Value creation in mid-range emerging economies:

Exploring SMEs strategies

Emerging markets represent the new source of economic development. Yet, most innovation management research has centered only on newly developed economies such as Brazil, Chile. This manuscript focuses on exploring innovation activities on mid-range emerging markets i.e. Ecuador, Colombia. These types of markets are particularly relevant as have quickly moved from traditional emerging economies but are not considered yet newly developed economies. This paper focuses on the value creation activities at SMEs in the Ecuadorian market. Ecuador is categorized as a mid-range emerging economy as it has a high institutional development but a low infrastructure and market development. The findings of our paper reveal SMEs in mid-range emerging economies design strategies to create value for customers from emerged markets, use alliances to access the necessary material e.g. natural resources, products. Our study contributed to the growing literature on emerging markets and disentangles various strategies use by SMEs to succeed in developed economies.

Keywords: Emerging markets, business model, value creation, smaller economies

1. Introduction

According to a report from The Economist (2011), economic growth in emerging markets accounts for over half of the global consumption of most commodities, world exports and inflows of foreign direct investment. Yet, innovation management studies have primarily centered on explaining the internationalization of R&D subsidiaries of Multinational Corporations (MNCs) in emerging markets (Figueiredo, 2011; von Zedtwitz & Gassmann, 2002; Zander, 1997) as well as on exploring the reverse (frugal) innovation\(^1\) in Chinese and Indian markets (Radjou, Prabhu, Ahuja, & Roberts, 2012; Tiwari & Herstatt, 2012; Vijay Govindarajan, Trimble, & Nooyi, 2012). This new stream of research focuses on MNCs efforts to develop context specific technologies in emerging markets that could be also commercialized in developed markets e.g. American and European (Hoskisson, Wright, Filatotchev, & Peng, 2013; Wright, Filatotchev, Hoskisson, & Peng, 2005).

Yet, research on innovation from Latin American emerging markets is still lacking. While, extensive research has been conducted on economies like India, China or Brazil (Andriopoulos & Lewis, 2009; Etzkowitz, de Mello, & Almeida, 2005; Figueiredo, 2011), limited research has explored how firms in mid-range emerging economies develop innovations (Hoskisson, et al., 2013). In Latin America, the exploration of innovation activities by firms in emerging economies e.g. Ecuador, Venezuela, Peru has not yet been investigated. According to Hoskisson et al. (2013) these mid-range emerging economies

\(^1\) Alternatively other used names include Jugaad innovation or bottom of the pyramid.
might have a low institutional development and a high infrastructure and factor development, or vice-versa. In compare to emerging economies, developed economies (i.e. Germany, Japan, U.K., France, U.K. Switzerland, Sweden or Finland) invest in innovation to have stronger innovation systems e.g. more patents, higher technological outputs. Yet, as presented by Van Beers et al. (2008), in Europe small economies e.g. Finland, the Netherlands put more emphasis on specific R&D activities to guarantee inflows of external firms knowledge and the creation of new innovations.

This paper attempts to contribute to this research gap by: (1) connecting the emerging literature on mid-range emerging markets (Hoskisson et al., 2013) and entrepreneurial value creation (Amit & Zott, 2001); and (2) analyzing the business model innovation of Ecuadorian SMEs. More specifically, we analyze how SMEs, given the match of customer segment and value proposition, identify and create strategic partnerships, and access key resources to trigger new innovative products for international markets. Ecuadorian SMEs are a representative case of mid-range emerging economies, which could help to explore innovation and entrepreneurial activities that lead to new forms of value creation. By doing so, we intend to get better insights regarding the kind of business models that have been implemented by SMEs in mid-range economies. Specifically, in Ecuador as its global innovation index has recently shown a visible improvement. In fact, the GII index indicates that one of the important strengths of Ecuadorian enterprises is the offering of creative goods and services (Dutta and Lanvin, 2013).

Our analysis reveals that Ecuadorian SMEs create value by developing products that exceed local standards or specifications. This additional effort guarantees a global demand by developed markets e.g. European, Chinese. This finding reveals that firms in mid-range emerging markets supporting innovation activities regain their investments from successfully selling their products in developed markets. Secondly, firms concentrate on specific international segments that could potentially acquire their products and value the quality or uniqueness of products from small economies. Third, strategic partnerships are a necessary activity for SMEs in emerging markets. In mid-range emerging economies, SMEs develop innovations that are based on local natural resources and characteristics. When these products have an added value these become valuable products in developed markets.

The paper is structured as follows: the next section presents our theoretical approach to the study of innovation in emerging markets, effectuation and business models. Section 3 discusses our research
design followed by the results of the analysis in section 4. Section 5 discusses the challenges to develop
global innovation products from mid-range emerging markets and how entrepreneurs identify new
value creation opportunities. The last section wraps up the main conclusions, discusses some
managerial implications, limitations of this study and formulates suggestions for further research.

2. Literature review

2.1. Innovation in Latin American markets

Innovation activities of Latin American firms have recently captured the attention of numerous
innovation management scholars (Amann & Cantwell, 2012; Casanova, 2009). Yet, these studies have
been primarily centered on Brazilian, Mexican, Argentinian or Chilean firms (Aulakh, Kotabe, &
Teegen, 2000; Figueiredo, 2011; Jones & Lluch, 2011). Overall, most of these studies have carefully
disentangled the recent internationalization processes of Brazilian firms (Fleury & Fleury, 2011) or
internationalization of foreign firms in Latin American markets (Ferigotti & Figueiredo, 2005; Khanna
& Palepu, 2000).

According to Hoskisson et al. (2013) emerging economies can be globally distinguished by their
infrastructure and institutional level. They propose four different types of emerging economies where
newly developing economies in South America include countries such as Brazil, Chile. A high level of
institutional development and a high infrastructure and market development characterizes these
economies. On the contrary, traditional emerging economies e.g. Venezuela have low levels of both
dimensions. Yet, mid-range emerging economies such as Argentina, Colombia, Ecuador, Peru, Mexico
present either a high level of institutional development but a low infrastructure, and factor market
development, or vice-versa.

Mahrounz and Al-Saleh, 2013 who classify Brazil, Ecuador, Argentina, Colombia innovation
efficiency as low-capacity and low-performance. The exception is the Chilean innovation efficacy,
which has a high-capacity and low-performance. This alternative approach to categorize emerging
Latin American markets does not facilitate distinguishing the necessary managerial practices to create
value, the innovation system reality or other innovation factors. The perspective from Hoskisson et al.
(2013) is more comprehensive and allows distinguishing emerging markets according to the degree of
institutional development and infrastructure development. Certainly, this approach is much
comprehensive about the reality in Latin American markets and allows to put more emphasis on the study of economies like Ecuador, Colombia, Argentina.

In Latin America, newly developed economies portray an advanced institutional development, and infrastructure and market development that allows firms to: 1) compete with subsidiaries from developed markets and 2) develop novel innovation outputs. These outputs are the results of substantial investments in Research and Development (R&D). Yet, mid-range emerging economies e.g. Ecuador, Uruguay, Colombia seem to portray distinct innovation initiatives to value creation for their customers. These mid-range emerging markets might portray a low infrastructure and factor market development that hinders the possibilities to compete with large international MNEs.

The internationalization process in these mid-range economies is primarily through activities from Small and Medium Enterprises (SMEs). In Europe, in smaller economies e.g. the Netherlands, Finland, Poland, Belgium SMEs design new forms to innovate in their value offering. Yet, it is unknown how smaller economies in Latin America design new value creation strategies, alliances with customers and internationalization of their products.

2.2. Process of value creation

New value creation is the result of co-existence of entrepreneurial opportunities and individuals (Venkataraman, 1997). Individuals form ideas, beliefs and actions that enable them creation of future based on experiences, knowledge and contextual circumstances goods and services (Sarasvathy, Dew, Velamuri, & Venkataraman, 2003). According to Sarasvathy (2008), the ideas entrepreneurs develop are often inherent in the means available to them. Entrepreneurs often reason from who they are and what and whom they know to explain their behavior and the businesses they start and run.

The value created differs depending on the manner in which entrepreneurs organize their businesses and use the means available to them. In general, some follow closely causal logic while others behave more effectually. Effectual logic presupposes that entrepreneurs start with the means at hand and look for what effects (value propositions) they can produce with them. On the other hand, causal logic assumes that one starts with the idea of the final product and searches for means to be able to create the desired effect (Sarasvathy, 2001). Consequently, entrepreneurs form intentions based on their beliefs.
about perceived desirability and perceived feasibility of the value proposition (Krueger, Reilly, & Carsrud, 2000). For example, Sarasvathy et al. (2003) argue that the context defined by differing circumstances, problem spaces and decision parameters influences whether entrepreneurs can identify opportunities that exist or whether they create new opportunities. This means that the degree of novelty and innovativeness in the different value propositions will differ. Alvarez and Barney (2007) suggest that entrepreneurs who need a lot of information to make a decision will choose existing opportunities related to existing markets and industries, while entrepreneurs who are capable to make decisions under uncertainty will choose to create new innovative opportunities. Thus, personal characteristics combined with the approach taken for how to create value contextualize the type of businesses that will be constructed by entrepreneurs.

Finally, as entrepreneurs usually have limited resources at early stages of their ventures, the ability to utilize them to the fullest becomes very important (Bhidé, 2000). Research shows that many of the most innovative firms have become so due to the resource constraints early on. Thus, the ability to design a business model that utilizes the resources in an efficient way allowing delivery of the desired new value to its customers is important.

2.3. Business model innovation

Business model represents the logic of how a firm creates, delivers and captures value (Osterwalder & Pigneur, 2010). While value creation refers to the articulated logic, method or services offered to customers, capturing value involves the design of the internal revenue and cost streams for delivering the created value (Johnson, Christensen, & Kagermann, 2008; Morris, Schindehutte, & Allen, 2005). In other words, business model\(^2\) depicts how entrepreneurs implement their ideas (Osterwalder, Pigneur, & Tucci, 2005), and how the pieces of a business fit together (Magretta, 2002).

Magretta (2002) presents business models as a story that explains how the organization works and how the different elements of the business fit together. A good story requires precisely delineated characters, plausible motivations, and a plot that turns on an insight about value (Pentland, 1999). Thus, assessing which business models are viable and have potential to turn the business into

\(^2\) There are two dominant conceptualizations of business model. Chesbrough and Rosenbloom (2002) identify six functions describing the overall architecture, strategy and growth potential of business; while Osterwalder and Pigneur (2010) focus more on the key interdependencies between proposed value proposition and customer segments and the remaining elements that feed into this relationship. In this paper we use Osterwalder & Pigneur’s conceptualisation.
successful story, requires identification of a series of activities, from procuring raw materials to satisfying the final consumer, which in the process of providing a new product or service will create and capture value (Chesbrough, 2006). Both value creation and value extraction are critically important. A company that fails the latter activity will not be able to sustain its activity over time. In other words, the value proposition and value extraction are the critical elements that determine the capability of the business to succeed or not (Amit & Zott, 2001; Morris, Schindehutte, & Allen, 2005b).

Further, the process of creating and capturing value begins with identification of the group of customers that companies want to serve (Osterwalder & Pigneur, 2010). Understanding the characteristics of the customers and their needs provides an opportunity for the company to design and deliver value-added products and services that fully solve customers’ problems and/or satisfy their needs. The value proposition is a bundle of benefits that the company provides to its customers. The benefits can be in a form of new offering, improved performance, high degree of customization, etc.

Hence, value proposition focuses on how and where the value is created, i.e. on the resources, processes and activities (Shafer, Smith, & Linder, 2005). Here is where the understanding and knowing the target customers is important for the ability to select appropriate strategies allowing delivery of the promised value. Knowledge of the customer and the value propositions helps make the decision about how to position the firm and subsequently which revenue models to adopt.

Three other key elements of business model design include key resources, key activities and key partnerships (Osterwalder & Pigneur, 2010). Key resources include the most important assets; they enable the firm to offer the value proposition, reach markets, maintain relationships with the stakeholders and earn the revenue. The form of key resources differs depending on the value proposition; they can be physical (i.e., production site or logistics infrastructure), intellectual (i.e., brands, patent or partnerships) and human resources (i.e., expert knowledge) or financial resources (Barney, 1991). It is however insufficient to only possess resources, the firm has to perform also key activities to be able to create and capture the value using the key resources. Here too, the key activities depend on the value proposition being offered to the customers; and we can identify production (i.e., design, making & delivery of a product), problem solving (i.e., identifying new solutions, knowledge management, training,) and platform/network (i.e., platform management, service provisioning,
platform promotion) (Osterwalder & Pigneur, 2010). Finally, as firms often struggle with resource scarcity and access to and allocation of resources as well as legitimacy issues and risk, they engage in creation and maintenance of partnerships that allow them to function well.

In general, the process of business model development is greatly influenced by the entrepreneur(s) and the broader context. The context influences the means that are at the entrepreneur’s disposal and through agency the entrepreneur is able to influence the context, i.e. by initiating change of institutions. Hence, the resulting business model design needs to incorporate the opportunities and constraints of entrepreneurs and their firms as well as their embeddedness in the context. Consequently, what value propositions can be created and how the money can be made depends on many factors, including the socio-economical system, the market structure as well as activity of the different actors. In other words, contextual embeddedness of the venture and its entrepreneur shapes the emergence of possible sources of value creation and value extraction.

Finally, the combination of the different factors is likely to change over time, causing the whole business model to adapt. This process is likely to be continuous and incremental (Mason & Leek, 2008; Schweizer, 2005). For example, entering a strategic alliance is likely to influence the existing offering; acting on unexpected contingency is likely to lead to new offering. Similarly, identifying a new customer group might require adaptation of the value proposition. Despite developments in the field, the understanding of the business model innovation and factors triggering its development remain poorly explored (Morris et al., 2005b; Rajala & Westerlund, 2007). In particular, we do not know much about how SMEs are able to adapt their business models to become innovative companies.

3. Research design

To be able to explore how business model innovation takes place, we have adopted a multiple case study approach (Eisenhardt, 1989; Yin, 1994). This research strategy enables incorporation of the context to understand “a contemporary phenomenon in its real life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 1981: 13). Also, it enables to treat each case as a distinct analytic unit but also sees the included cases as multiple experiments, permitting the validity of an emerging phenomenon (Eisenhardt & Graebner, 2007).
3.1. Sample selection

Although previous breaking research has focused on innovation activities in other emerging markets e.g. China and India and how firms in these economies develop new innovations (Vijay Govindarajan et al., 2012), little attention has been paid to how firms in emerging Latin America markets develop new innovations that could be adopted globally (praiseworthy exceptions are studies of the Brazilian Economy). Particularly, it is interesting to explore the characteristics of SMEs in mid-range markets e.g. Ecuador, Colombia, Peru. In Latin America, most studies have been focused on studies of large countries e.g. Brazil, Mexico, Argentina. However, the findings from these emerging Latin American markets cannot be transferable to other mid-range emerging markets.

For the study we selected seven Ecuadorian SMEs. Our selection criteria involved three characteristics: first, the firm had to be small to medium size; second, firms that have been for more than 3 years in the market; and third, firms that have developed new products for the local and international market. As such, our definitive sample included seven SMEs (see table 1) that were analogous in conducting innovation activities and not replicating existing initiatives in the local market. Not only did we draw upon a sample that excluded other kinds of intermediaries but also searched for sufficient heterogeneity regarding the stage of the development, type of company e.g. technological and non-technological.

3.2. Data collection

The study uses both primary and secondary data about the seven Ecuadorian SMEs (see table 1). Our primary data comes from semi-structured interviews conducted with the owner-managers during 2013. Each owner was interviewed at least once; each interview lasted between one and two hours and has been conducted by two interviewers. During the interview we asked the entrepreneurs to tell us their story and the story of the company. We were particularly interested in how they organized their ventures; how do they develop new products and innovate as well as how do they deal with the experienced challenges in this process. To facilitate the later analysis, all interviews have been digitally recorded and subsequently transcribed via interview notes (McCracken 1988). Additionally, to enrich and also to enable triangulation of data, we have collected available secondary data, which included company reports, marketing brochures, homepage information, as well as press releases.
Further, to deepen our understanding of the Ecuadorian context, we have studied the local results of the 2012 Global Entrepreneurship Monitor-GEM- (Lasio, Caicedo, Ordeñana, 2013) which provided a broader overview of the entrepreneurial activities in Ecuador. This report shed light on the increasing rate of entrepreneurial activities, type of entrepreneurship activities and obstacles to innovate in Ecuador. Whereas the 2012 GEM report provided an overall view of entrepreneurship activities in Ecuador, this manuscript presents how do firms create value, identify a market segment, strategic partnerships and resources in their effort to develop new (non) technological innovations. This will allow us to shed light to frugal innovations in small economies and how opportunities are identified.

Table 1. Interviewed companies

<table>
<thead>
<tr>
<th>SME Name</th>
<th>Category</th>
<th>Foundation date</th>
<th>Number of employees</th>
<th>Markets</th>
<th>Contact name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anonymous SME</td>
<td>ICT</td>
<td>2010</td>
<td>3</td>
<td>United States, Ecuador, Peru</td>
<td>Byron Rojas</td>
<td>General Manager</td>
</tr>
<tr>
<td>IDETEC CIA.LTDA.</td>
<td>ICT</td>
<td>2009</td>
<td>3</td>
<td>Ecuador</td>
<td>Victor Asanza</td>
<td>CEO</td>
</tr>
<tr>
<td>(Ideas&amp;Tecnologia)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geeks Ecuador</td>
<td>ICT</td>
<td>2009</td>
<td>25</td>
<td>Ecuador</td>
<td>Luis Palacios</td>
<td>Business Associate / ICT Director</td>
</tr>
<tr>
<td>Ecologico</td>
<td>Agriculture and food</td>
<td>2003</td>
<td>6</td>
<td>Ecuador</td>
<td>Omar Valarezo</td>
<td>CEO - Owner</td>
</tr>
<tr>
<td>Pesquera Polar</td>
<td>Agriculture and food</td>
<td>1970</td>
<td>360</td>
<td>Ecuador, Canada, United States, Guatemala, Germany, Japan, Indonesia, Australia, El Salvador, Colombia, Chile, Taiwan, England</td>
<td>Carlos Cacao</td>
<td>General Manager</td>
</tr>
<tr>
<td>EcuAndino</td>
<td>Crafts</td>
<td>1983</td>
<td>38</td>
<td>United States, Canada, Mexico, Puerto Rico, El Salvador, Uruguay, Australia, Hong Kong, Spain, Greece, Russia, Turkey, Israel, United Arab Emirates, Qatar, Bahrain, Kuwait, Oman, Saudi Arabia, South Africa</td>
<td>Edgar Sánchez</td>
<td>Co-Founder</td>
</tr>
<tr>
<td>Escapes with you</td>
<td>Tourism</td>
<td>2009</td>
<td>5</td>
<td>Chile, México</td>
<td>Luis Louiza</td>
<td>Socio Fundador</td>
</tr>
</tbody>
</table>
3.3. Analysis methods

We began our analysis by writing up a story of each of the case firm separately. This step allowed us to learn the data and search for relationships between the different constructs within each of the cases. In the next step, we adopted techniques for cross-case analysis (Miles & Huberman, 1994) to explore if there were any patterns emerging across the seven Ecuadorian cases. We analysed the relationships among the different elements of the business model and if there was any configurational pattern in how they have been adapted over time and how they translate/contribute to business model innovation. All analyses were performed by two of the co-authors to increase the external validity of the created model. This inferential approach was chosen for this research in the absence of any alternative approach for explaining and comparing their business models.

4. Ecuadorian SMEs Landscape

Ecuador bases its economy mainly on petroleum resources and other primary products, such as banana, shrimp, canned fish and flowers. On the one hand, petroleum exports have accounted for more than half of the country's earnings (about US$ 12 billion) within January and November 2012; nearly two-fifths of public sector revenues (CIA, 2013). These petroleum exports represent 8% increase compared to the same period in 2011, mainly due to the high oil prices. On the other hand, banana, shrimp, canned fish and flowers contributed with 20.7%, 12.8%, 10.9%, and 7.6% (about US$ 9 billion), respectively to the Ecuadorian economy, representing approximately 8% increase in comparison with the year 2011 (Vergara, 2013).

The macroeconomic indicators show that the GDP real growth rate was 5% in 2012 (CIA, 2013), making Ecuador be in the third place after Peru and Colombia within Latin American countries (Vergara, 2013). For the same year, the Ecuadorian GDP per capita was US$ 10,200 with 4.2% inflation rate. Important to remark is that SMEs contributed with 25% to the country’s GDP, excluding the petroleum exports in 2012 (EKOS, 2012).

In 2012, Ecuador had nearly 16000 SMEs (EKOS, 2012), including in this business composition: about 95% micro businesses (between 1 and 9 employees); 3.8% small (between 10 and 49 employees); and 0.6% medium enterprises (between 50 and 199 employees) (Araque, 2012). In terms of employment
creation, the micro businesses contributed with 44%, whereas the small companies with 17% and the medium-size enterprises with 14% (Vergara, 2013; 2012). The generation of revenues accounted for more than 60%, being 24%, 21% and 18%, from micro, small and medium companies respectively.

According to the percentages presented above, the amount of small and medium enterprises is considerably low compared to their microbusinesses counterpart. The latter are mostly necessity driven (GEEM, 2012), making a much lower contribution to employment and economic growth than small- and medium-size companies. This is so as SMEs created 15 times greater employment places and generated 40 times more revenues than micro businesses in 2012.

Regarding the business sectors of SMEs, 36.3% companies were involved in commercial activities, being the most important activity in the country and generating 41.3% revenues in 2012. The second in the list appears the service sector with 15.7% SMEs, contributing with 13.1% revenues to the Ecuadorian economy. Business activities in this sector include: architecture and engineering services, consulting, research, informatics, and advertising among others. In the third place, the manufacturing sector includes 10.8% enterprises, producing 11.7% overall revenues.

For the year 2012, Ecuador was in the 86th position in the Global Competitiveness ranking, out of 148 countries (The World Economic Forum, 2012). However, its position went up to the 71st place for the 2013-2014 report. Furthermore, Ecuador’s ranking has been improving in a sustained manner during the last five years (The World Economic Forum, 2013). Although Ecuador is still well below Chile, the increase in its competitiveness has put the country in a relatively comparable position to its neighbors, Colombia, and Peru.

According to Hoskisson et al. (2013), Ecuador belongs to the mid-range emerging markets with its relatively undeveloped institutions and moderate degree of infrastructure and factor market development. This is confirmed by the Global Innovation Index (GII) (Reference) in which the Ecuadorian rank is 131 in the institutions pillar despite being in the 83rd place overall; and in the 70th position in the infrastructure pillar, out of 142 countries for the year 2013. The reality is that only about 6% of SMEs invests in R&D activities (Araque, 2013). The main focus of SMEs is on the local market and much less to the international context. The highest percentage of ICT companies (21%) addresses their sells to the international market and the rest of SMEs (79%) directs their attention to the domestic
market. The leather and shoe sector is second with nearly 18% of companies selling to foreign countries; whereas 13% enterprises in the wood sector make businesses abroad.

To our knowledge, little information has been recently reported regarding other specificities of Ecuadorian SMEs. One of the studies was conducted by FAEDPYME in which the characterization of enterprises was a key objective among Spanish speaking countries; Ecuador participated with 104 out of 1989 companies (García, Martínez, and Aragón, 2011). Important to highlight from this study is that SMEs establish strategic alliances and cooperation agreements much more in commercial duties (about 50%) as well as in procuring and supplying (nearly 45%) than in research, development and innovation (about 24%).

In sum, the macroeconomic indicators and competitiveness indexes seem to indicate that Ecuador has gained a relevant ranking position among Latin American countries. In this respect, SMEs are playing an important role for its competitiveness. However, to remain competitive in the marketplace, entrepreneurs are called to pay careful attention to four key factors. These factors include: 1) continuous work on research and development activities as a way of incorporating new technologies into their organizations; 2) offering training, both for management positions and the workforce, in order to enhance the company’s competitiveness; 3) continuous search for new markets that allow the company to offer differentiated products (Flor, 2013); and 4) making innovation be an essential part of the company’s actions into their products and services, processes and/or facilities.

5. Strategies for value creation among Ecuadorian SMEs

Our analyses show that the Ecuadorian SMEs report increased performance outcomes and satisfaction levels when they design their value propositions to cater to needs of international players or offer benefits recognized in developed markets. Generally, the achievement of a unique value proposition is the result of carefully matching the local natural resource characteristics and the international demand. This process begins with the opportunity recognition and a clear vision about future requests from developed markets, following by the search to differentiate own product or service offering and the expertise development in the specific area.
The opportunity recognition in emerging economies could begin from two distinct perspectives. First, the commercialization of a recognized national product to developed markets. Certainly, the value-added characteristics or innovation components of the product will guarantee the demand from developed markets. Secondly, an alternative strategy is the commercialization of a nationally known natural resource to developed markets. Frequently, in emerging markets, lack of scientific research on the natural product characteristics decreases the opportunity to identify the potential demand for it in developed markets.

For example, the company Ecu-Andino (http://www.ecua-andino.com/), which is the largest exporter of panama hats in the world. It recognized that the commercialization of standard hats (white and for men) will not suffice to become globally recognized company; moreover such approach also limits the potential to generate more revenues. The first step in the business model innovation for this company was the realization that competition in the local Ecuadorian market was intense and the market itself saturated with craft companies producing lower quality hats for cheaper prices. Ecu-Andino had the ambition to become a global competitor in hat sales which required it to pay special attention to every detail of the manufacturing process to provide the highest quality to global clients e.g. organizers of Rolland Garros or Wimbledon ATP competitions. In the second step, the company recognized that redefinition of the industry in which it was present could help increase the variety of products and thus decided to reposition and enter the fashion industry.

Consequently, the traditional type of hats became only a small portion of their sales (currently 35%) and three new segments were added over time– the traditional female hat, the hippie style soft hat and most recently also a unisex customized hat hand-painted by local recognized artist. Thus, the main strategy implemented to create additional value and become a stronger competitor on the global arena involved addition of three new customer segments as well as diversification and redefinition of the value proposition, which changed from head cover to fashion item satisfying the need to be fashionable and express yourself through the cloths. While these steps were important for creating value, the owners realized that to build up its desired position and protect it from being copied by competitors, they needed to stay ahead of the competition. This required that they manage efficiently and effectively their key resources (designs, partnership networks) and key activities, which after the redefinition and
extension of the target market focused around training of the suppliers, design, brand management and trend spotting and trendsetting.

Similarly, the fishing company Pesquera Polar (http://www.pesquerapolar.com) dedicated its efforts to the extraction and processing of a type of pelagic fish mainly for the production of fishmeal and fish oil. Thus, for them the opportunity emerged from the commercialization of widely unknown but country specific natural resources e.g. macarela fish in this case. Pesquera recognized the better nutritional values, (e.g. protein and oil) of the Macarela fish (a typical type of fish in Ecuador). This type of fish is much more valued internationally than Anchoveta (a type of fish from the herring family, popular in Peru). This opportunity offered by the Ecuadorian natural resources and investments in research and development concede Pesquera Polar a global recognition in national and international markets. It appears that similarly to Ecu-Andino, Pesquera realized that following or even better initiating the developing trends in the global markets and partnering with a knowledgeable broker is important for further development of the company. Thus, another aspect of successful strategies for value creation is to invest in getting access to key resources and improving own competence in performing the key activities.

The exploration of future market opportunities also entail the exploration of other South American countries or, at least a neighbor larger country e.g. Peru. For example, an ICT company developed new circuits for electric meters that could allow industrial companies in Ecuador to control the electricity consumption or robbery. This company recognized that international global producers of electric meters were not successfully satisfying this increasing demand to control energy consumption in South America. While in Europe this is widely known as smart grids.

Further, managers seek to differentiate their product or service offering from other national companies. Although natural resources are already distinguishable in a global context, firms need to put additional effort to innovate in process and products. SMEs in emerging markets can be globally recognized when these put efforts on innovation. For example, Pesquera Polar decided to innovate through investing on new process to the production of fishmeal and fish oil.

---

3 The company prefers to remain anonymous for this paper
Covering all the value chain is also a way of creating and capturing value through the vertical integration of the partner companies within a business group. For example, Avícola San Isidro (ASI) is a mass-chicken producer that, on the one hand, supplies 50% of its production (about 130,000 units of chicken) to the KFC local restaurant chain, a franchise belonging to the same business group. On the other hand, ASI gets all the cereal production (corn and soy) to feed its chicken herd from a cereal producer, “Cereales del Ecuador”, another business partner of the group. Also, the baby chicken is supplied by “Incubadora Anhalzer”, an incubator that is also part of the business group. To achieve efficiency and quality products all the partner companies are continuously innovating and incorporating technology into their processes and operations.

Finally, continuous development of expertise is necessary to benefit from investments in new capital resources and be able to innovate. For example, the previously mentioned ICT company needed to acquire and develop programming skills, as these will allow it to differentiate from other national, and international competitors or obtain the attention of international technology providers. Similarly, the marketing company Geeks Ecuador (http://geeks.com.ec/) needed to learn about virtual reality to successfully launch marketing campaigns and be able to compete in Ecuador with other international marketing companies.

5.1. The role of strategic resources and strategic partnerships

In emerging markets, the principal strategic resources are natural resources. Ecuador is widely known for its natural resources, which could be perceived as inexpensive and widely available in Ecuador. The challenge for SMEs, however, is to access these resources using standardized processes. In many circumstances the access to resources requires collaborating with local communities or specific partners, suppliers or agents.

The collaboration with suppliers helps to acquire work intensive natural resources. This activity helps SMEs to reduce their time and money with the work to acquire resources and concentrate on adding value to the received natural resources. In many circumstances, SMEs need to establish collaborations to control the quality throughout the value-chain. Collaborations with strategic partnerships could entail transferring knowledge about product specifications to the providers of natural resources or teaching strategic partners how to improve the quality of the offered product. The director of Ecua-
Andino explained that achieving developing internationally recognizable products involves training strategic partners the key product characteristics throughout the product development process.

Also, opportunities for open innovation can be taken to reduce workload from aspects that are not core differentiators in a business and that can be leveraged through collaboration. Geeks Ecuador is planning to open source part of their software libraries to benefit from feedback and enhancements from international companies and professionals in the digital marketing sector. That would help not only to improve the code but also to understand how their developments fit to the worldwide technological trends. They have been already using and giving some feedback on open source code from other companies. Sometimes source code can be copied anyway from others. Instead of guarding this hard to protect asset, it is better to get it enhanced collaboratively.

An additional strategic resource is advanced equipment to produce highly advanced products. This strategic resource can help to offer a highly valuable product or extract its desired components. Finally, for SMEs the most valuable strategic resource is financial funding. In smaller and emerging economies, venture capital funding is inexistent and most firms have to rely on bank loans or family loans. Yet, innovative SMEs obtain funding from firms in developed markets, identify partnership agreements or begin with smaller production quantities.

6. Discussion, conclusions, limitations and further research

Until now, extant research has focused on internationalization process of MNCs in emerging markets e.g. Brazil, Mexico, China (Figueiredo, 2011; Fleury and Fleury, 2011). This manuscript focuses on exploring actions and motivations of owners of SMEs that lead to innovation. The basic premise of this study was that it is important to understand how mid-range emerging economies innovate and create, deliver and capture value from their business activities (Hoskisson et al. 2013).

First, we found that firms actively work towards redefinition of their markets and customers segments they serve. In this process they engage in creating strong and lasting relationship with their partners. Second, SMEs from mid-range emerging economies realize the importance of investment in the identified key resources as well as capability of performing their key activities. Certainly, for SMEs from emerging markets the desired target market entails primarily large developed economies or
neighbor economies. SMEs with an international perspective seem to commercialize the majority of their products in developed economies. Although the decision about which market to enter depends on the value proposition and access to potential customers. Yet, the chances of becoming a global player are larger if the firm uses brokers or intermediaries that can give it access to a larger pool of potential clients. Moreover, large brokers can help to foresee changes in prices, consumer preferences and help in legal conflicts. Furthermore, small intermediaries can assist companies to increase their product distribution to more countries and cities at a lower cost and risk.

Certainly, innovation activities and opportunities in emerging economies have captured the attention of management scholars (Khanna and Palepu, 2000). Besides extensive research in some South American countries, innovation process and the mid-range emerging economies are lacking. Currently, these emerging economies are experiencing a major boost of institutional development and human factor development that nurtures a creative innovation process. This manuscript aimed to shed light to this existing research gap and provided some insights of the business model of distinct SMEs. Particularly, it focused on the value creation, strategic resources, and partnerships.

We recommend to further pay closer attention to the interaction between the local infrastructure and the process of value proposition development. More than half of our cases identified different challenges that are closely related to the level of infrastructure development in the home market. Also, replication studies analyzing behavior of SMEs in other emerging countries would be interesting for comparisons reasons.

References


Araque, 2012. La PyME y su situación actual, cuaderno de trabajo No. 1. Universidad Andina Simón Bolívar, sede Ecuador, Enero.


Garcia, D., Martínez, F.J., and Aragón, A. 2011. Análisis estratégico para el desarrollo de la MPYME. Iberoamérica 2011 FAEDPYME. Available at


