Emerging Economies and HR Innovation

- Companies from emerging economies have made steady gains over the past decade in the rankings of the world’s most innovative companies.
- What started with innovations in research, manufacturing and supply-chain management and moved to the development of products and services aimed at their growing consumer markets has now begun to influence approaches to human capital management.
- This could mean that in the coming years, trends and innovations in HR practice around the world may increasingly originate in companies based in emerging markets.

Leaders in Innovation: A Changing Landscape

The most recent Bloomberg BusinessWeek ranking of the 50 most innovative companies in the world showcased a decided shift from the list of only a few years ago. In 2006, just five of the companies that made the list were located in Asia. In 2010, that number had grown to 15, and for the first time since the rankings began in 2005, the majority of companies on the list were based outside of the United States. In fact, 11 of the companies ranked could be viewed as originating from an emerging economy and more than half of these companies were not on the list just one year ago (see Table 1). The economic implications of these trends and their impact on the competitiveness of countries around the world have been widely discussed. But there is another aspect related to these developments that is also beginning to be recognized. As innovation becomes the key to success for both companies and nations, those organization and countries that best demonstrate an ability to innovate are likely to influence the way businesses are managed around the world.

An underlying theme for many of the top-ranked innovative companies is that they are able to develop and manufacture technical products for a very low cost. India’s Tata Group, for example, is probably best known around the world for its Nano car. Starting at a base price of just $2,500, it has won auto industry
innovation awards partially because it is spurring auto-
makers around the globe to reconsider how to manufacture
cars under unprecedented budgetary restraints. This
illustrates the importance of emerging markets as a source
of new opportunities and demonstrates how they will affect
products in all markets by increasing competition based
on price. As more emerging-market-based multinationals
shake up product markets with innovations higher up the
value chain, it is likely to encourage more global investment
into these countries. And this, in turn, will lead to further
growth and more incentives to innovate. Aside from that,
the rapid growth in these economies, especially in India and
in China, will make them attractive places to establish the
kinds of business startups that could be tomorrow’s leaders
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New Approaches to Management ..........

For HR professionals, one of the most fascinating aspects of
this changing landscape is what it might mean for human
capital management. If these new approaches to problem-
solving involve how work is carried out—and nearly all
do—then new ideas about the best ways to manage workers
are likely to increasingly originate in emerging economies
and their business cultures. Here again, the emphasis on
lower-cost ways of working is the underlying force that could
shape these new management approaches. In April 2010, The
Economist featured a special report on innovation in emerging
markets and identified several ways that companies in these
markets are approaching problem-solving and product
development differently. Because they start with the idea that
products need to be as inexpensive as possible in order to sell
in developing or emerging markets, they begin with the end
user in mind and strip products down to their essentials while
also incorporating features that add value for low-income
purchasers. Another approach frequently used is to contract
out as much of the work as possible and to reuse existing
technologies in new ways. One of the more interesting
approaches that characterize innovation in emerging markets
is to apply mass-production techniques in the service sector.
The Economist identified a number of business models that are
fairly unique to these markets, such as the highly diversified
conglomerates (including Tata Group) that bring together a
varied portfolio of businesses. Another example is the state-
owned enterprises, most of which are established through
government loans at a subsidized rate but trade and compete
in the global market. 2

These new models are influencing management theory
and academia. Many of the world’s best-known business
management thought leaders are turning their attention
to emerging markets. Some are focused primarily on the
implications of the vast new markets, while others are turning
their attention to changing management paradigms. These
management academics and gurus are often based at leading
Western universities but are also increasingly hailing from
business schools based in emerging economies. The Indian
School of Business, based in Hyderabad, is scheduled to
open a second campus in Mohali in Punjab in 2012. It

<table>
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<tr>
<th>2010 RANKING</th>
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<th>COMPANY</th>
<th>HEADQUARTERS COUNTRY</th>
<th>HEADQUARTERS CONTINENT</th>
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<tbody>
<tr>
<td>7</td>
<td>27</td>
<td>LG Electronics</td>
<td>South Korea</td>
<td>Asia</td>
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<td>8</td>
<td>NR</td>
<td>BYD</td>
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<tr>
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<td>17</td>
<td>13</td>
<td>Tata Group</td>
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<td>22</td>
<td>NR</td>
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<td>NR</td>
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<td>47</td>
<td>NR</td>
<td>HTC</td>
<td>Taiwan</td>
<td>Asia</td>
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Data: Analysis and data provided in collaboration with the Boston Consulting Group’s innovation practice and BCG-ValueScience. Reuters and Standard & Poor’s Compustat supplied financial data; Bloomberg provided total shareholder returns. NR: Not ranked in 2009 survey. Source: Bloomberg/BusinessWeek.
specializes in the study of infrastructure management and manufacturing—key issues for multinationals from emerging economies—while also attracting visiting professors from top universities around the world. In the coming decade, the theories, studies and academicians these business schools produce could influence management practice and business school curricula all around the world.

A More Global HR Perspective

The rise of innovation leaders from emerging economies will encourage a more global approach to human capital management. Even those HR professionals whose organizations are mainly domestic will probably find themselves influenced by the practices of these innovators. And while these practices may not translate exactly to companies operating in more established markets, they could reveal themselves in similar approaches. A case in point is the “scaling out” process of production and distribution. Just as companies are using “crowd sourcing” to develop products and services through a series of interactions and voluntary contributions, scaling out involves communities in emerging markets in the delivery of services when they are too isolated or small to invest in at a greater scale. Technology is the conduit in both of these concepts, but whereas crowd-sourcing calls to mind the development of sophisticated new software, scaling out in an emerging market could rely on the network of individuals spanning out into remote and low-income areas to deliver goods and services one-on-one. These kinds of new supply chains might even be influencing the cultural lens through which human capital is viewed.

According to The Economist, “companies in emerging markets treat ‘talent’ as a supply chain that needs to be relentlessly managed.”

Global business culture

Emerging markets will also affect the global business culture where that culture is the amalgamation of the behaviors and norms of the business cultures of the most dominant economies. For HR professionals, this will necessitate the development of a more global mindset. What organizations in emerging markets do differently when it comes to managing their workforce will be of primary interest. A growing body of research into performance management and the portability of talent is beginning to show that chasing talent may be a less effective approach than nurturing existing organizational talent. This, combined with a labor market that is slowly beginning to recover around the world, is likely to put the spotlight back on leadership and talent development. If emerging economies continue to demonstrate that they can take the lead in business innovation, those successful

<table>
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<th>Figure 1</th>
<th>Top Five Competencies for Senior HR Leaders</th>
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<tr>
<td>United States (n = 566)</td>
<td>1. Effective communication 59%</td>
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<td></td>
<td>2. Strategic thinking 57%</td>
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<td>3. Strategic thinking 57%</td>
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<td>4. Strategic thinking 57%</td>
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<td>5. Strategic thinking 57%</td>
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Note: Percentages do not total 100% due to multiple response options.
Source: What Senior HR Leaders Need to Know: Perspectives From the United States, Canada, India, the Middle East and North Africa (SHRM, 2010)
management and HR practices of their leading organizations will be studied closely and, in some cases, emulated. HR leaders in multinational organizations will be at the forefront of efforts to develop work and management practices that encourage innovation and creativity and to replicate practices in successful emerging-market-based subsidiaries.

**Key competencies for global HR leaders**

This shared global mindset when it comes to approaching human resource management is becoming apparent in the convergence of thinking that leading HR professionals around the world have when asked about the most important competencies global HR leaders need to develop. In the 2010 SHRM research report, *What Senior HR Leaders Need to Know: Perspectives From the United States, Canada, India, the Middle East and North Africa*, senior HR professionals from the participating regions were presented with a list of 18 competencies identified through previous SHRM research as most important for senior HR leaders. They were then asked to rate these competencies based on their overall importance. The results showed much agreement around several key competencies. For example, across all participating countries/regions, the two most highly rated competencies were *effective communication* and *strategic thinking*, although the order varied by country/region (see Figure 1). *Leading change* was a top competency in Canada and in the emerging economies of India, the Middle East and North Africa. The United States, India and the Middle East/North Africa shared *HR knowledge* as one of the top competencies. India and the Middle East/North Africa shared all five top-rated competencies, though not in the same order of importance.6

HR leaders around the world are more focused than ever on strategic thinking. As constant innovation becomes a requirement to remain competitive, this will only continue. The HR leaders in the SHRM study predicted that the need to think strategically will only grow in importance; equal proportions of respondents across all countries/regions indicated increasing importance of *strategic thinking* and *effective communication* over the next five years. Especially in multinationals, one of the most important things HR could be communicating in the years ahead might be the innovative practices coming out of their operations—or, in some cases, their competitors—in emerging markets in order to learn from them and maybe even replicate them at home.

### Endnotes

1 Arndt, M., & Einhorn, B. (2010, April 25). The 50 most innovative companies. *BusinessWeek*.

2 A special report on innovation in emerging markets. (2010, April 17). *The Economist*.


4 A special report on innovation in emerging markets. (2010, April 17). *The Economist*.
