Redefining the process of resource integration in emerging markets: Frugal innovation for non-specialized-resource creation

Abstract

The central notion of Service-Dominant logic is the specialisation of knowledge and skills by actors and exchanging the application of these resources for the application of knowledge and skills they do not process. While scholars emphasise the importance for actors to have ownership or access to resources to participate in the resource integration process for value co-creation, many industries in emerging markets face a shortage of resources in skills and knowledge as a result of underdeveloped labour markets. The situation challenges the nature of resource integration for value co-creation in emerging markets where the specialised resources from actor(s) in the service system do not exist for exchange. This study examines how resource integration happens in emerging markets. We argue that the focal actor in emerging markets has to develop competence, skills, and knowledge deficit in the service system beyond its specialisation. These resources are then transferred to its specific partners to build up their competencies so that the resource integration process can take place. Our research draws empirical evidence from a sample of leading local Vietnamese firms and contributes to the literature by providing an in-depth understanding of the implications of emerging markets context in the process of resource integration.

Keywords: Emerging Markets, Resource Integration, Resource Scarcity, Competencies

Introduction

Resources are fundamental to resource integration and value creation because value creation happens through a collaborative process of integration of resources of actors engaged in this process (Grönroos and Voima, 2013, Vargo and Lusch, 2008). Storbacka et al. (2012) claim that co-creation may not take place without the existence of focal key resources. Therefore, the fundamental preconditions for resource integration involve the actors' right and ability to access, adapt, or integrate a resource (Kleinaltenkamp et al., 2012).

Most emerging markets are characterised as resource-constrained with institutional voids (Khanna and Palepu, 2010), inadequate infrastructure, chronic shortage of resources (Sheth, 2011) which challenges the nature of resource integration for value co-creation. However, little study has focused on how the resource integration and value co-creation is influenced in the context of emerging markets. This study aims to investigate the impact of resource scarcity in the context of emerging markets on resource integration and value co-creation practices to understand how resource integration and value co-creation needs to be managed in the respective context by addressing the research question:

> How do resource constraints in emerging markets affect the resource integration process for value co-creation in those markets?

Literature review

Resources

Under the lens of Service Dominant logic, a resource is either operand (such as static raw materials) or operant (such as knowledge and skills) that is possibly applied by actors to enable and foster their resource integration and value co-creation effort. Edvardsson and Tronvoll (2013) emphasise the notion of "applied" to highlight the importance of operant resources with regards to operand resource. Operant resources are employed to act on operand resources in order to produce an effect (Vargo and Lusch, 2004, Lusch and Vargo, 2006). Akaka et al. (2013)

suggest that the integration of operant resources increases resource availability, and creates alternative service solutions. As a result, operant resources enable the application of operand resources in a more effective aspect (Lusch et al., 2010). Lusch and Vargo (2006) conclude that operant resources are the fundamental basis of exchange, thus, form the heart of competitive advantage.

There are fundamental preconditions for resource integration including actors possessing the ability and allowance to use or integrate a resource (Kleinaltenkamp et al., 2012). Without the ownership or the access to resources, actors are unable to participate into the resource integration process for value co-creation. Therefore, lack of focal key resources may make co-creation impossible (Storbacka et al., 2012). In essence, resources are central to value creation because value creation happens through a collaborative process of resource integration among actors engaging in this process (Grönroos and Voima, 2013, Vargo and Lusch, 2008).

Lusch and Vargo (2014) postulate that the service-for-service exchange exists grounded on each of the actors creating, integrating, and applying other resources. As such, the central notion of S-D logic is the specialization of knowledge and skills by actors and exchanging the application of these resources for the application of knowledge and skills they do not process (Vargo and Lusch, 2008). It forms the role of an actor in a service system is to support other actors in their value-creation processes by providing resources that accommodate their resource integration (Storbacka et al., 2012). Subsequently, resources have become increasingly separated into specialities and exchanged in the market. The increasing specialisation of actors has been prompting them to search for partners with whom they can integrate resources (Mele et al., 2010).

Lusch and Vargo (2014) oppose the notion of resource scarcity which, in their opinion, is based on a static view of resources. They argue that operant resource is infinite and the existence of resources (both operant and operand) relies on actors to exercise their agency by acquiring the ability to exploit potential resources, to co-create these resources and then use them to improve the system viability. Therefore, **"***resource scarcity is a function of an actor's knowledge of and skills in drawing on potential resources by integrating them to create new resources"* (Lusch and Vargo, 2014, p.143).

Most emerging markets are characterised as resource-constrained with institutional voids (Khanna and Palepu, 2010), inadequate infrastructure, chronic shortage of resources (Sheth, 2011). The major resource-shortage in emerging markets is skills and knowledge as a result of underdeveloped labour markets (Ayyagari et al., 2011, Dharwadkar et al., 2000). Many industries are involved with owner-managed small enterprises with lack of skill-based labour (Sheth, 2011). In addition, non-market-facing private and public resources that are crucial for actors to develop their competence, skills and knowledge to maintain or improve their system viability (Lusch and Vargo, 2014) are also unavailable in emerging markets (Barge-Gil, 2010, Kruss and Visser, 2017). The absence of necessary competence, skills, and knowledge from actor(s) in the service system fails to satisfy the precondition of resource for resource integration, thus, challenges the nature of resource integration for value co-creation in emerging markets where the specialized resources from actor(s) in the service system do not exist for exchange or the actor(s) lack the means to access them (Bhatti et al., 2013).

It prompts the focal actor in emerging markets to develop competence, skills, and knowledge deficit in the service system beyond its specialization (Wan, 2005). Ritter and Gemünden (2003) note that actors with specific skill-defined network competencies have a positive impact on successful resource integration for value co-creation. Subsequently, Wan (2005) argues that firms in developed markets would mainly focus on specialized resources to compete in the market place because other specialized resources needed for the integration and value co-creation are accessible in the value network. However, the competitive advantage is unlikely to rest on the same set of factors in the resource-constrained context of emerging markets, the focal actor in emerging markets has to develop different types of competences that is missing from the network beyond its specialization (Wan, 2005). The focal actor is motivated to develop non-specialized skills and knowledge, then transfer those resources to its specific partner group in order to educate and build up competencies of these partners so that the system viability is sustained and improved, which in turn, benefits the focal actor's resource integration and value co-creation process.

Actors in emerging markets with limited access to human capital, management skills and competencies are generally insufficient in their knowledge absorptive capacity (Szogs et al., 2011). Therefore, the focal actor employs frugal innovation approach in the development of non-specialized skills and knowledge to fit the level of knowledge absorptive capacity in the partners. It enables the partners to access, assimilate, internalize, and apply these new skills and knowledge to develop their specialized resources to engage in the resource integration process (Todorova and Durisin, 2007).

Frugal innovation

Frugal innovation has emerged from developing economies and was first detailed in The Economist (Woolridge, 2010). Due to the novelty of the concept, several concepts and terms attempt to differentiate frugal innovation of which the widely accepted description is resource-constrained innovation offering *"affordability and sustainability, not premium pricing and abundance"* solutions in developing countries (Prahalad and Mashelkar, 2010, p.2). Driven by resource constraint (Zeschky et al., 2011); institutional voids (Khanna and Palepu, 2010); and affordability constraint (Govindarajan and Ramamurti, 2011) which are uniquely occurring in emerging markets, frugal innovation is not simply a redesign of solutions It embraces the reconfiguration of the entire production processes and business models (Woolridge, 2010). This notion highlights the value of solutions generated in contexts where the problems are originated

(Gupta et al., 2003, Smith et al., 2014) and challenges the idea of resource-rich-based innovation in developed markets (Kaplinsky, 2014). It also revokes the dominant views of emerging markets as the pure recipients of knowledge transfer from innovation in the developed economies (Bound and Thornton, 2012).

The theoretical lens of frugal innovation and service-dominant logic proposes that the value emerging from frugal innovation is not just a product or service, but a service defined as the process of providing benefit[s] through collaborating with and learning from customers and being adaptive to their individual and dynamic needs (Vargo and Lusch, 2004). The nature of frugal innovation implies the inclusive growth for sustainability which suggests that customers as the service beneficiaries from frugal innovation entitle a variety of roles as customers, employers, owners, suppliers and community members (George et al., 2012). They collaborate to bring knowledge about their needs to a service exchange for the solutions, they assimilate and internalize knowledge and resources to configure service in use, and they mobilize their knowledge in another service exchange in the service systems for resource integration (Lusch and Nambisan, 2015). It is argued that the multiple roles of the beneficiaries from frugal innovation encourage the focal actor to engage them in the resource integration process of which they can exchange for knowledge as customers, adapt and internalize the acquired knowledge with their own resources to develop their specialization, and participate into the resource integration process for value co-creation as providers.

Research problem

Arnould (2008) acknowledges the nature of value co-creation is contextual dependence to endorse (Vargo and Lusch, 2008, p.8) fundamental premise *"value creation is always uniquely and phenomenologically determined by the beneficiary"*. Akaka et al. (2015) Akaka, Vargo and

Schau (2015, p.211) recently emphasize the importance of context on value co-creation as *"Value is always contextual because it is based on a phenomenological perspective and influenced by time, place and social surroundings as well as other environmental factors, including access to other internal and external resources"* (Akaka et al., 2015, p. 211). However, there has been scant attention to study the impact of the context on value co-creation of which resource is at the core of the process. Nahi (2016) addresses the significant challenges of value co-creation in the resource-constrained settings because of the substantial difference of contextual environment. As the nature of resource is different in emerging markets, it is critical to understand how the contextual factors of resource scarcity in emerging markets influence the resource integration process; hence, the co-creation of value.

Methodology

Approaching the research methodology

Burrell and Morgan (1979) suggest that methodological choices should reflect the philosophical positioning of the study. Focus on understanding phenomena in their natural setting, and cultural context, this research is guided by a constructivist ontology with an interpretivist epistemology which allows the investigator to construct, and interpret patterns and meaning from the participants' viewpoints. Constructivism has informed the ontological stance because it suggests that reality is socially constructed by the active role of individuals, and that the world reality is viewed subjectively, not objectively. The adopted philosophical position is supported by Schatzki (2003) who promotes a critical analysis of context to understand a social phenomenon as the knowledge of individuals' words and actions can only accumulate by associating them to the wider context in which they have happened.

The adoption of a qualitative approach is based on the proposal that it delivers *"valuable insights into how people construct meaning in various social settings"* (Neuman, 2006, p. 308).

Sherman and Webb (1988), p. 7 suggest that qualitative research aims to *"understand experience as nearly as possible as its participants feel it or live it".* Creswell (2013) speculates that qualitative research occurs emergent rather than anticipated in a natural context where the researcher plays the role of interpreter to construe the social phenomena holistically which has led to my interpretivist epistemological position.

The research objective is to gain an insider's perspective by explaining an existing unexplored topic, with the adoption of following the hermeneutic interpretation process (Laverty, 2003). This process of interpretive activity is essential, to properly understand the other's world, whereby *"the participants are trying to make sense of their world; the researcher is trying to make sense of the participants"* (Smith and Osborn, 2003, p. 51). Sense-making the interviewee's experience is subject to the researcher's own conceptions. It is critical for the qualitative researcher to consistently reflect upon their self and position, acknowledging biases, values, assumption or interests at the starting point of the study (Creswell, 2013). Meyrick (2006) states that a researcher may form the findings on facets of a topic that exhibit resonance with their own experience. This reflexivity should be acknowledged to support the objective of the research.

Qualitative case study

Walsham (1993) endorses the suitability of the interpretive case study in studying the problems at their early phases in research, and theory. Neuman (2006), p. 41 further speculates that *"Case studies help researchers connect the micro level, or the actions of individual people, to the macro level, or large-scale social structures and processes".* This complements this research approach whereby organizations are socially constructed, and organizational employees are well-informed individuals able to create their own reality.

Yin (2013a) emphasizes that case study research is used to answer "*how*" or "*why*" questions to conduct an investigation into a phenomenon in its context when they address a contemporary set of events over which the researcher has little or no control. The case study approach is also recommended for investigating the situation where little is known about the phenomena as it leads to unseen constructs, and explores their logical association (McCutcheon and Meredith, 1993)—such as in this study examining the influence organizational culture on internal collaboration for value co-creation. Therefore, a qualitative, multiple interpretive case study has been adopted as it serves the research objective of illustrating, supporting, or challenging theoretical assumptions that are formed prior to the data being gathered (Merriam, 1988), and allows the researcher to find patterns across cases which enhance the validity, and allow generalizability (Yin, 2013b).

The qualitative methodology and interpretivist analysis enable the subjective nature of organizational culture incorporated into the findings and uncover the firms' shared values and beliefs. Klenke (2008) considers the evidence from multiple cases more persuasive as the results produced are deemed less idiosyncratic than a single case, and the study is regarded to be both robust and reliable (Yin, 2013b). In addition, the case study follows the replication approach used for multiple case studies, whereby replication corroborates, qualifies, and extends the findings of the first case (Yin, 2013a). Yin (2013a) suggests that the replication found in as few as two case studies could be the foundation to draw patterns, and therefore, two cases will be examined in this study.

Research context

Although the 'BRIC' nations (Brazil, Russia, India, and China) have been dominant in studies on emerging markets, attention has increasingly shifted to smaller emerging markets because of their rapid economic and demographic growth rates (Boumphrey and Bevis, 2013). Vietnam is often highlighted as the country of focus and ranks among the *Top Emerging Markets for 2012-2017* (M-Brain, 2012). Vietnam is also among the top three '*frontier markets*' that multinational enterprises are most interested in for future investment in the quarterly-based survey by the *Wall Street Journal* of 200 multinationals regarding their market priorities (Keeler, 2014). In the *2015 Outlook for Emerging Market Economies*, Vietnam is forecasted as the second fastest growing economy amongst emerging markets (including the BRIC economies) with expected real GDP growth of 5.6 per cent (Euromonitor, 2015). These factors best support the context of this study.

<u>Data collection</u>

A key feature of case study research is the use of multiple data sources to enhance data credibility (Eisenhardt, 1989, Yin, 2013b). Flick (1992) confirms that triangulation of data collection promises the rigour, breadth and depth for a study. Therefore, for this study, data sources are compiled from both primary and secondary data. Firstly, primary data is collected through the form of in-depth interviews with senior and middle management of selected case study firms in Vietnam. As individuals at different organisational hierarchies have different perspectives about a phenomenon (Lincoln and Zeitz, 1980), cross-functional interactions at lower organisational levels can differ from what was initially planned for the relationship at higher organisational levels. The research gathers the opinion from representatives of related functions that participate in cross-functional teams, and from different organisational levels to increase the representation of the data. Senior managers are selected as first key respondents due to their influencing roles in the company's overall strategy, organisational culture, and the direction for partner relationship. Middle managers are also important respondents since they provided rich insights based on their knowledge and experience and close involvement in relationships with larger customers, and cross-functional coordination.

While interviews allow the researcher to examine the phenomenon, they are unable to directly observe from the interviewee's perspective (Patton, 1990). Thus, it is suitable for an interpretive study to access the meanings that participants assign to them to further understand the phenomenon. Interviews are applied in this research to help identify elements that form the value co-creation process from the perspectives of different persons in the organisations, and understand how and why they have a certain perspective. The interviews are designed as semi-structured, which combines the advantages of both structured, and unstructured interviews (Flick, 2002). The technique enables the researcher to gain understandings of people's perspectives on the topic the research focuses on (Davies, 2007), and to capture the depth and complexity of participants' experiences. On the one hand, it ensures comparable findings through structured questions. On the other hand, it allows explanation, and exploration of the social phenomenon in depth through open questions to ultimately achieve insight into the values, preferences, attitudes, and beliefs of the interviewees in the case study.

Each case firm will consist of at least seven face-to-face interviews: The Chief Executive Officer and four from the management team, and middle managers of the selected company. By employing multiple interviewees, each case is depicted more richly, and at the same time with less bias in historical data recall (Yin, 1994). Four cases will be chosen using criterion purposeful sampling, as this technique is suitable to identify cases that would gather the greatest possible amount of information (Flyvbjerg, 2006) with some predetermined criterion of importance (Patton, 2002). This technique is also in line with other studies of co-creation (Kowalkowski et al., 2012). The firms are identified based on the following criteria:

i. Outstanding success in their industries with dynamic experience of growth, and competitiveness in Vietnam;

ii. Variety in the forms and characteristics of business (B2B, B2C, listed corporation);

iii. Engaging value co-creation activities in their business; and

iv. Willingness to provide business information.

Contribution

This study contributes to addressing the significant deficiencies in current knowledge to understand the context sensitivity of value co-creation (Akaka, Vargo, & Schau, 2015; Siltaloppi & Nenonen, 2013; Holmqvist, Guest, & Grönroos, 2015). It also responds to a gap in the empirical research on the contextual nature of value co-creation (Voss et al., 2016, Akaka et al., 2015).

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