Chapter 2
Reverse Innovation and the Bottom of the Pyramid Proposition:
New Clothes for Old Garbs?

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ABSTRACT

Analysing cases from India, this chapter reveals flaws in recent claims that reverse innovation can resolve some of the world's most urgent social problems. Reverse innovation implies the diffusion of innovations from developing to developed countries, and is therefore, per se, irrelevant for the social needs of the former. If understood more broadly, as a strategic approach, reverse innovation may reduce some dimensions of inequality. However, as an instrument of poverty reduction, reverse innovation equals the known and compelling but doubtful proposition that developed country multinational enterprises may induce large-scale prosperity simply by doing business with the world's poorest. In this chapter, the authors assess the social impact of reverse innovations and contrast previous wholesale claims on those impacts with an in-depth analysis. The authors' analysis reveals that these social impacts are not as significant as currently believed. The chapter concludes by suggesting future research avenues on the bottom of the pyramid, which will be of key relevance to academics and managers alike.

DOI: 10.4018/978-1-4666-4769-5.ch002

INTRODUCTION

In 2009, Immelt et al. (2009) established the concept of reverse innovation as innovations which diffuse to developed economies after being introduced to developing ones. Thus, reverse innovation is seen as the opposite of the "glocalisation" approach (Khanna and Palepu, 2006) and implies a novel direction for the diffusion of innovations which is unlike those of previous theories. More recently, the concept as introduced by Immelt et al. (2009) has been extended to purport that reverse innovation is in fact a strategic approach used by multinational enterprises (MNEs) from developed economies (Govindarajan and Trimble, 2012; Laperche and Lefebvre, 2012) which operate in emerging and developing economies. Consequently, this literature argues that, as a strategy, reverse innovation is anticipated to benefit the MNEs from developed economies threefold (Govindarajan and Trimble, 2012). First, MNEs could tap into the tremendous business opportunities which emerging markets offer due to their high growth rates and sheer population sizes. Second, MNEs would additionally benefit from innovations initially developed for emerging markets by subsequently introducing these innovations into the low-end segments or niches of developed markets. Finally, pursuing reverse innovations could help MNEs from the developed world to pre-empt the threat of rising MNEs from emerging economies.

Following from the above, it can be argued that at the very least, the concept of reversion innovation is subject to some literature-based misnomer. At the most, it is evident that the phenomenon of reverse innovation is evolving in a fragmented manner, and therefore requires a theoretical integration with previous work on innovation. Such integration is beyond the focus of this chapter, however. Instead, this chapter focuses on the claim in recent literature that reverse innovation can serve as "an instrument for solving some of the world's most vexing social problems" (Govindarajan and Trimble, 2012, p. 192). These claims, we argue, recycle the 'bottom of the pyramid' (BoP) proposition (for e.g. by Prahalad, 2005), except that now the latter includes the added dimension of reverse innovation. The literature on the BoP proposition asserts that not only could MNEs achieve 10 to 200 times better business performance by serving the tiers further down the economic pyramid of emerging markets as compared to targeting the top tiers only (Prahalad, 2005), but by this virtue, the MNEs could also eradicate poverty through profits (ibid).

Based on the few salient points presented above, the main motivation for this chapter becomes axiomatic. We particularly aim at adding a piece of evidence to the complex relationship between innovation, poverty and inequality, as previously summarized by Cozzens and Kaplinsky (2009). In this effort, we assess the social impacts of reverse innovation within its most documented context, namely the emerging market India.

To do so, we firstly develop a four-stage conceptual model which draws on Dunning and Lundan's (2008) classification of economic and strategic motives for foreign direct investment (FDI). The model illustrates the four stages through which developed country MNEs operating at the BoP progress before and while engaging in reverse innovation. This four-stage model is the key for analysing the cases of MNEs which are currently held as contributing to poverty reduction at the BoP through reverse innovations. Secondly, we develop an assessment framework for social impacts of reverse innovation derived and adapted from the previous work of London (2009). This assessment framework is applied to cases from India known from the academic literature, in order to demonstrate that the social impacts of MNEs, depending on their position along the four stages of our conceptual model, is not as significant as currently believed. Based on this assessment, we contradict previous wholesale claims made on the poverty reduction property of reverse innovation with an in-depth analysis. We complete the