Reverse Innovation Antecedents: The Central Role of Integration between Headquarters and Subsidiaries

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Propósito Central do Trabalho
Reverse innovation is defined as a transfer of ideas developed in emerging markets to developed markets (Govindarajan, 2012; Govindarajan & Trimble, 2012; Govindarajan & Ramamurti, 2011). When multinational companies learn how to create successful innovations in their subsidiaries in emerging markets and export these innovations to units in developed markets, new opportunities for competitive advantage arise. Limits previously imposed by traditional operations in developed markets become outdated, and the company obtains the opportunity to rethink its products and enter new markets in search of growth (Govindarajan, 2012; Govindarajan & Trimble, 2012). Despite the benefits of reverse innovation, few companies use it because the process presents many challenges that require the company to overcome its dominant logic and go against the institutionalized thinking that guides its strategic actions based on developed markets. The process usually involves changes in organizational structure (Govindarajan, 2012) and overcoming the risk mentality and lack of reliability in emerging markets attributable to institutional distance (Peng, Wang, & Jiang, 2008). The present study discusses these structural and contextual aspects related to reverse innovation, which we call the antecedent of reverse innovation. Thus, the objective of the present study is to determine the antecedents of reverse innovation. Specifically, the central question of the research is to understand which element of the organizational structure has the power to reduce the effect of institutional distance in relation to reverse innovation. The thesis considers the power of strategic integration between headquarters and subsidiaries as one of the key antecedents of reverse innovation.

Marco Teórico
Although the search for innovations in emerging markets is a new strategy for multinationals, reverse transfer of innovations is not unprecedented in the literature. Since the advent of transnational strategy (Bartlett & Ghoshal, 1992) reinforced by the theory of the evolution of the role of subsidiaries (Bikinshaw, 2001) and of non-location capabilities (Rugman & Verbeke, 2001)—and culminating in a focus on centers of excellence (Frost, Bikinshaw, & Ensign, 2002)—the relationship between innovation and competitive advantage in multinationals has become clear. This relationship a priori does not need to originate solely from headquarters but can result from the articulation and mobilization of innovations developed by subsidiaries (Cantwell & Mudambi, 2005; Foss & Pedersen, 2002, 2004; Bikinshaw et al., 1998). Nonetheless, most of the literature investigated reverse transfer from subsidiaries in developed countries to their headquarters in developed countries. The fact that reverse innovation is derived from emerging markets (Govindarajan & Ramamurti, 2011), such as Brazil, has not been fully explored, and when it was investigated (Boehe, 2008; Oliveira Jr. et al., 2009; Boehe, 2010; Figueiredo & Brito, 2011; Figueiredo, 2011), the peculiarities of the emerging market were not considered. Thus, this study seeks to clarify the antecedents that influence reverse innovation. We highlight the institutional environment that characterizes the difference between developed and emerging countries. We consider the strategic integration between headquarters and a subsidiary as a key element in the organizational structure of the multinational corporation that seeks to overcome the specific environmental determinism of emerging markets and to promote reverse innovation as a source of competitive advantage. The model of this article shows how strategic integration between headquarters and a subsidiary is the key element to resolving the negative effect of
institutional distance, thus promoting support from headquarters of a subsidiary’s autonomy and, consequently, the advent of reverse innovation. The following hypotheses argue in favor of the presented model. H1a: Greater support from headquarters to a subsidiary is positively associated to reverse innovation. H1b: Greater support from headquarters to a subsidiary is positively associated to the subsidiary’s autonomy. H2a: The autonomy of a subsidiary located in an emerging market is positively associated to reverse innovation. H3a: Greater institutional distance between emerging market subsidiaries and corporate headquarters in developed countries is negatively associated to reverse innovation. H3b: Greater institutional distance between emerging market subsidiaries and corporate headquarters in developed countries is negatively associated to autonomy for innovation activities in the subsidiary. H3c: Greater institutional distance between emerging market subsidiaries and corporate headquarters in developed countries is negatively associated to support for investment by headquarters. H4a: Integration between headquarters and a subsidiary is positively related to institutional distance. H4b: Integration between headquarters and a subsidiary is positively associated to greater support from headquarters. H4c: Integration between headquarters and a subsidiary is positively associated to reverse innovation.

Método de investigação se pertinente
Data were collected through an online survey administered using telephone assistance and sent to the 1,000 largest foreign subsidiaries in Brazil in terms of revenue. The interviewee was a subsidiary’s main executive or a board member nominated by the main executive. One hundred and eighty-one questionnaires were returned and fourteen were excluded because of errors or lack of completeness. Thus, the sample consists of one hundred and sixty-seven companies, or 17% of responses. The origins of the subsidiaries were North America, Western Europe and Japan. For the data analysis, we chose the statistical technique of structural equation modeling (SEM). Thus, five constructs are proposed: institutional distance, autonomy, integration, headquarters support and reverse innovation. The “institutional distance” construct is based on the six institutional variables of the Worldwide Governance Indicators (WGI) project. The project reported aggregate and individual governance indicators for 215 economies during the period 1996–2011 for six dimensions of governance: Voice and Accountability (v1); Political Stability and Absence of Violence (v2); Government Effectiveness (v3); Regulatory Quality (v4); Rule of Law (v5) and Control of Corruption (v6). All data are from secondary source. The methodology disseminated by Kogut and Singh (1988) was used to calculate the institutional distance for each factor. The “integration” construct (Nohria & Ghoshal, 1997) determines the degree to which the subsidiary is integrated with headquarters. The “headquarters support” construct is based on Frost et al. (2002). The “autonomy” construct is according Birkinshaw, Hood, & Jonsson (1998). The construct related to “reverse innovation” is adapted from Birkinshaw et al. (1998) and Frost et al. (2002).

Resultados e contribuições do trabalho para a área
Six of the following nine hypotheses are supported: H1a, H1b, H2a, H4a, H4b and H4c. Headquarters support for innovation development in a subsidiary (H1a) and for its autonomy (H1b) was robust, showing a positive relationship with reverse innovation and with autonomy of a subsidiary. The sample also validates the positive relationship of autonomy of the subsidiary with reverse innovation (H2a). In relation to hypotheses H3a, H3b and H3c, the sample did not show significance, suggesting that institutional distance does not influence autonomy and the innovation developed by a subsidiary and does not influence the support received from headquarters. The model analysis illustrates the negative but not significant relationship on the constructs autonomy, reverse innovation and headquarters support.
Finally, integration, as proposed in this study, seems to be the essential link for reverse innovation in subsidiaries in emerging markets. In relation to hypothesis H4a, the sample showed significance, revealing that institutional distance is positively related, albeit weakly, to the integration of a subsidiary. This result suggests that integration is an essential strategy for reducing the uncertainty from greater institutional distance. The results of the effect of integration on headquarters support (H4b) and on reverse innovation (H4c) are robust. Therefore, the results demonstrate the key role of integration between headquarters and a subsidiary on the advent of reverse innovation in foreign subsidiaries in emerging markets. Adversities and gaps in the institutional environment of these markets create large institutional distance in relation to headquarters. The integration between headquarters and subsidiaries is essential to reduce this perception of uncertainty and to give headquarters greater confidence and credibility in subsidiaries’ actions. Consequently, this integration stimulates headquarters into giving greater support for investment in a subsidiary. Headquarters starts to consider a subsidiary as a potential place for the creation of new competitive advantages, which involves assigning more projects to the subsidiary and greater receptivity for innovation resulting from the demands met in emerging markets. Headquarters support has the power to give greater autonomy to a subsidiary to engage in market activities, product and process innovation, either alone or with suppliers. Without this support, autonomy is diminished because, technically, the subsidiary has no incentive to take risks in an adverse institutional environment. Finally, the combination of integration, headquarters support and autonomy favors the transfer of innovation from a subsidiary in an emerging market, allowing for a reverse transfer to headquarters with the goal of transforming the innovation into a competitive advantage for the corporation as a whole. The results demonstrate that reverse innovation is related to headquarters support and autonomy. This result is not unexpected, considering that other studies cited in this article already highlighted these factors. Perhaps the study’s major contribution is related to how to promote headquarters support and autonomy because institutional distance in theory works as a barrier for this structural configuration, although this effect is not significant. Thus, this study notes the central importance of integration between headquarters and subsidiary. First, integration works as an element that reduces uncertainty in relation to uncertainty in the institutional environment. Second, integration works as a bridge to greater support from headquarters and, subsequently, greater autonomy for innovation. Third, integration works as a channel for strategic alignment between headquarters and a subsidiary and boosts the reverse transfer of the innovation created in emerging market to headquarters, transforming it into a competitive advantage for the corporation.

Referências bibliográficas