

The changing Geography of Innovation

Affordable innovation by Western MNCs in and for emerging economies in Asia

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Akademisk Avhandling

för avläggande av ekonomie doktorsexamen i ekonomisk geografi som med tillstånd av Handelshögskolans fakultetsstyrelse vid Göteborgs universitet framlägges för offentlig granskning fredagen den 6 maj 2022, klockan 13.00 i sal E44, Handelshögskolan, Vasagatan 1, Göteborg.

Avhandlingen baseras på följande delarbeten:

Paper I Franz, S. (2021). The evolution of innovative activity in Asian emerging market subsidiaries of Western MNC's: the case of Bühler India. *Asian Business & Management*, 20(1), 105-130

Paper II Franz, S. Exploring proximity dynamics in the context of frugal innovation: Evidence from a Western MNC in India and Vietnam. *Submitted to a journal*

Paper III Franz, S., Giroud, A., Ivarsson, I. Functional Disaggregation in Swedish Multinationals' Value Chains in the Chinese Market. *Submitted to a journal*

Paper IV Franz, S. Reconciling the bright and the dark side of frugal innovation: A systematic literature review. *Submitted to a journal*



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Language: English
198 pages
ISBN: 978-91-88623-25-6
Doctoral thesis 2022

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Asia

The Asian century is at our doorstep. Emerging economies like China and India present a major source of not only supply-, but also demand for Western MNCs. Recent evidence suggests that subsidiaries located in emerging economies in Asia increasingly engage in the development of affordable innovation for the large, diverse and highly competitive lower income segments in these countries.

To expand to these new market segments, it is argued that Western MNCs should localise R&D, and innovate not only on the product side, but create new business models. Yet, why, when and how changes in the external environment influence the development of affordable innovations by Western MNCs in and for emerging economies, and how MNCs reconfigure their entire corporate value chain to design a low-cost offering for the mass-market in the middle, remains little understood. Therefore, this thesis combines ideas from evolutionary economic geography and international business to explain why and how MNCs adapt their value chains in response to dynamic changes in the external environment

The results highlight the role of large domestic demand as a core factor shaping the changing geography of innovation. Western MNCs respond by operating multiple value chain configurations that target different market segments within emerging economies, leading to more localisation and demand-side diversification. The results suggest that subsidiaries of Western MNCs take on a new role in the MNC's innovation network in which they serve as a 'strategic leader for the domestic market'. This thesis builds on in-depth interviews conducted in China, India and Vietnam with managers of three Western MNCs, and presents a compilation of three empirical studies and one systematic literature review. The overarching framework, methods, and findings are discussed in the introductory chapter, the so-called 'Kappa'.

Keywords: affordable innovation, emerging economies, MNCs, evolutionary economic geography, subsidiary evolution, case study

Printed in Sweden
By Stema Specialtryck AB, Borås, 2022

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