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INNOVATIVE BUSINESS MODELS IN THE STRATEGIC ADAPTATION OF MULTINATIONALS TO EMERGING ECONOMY ENVIRONMENT

The purpose of this paper is to investigate the frequently neglected role of business model innovation (BMI) as a key instrument of strategic adaptation of Western multinational enterprises to emerging economy enviroment. Despite an abundance of studies on BMI, prior works have paid little attention to how specific characteristics of emerging economy environment force MNEs to change their business models. In order to fill this gap the author developed the analytical framework allowing to trace potential directions of this changing impact, and suggested a typological classification of respective innovative business models responding to concrete challenges posed by emerging economies to MNEs. The paper identifies the main directions of influence exerted by emerging economy environment on various building blocks of MNEs' business models, thus enabling related innovative activities. These growing BMI activities entail very serious implications for MNEs' strategy and organization, and innovation governance mechanisms, which are increasingly required to enhance their abilities to support multiple business models adapted to specific environment in all major host countries.

Keywords Business model innovation, Multinational enterprises, Emerging economies environment.

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1. Introduction

The growing importance of emerging markets for many Western multinational enterprises[2] became one of the most noticeable global trends of the last two decades. This trend is primarily connected with fundamental structural changes shifting the major centers of economic growth from developed segment of the world economy to its developing part. According to PwC (2017) research, the share of emerging economies in global economic growth had demonstrated remarkable rise from just 20% during 1981-1990 to more than 50% by 2016. And despite the recent slowdown, they will continue to grab a rising share in global GDP growth at least over the next few years, reaching almost 65% by 2021.

Against the background of such significant shifts in the geography of the world economic activity, no less serious changes are visible in the global innovation landscape. First and foremost, they relate to diversification of the sources of innovation. While only two decades ago the main sources of innovation were confined to the relatively narrow group of the top Western multinationals and leading developed country universities, today the center of gravity of innovation activities is obviously shifting to emerging economies. It is especially noteworthy that this diversification is accompanied by the development of another important trend – fast growing importance of business model innovation (BMI). As indicated in one of the forward-looking studies of the new trends in global innovation space, "In earlier decades, innovation was often associated with technology... But over the past 20 years, while technology remains an important enabler, the real innovation has shifted to business models" (De Meyer, 2011, p. 24). It is exactly innovative business models (BMs) that, according to the growing number of researchers, have become a powerful competition instrument effectively used by dynamic emerging market firms both in their home countries and increasingly abroad (see e. g. Bhattacharya and Michael, 2008; Madhok and Marques, 2013; Chin and Michael, 2014).

All these developments exert a major influence on the current positions and perspective evolution of Western MNEs. On the one hand, the rising importance of emerging markets as drivers of world economic growth inevitably puts fast expansion into these markets on the strategic agenda of the majority of significant multinational players. On the other hand, the

[2] In this paper the terms 'Western multinationals' or 'Multinational enterprises' (MNEs) refer to all multinationals based in developed market economies irrespective of their geographic origin (including, for example, Japanese and Australian firms) but does not include emerging-markets' MNEs originating from developing and former centrally-planned (or transition) economies.

compelling tasks of penetration and gaining a firm foothold in emerging economies pose new challenges to Western MNEs forcing them to innovate their domestic business models. This kind of BMI usually implies very serious reconsideration of fundmental approaches to business organization and revisiting priorities in innovation activities.

However, despite an abundance of various studies on BMI, many issues related to the actual changes in MNEs' business models in the course of their adaptation to emerging economy environment, remain largely uncovered. Research in this area is impeded by still relatively low level of development of the general concept of business model innovation, particularly in the context of emerging economies (see e.g. Spieth et al., 2014; Wirtz et al., 2016; Foss and Saebi, 2017).

Taking into account all of the above, this paper aims to make three main contributions. The first obvious task is to analyze how specific features of emerging economies force Western multinationals to innovate their business models (requiring MNEs to transform their home-grown BMs in order to adapt to the new economic and institutional conditions). The key role in this analysis is attached to defining the concrete BM elements that are mostly affected by changes generated under pressure from the emerging economy environment. The second task is to suggest meaningful typology of these BM changes (using specific case studies) taking into account the major challenges posed by emerging economies to MNEs. Finally, the third task is related to high-level assessment of the main implications of BM transformation in emerging economies from the perspective of MNEs' strategy and organization and innovation governance.

The paper has the following structure: Section 2 presents a brief review of relevant literature, which allowed to define conceptual framework for subsequent analysis. Section 3 investigates concrete changes in the key elements of MNEs' business models driven by the forced adaptation to specific emerging economy environment. Section 4 draws the main conclusions from the study, including those related to BMI implications for MNEs' strategy and organization and innovation governance mechanisms.

2. Literature and conceptual framework

The conceptual framework for this paper has been formed on the basis of three theoretical streams, which have evolved during the last two decades. The first of them is the so-called Bottom (or base) of the pyramid concept. The second is focused on frugal innovation, while the third is related to the ongoing (for quite a while) academic debate about business model innovation in emerging market context.

2.1. Bottom of the Pyramid concept

The main ideas forming the basis of the Bottiom of the Pyramid (BOP) concept were formulated in the works of C. K. Prahalad and his followers (see Prahalad and Hart, 2002; Prahalad and Hammond, 2002; Prahalad 2004). The proponents of this concept suggested to take a fresh look at MNEs' capabilities for solving the key challenges facing the majority of emerging economies, particularly the problem of mass poverty. They tried their best to draw attention to a potentially huge segment of emerging markets that had been largely neglected by most multinationals. It has been widely acknowledged that the vast majority of developing countries' population (about 4 billion people), is in the lowest part of the so-called global wealth pyramid, earning no more than USD 8 a day. But though any representative of this 'bottom' could afford to buy very little for himself, taken together, they are able to make a huge market, amounting to hundreds of billions of dollars.[3]

According to BOP concept, the very size of this global market segment should ensure its attractiveness for MNEs, especially taking into account that sooner or later the growing part of its participants (buyers) will join the ranks of the new local middle class, significantly increasing their purchasing power. At the same time, as noticed by the concept adherents, BOP environment is fundamentally different from the familiar (to MNEs) conditions of developed countries. This is the reason why in order to master this very specific market segment MNEs need to make radical changes in their strategies and approaches to doing business, compared to those that have been tested and honed over many years in the TOP markets (i. e. in developed countries where most of consumers are at the Top of the Pyramid). As noted by Prahalad and Hart, doing business in these markets 'will require radical innovations in technology and business models' [Prahalad and Hart, (2002), p. 26].

The BOP concept has got very high visibility in international academic community. To a considerable extent it was due to the suggested non-traditional approach to the use of MNEs' economic and technological potential for alleviating mass poverty in developing countries.

[3] For instance, according to Anderson and Markides (2007), in the mid-2000s Brazil's poorest 25 million households had an annual income of around $73 billion per annum, China's 286 million lowest-income households had an annual income of about $691 billion and India's 171 million poorest households had spending power of about $378 billion.

Subsequently, however, a number of scholars began to question key assumptions of the concept and raised doubts about its conclusions regarding viability of high volumes of MNEs' sales to poor majority segments of emerging markets (Crabtree, 2007; Karnani, 2007; Landrum, 2007; Jaiswal, 2008). For instance, according to Karnani (2007), the BOP concept has logical fallacies and is not supported by empirical evidence. Simanis showed that 'low price, low margin, high volume' formula (that was taken from BOP concept and implemented by some MNEs in practice) did not pass reality check in emerging economy conditions as it "inevitably requires an impractical penetration rate of the target market – often 30% or more of all consumers in an area" (Simanis, (2012), p. 120). Alternatively he proposed a new approach that views the poor not just as consumers but rather as partners in innovation, thus taking maximum advantage of local experience and local entrepreneurial strengths.

A comprehensive review of the past decade of BOP research suggested that one of the most important contributions of this concept is related to the general conclusion, that in order to be a success in emerging markets MNEs should undertake very serious business innovations driven by significant differences of BOP environment compared to developed economies (Kolk et al., 2014). However, as indicated by Rivera-Santos and Rufin, "few scholars have systematically applied the major analytical frameworks of international business and strategic management to explore in what specific ways BOP environments and strategies contrast with their TOP counterparts and why these differences should lead to innovative strategies at the BOP" (Rivera-Santos and Rufin, 2010, pp. 126-127).

2.2. Frugal innovation concept

The Frugal innovation concept might be considered to a certain extent as a further development of current BOP thinking. Similarly to BOP theory this concept underlines the increasing importance of emerging economies (as new drivers of global growth) and the fundamental differences of their domestic environment from developed countries. According to proponents of the concept, these two prerequisites determine the compelling need for frugal innovations, i.e. innovations ensuring a perfect fit of products, production and distribution methods for the specific emerging economy environment, above all from the perspective of affordable pricing for low-income majority of local consumers. At the same time, unlike BOP theory, the frugal innovation concept is focused not on MNEs' potential opportunities but rather on the realities of rising innovation activities of the local businesses from emerging economies. Moreover, mastering the art of frugal innovation was frequently interpreted as a specific competitive advantage of some dynamic indigenous players in their rivalry with MNEs in emerging markets, at least in the first stages of their development.

Compared to BOP theory, adherents of the Frugal innovation concept went further in revealing the peculiar features of emerging economies and specific characterisics of innovations driven by these peculiarities. In particular, most of researchers have noted three typical features of frugal innovations, including: (1) substantial cost reduction and affordability, (2) concentration on core functionalities, simplicity and ease of use, and (3) real needs focus and optimized performance level (Sehgal et al., 2010; Govindarajan and Ramamurti, 2011; Ray and Ray, 2012, Weyrauch and Herstatt, 2016). Some scholars often added a number of other parameters to this set, including the use of fewer resources, development from scratch, scalability, high resistence and easy maintenance, etc. (see: Prahalad, 2006; Kumar and Puranam, 2012; Sharma and Iyer, 2012; Bhatti and Ventresca, 2013; Fuchs, 2015).

To date, even in the circles of the concept followers, there remains significant divergence of views regarding the interpretation of key characteristics of frugal innovation. Not surprisingly, the very term 'frugal' is not yet unanimously accepted in academic community. Some scholars suggested different terms trying to emphasize specific functional characteristics of these innovation, e. g. 'cost' (or 'low-cost') innovations, 'good-enough' innovations, 'resource-constrained' innovations (e.g. Zeschky et al., 2014a; Agnihotri, 2015; Fuchs, 2015). Others proposed terminology that stressed specific Indian environment where many of such innovations have been developed and implemented, e. g. 'Ghandian' innovations (Prahalad and Mashelkar, 2010) or 'Jugaad' [4] innovations (Radjou et al. 2012; Capelli et.al, 2010; Petrick and Juntiwasarakij, 2011; Sharma and Iyer, 2012). And finally, there is one more group of researchers that has been actively promoting the term 'reverse innovation', though it fits only for the innovations that had been created specifically for emerging economies but subsequently found broad application in developed markets (Govindarajan and Ramamurti, 2011; Govindarajan and Trimble, 2012; Corsi and Zedwitz, 2016).

[4] *Jugaad* is Hindi term that means developing alternatives and improvisations to overcome a lack of resources and solve seemingly unsolvable problems.

The significant and persistant discordance in terminology gave birth to a good number of studies specifically dedicated to classification of respective terms by groups based on different competency requirements or different final outcomes of innovation activities (e. g. Zeschky et al., 2014 b; Clark et al., 2017). And though these works had made certain contribution to a better understanding of frugal innovation specifics, they failed to find some harmonised approach to definition criteria for this phenomenon.[5] However, what seems even more characteristic than disarray in terms, is the mediocre sales performance of the products that had been most heavily promoted in media as outstanding specimens of frugal innovation, e. g. Tata's 'Nano' launched as world's cheapest car or Godrej's portable fridge 'ChotuKool', allegedely perfect fit for the needs of India's urban poor. As Bardiya (2016) described these disappointing outcomes, "Terms like "frugal innovation" and "reverse innovation" gained currency, and there was a lot of excitement about these ideas back then, coinciding with the emerging markets boom. A reality check now, however, shows that the actual success has been underwhelming, and most of these products have not scaled beyond a few million dollars in revenues or beyond targeting small niches".

One of the evident features of the Frugal innovation concept is related to its focus on product innovations. Indeed, though some proponents of this concept from time to time refer to innovative business models, in most cases when they try to disclose concrete innovation areas, the analysis is usually reduced to identifying the new products' characteristics that reflect specific requirements of emerging markets (see e.g. Mukerjee, 2012; Winterhalter et al., 2014). Such an approach seems to originate from the prevailing view of frugal innovations as innovations created largely by emerging market firms. As these companies had been growing in emerging economy environment, their business models should suit specific local requirements by default, meaning that they don't need to take any adaptive BMI efforts. But the situation completely changes in the case of Western multinationals entering very different emerging markets that demand significant BM reengineering.

[5] As noted by the authors of the recent review on frugal innovation research, 'to date, we have lacked criteria for clearly defining frugal innovation' (Weyrauch and Herstatt, 2016, p. 1).

2.3. Conceptual approaches to business model innovation in emerging market context

The growing BMI activities of Western multinationals, reflecting their need for adaptation to radically different emerging economy environment, has been noted by many researchers (e.g. London and Hart, 2004; Khanna et al., 2005; Sanchez and Ricart, 2010; Eyring et al., 2011). Some of them have drawn attention to the key factors making a direct transfer of MNEs' business models from developed to emerging markets unproductive or sometimes even absolutely impossible. These factors include both specific market characteristics (comprising not only substantially lower incomes of most consumers but also peculiarities of their demand preferences and market behavior) and the weaknesses of local institutional and physical infrastructure (D'Andrea et al., 2004; Seelos and Mair, 2007; Khanna and Palepu, 2010; Landau et al., 2016). The recognition of these significant barriers led to the conclusion about the increased role of innovative BMs compared to other forms of MNEs' innovation activities in emerging economies. As noted, for instance, by the analysts of Harvard Business Review, "In emerging markets, developing a new and innovative business model often is far more important to achieving revenue goals than is technological superiority or being a technological innovator" (HBR, 2011, p. 2).

However, the attempts to develop the analysis further with specific focus on the concrete changes taking place in the course of business model innovation, have run into some difficulties, largely connected with ongoing theoretical discussions on BM definition, and even more so, with understanding of BMI process as such. Without going into details of these discussions (that could easily become the topic of special research), it would be important to recognize two major approaches to BM definition which have formed to date in academic literature. The first one, sometimes called componential approach, suggests to consider BM as a construct consisting of three main components: (1) value proposition, (2) value creation and delivery, and (3) value capture (profit formula) (see e. g. Chesbrough, 2007; Johnson et al., 2008; Baden-Fuller and Morgan, 2010). As noted by one of the most prominent proponents of this approach, a business model represents "the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit" (Teece, 2010, p. 172). Another approach, which might be referred to as activity-oriented, focuses on the activities and transactions performed to create and deliver value. According to the adherents of this approach, BMs can be viewed as 'activity systems' that connect factor and product markets (Zott and Amit, 2010). Though these two approaches provide quite different perspectives on BM definition, both emphasize value creation as a core characteristic of BMs and thus are reasonably regarded by some researchers as "connected and complementary" (Landau et al., 2016, p. 482).

As for BMI theory, the general progress towards systematization is even more limited than with BM concept.[6] However, the common value-centric vision of the major conceptual approaches to BM definition increasingly allows researchers to view BMI as a process of changing various attributes of BMs (or their reconfiguration) in order to compete more effectively in a given market. A good example is the so-called White Paper on BMI developed by a big team of academic experts, saying that "A business model is a holistic, contextualised pattern of attributes representing value proposition, value creation and value capture. It follows therefore that business model innovation seeks to identify unique configurations of business model attributes to compete with both the dominant model and new entrant models" (University of Cambridge, 2015, p. 6).

From the perspective of MNEs' business model innovation in emerging economy context, these conceptual developments open at least three important analytical directions. Firstly, the identification of the core BM components (reflecting various dimensions of the firm's value-related activities) and their further structuring by attributes allows to develop the appropriate analytical framework that might be used to trace the main directions of changing impact exerted by specific characteristics of emerging economy environment on concrete building blocks of BMs. Secondly, defining the enhanced competitiveness as a key objective of BMI enables more targeted analysis in this area, allowing to keep in mind how concrete changes in BMs could affect the competitive position of MNEs relative to both local incumbents (based in the host emerging economies) and their traditional Western rivals also trying to gain a foothold in the same emerging markets. Finally, understanding BM as a unique configuration of the specific building blocks (attributes) allows to take due account of the systemic nature of BM changes. This vision implies the need to make coordinated efforts in the course of BMI to avoid disruption of the individual business model logic through disconnected activities.

[6] The authors of a comprehensive review of 15 years of research on BMI concluded that "systematic research on the antecedents, moderators, and implications of BMI remains limited, leading us to question whether a true theory of BMI exists… We find that the literature is lacking (to varying degrees) in all dimensions" (Foss and Saebi, 2017, p. 201).

3. Specific features of emerging economy environment as drivers of business model innovation

Looking through extant research on Western multinationals' activities in emerging economies one could easily come across abundant empirical evidence that the real causes of many of MNEs' failures were directly connected with their widely-spread practices of transferring business models, previously deployed in their home developed countries, unchanged. Numerous studies refer to this factor as a primary reason of MNEs' fiascos (see e. g. Gandolfi and Strach, 2009; Kubzansky, 2012; Gao, 2013). However, most of these cases do not give a clear idea of what was actually wrong with business models transplanted from the Western 'soil'.

To understand why MNEs' attempts to transfer domestic BMs to emerging markets often end up with 'transplant rejection', one needs to make three steps. The first is to 'unpack' their business models into the main building blocks (dimensions and attributes). The second step consists in defining key specific features of emerging economies that require changes in MNEs' BMs. Finally, by putting together the results of both exercises one could clarify which BM parts (attributes) are seriously affected when MNEs are being plunged into emerging economy environment.

Basing on componential approach to the definition of a business model (evidently becoming dominant among specialists), the latter could be depicted as a three-dimensional cube-shaped object, with facets (dimensions) representing major BM components: value proposition, value creation and delivery, and value capture respectively (See cube-shaped object in Fig. 1). In their turn, each of these facets (dimensions) is characterized by a number of key BM attributes. In particular, in case of 'Value proposition' dimension these attributes include target markets, customer segments, customer needs and defined products. 'Value creation and delivery' dimension covers such attributes as resources and facilities, core processes and organization, key partnerships and distribution channels. Finally, 'Value capture' dimension comprises the following attributes: revenue model, cost structure and target margins, resource velocity.

To define key specific features of emerging economies that require changes in MNEs' business models, one could turn to recent studies developing BOP and Frugal innovation concepts. The findings of this research allow to identify the most important differencies of typical environment for innovation activities in developed and emerging economies (see Table 1).

Table I. Typical Features of Economic Environment Influencing Innovation Activities: Main Differences between Developed and Emerging Economies

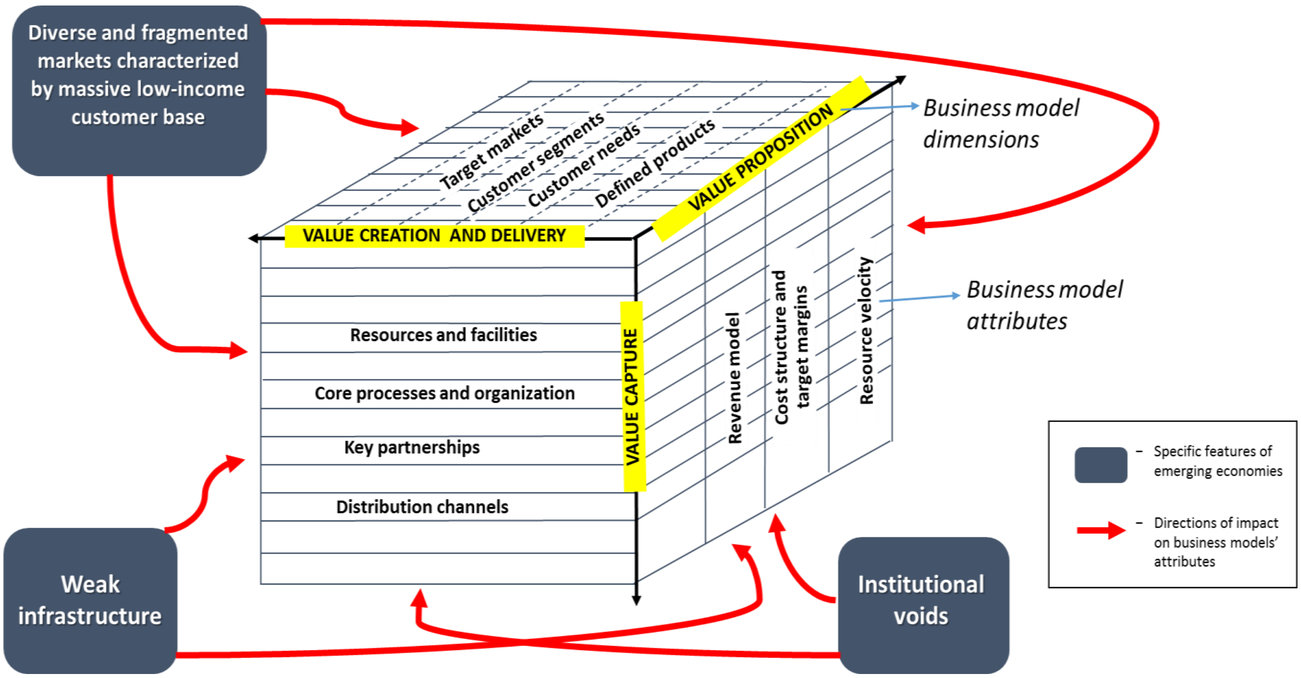
Typical features of economic environment affecting innovation activities	Developed market economies	Emerging economies
Customer markets	Large innovation premium markets	Diverse and fragmented markets characterized by massive low-income customer base
Infrastructure	Assumed to be available	Known to be weak
Market institutions	Market institutions well developed	Institutional voids
Access to resources	Resource abundance	Lack of key resources
R&D role in innovation	Mainly R&D driven	Mainly driven by business ideas often not related to R&D

Source: based on Sharma and Iyer, 2012; Sharma and Jha, 2016; Luo et al., 2011.

From the perspective of direct influence on MNEs' business models, it would be useful to differentiate three main groups of these characteristics: (1) features driven by the specifics of emerging markets and behavior of local customers (including very low income level of most of local consumers); (2) weaknesses of local infrastructure (including supply chain issues and gaps in transport and distribution networks); (3) underdeveloped local market institutions (e. g. the lack of some key financial institututions, absence of important legal norms or weak mechanisms to enforce them, etc.).

Identifying potential interactions between key BM attributes and specific characteristics of emerging economies allows to develop the basic conceptual framework for the analysis of the main directions of impact of emerging economy environment enabling innovations in MNEs' business models (Fig. 1). Thus, specific features of emerging markets, characterised by massive low-income customer base, inevitably require changes in all three dimensions of MNEs' business models, including value proposition (reconsideration of all key attributes – target markets, customer segments, customer needs and defined products), value creation and delivery (reconsideration of key patnerships and distribution channels) and value capture (reconsideration of revenue model and cost structure).

Figure 1. MNEs'Business Models Affected by Emerging Economy Environment: Main Directions of Impact Enabling Changes



Source: Author research

In fact, within the new emerging economy environment the fundamental characteristics of mass consumer audience are changing. These changes require very different approach, going far beyond the usual (to MNEs) light adaptation techniques in the newly entered markets, where "localization" of products and promotion methods are limited to largely "cosmetic" fine-tuning to satisfy prevailing local tastes and customer habits. Leaving aside very narrow upper social layer, whose level of income and consumption patterns are often very similar to the West, the task to 'reach out' to today's mass consumer in emerging markets (and it is exactly this customer segment that has already become the main target of MNEs' expansion), forces multinationals to reinvent the way of doing business and introduce completely new business models.

On the other hand, weak infrastructure and institutional voids, typical to most emerging economies, could require no less important changes at least in two BM dimensions: value creation and delivery (reconsideration of production resources and facilities, core processes and organization, key partnerships and quite often distribution channels) and value capture (reconsideration of cost structure, revenue model and resource velocity). It would be possible to argue that most of today's business models deployed by multinationals had evolved on the basis of strong market infrastructure of developed economies. The role of this infrastructure, both institutional and physical, is usually very important not only for starting smooth operations but often as a key prerequisite of success of a particular business model. In many cases multinationals were taking the presence of this prerequisite in emerging economies for granted and began to notice its non-existence too late.

Defining the main areas of change of MNEs' BMs driven by emerging economy environment contributes a lot to the appropriate navigation of their overall innovation strategies. However, to get more concrete understanding of the key directions of innovation in this area we need further analysis of the major archetypes of innovative business models (related to these directions) that have already demonstrated successful performance in the context of adaptation efforts of MNEs. And in accordance with our logic the typology of MNEs' BMs should be connected with the key challenges posed to multinationals by emerging economy environment.

The first of these typology groups includes respectively the innovative business models that are aimed at adaption to the specific characterisitics of emerging markets, above all connected with the need to ensure price affordability to local low-income consumers. The obvious way to achieve price affordability is to reduce costs, and the scale of this cost cutting should be very significant. For instance, according to expert estimates, to make their products affordable in the Indian market most MNEs had to cut prices by no less than 50-70% maintaining the same quality standards (Choudhary et al., 2012).

Such large-scale cost reductions often imply quite radical solutions. The most wide-spread of them include identifying the cost-intensive operations and their transfer to emerging economies where the factors of production are significantly cheaper. The transfer could be realized either on the basis of cooperation with independent local producers or within MNEs' cross-border production networks. Thus, the market success of German-based Volkswagen in China has been attributed to a large extent to massive local sourcing. Becoming price competitive in the Chinese market was due to the fact that the German car giant managed to achieve a very high share of local components in their vehicles (more than 75%) while maintaining high engineering standards. In Brazil strong local supply base allowed the global ‘fast fashion’ player Zara (based in Spain) not only to be price competitive but also to quickly change its production plans in response to demand and make design adjustments especially for Brazilian consumers (something that it does not do for most other countries) (Branco et al., 2014).

At the same in many cases even radical price reductions (based on respective cost cutting) are not enough to ensure successful adaptation of MNEs’ business models to the specifics of emerging markets. Not infrequently, multinationals have to undertake the complex series of changes affecting practically all core BM components. A good example in this respect is the successful BM transformation realized by Sweden-based IKEA in the course of their ste-by-step expansion in China (see Table 2). At the start of its rise to prominence in Europe IKEA’s business model was in its own way revolutionary, based on ‘Do-It-Yourself’ (DIY) concept within the fast-developing segment in the retail market of home furniture and accessories. This model, which won wide-spread popularity, particularly among young European consumers with relatively modest incomes, was counting on their desire to renovate and decorate their homes themselves (including furniture assembly), without resorting to expensive designers and workmen.

After entering the Chinese extremely price-sensitive market IKEA realized very soon that their DIY-oriented model based on selling ‘cheap’ self-assembly furniture kits won’t work in a country with a vast pool of low cost labor and ‘frenetic’ work ethic where most customers would prefer to pay someone to get the work done.

Table II. Changing Business Models to Fit the Emerging Market Specifics:

The Case of IKEA in China

Business Model Characteristics	Europe	China
Value proposition		
– Value characteristics	– Good quality, stylish self-assembly furniture at prices so low that everybody can afford it	– Good quality, Western-styled aspirational brand for middle class
– Target customer segments	– Young people with modest income	– Young and mid-aged people with higher than average income
Value creation and delivery		
– Processes and organization	– Products are sourced and made in developing countries, such as China and Malaysia, and then shipped to Europe	– Raw materials and products are sourced locally. Own factories in China allowed to avoid high import taxes
– Facilities (Stores)	– Stores are located in city suburbs, next to highways, so that access by car is easy	– Stores are located in city outskirts, next to rail networks, as most customers use public transport
– Promotion mechanism	– IKEA catalogue is the main marketing tool	– Digital Advertising using local social media and micro-blogging website
Value capture		
– Pricing	– Low-prices as a cornerstone of market positioning	– Affordable prices for target consumer audience (more than 60% lower than in Europe)
– Revenue structure	– Furniture generates most of revenue	– The share of home accessories is higher than in Europe

Source: based on information from: Chu et al., 2013; Daxueconsulting, 2013.

The company started very quickly to re-engineer this model and actively look for other more effective solutions. First of all, IKEA built a number of factories in China and dramatically inreased local sourcing of materials. That allowed to cut prices by more that 60%. Simultaneosly, IKEA stores began to offer furniture assembly service to customers who were not prepared to do it themselves. But the most significant change consisted in switching to the new target customer segment and general re-positioning in the market. IKEA leadership recognised that the company global branding, that promised low prices, created confusion among Chinese consumers as Western products are seen by them as aspirational. So the company started to target the young middle-class audience which could boast of higher income, better education and was more western-style oriented. According to a special study of IKEA adaptation in China, "Targeting this segment helped IKEA project itself as an aspirational western brand. This was a massive change in strategy…" (Chu et al., 2013). With this new targeting IKEA began to focus more on developing interior design concepts in Western style, which was growing in popularity among the growing Chinese middle-class. Well thought-out interiors of the company's stores demonstrated potential customers not only furniture, but also a variety of household goods and decorative items. As a result, IKEA's dynamic growth in China could not be any more attributed to just furniture kits (which despite repeated price cuts, still remained relatively expensive by

Chinese standards), but rather to rapidly rising sales of various affordable home accessories, from curtains and bed linen to tableware, lamps and other decorative items.

Another approach used by MNEs to improve affordability of their products in emerging markets is related to enhancing the capabilities of local customers to pay. Thus, in India Japanese Honda Motor Co. implemented creative business model to make their generators affordable to local small shopkeepers. Dealing with the grocers in the State of Uttar Pradesh the company distributor found out that they were not able to afford USD 440 price for electric generators badly needed as a back-up source of power during frequent outages. While local banks were reluctant to provide loans the Japanese firm came up with creative solution. They organised twenty shopkeepers in a group in which each member paid Honda's distributor USD 22 per month. Every month the needed sum was collected to buy one generator, immediately awarded to a lucky grocer through a lottery. In the period of twenty months all members of the group had their own generators (Baack et al., 2013).

In Malaysia one of the largest UK supermarket retailers, Tesco, set up a joint venture with local RHB Banking Group to launch in-store banking branches and to offer cobranded credit and debit cards at 22 of its grocery stores. Branded 'Easy by RHB @ Tesco' these in-store branches provide hassle-free loans, instant cash, and other simple standardized banking products. According to expert view, this innovative business model allowed Tesco to significantly increase the purchasing power of its local customers. As noted in the study of Boston Consulting Group, "For Tesco, it has provided a way to reach and retain more emerging-middle-class customers. And customers are motivated to use Easy because of the additional vouchers they can get for their Tesco grocery purchases" (Lindgardt et al., 2012, p. 10).

The second typology group of innovative BMs embracers the models related to MNEs' creative solutions addressing emerging economies' problems with local infrastructure, including the lack of good-quality raw material and component suppliers, reliable distribution and transport networks. For instance, US-based McDonald's had to solve a number of entirely unfamiliar issues when entering the Russian market in 1990. In contrast to developed market economies, where the company used to take care only about operations of its own network restaurants, outsourcing the entire supply chain to other firms, in Russia at those times there were no suppliers capable of guaranteeing the required quality of produce and on-time delivery. Attempts to bring in traditional suppliers from European countries to invest in the Russian market ended in failure. However, McDonald's was determined to succeed and, following its strategic decision, embarked on a series of significant changes to its traditional tested business model creating a new, essentially vertically integrated structure.[7] The result of these efforts and investment totaling only around USD 250 million was a great success in the fast-growing Russian market, where in the almost brand new fast food industry McDonald's secured its position of the undisputable leader for many years ahead. Twenty five years after opening its first restaurant in Moscow, McDonald's retains market leadership boasting of the biggest local fast-food network (609 outlets) and 20% share of a market worth in excess of USD10 billion in 2015 (WorldFood Moscow, 2017).

In India re-inventing the distribution model helped Unilever (a Dutch-British consumer goods MNE) to successfully expand its sales in the fast-growing FMCG market. Unlike its practices in European countries, where distribution system relies mainly on the large wholesalers and well-known retail chains, in India the company decided to radically change its approach in this area. Having studied the specifics of the local consumer market, including such distinctive features as the continuous dominance of small-scale private retailing, low penetration of international retail chains, extremely complex logistics due to the awful state of local roads, and the unusual importance of family and neighbour connections due to persistent traditional culture especially in rural areas, the management of Unilever's Indian division launched the so-called 'Shakti' project in 2000. This was a large-scale programme which made use of local housewives to sell small lots of household goods to friends and relatives on a commission basis. This programme, using well-known elements of multi-level marketing, which began as a pilot with 17 housewives in two Indian states, by 2012 involved already more than 70,000 people (about 45,000 women and 26,000 men) who regularly sold to more than 3 million rural families all over India (Narsalay et al., 2012, p. 2). The huge success of the programme led Unilever's management to the conclusion that this model could be used in other emerging markets with similar characteristics (e. g. Nigeria and Kenya).

The innovative business models designed to solve the problems related to the institutional voids in emerging economies come under the third group of BMs in our suggested typology. One

[7] With the help of the Moscow City Government McDonald's set up several big farms near the city which were granted favorable funding terms to purchase modern equipment. A herd of meat cows was brought from the Netherlands, as well as a specialist type of potato from the US. The company then built a diversified food production complex to produce packed beef, semi-finished potato products, dairy, and brand sauces and ketchups. It even managed to create its own fleet of trucks to ensure that its restaurants were supplied according to a strict schedule.

of the most acute of these problems often faced by multinationals is a poor state of local credit and financial institutions. In Pakistan the Norway-based mobile operator, Telenor, when entering the local market, realized that most of the country's population still did not use bank services. This meant that getting payments within the company's traditional business model was just impossible. However, in a few years Telenor managed to transform this serious problem into its own competitive advantage and to win a dominant position in the very prospective market. In 2009 the Norwegian company launched the so-called 'Easy Pasia' project, which rolled out a widely accessible mobile banking system for the population, allowing subscribers to make payments, withdraw cash and even to open savings accounts, simply using their mobile phones. To ensure comliance with local regulations, the company even acquired a small local bank with a full banking license. By 2010 'Easy Pasia' network already covered more than 20,000 retail outlets offering financial services all over Pakistan (while the country's whole banking system was made up of only 8,500 subsidiaries). As a result of this project, the number of users of the Telenor services in Pakistan exceeded 22 million (Hillestad, 2010, p. 60). In sum, the Norwegian mobile operator filled a significant gap in the country's banking system basing on the new technology and at the same time secured unprecedented growth in coverage of the local customer audience through introducing innovative business model.

In Kenya the UK-based Vodafone used similar business model to solve the problem of scarce banking network by developing low-cost mobile money-transfer service. The system called M-PESA is operated by Safaricom, Kenya's leading mobile provider, in which Vodafone owns a significant stake. Being less than ten years in operation M-Pesa demonstrated excellent financial results and huge success in the coverage of local population, reaching vast audience of low-income subscribers. According to Runde (2015), "Nearly a decade after its launch, M-Pesa has transformed economic interaction in Kenya. Its success reshaped Kenya's banking and telecom sectors, extended financial inclusion for nearly 20 million Kenyans, and facilitated the creation of thousands of small businesses".

The weak legal systems constitute one more serious institutional challenge in emerging economies that MNEs are trying to address by innovative business models. In particular, many emerging economies are characterised by the lack of well-established intellectual property (IP) protection regulations and nearly absent legal enforcement in this area. This institutional gap puts MNEs' IP rights at risk. Not surprisingly, many multinationals try their best to develop and implement new business models aimed at mitigating these threats. Thus, US-based Microsoft in India faced extremely difficult environment to run a software business with piracy rate of 75% and government 'obsession' with open source software. The company decided in response to make significant adjustments of its business model which subsequently led to substantial reduction of piracy rate. As noted by Venkatesan (2013), "Realizing most Indians think of "copyright"as the "right to copy," the company chose to adapt its business model for India instead of vise versa. Launching new lower-priced versions of Windows and Office, creating local language versions, and massively increasing distribution resulted in a 10% decline in piracy".

Facing very weak IP protection in China the US leader in entertainment industry, Walt Disney, had to reconsider all of its expertise to break into this fast-developing market with the unconventional business model in an entirely new area. While preparing to enter the Chinese market, the company's management noticed the wide-spread negligence of IP rights and for a long time could not decide how to succeed with its traditional children's DVD and TV production amid the widespread distribution of pirate copies. But further in-depth analysis of potential demand showed that while the majority of Chinese families were not willing to spend more than a few yuan on buying children's and family movies, they are much more generous when it comes to opportunities of getting first-class education for their children. In 2008 the company opened its first pilot education centre in Shanghai to teach English language, aimed at children aged 2 to 10 years. The centre was working on the basis of carefully developed curriculum prepared by the best US professionals. High teaching standards were guaranteed through rigorous selection of teachers from the specialists with English as a native language. In three years, the popularity of rather expensive education at Shanghai centre increased so much that Walt Disney decided to roll out an entire network of similar centres across China.

4. Concluding remarks

The analysis presented in this paper allows to draw at least three significant conclusions. Firstly, it suggests that though the general logic of transformation of MNEs' business models in emerging economies is largely dictated by two common drivers (the growing MNEs' interest in emerging markets due to the world's shifting center of economic gravity exactly in this direction, on the one hand, and the imperative of MNEs' adaptation to local business environment which is so much different from the situation in developed economies, on the other hand), the concrete changes in these BMs are highly contextual, i. e. are determined by the interaction of individual characteristics of a given emerging economy with specific BM attributes of a given firm. Taking this into account, the analytical framework has been developed allowing to trace potential directions of changing impact of specific emerging economy features on the main building blocks of MNEs' business models.

Secondly, despite the highly contextual nature of BM changes (increasing the importance of case study analysis in this area), the in-depth review of the challenges posed by the emerging economy environment to MNEs' business models made it possible to suggest a typological classification of respective innovative BMs. The identification of three main typology groups of the newly introduced BMs, responding to the challenges generated by (1) specific features of emerging markets, (2) weaknesses of local infrastructure and (3) institutional voids, allows to get more detailed and structured picture of business model innovation initiated by MNEs in the emerging economy context.

Thirdly, the growing BMI activities driven by specific environment in host emerging economies entail very serious implications for MNEs' strategy and organization, and innovation governance mechanisms. As emerging markets are becoming no less important drivers of innovations (compared to traditional innovation centers in the West), MNEs aspiring to maintain their competitive power often have no other option but to reconfigure innovation governance systems ensuring much more exposure of their emerging market subsidiaries to new local knowledge and different business models. On the other hand, unlike more or less homogeneous Western world, where most business models effectively functioning in one country can be easily transferred (with only minor modifications) to other countries, the differences of individual emerging economies are often so significant that such transfers become hardly possible. Practical experience has already shown that business models, successfully adapted by MNEs to the specifics of today's Chinese economy, usually do not work in India, and even less so in Brazil. Under these conditions the task of sucessful business model innovation aimed to address emerging markets' challenges not only becomes far more complicated, but also sets fundamentally new requirements to corporate strategy and organization system of MNEs. In the new global environment requiring 'multiple embeddedness' (Meyer et al., 2011), this system should be able to support not one or even two (one for the West and the other for emerging markets), but rather a portfolio of multiple business models adapted to specific environment in all major host economies of a given multinational enterprise.

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