manage across borders is still nascent when compared with Western multinationals.

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ANY QUESTION?

Thank you.