



Innovation booming in emerging markets despite obstacles

Traditional measures of innovation usually focus on science and technology, for example on patents produced, scientific papers published and PhD graduates in science and engineering. While the role of science and technology in driving innovation continues to be important, we are witnessing a new type of innovation in Latin America and other emerging markets, i.e. innovations that are more horizontal and more context dependent.



“For example, when farmers in emerging markets use SMS (text messages) on mobile phones to coordinate farming practices, it is no big advance in technology but it is a great innovation in improving farming productivity,” says Lourdes Casanova, a lecturer at INSEAD. “Many such innovations are continually being created in Latin America and other emerging markets. How do we measure and celebrate such innovations?”

That’s one of the main questions posed by *InnovaLatino*, a new research initiative to assess Latin America’s capacity to innovate, particularly for those at the bottom of the pyramid. Launched this year, the *InnovaLatino* research project is a joint initiative conducted by the Fundacion Telefonica, INSEAD eLab, and the OECD Development Centre.

“The purpose of the research project is to look at innovation from another perspective,” says Casanova, a member of the *InnovaLatino* research team. “We tend to look at innovation from the perspective of our Western world, however there is a lot of innovation coming from emerging markets and we want to look at it, in this case from Latin America, and to celebrate it.”

Social inclusion

InnovaLatino builds on the innovation model used in *The Global Innovation Index*, which was co-authored by INSEAD Professor Soumitra Dutta, faculty director of elab@INSEAD, and which evaluates the progress of innovation readiness in 130 countries.

“We changed a number of indicators to adapt this model to an emerging market perspective,” Casanova says. “For instance we added some enablers and some output. On the output side we put poverty reduction so that we could look at innovation in a more holistic way, measuring the general well-being of societies.

Photo of globe focused on South America map - INSEAD Knowledge

"We cannot only look at GDP growth," she continues. "The GDP of Latin American countries has been growing but poverty has only been marginally reduced. We don't want to talk about innovation in a vacuum, we want to talk about innovation that also brings social inclusion."

Unfavourable conditions

The boom in Latin American innovation is taking place despite the lack of favourable conditions normally seen in high-income economies such as large and prosperous internal markets, efficient property rights protection, accessible finance, good transport and communication infrastructure, and high levels of education. In fact, rather than hindering innovation in Latin America, the lack of these favourable conditions may be stimulating it.

"In Latin America, it may be that innovation occurs precisely because the factors that favour innovation in high-income economies: large consumer demand, good transport infrastructure, an educated workforce, are in short supply," says Nils Fonstad, a Senior Research Fellow at INSEAD eLab. "Much innovation in emerging markets takes the form of getting around these very bottlenecks."

Still, in the most recent edition of *The Global Innovation Index*, no country in Latin America appears in the top ten lists of the most innovative countries. On the other hand, the US, which used to be unique in being consistently among the top eight performers in all categories now appears in only five.

"This should be cause for concern for the USA as qualitative data from American CEOs were collected by the World Economic Forum around summer 2008, before the start of the sharp economic downturn in the USA," *The Global Innovation Index* states. "It is possible that the data collected next year will be more pessimistic and will further reduce America's lead and perhaps even threaten its leading position."

The report goes on to state that "the best stories about innovations are often found at the bottom of the innovation pyramid."

Mobile phones

The bottom of the pyramid certainly describes much of Latin America, one of the most unequal regions in the world. About 44 per cent of the region's population, or 220 million Latin Americans, live on less than two dollars a day. Yet despite this gnawing poverty, mobile telephone use is widespread. Almost half of the 360 million people in Latin America who live on less than US\$300 a month are mobile phone subscribers.

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There are good reasons for this. In Latin America, poor and rural residents are starting to use their mobile phones to access healthcare, public services and financial services, to get credit, improve educational programmes, and in many other innovative ways.

As *InnovaLatino* states: "Mobile telephony in particular is substituted for the absence of good landline telephony, and at times even substituted for good transport or financial infrastructure. In some sense, the countries most likely to witness explosive growth of mobile telephony are those with the 'worst' indicators of infrastructure."

Such innovative use of mobile phones and other innovations coming out of emerging regions like Latin America may be worth considering by developed countries, especially as their own innovative capacities may be in decline.

"It's important that the rest of the world know about these types of innovations because these are innovations that can be expanded everywhere," Casanova says.

"Often we don't bother to look at them because we don't need to -- everybody has a bank account and bank accounts have usually worked. These may be small innovations but they could have a huge potential in the world."

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