Rethinking innovation in emerging markets

Growing up in rural Oklahoma, I learned to tinker with things at an early age. Boredom and time can either be a recipe for innovation or for disaster, and in my case it was a mix of both. Often, with nothing else to do in my hamlet of Sharon, Oklahoma, then a thriving metropolis of 257, I resorted to tearing up perfectly good products to see how they worked and if I could make them better.

up the box

By late 1969, I was amassing an arsenal of old machinery and electronic equipment in an effort to build my own rocket to the moon, because if NASA would not take me I was determined to go on my own. I did not go to the moon, but I did destroy a lot of equipment. Also, I never really added value to anything except my own perspective, realizing in my childlike way that the axiom of "if it isn't broken, don't fix it" is an archaic and restrictive mindset. Innovation often occurs when one determines that even if it isn't broken, he/she will fix it anyway. This requires the ability to get beyond the aging strategic metaphor of "thinking outside the box."

The paradigm of "thinking outside the box" is constrictive and can undermine innovation rather than promote it. After all, when leaders metaphorically think outside the box, two problems potentially arise. First, most are only "thinking" instead of using knowledge to generate real and sustained action and second, when challenges arise, most "out of the box" thinkers run back to the safety of their conventional ideas, thereby eroding any chance that significant innovation will occur.

This "retreat to the box" usually ends in disappointment. A new paradigm for strategic thinking is to "tear up the box" – embracing significant innovation to transform public institutions, energize companies and empower individuals. As reinforced by international competitiveness and prosperity indices developed by the World Economic Forum and the Legatum Prosperity Index, innovation and entrepreneurship provide direct linkages to productivity, competitiveness and ultimately prosperity.[1] But for this type of innovation to occur consistently requires a radical change in mindset. Doing away with "the box" can help government, business, and organizational leaders understand both the magnitude of what needs to be done, as well as a potential strategy for doing it.

From an emerging market perspective, the real value of innovation is its ability to create prosperity. Prosperity transcends economic growth to establish social stability, educational attainment and increased quality of life, which can be crucial elements in the development of emerging markets. It also helps create a kind of virtuous cycle, creating a foothold for further economic development. While many governments in emerging markets have been slow to embrace innovative methodologies that may lead to prosperity, businesses within these markets are beginning to emerge as innovation leaders.

From a policy standpoint, many countries continue to focus on privatization, liberalization, deregulation and modernization as growth strategies. Unfortunately, according to Jean-Eric Aubert of the World Bank Institute, these policies typically do not yield the expected fruits due to their lack of sustainability, because they often fail to take into account emerging opportunities.[2] For instance, the privatization of aging factories does little to enhance economic growth, especially if the sector in which that factory operates

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yields few opportunities for growth. At the same time, liberalization, deregulation and modernization only make sense if they focus on industries that actually have potential to grow the economy. This is often not the case, as governments in emerging markets typically use these strategies to either attempt to breathe life into uncompetitive industries or to embrace macroeconomic reforms that do little to identify specific economic opportunities.[3] While it may be tempting to look to the leading companies of developed nations for a template, the innovation models that have buoyed the economy of developed nations around the world typically have not been directly applicable to emerging markets due to the fact that they are perceived as expensive, long-term solutions for countries that have pressing, short-term challenges. Because of this, customized and practical approaches are needed in emerging markets to spur innovation thought and action that provide near-term opportunities while laying a strategic foundation for the future.

It is time to rethink innovation in emerging markets by building on existing resources and talent to create practical actions that achieve significant and lasting results. Before outlining an approach to spur this innovation, however, it is important to explore specific constraints on innovation in countries that struggle with poverty, poor governance and cultural barriers. Metaphorically, these limiting factors can create a box in which both government and companies within emerging markets have been trapped for decades. Outside of this box there is a world of innovative opportunities that can lead to enhanced prosperity, but public and private sector leaders often miss them because of the challenges that constrict thinking and hamper innovation.

Risky Business: Weighing the costs of innovation in emerging markets

American author Martha Grimes wrote, "We don't know who we are until we see what we can do,"[4] which highlights the need to break with convention and take risks. In many emerging markets, risk has long been equated with negative cultural stereotypes and even personal peril. This has led to a rise in conventional thinking in which it is better to plan than to implement. After all, planning is a safer activity, in that less risk is involved by putting strategy on paper. Implementation, however, is fraught with risk of failure, which in many emerging markets is a stigma that individuals may carry for the rest of their lives. Entrepreneurship in many areas of the world is often seen as too great a risk, given the familial, cultural and legal implications of failure. In many countries, penalties for failure in business and unpayment of debts can be substantial and may include jail time as well as loss of civil liberties.[5]

Not surprisingly, this can create a mentality that stifles rather than promotes entrepreneurship and the innovation that often flows from it. Michael Raynor calls this mentality "the strategy paradox," meaning that "the same strategies that have the highest probability of extreme success also have the highest probability of extreme failure."[6] The consequence of this is that the strategies that get tried are typically those perceived to be "safe" – meaning incremental and fundamentally similar to existing strategies. In emerging markets, this concept is almost overwhelming and, without a change in cultural and mental paradigms, can make countries, and the companies that operate within them, pervasively risk averse. With little or no support network for innovation and entrepreneurship, and a strategy that does not equate innovation to prosperity, it is simply easier for countries and companies alike to gravitate toward convention. This can insulate them from the most salient kinds of business risk but can also diminish the potential rewards.

One needs only to review the statistical data in major competitiveness and prosperity reports to determine one of the major reasons why emerging markets embrace conventional thinking.[7] Leaders in emerging markets are typically desperate for the legitimacy these reports can provide, and thus they often put into place policies that may increase the likelihood of a rise in ranking instead of those that may create long-lasting economic, social and educational change. These actions lack a strategic framework and are typically initiated solely for appearance purposes. It amounts to a sort of "convention on steroids" situation, one which is very difficult to overcome.

As prevalent as conventional thinking is among public sector officials within emerging markets, it is just as real to the owners and managers of companies. Several years ago while working in Afghanistan, I asked one of the most prolific carpet designers in the country why so many Afghan carpets were sold to Pakistani dealers who would then finish them and sell them for high prices as Pakistani carpets. His answer exemplifies the conservative business mindset in many emerging markets.

"The Afghan merchants can sell the carpets to counterparts in Pakistan and make immediate cash," he said as we sipped tea in Andkhoy, the traditional heart of Afghanistan's carpet industry. "If they finished them and sold them, they might make more money, but then they would have to access markets, develop a sales strategy, market their carpets and deal with distribution. This way, they get all their money in one day, so they can go home and have tea."

Even so, there are dozens of emerging markets around the world in various stages of embracing innovation strategies that may generate real and lasting prosperity if they are sustained. In many of these countries, innovation is being led by private sector companies that are breaking with convention by adopting disruptive innovation. Among other characteristics, disruptive innovation overcomes convention by creating new products and markets that create niches for companies, in contrast to sustaining innovation in which they try to compete more effectively in existing markets – either those of competitors or their own. Sustaining innovation – carving out territory in the established companies' turf – is difficult for any small company, but in emerging markets it is especially difficult due to economic, cultural and political realities. An existing company may be viewed as an institution that is working well enough, so the rationale for rocking the boat is often called into question.

Disruptive innovation overcomes convention by creating new products and markets that create niches for companies, in contrast to sustaining innovation in which they try to compete more effectively in existing markets – either those of competitors or their own

Even with these difficulties, disruptive innovation can occur in emerging markets, and this innovation can lead not only to the creation of successful companies, but can also serve as a model for public officials to create synergetic and effective innovation strategies. The following are three such companies, which are radically different as to their industries and approach. However they share the common strategy of disruptive innovation, which is not only benefiting their organizations as a whole, but also the perspective of their national leaders.

> Innovation can and does occur in emerging markets with remarkable effectiveness when buoyed by sound strategy and leadership

Rewriting the rules: Innovation in emerging markets

It is tempting to stereotype Silicon Valley as the comfortable, affluent template for an environment conducive to innovation – the sort of innovation profitably exported around the world. Yet innovation can and does occur in emerging markets with remarkable effectiveness when buoyed by sound strategy and leadership. As impressive as the following companies are singularly, the backstory is their impact on their country's view of innovation as a pathway to prosperity. The role that companies play in promoting innovation is clear and is highlighted by examples from around the world. What tend to go unnoticed are companies within emerging markets that find ways to innovate without the benefit of government support, access to highly skilled labor or ready availability of financing. These companies' stories suggest that when conventional thinking is no longer an option, the results can be either cataclysmic or, in the cases that follow, profound – rewriting the rules of the game for competitors and investors alike.

Taking care of business: Softwin drives a romanian information technology surge

Since 1989, when sweeping unrest led to the deposing of dictator Nicolai Ceausescu, Romania has struggled to gain its economic footing. Its entrance into the European Union in 2007 provided it with the visibility, credibility and the institutional support it needed to gain momentum, but much of its economic growth was halted by the recent global economic crisis. The World Economic Forum's Global Competitiveness Report ranked Romania 67th out of 139 countries in 2010-2011, while the Legatum Prosperity Index ranked it as 48th out of 104 countries, a ranking that highlights Romania's increasing focus on creating a prosperous environment for its citizens.[8] This indicates that even with its difficulties (a relatively mediocre ranking in the Global Competitiveness Report but a higher one in the Legatum Index), Romania has and continues to produce innovative companies that are increasing economic capacity as well as establishing innovation models for the future.

One such company is Softwin, founded by Florin Talpes in 1990. It began as a software development company but expanded into other verticals such as e-content solutions (1993), data security solutions (1997), e-learning solutions (1998), contact centers (2000), help desks (2001), IT consulting (2002) and solution integration (2004). Through continuous innovation and expansion of services, Softwin has become a company with global scope, having offices in six countries. It has

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also brought a great deal of recognition to Romania, being listed by BusinessWeek in 2005 as one of the most prominent homegrown companies. In 2006, the Financial Times proclaimed Softwin as "one of the world's best regarded software companies this year."[9]

Softwin's key strength was its CEO, who built a culture of innovation within its organization that prepared it to take advantage of emerging opportunities. Because the enabling environment for innovation was nascent in Romania, the company had to be agile – adapting to changing trends in the information and communications technology (ICT) sector and taking advantage of opportunities. Softwin's ability to do this was enhanced by its talented and well-trained workforce, which continues to set a standard in the Romanian information technology industry.

Companies such as Softwin have powered a growing innovation mentality in Romania, a country where access to highly educated labor is plentiful. Florin Talpes is just one of the entrepreneurs spearheading the country's drive toward prosperity, bringing government officials and international investors on board along the way. Softwin's success has been emulated by other Romanian companies that now form an impressive cluster of ICT expertise.

Virtual reality: Rubicon emerges as a global power in Jordan

Jordan is known for its visionary leadership under King Abdullah II along with a stable business environment for accessing the lucrative Middle East and North African (MENA) market. In recent years, it has endeavored to embrace innovation as a core component of competitiveness in order to address the growing demand for knowledge-based jobs by its young and educated workforce. A byproduct of Jordan's stable economy and economic development strategy is that a small group of Jordanian entrepreneurs has emerged to embrace disruptive innovation, while at the same time increasing prosperity. Rubicon is one such company.

Rubicon's CEO and founder, Randa Ayoubi, had ample opportunities to give up. Her dream of changing educational paradigms by offering multimedia learning in a stimulating environment could have ended before it started, as she had multiple doors literally and figuratively slammed in her face. In 1994 she raised $100,000 in capital to launch her company, but it was 10 years before she was able to move beyond the nascent stage. Then, finally, in 2004 she raised the remaining capital and took her message directly to major movie studios in the United States. It took two years to convince even one studio to work with her, but eventually Ayoubi's persistence paid off, and MGM partnered with Rubicon to do animation for the iconic Pink Panther cartoon series.[11] The company's work on this series won international awards and earned it the credibility it needed to work with other major studios. Rubicon's experience in animation was certainly a catalyst for the venture, but equally important was Ayoubi's tenacity.

"I sometimes think they agreed to partner with us just to get rid of me," she said in jest.

Using animation as a foundation upon which to build the rest of the business, Ayoubi then fulfilled her dream of expanding into other areas of digital content including e-learning, electronic game development and virtual reality technical training. Today, Rubicon focuses on creating high-quality animated programming by controlling the various parts of the production process from concept to finished product.

As a small company in a country not known for innovation, Rubicon created momentum in the market by taking on small projects, building a portfolio and eventually using this experience to land large contracts

Rubicon's employees come from different walks of life, representing both religious and cultural diversity. Their common thread, according to Ayoubi, is that "they love what they do, and they do it to the best of their ability." Many ex-Rubicon employees have opened their own companies, and Ayoubi outsources smaller projects to them in an effort to assist in their growth, providing them with mentorship as John Chambers, CEO of Cisco, did for her beginning in 2004. This has contributed significantly to the prosperity of local firms, building a growing cluster of SMEs that are focusing on digital content.

Rubicon's success has expanded far beyond the country's borders, as it has licensing and merchandising agreements with several major movie studios. It has offices in Los Angeles, Dubai and Manila, providing it with global visibility.

The company's rise from a startup to a global force in the digital content industry was achieved through Ayoubi's vision and perseverance, but also because she focused on the development of a strong business plan that focused on niche verticals with the digital content industry. She also recruited and retained a high-quality workforce, empowering them with the latest technology and creating an environment where ideas are highly valued. As a small company in a country not known for innovation, Rubicon created momentum in the market by taking on small projects, building a portfolio and eventually using this experience to land large contracts.

Rubicon is one of the companies creating a renewed focus on innovation in Jordan, dispelling the image of Jordan as a strictly agriculture and tourism-based economy, while creating momentum for innovation in other knowledge-based sectors such as medical services, pharmaceuticals, clean technology and ICT. Largely due to the success of companies such as Rubicon, the Government of Jordan has adopted a focus on the knowledge economy and is actively pursuing investments that will increase the prosperity of its citizens through the creation of high-quality jobs.

The case of the disappearing money: eTranzact Ghana Ltd.

The World Economic Forum's 2010-2011 Global Competitiveness Index ranks Ghana 114th out of 139 countries. For the same period, the Legatum Prosperity Index, which measures the relative prosperity of a country's citizens relative to nine criteria, ranks Ghana at 79th out of 104 countries, which records a modest improvement over previous years.[12] One would not necessarily expect innovation within this climate. But an emerging group of Ghanaian companies is leading a technological and service revolution that has established a model for the country and also for other emerging markets. One such company is eTranzact Ghana Ltd., which was featured in The International Trade Center's Service Pioneers: Stories of Innovative Entrepreneurship.[13]

In 2006, a group of Ghanaian entrepreneurs started eTranzact Ghana Ltd., with the purpose of building a cashless society in Africa. eTranzact offers electronic payment platforms for banks, companies and individuals in order to create a virtually cashless society. eTranzact's system, banks, merchants and individuals can transfer cash in a number of ways, including using mobile applications for banking, telecom services, merchant services (e-billing), ordering and payment, Web-based payment, online cash collection and facilitation of export services. The company's services are customized for each of its commercial and banking clients according to their needs.

One of the larger challenges for the company, according to CEO George Babafemi, was overcoming the cultural norms of doing business by moving people from a predominantly cash society to an electronic format. Over time, it was able to overcome cultural paradigms of doing business by offering state-of-the-art services and thereby building a brand of excellence. Today, the company has branches in Cote d'Ivoire, Nigeria, South Africa, the United Kingdom and Zimbabwe and is also doing business with foreign companies that are investing on the African continent.

While Ghana has traditionally been a stable country, companies like eTranzact have galvanized the government around a platform of increasing reforms, including infrastructure upgrades and reductions in bureaucracy and regulations. This highlights the effect that companies embracing disruptive innovation techniques can have on a country as a whole, establishing an innovation model that can be copied by others.

Unwilling to wait

These companies are examples of entrepreneurs in emerging markets who have not waited for donor organizations or governments to lay the groundwork for innovation. They represent a new mentality in emerging markets, one that infuses disruptive innovation to promote productivity, competitiveness and ultimately prosperity. Hundreds of other emerging market entrepreneurs are following their examples, and if buoyed by a practical strategy and focused support, they are expected to grow rapidly into generators of jobs that promote competitiveness.

How did some companies succeed when others did not? Arguably, it was because their leaders rejected conventional notions that would focus on quick wins without providing sustainable and prosperous growth

These companies are models of innovation in emerging markets, but how did they succeed when others did not? Arguably, it was because their leaders rejected conventional notions that would focus on quick wins without providing sustainable and prosperous growth. In other words, they focused on innovation rather than convention while many of their competitors were unable to see past the obvious challenges they faced in their respective countries. These companies managed to not just survive in the chaos that is sometimes prevalent in emerging markets, but move past it to achieve success.

Conclusions from the chaos

In many respects, the leaders of companies, countries and even some international donor agencies have been trying to address persistent issues related to development using the same techniques in an attempt to find the magic bullet that leads to prosperity. They have not found it because it does not exist.

While poverty is a significant challenge for emerging markets, this does not mean they are not viable platforms for business. As C.K. Prahalad and Allan Hammond have pointed out, entrepreneurial companies both small and large are "already serving the world's poor in ways that generate strong revenues, lead to greater operating efficiencies, and uncover new sources of innovation."[14] The key component in this success is a company's ability to tear up the box and focus on the growth potential of these markets.

While emerging markets can appear chaotic, there are several tactics and strategies that can lead to innovation and a cycle of enhanced prosperity:

1. Do not assume. Assumptions are risky in any business venture, but this is especially true in considering emerging markets. Companies often assume that because people are poor, they do not spend money which, according to Prahalad and Hammond, is incorrect when considering aggregate purchasing power.[15] Collectively, the poor do have money, and they are willing to spend it on nonessentials as well as items of need. Despite infrastructural deficiencies, technological change has in many cases made it cheaper to conduct business in most emerging markets, which increases profit potential. In many countries, reforms are now beginning to intersect with economic potential to make them attractive markets for business expansion and new investment. In eTranzact Ghana's case, it has built a successful business model through an understanding that even those with low disposable incomes require and desire banking and financial services.

2. Find a niche (comparative advantage). Companies that are able to find a business niche in emerging markets can greatly increase their profitability. Finding such a niche requires understanding of the market, creative approaches and significant research. Quite simply, a niche in a specific emerging market may be a need or response to a dilemma that does not exist in more developed economies. The upside potential can be worth the effort. Rubicon, for instance, was able to carve out a niche in digital content that up to that point had not been explored in Jordan. This provided it with the ability to capture significant market share in a relatively short amount of time.

3. Start small and grow from there. Small companies can make a big impact in a short amount of time by focusing on niche markets, starting with small projects, and taking advantage of opportunities in which larger companies in more advanced markets are not interested. Softwin, for example, grew from a small software development company to a global ICT conglomerate in just over 20 years by focusing on innovative approaches that led to incremental milestones.

4. Focus on disruptive innovation. Companies such as Rubicon, eTranzact Ghana and Softwin focused on disruptive innovation (albeit perhaps not in the technical sense as defined by Harvard business professor Clayton Christensen)[16] that allowed them to break through the assumed limitations of their geopolitical and economic circumstances by focusing on new technology and approaches. With no powerful incumbents, leapfrogging was based on technology – eTranzact Ghana bypassing conventional ways to move money and instead focusing on technology. This made them market leaders rather than followers, with the perhaps unanticipated advantage that the "box" did not exist. They were able to begin from a clean slate and use innovation as a catalyst for growth. Disruption in emerging markets differs from the strategic situation in developed markets primarily in that it can drive

success not only for companies, but also can create models that generate opportunities for the entire country – again, a type of cycle that creates its own fertile ground for further innovation and market development.

5. **Build alliances with economic and social stakeholders.** Collaboration is important to any business, but Rubicon proved that by building alliances with local and international stakeholders, innovation and profitability can occur more rapidly. This is especially important in emerging markets because these stakeholders play a key role in overall development and have resources that can be harnessed to embrace innovative approaches.

While many companies are still looking for conventional mechanisms by which to enter emerging markets, others have found success by embracing innovation as a growth strategy. By "tearing up the box" a growing number of companies are defining a new age for entrepreneurship and innovation in emerging markets – an age that could redefine the paradigm of development.

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