ECONOMIC DEVELOPMENT AND MARKETING STRATEGIES: A COMPARATIVE LENS

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Abstract. *We analyze two core models of economic development in emerging markets: socialism (i.e., the "visible hand" of the state in directing the country's socio-economic life) and capitalism (i.e., the "invisible hand" of the markets implemented through pro-market reforms). We further distinguish between two types of socialist economic development: Soviet Communism (as experienced in the pre-1990s Central and Eastern European transition economies) and Fabian Socialism (as experienced in pre-1991 India). We then suggest that companies can adapt to the evolution from socialism to capitalism in their countries through the implementation of more sophisticated marketing strategies that can ensure a sustainable competitive advantage. Thus, we study the marketing strategies of companies from emerging markets operating under both models of economic development. We analyze the opportunities and challenges that emerging market companies face under each model of economic development in terms of deploying various marketing strategies, and provide useful venues for future research.*

Key words: *economic development, socialism, capitalism, marketing strategies, emerging market companies*

1. Introduction

How has the economic development of emerging markets over time affected their companies' marketing strategies? From an economic development perspective, this is an important and timely research question as it highlights the opportunities and threats that the external institutional environment presents to companies from emerging markets. Emerging markets are "low-income, rapid-growth countries using economic liberalization as their primary engine of growth" (Hoskisson, Eden, Lau, & Wright,

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2000, p. 249). Economic growth is pivotal for countries' competitiveness and success in the global arena (for a general overview of the literature on economic development, see Baumol, Litan, & Schramm, 2009; Naude, 2011; and Perkins, Radelet, & Lindauer, 2013). "[I]t is only through growth that people's living standards… can improve" (Baumol et al., 2009, p. 25).

There are two broad approaches to economic development that countries pursued in the 20th century: capitalism and socialism (Kornai, 2000; Rapley, 1996). While capitalism involves the "invisible hand" of market-based economic liberalization, socialism encompasses the "visible hand" of state-led intervention in and planning of the country's economy (Inoguchi & Newman, 1998, p. 134). Economic liberalization includes the implementation of government policies that aim to open up the domestic economy to foreign competition, stabilize the country's macro-economic indicators, and privatize enterprise ownership so as to stimulate the development of a private sector (Henisz, Zelner, & Guilllen, 2005; Williamson, 1990, 2004). Such government policies have been referred to as pro-market reforms, structural adjustment policies, or the Washington Consensus, as they were supported by the IMF and the World Bank, both based in Washington, D.C. (Cuervo-Cazurra & Dau, 2009; Williamson, 1990, 2004). Such a pro-capitalist form of economic development has been pursued by emerging market governments since the early 1990s in the hope of catching up economically with their advanced market counterparts, e.g., the U.S., Western Europe, or Japan (Rapley, 1996).

As economies evolve, underpinned by pro-market reforms, marketing increasingly becomes a core activity for the firm. This centrality of marketing is based on three features of an economy adopting pro-market reforms: one, that consumer needs are paramount, and that a firm needs to understand and respond to consumer needs; two, that firms will increasingly operate in a competitive environment wherein competitors will also seek to understand and satisfy customers; and three, consumers will have choices in deciding which firm to patronize. Accordingly, firms will find themselves under pressure to differentiate from competitors in a bid to win the customer's loyalty. Hence, marketing represents a critical capability that companies need to develop and deploy successfully within the evolving institutional environment. In fact, marketing has been argued to be of even greater importance to firms than R&D or operational capabilities (Krasnikov & Jayachandran, 2008).

Prior to the initiation of pro-market reforms, many emerging markets had had a history of state-led economic development. The state-led economic development model involved the state becoming an active "agent of social transformation" (Rapley, 1996, p. 1) through various socialist policies. These socialist policies were pursued to different extents depending on the initial economic conditions of the emerging market: i.e., whether the countries were transition economies or (post-colonialist) developing countries (Hoskisson et al., 2000; Rapley, 1996). Transition economies are "countries

in Central and Eastern Europe that had a central planning regime until 1990 but since then have begun moving toward a market-based economy with weakened bureaucratic control and widespread private ownership" (Kriauciunas & Kale, 2006, p. 659). Developing countries were at different stages of economic development at their start of pro-market reforms. They are typically defined as the "fast growing and liberalizing" countries in Asia, Latin America, Africa, and the Middle East (Hosskisson et al., 2000, p. 249). Thus, the socialist regime in the Central and Eastern European (CEE) countries experienced a more extreme version of socialism, often referred to as State Socialism or Soviet Communist or central planning, than developing countries like India, whose socialist version was referred to as Fabian Socialism (Desai & Bhagwati, 1975; Kornai, 1992; Rapley, 1996).

While these institutional changes have been unfolding over time, we know less about how local companies have been adjusting to these major shifts in economic development, especially in terms of their marketing strategies. Accordingly, the goal of our paper is to analyze how the economic transformation of emerging markets toward increasingly capitalist model of development over time has affected their companies' marketing strategies. We aim to make the following three key contributions to the literature on economic development and marketing strategies of companies from emerging markets.

First, we analyze the co-evolution between the changing institutional environment in the emerging markets and companies' use of various marketing strategies to adapt to these institutional changes over time. Thus, our focus is on how the economic development model of the emerging market impacts the existence and implementation of firms' marketing strategies. This complements prior research that has focused on analyzing how marketing affects firm performance (e.g., Appiah-Adu, 1999; Krasnikov & Jayachandran, 2008; Luo, Sivakumar, & Liu, 2005) and supports superior performance (e.g., Chari & David, 2012).

Second, prior research has focused on analyzing the relationship between marketing and firm performance mostly under the countries' capitalist period of economic development (e.g., Appiah-Adu, 1999; Chari & David, 2012). Thus, little remains known about the relevant marketing strategies of emerging market firms prior to the start of pro-market reforms. Accordingly, we complement this prior research by analyzing how the institutional environment both before the start of pro-market reforms (i.e., the socialist period of economic development) and after the start of pro-market reforms (i.e., the capitalist period of economic development) affects firms' marketing strategies.

Third, in so doing, we also contribute to the literature by distinguishing explicitly between two models of socialist economic development: Soviet Communism (as experienced in the pre-1990s CEE transition economies) and Fabian Socialism (as experienced in the pre-1991 India). We further explore to what extent the local companies operating under each of these two socialist models implemented marketing strategies to meet the needs of their consumers.

In the following sections, we first review the two broad types of economic development in emerging markets—socialism and capitalism—and then review how each type of economic development has affected the marketing strategies of local companies. We illustrate the firm-level effects of the socialist and capitalist models of economic development with examples from local companies.

2. Two Core Models of Economic Development in Emerging Markets

Socialism and capitalism are the two core models of economic development (Alexander, 1967; Inoguchi & Newman, 1998; Kornai, 2000; Rapley, 1996). They have been identified as "two competing visions of development policy—one that trusts the state, the other that trusts freedom" (Dorn, 1998, p. 3). Within the socialist model, we distinguish between the Soviet-style communist model of socialism and the less intrusive models of socialism found in many developing countries. In particular, we focus on comparing the socialist model in the pre-1990s CEE transition economies with that of a key developing country, India, prior to its start of pro-market reforms in 1991. We then compare these two types of socialism to the capitalist model of economic development adopted in India after the start of pro-market reforms in 1991. We follow this discussion with how the type of economic development model adopted by the emerging market government influenced the marketing strategies of local companies operating in these emerging markets during these historical periods. We summarize these two broad models of economic development—socialism and capitalism—and the distinction between Soviet Communism and Fabian Socialism as two forms of socialism, in Table 1, elaborating on each of these next.

The Soviet Communism model of economic development in the pre-1990s CEE transition economies

The Soviet model of economic development used central planning based on the philosophies of Karl Marx and Vladimir Lenin (Napier & Thomas, 2004). The *ex-ante* goal of Soviet communism was "to avoid the vagaries of a boom-and-bust market-based system" such as, e.g., the Great Depression in the Western economies, "which could harm workers' livelihoods and affect employment predictability" (Napier & Thomas, 2004, p. 25). Thus, Soviet communism aimed to achieve basic economic security for the majority of the population, which put a greater emphasis on the collective and minimized the importance of the individual interests.

The CEE transition economies adopted this philosophy of the Soviet-style socialist model of economic development at different points in time. For instance, while countries like Bulgaria and Hungary became communist in 1948, other countries in the former Soviet Union adopted communism as early as 1918 (Cata, 1998, p. 300). Across these countries, three key features characterized the Soviet-style communism: an "undivided political power of the ruling party" (Napier & Thomas, 2004, p. 17), state

TABLE 1: **A STYLIZED COMPARISON OF THE SOCIALIST AND CAPITALIST MODELS OF ECONOMIC DEVELOPMENT IN EMERGING MARKETS**

	SOCIALISM		**CAPITALISM**
	Soviet Communism	**Fabian Socialism**	
Logic of economic system	The "Soviet Man"*	Fabian Society	The "Economic Man"*
Goals of economic system	Attain full employment, independence from Western influence, government five-year plans, and production quotas; do not allow firm failure or individual initiative-taking	Protect key industries from foreign competition for a period of time; aim to become self-sufficient and independent from foreign influences; achieve economic growth through a mixed economy system	Allow firm failure, business freedom for firms to determine their own strategies, incentivize market-based entrepreneurial behavior
Mechanisms of economic development	Central planning, ownership, & distribution of factors of production; nationalization of existing capital stock pursued; state-owned enterprises dominated key sectors of economy, but other types of enterprise ownership existed too (e.g., agricultural cooperatives, small family firms); profit maximization and performance incentives discouraged; emphasis on heavy industry	Nationalization of existing capital stock ruled out; instead, the state seeks to increase the share of public sector in overall investment; private sector allowed to contribute to industrialization; use of industrial targeting and import substitution to control private sector industrial production; emphasis on heavy industry	Pro-market reforms implemented to liberalize and stabilize the economy; resources distributed based on competition, supply and demand; profit maximization and performance incentives encouraged
Stakeholder focus	State, community, society	State, community, society	Individuals, consumers, companies, media, NGOs
Formal institutions	Underdeveloped	Underdeveloped	Developing through pro-market reforms to advanced country status
Informal institutions	High priority in business exchanges; favor-seeking	High priority in business exchanges; favor-seeking	Low priority in business exchanges; explicit contracts; formalized rules of the game
Representative countries	Transition economies in Central & Eastern Europe (CEE) prior to the early 1990s	Pre-1991 India	Post-1991 India; CEE countries after the fall of communism in the early 1990s

**Source*: Tverdohleb (2012). Additional sources used for this table: Desai & Bhagwati (1975), Heilperin (1960), Kornai (1980, 1986, 2000), Napier & Thomas (2004), North (1990), Peng (2003), Rapley (1996), and Shinkle & Kriauciunas (2012). NGOs stands for non-governmental organizations.

ownership of key elements of the economy, and bureaucratic coordination (Kornai, 1992). The single-party system set the formal legal constraints and norms of human behavior. "The Communist Party and the state were interwoven in a way that insured that the party was the dominant force in their common activities" (Napier & Thomas, 2004, p. 18). The state controlled most key sectors of the economy, especially the heavy industry, by nationalizing enterprises and transforming them into state-owned enterprises (SOEs). In some CEE countries, however, some minimal private ownership was allowed: e.g., agricultural cooperatives or small family businesses. Lastly, the bureaucratic coordination ensured that there was a "strong vertical coordination of central planning," which resulted in the central government making production and sales decisions on behalf of individual enterprises.

While the *ex-ante* goals of the Soviet model of economic development were social and economic stability, self-sufficiency and independence from foreign economic uncertainties, the *ex-post* effects assumed a different, albeit unintended, direction. Over time, the three core elements outlined above led to underdeveloped product and factor (labor and capital) markets across the CEE countries during this period.

With respect to the product market, SOEs had to fulfil government quotas and adopt prices for their products as set by the central government (Kornai, 1980). The state also failed to provide sufficient raw materials for the production of the designated products. The production of consumer goods was not a priority, as the State emphasized the development of the heavy industry. Thus, chronic shortages of consumer products of generally low quality were typical under Soviet communism. "The sense of satisfaction a consumer derived in obtaining a product, often after queuing all day long, frequently was dissipated by it not being the product the buyer originally wanted" (Napier & Thomas (2004, p. 23).

With respect to the labor market, the Soviet-style of communist development emphasized the importance of full employment and strong education (Kriauciunas & Kale, 2006). Both were perceived as necessary to support the growing Soviet economy with people with high skills and knowledge. Accordingly, individuals' choices of education were channeled toward developing technical skills such as, e.g., engineering. Workers could not be fired easily for underperforming. Workers were also paid according to the principle "to everybody according to his work" and "equal pay for equal work" (Kornai, 1980, p. 149). Thus, personal initiative-taking and responsibility were discouraged in favor of keeping "a low profile" and following state orders (Puffer, 1994). This led to severe labor market problems such as absenteeism from work (Pearce, 1991).

Lastly, with respect to the capital market, the Soviet-style of communist development led to the softening of the budget constraints. The state frequently came to the rescue by paying the excess expenses over the companies' earnings (Kornai, 1986). The state used different mechanisms to soften the budget constraint: e.g., special subsidies, tax exemptions, or favorable bank terms. SOEs were not expected to be profit-maximizers;

in fact, profit was perceived as immoral and clashing with the socialist ethics of equality for everyone. SOEs were expected to maximize the welfare of their workers and that of the state as the key stakeholders.

The Fabian Socialism model of economic development in pre-1991 India

The socialist model of economic development in developing countries in Asia, Africa, Latin America, and the Middle East was, in general, less restrictive than the one in the CEE transition economies. In these countries, state intervention in the economy followed an import substitution path, whereby the state engaged in protectionist policies to limit imports and help local industries take off (Rapley, 1996). We focus on India's experience with such socialist economic development, as a representative of an alternative approach to developing a socialist economic system, particularly given the current importance of India as a key emerging market in the modern global arena (Chari & David, 2012).

Prior to its pro-market reforms in 1991, India underwent a period of its own version of socialism. It combined features of the Soviet central planning and the principles of the British Fabian Society[1] (Desai & Bhagwati, 1975; Milburn, 1958). Thus, India's version of socialism aimed to promote community ownership of the different factors of production but while preserving the democratic institutions in the country (Milburn, 1958). Accordingly, unlike the CEE transition economies which were generally one-party systems governed by the Communist Party, India preserved its democratic political system during its socialist period. The government espoused the "socialist industrialization" approach as "the best model for India's economic development" (McKern & Denend, 2005, p. 3).

Specifically, India implemented the Industrial Policy Resolution, which provided majority state control over the country's infrastructure and other key industries. The state also established a Central Planning Commission to execute the country's five-year plans of development. The government subsidized inefficient enterprises, set prices in many industries, imposed major restrictions on imports, increased the size of the public sector investments, oriented the economy toward heavy industry manufacturing, extended the licensing and control of private investments and production, and established significant economic relationships with the Soviet Union (Desai & Bhagwati, 1975; McKern & Denend, 2005). Yet, a key distinction between the Indian version of socialism and the Soviet communism in the CEE transition economies was that the Indian government did not aim to nationalize existing capital stock. India's main goal was to increase the share of the public sector investment in the overall economy, while allowing yet restricting the growth of the private sector capital investments (Desai & Bhagwati, 1975).

[1] The Fabian Society originated in Britain in the late 1880s out of concerns of poor worker conditions and concentration of wealth in the hands of few (for a detailed overview, see Milburn, 1958). Thus, poverty alleviation was at the heart of Fabian Socialism (Milburn, 1958).

A prominent feature of the Indian version of socialism between 1947 and 1991 was the "License Raj" system. The License Raj system put India on a planned industrialization path focused on transforming its agrarian economy into a "self-sufficient industrial state" (Elango & Pattnaik, 2007, p. 544). For this purpose, the Indian government consolidated key manufacturing industries under government control. It provided special exemptions and tax breaks to state-owned Indian firms to help them lead India's industrial transformation (Elango & Pattnaik, 2007). It also limited foreign imports by imposing extensive license and quota requirements on foreign companies (Kotwal, Ramaswami, & Wadhwa, 2011). Additionally, the Indian government divided industries into three types (Soo, 2008). The first type involved industries under the exclusive regulation of the government. The second type involved industries that were to become progressively state-owned. The third type involved some (non-heavy industry) sectors that were left to be managed by private enterprises.

The combined effect of these government regulations on industry was that they ultimately required firms to obtain a government license "to start a business, expand it or even to change its product range," which significantly increased the costs of doing business for Indian firms (McKern & Denend, 2005, p. 4). Firms would face the regulatory burden of "armies of untrained bureaucrats" examining for months the firms' license applications, often rejecting them for "ad hoc reasons" (McKern & Denend, 2005, p. 4). These excessive regulations stifled product market innovation and entrepreneurship to the point that obtaining "licenses became more important than the underlying products or services that they permitted" (Nobrega & Sinha, 2008, p. xv), with political skills at obtaining licenses functioning as a barrier to entry and as a competitive advantage.

The Indian labor market was rigid prior to reforms in 1991. For example, labor unions, allowed by the Trade Union Act of 1926, had dominated in virtually all industrial negotiations (Pellissery, 2008, p. 12). This reduced the labor market flexibility for employers, especially when seasonal demand would intensify the need for worker redeployment. Labor market inflexibility increases once firms go beyond 50 employees, resulting in firms unwilling to directly expand their manufacturing workforce and, instead, hiring more contract labor (Economist, 2013).

Prior to 1991, India also followed a policy of fixed exchange rates and government-allocated foreign exchange, with restrictions on foreign currency capital transactions. Foreign investments were prohibited in many sectors. The focus of the government was to expand the banking services to "underbanked" sectors in the rural Indian economy such as, e.g., agriculture, and maintain control over the interest rates (Kotwal, 2011, p. 1159).

In sum, while India's "policy framework was considered by most observers at the time to be socialist in its main thrust" (Desai & Bhagwati, 1975, p. 216), it also differed from the CEE countries' Soviet Communist model in several key ways, as synthesized in Table 1. For instance, India allowed the development of the private sector, albeit

entrepreneurs faced the high burden of the License Raj system. However, the key goal of this "licensing machinery" was not just to regulate industrial production; "it was also considered necessary as an instrument for preventing the concentration of wealth and economic power within a limited number of large Industrial Houses in the private sector" (Desai & Bhagwati, 1975, p. 214). The Indian government also did not aim to nationalize existing companies, but to limit the new capital investments in the private sector. India also preserved its democratic system during the process. Furthermore, while the commanding heights of the economy were reserved for the government to expend capital to develop the steel and heavy industry typical for Soviet economies, the reason this occurred in India was "quite aside from ideological reasons" common in the Soviet economies: "it was difficult to persuade the private sector to invest in heavy industry and the public sector had to step in" (Desai & Bhagwati, 1975, p. 214). Thus, a key goal of the Indian version of Socialism was to achieve a long-term rise in people's incomes and provide jobs for the unemployed through targeted state investments in order to overcome India's poverty problem. As a result, India's policy framework during its socialist period of development was of a mixed economy type: India's non-agricultural sectors were promoted by the government with heavy public investments and extensive licensing, while the agricultural sector was only modestly controlled.

The Capitalist model of economic development in the post-1991 India

The capitalist period of economic development began in the emerging markets with the fall of the socialist regime and the start of pro-market reforms (Henisz et al., 2005; Williamson, 1990, 2004). In the CEE transition economies, this drastic institutional change occurred in the early 1990s when the countries abolished their communist regimes (for an overview of the transition to market in formerly communist countries, see Napier & Thomas, 2004). Developing countries around the world also implemented pro-market reforms. In India, in particular, the reforms began in 1991 (Chari & David, 2012).

Specifically, as part of its economic liberalization package, India introduced a new industrial policy shifting the country's development to the market-based capitalist model of supply and demand. This included significant changes in the country's economic and legal institutions that aimed to liberalize and stabilize the economy (McKern & Denend, 2005). Accordingly, India introduced various pro-market reforms in its product and factor markets that aimed to bring India closer to the advanced countries' level of capitalist development.

For instance, after 1991, India lifted many of its former product market restrictions imposed by the License Raj. It significantly decreased its tariff barriers to foreign imports (Kotwal et al., 2011, p. 1157; OECD, 2007). Additionally, while 99% of the consumer goods imports were subject to non-tariff barriers during 1980-1985, that ratio has been declining dramatically after reforms to 46% during 1991-1995 and to 33% during 1996-2000 (Kotwal, 2011, p. 1158). Price controls were also abolished in

the early 1990s in key industries. Additionally, the government deregulated most of the industries that were reserved for the public sector during the License Raj period (Kotwal, 2011, p. 1159).

India liberalized its labor markets too. For instance, in 2001, the Indian government amended the Trade Union Law to limit the influence and interference of outside political interests in the union. The amendment stipulated that all office bearers of the union should be employed in the establishment (Pellissery, 2008). India also reformed its capital markets by lifting many of its former capital market restrictions. For instance, while the maximum foreign equity ownership of an Indian company, prior to the reform, was capped at 40%, it was lifted to 51% in 1991 and later to 100%. Many previously closed sectors were now opened to foreign direct investment.

3. Marketing Strategies of Local Companies Operating Under Different Economic Development Models

Srivastava, Shervani & Fahey (1998) suggest that marketing strategy is concerned with developing and managing market based assets – relational and intellectual – so as to increase shareholder value. Relational assets are defined as extending to "key external stakeholders including distributors, retailers, end customers, strategic partners, community groups and even governmental agencies" (Srivastava et al., 1998, p. 5). Intellectual assets are knowledge that the firm develops about the environment (e.g., market conditions, customers, competitors, channels, suppliers, and social and political interest groups). Thus, customer, channel, and partner relationships are all key aspects of a company's marketing strategy. Hanssens, Rust, & Srivastava (2009) show that customer equity and brand valuation are two important drivers of the firm's value. Luo & Bhattacharya (2009) further demonstrate that advertising and R&D strategy are two strategic marketing levers. Luo (2008) found that marketing creates shareholder value, with this effect enhanced when firms have superior cost reduction efficiency.

Earlier research studied marketing capability broadly, with marketing capability representing "a firm's ability to understand and forecast customer needs better than its competitors and to effectively link its offerings to customers (market sensing and customer-linking capabilities; Day 1994)" (Krasnikov & Jayachandran, 2008, p. 1). Indeed, Kumar et al. (2011) found that market orientation had a positive effect on business performance in both the short-term and the long-term, and this sustained advantage in business performance was greater for firms that developed market orientation early in their existence. Thus, marketing strategy can be seen as encompassing capabilities and actions concerning customers, suppliers, and distribution channel relationships. It focuses on developing and managing marketing assets such as customer equity, brand valuation, and R&D assets, which can facilitate new product development.

As markets develop, local companies begin to develop a market orientation (the ability to focus on customers and competitors, and coordinate across functions) (Narver

TABLE 2: **A STYLIZED COMPARISON OF MARKETING STRATEGIES UNDER SOCIALIST AND CAPITALIST MODELS OF ECONOMIC DEVELOPMENT IN EMERGING MARKETS**

	SOCIALISM		**CAPITALISM**
	Soviet Communism	**Fabian Socialism**	
Key marketing premise; the presence of markets	Marketing was not needed as the state was the primary buyer and supplier of company products; managers lacked marketing skills	Balance between State-controlled industries, and private sector; entry into industry controlled by ministries, licenses	Markets growing in importance, greater space for private sector, newer industries (e.g., IT) often free of state control; expanding the consumer base both globally and locally
Marketing orientation	Consumer choices limited, unheeded; focus on meeting State needs and production targets; consumer products of lower importance	Industrial markets favored over consumer markets; some attention to consumer needs, affordability, low-income consumers; stress consumer staples, price controls	Growing middle class, greater materialism, consumerism; greater awareness of new products & technology, increased competition (FDI and imports); attention to new stakeholders (e.g., community & media)
Innovation, product development, & product line breadth	Innovation at the service of the State; focus on defense preparedness, heavy industry	Innovation at both state and large private firms, state-sponsored R&D flowing to industry, imitation of foreign technology, products	Imitation and adaptation of foreign technology and products; increased R&D in private sector, R&D partnerships with foreign firms, spillovers, process & reverse innovation
Branding & advertising	Country brand focus, patriotic appeals; traded mostly with other Soviet countries and some Western countries to obtain hard currencies	State-owned enterprise branding, business group branding, some consumer branding of staples- basic foods, toiletries, textiles	Significant brand development, in synchronicity with growth of new media (e.g., TV, Internet, social media); brand development for overseas markets to withstand foreign brands entry
Distribution channels & logistics	Under-developed distribution channels and physical infrastructure; State investment to improve physical infrastructure	State investment in physical infrastructure (e.g., roads, ports, rail); improved distribution to rural areas and exports	Significant growth in physical infrastructure, in channel depth, knowledge and breadth, including online retailing & e-commerce; rise of supermarkets, big-box stores, hypermarkets
Marketing organization & planning	State agencies, ministries, industry departments	Large private sector organizations with marketing knowhow, human resources, marketing budgets, complementing SOEs	Rise of learning organizations, professionalization of marketing activity, growth of specialized marketing service providers (e.g., export trading houses), advertising agencies, 3rd party logistics

Sources used for the table: DasGupta & Datta (2004), Desai & Bhagwati (1975), Gupta & Neela Radhika (2004), Hamilton (1986), Hurt et al. (2000), Shinkle & Kriauciunas (2012), Soo (2008), and Terpstra & Sarathy (2000). FDI stands for foreign direct investment.

& Slater 1990; Slater & Narver 1994). Hence, there is likely to be a positive correlation between the degree of economic development of an emerging market and the value of marketing used by the local companies from these emerging markets. The reason is that marketing becomes a powerful differentiation capability for firms to counter the free entry of rivals into the industry, withstand the more dynamic interplay between supply and demand, and meet the growing consumer expectations for better quality products.

We next describe some key marketing strategies that local companies from emerging markets used while operating under each model of economic development in their countries. Table 2 summarizes these different marketing strategies, grouped by the different models of economic development in the emerging markets.

Marketing strategies of local companies under Soviet Communism in the pre-1990s CEE transition economies

Prior to the start of pro-market reforms in the early 1990s, the CEE transition economies suffered from underdeveloped market systems that created excess capacity and shortages and prevented creative destruction (Vichas,1994). As most enterprises were state-controlled, the emergence of new businesses and new products was discouraged by the State, although some smaller private shops and entrepreneurs did exist (Malnight & Moncef, 2007). Competition was generally limited and constrained, which promoted the creation of monopolies (or oligopolies) with strong Party ties (Hurt et al., 2000; Peng & Luo 2000). Distribution was also difficult due to physical infrastructure shortcomings, compounded by the fact that most companies preferred the state-owned distributors to the smaller entrepreneurial companies (Malnight & Moncef, 2007).

Product innovation was discouraged by the State as it was considered to stifle the fulfilment of the State production plan and quotas by the enterprises (Hurt et al., 2000). Indeed, "new product development had little relation with market research but was rather production-driven" (Hurt et al., 2000, p. 6). Most innovation efforts and expenditures emanated from government and state-sponsored research institutions and labs, with an emphasis on State needs, such as defense preparedness, heavy industry, and manufacturing processes. Consequently, enterprises had little connection with the end consumer, leaving limited product choices and chronic shortages. A related problem was "a lack of familiarity with Western market needs and, even more, a conceptual framework for utilizing that knowledge". Drawing on studies of Hungarian firms such as Budaprint, a state-owned textile enterprise, Gedeon Richter, a state-owned pharmaceutical firm in the process of being privatized, Müszertechnika, a privately owned firm engaged in the manufacture of computers and electrical equipment, and Szim, a state-owned firm in the machine-tools sector, both before and after the start of pro-market reforms, it was suggested that a lack of strategic thinking that would combine market analysis and an understanding of the firm's competitive advantages was a key weakness (Brada, Singh & Torok, 1994).

Thus, companies operating under Soviet Communism did not have to pursue aggressive marketing strategies in their domestic markets as the State was the primary supplier and buyer of the products. Companies had limited knowledge of how to do market research, as well as limited motivation to seek additional consumers, or make better quality products and packaging (Hurt et al., 2000). Quality standards for products were also not common (Vichas, 1994) and the number of locations to buy products or services was also limited (Ismakova & Roberts, 1998). Additionally, companies often had one product only: e.g., Eris, the Polish-based cosmetics company, "had one employee and produced one cream" in 1983 (Malnight & Moncef, 2007, p. 3). Companies also typically did not have a marketing or sales department as the State considered production and administration to be the key positions in a company: "there was simply a person waiting for pick-up sales—everybody else was in administration or production" (Hurt et al., 2000, p. 21). The typical "second in command" was the technical director, "a further evidence of the primacy of production" (Vichas, 1994, p. 6).

Accordingly, many enterprises operating under Soviet Communism did not appreciate the needs of regular (non-State) consumers to a point where it became common to perceive of the customer as "the one who came to 'beg'" to the enterprise to produce enough for everyone (Hurt et al., 2000, p. 25). The government would provide the customers; e.g., in the case of Hotel 'Uzbekistan', the government could ensure high occupancy rates: Hotel Uzbekistan's core customers prior to 1991 were tourists from Eastern Europe (Ismakova & Roberts, 1998). Local companies were also not used to facilitating the commercial exchanges with their customers. For instance, in Hotel Uzbekistan, there were different procedures adopted depending on whether the customer paid cash or with a credit card. Paying in cash was more difficult as the customer had to first change the hard currency into local currency "at an approved branch of the State Bank" and obtain a certificate proving legal exchange, without which the payment could not be processed (Ismakova & Roberts, 1998, p. 3). Hotel Uzbekistan was among the few places where credit cards were accepted, so customers preferred this payment option, increasing the hotel's occupancy rates.

An additional problem companies had during Soviet Communism was that their countries' currency was inconvertible (Hamilton, 1986). To obtain hard Western currency such as Deutsche Marks or British Pounds, such companies had to export to the West. This put severe pressures on companies like Siauliai Factory of Nonwoven Fabrics from Lithuania, which could not afford to purchase necessary equipment for production from the West. "Hard currency earned from exports could buy imports from Western countries" (Vichas, 1994, p. 5). A further problem with this approach was the limited demand in the West for Soviet-made goods due to their generally lower-quality than their Western-made counterparts. Under these circumstances, barter and countertrade became important modes of operation (Cohen & Zysman, 1986).

Marketing strategies of local companies under Fabian Socialism in pre-1991 India

There were significant marketing challenges that Indian companies faced prior to the start of pro-market reforms in 1991. As Table 1 showed, a key feature of Fabian Socialism was the emphasis on the collective and community goals and the eradication of poverty and social injustice. Thus, Indian companies operating during this period were also "imprinted" (Kriauciunas & Kale, 2006, p. 660) by these community goals such that they adopted marketing strategies developing affordable products aimed at the mass market, which would allow the firms to not only sell to consumers but also alleviate poverty, in line with the socialist economic goals of the period.

For this purpose, Indian companies had to adapt and devise creative strategies to reach the underserved rural population in remote Indian villages. As far back as 1983, CavinKare, a leading cosmetics company in India, identified rural markets in India as its key growth opportunity. A key challenge was poor infrastructure, including communications media availability, which hindered efficient access to consumers in rural areas. To reach remote consumers in these villages, CavinKare had to purchase radio advertising spots featuring its shampoo products, on radio stations that played popular tunes whose frequencies reach and could be heard in the villages with potential customers (Gupta & Neela Radhika, 2004).

An additional challenge that Indian companies had to overcome prior to the start of reforms was the lack of sophistication of their potential consumers. "The average consumer lacked sophistication; cloth was sold by the yard, tea leaves by the kilo, and soap was cut into chunks to be sold by weight" (Datta, 1997, p. 3). Rural consumers in India in the early 1980s were not as accustomed yet as their urban counterparts to using liquid shampoo for their washing needs (rural consumers preferred the hard soap bars) but were open to shampoo "as long as it was within their means" (Gupta & Neela Radhika, 2004, p. 4). Hence, to supplement the radio spots, CavinKare showed two-minute clips of the benefits from using shampoo during intervals at popular movie screenings for these rural and small town citizens, so as to educate consumers about how to use the shampoo products.

Another barrier was the meager discretionary income of poor consumers, especially in rural areas. Accordingly, CavinKare conducted a survey across Indian villages to identify the number of households where people washed their hair at least once a week. Based on this research, they began offering 1 free shampoo sachet for every 5 empty ones to such consumers. These marketing strategies helped CavinKare gain appeal among its customers and capture more than 50% of the underserved rural Indian market by 1990.

In other sectors of the economy, other Indian companies were also trying to help citizens achieve their social and economic goals for their families. For instance, as farmers were considered "the spine of nation's democracy" (Gupta & Neela Radhika, 2004, p. 2), the agricultural sector was another area for important marketing innovations to help farmers become more self-reliant and to reach the underserved population. Prior

to the start of reforms, Indian farming was fragmented and suffered from exploitation from numerous strong middlemen along the distribution channel. To prevent the continuous selling of their perishable milk products to the strong middlemen at rock-bottom prices, the Indian farmers decided to unite resources and market their own products by forming a milk union in 1946, popularly known as AMUL. They also decided collectively to supply milk to the Bombay Milk Scheme to guarantee a ready market and incentivize more farmers to join AMUL. The farmers also collectively decided to share a portion of the year-end profits as patronage bonus to their highest-quantity producers.

AMUL was collectively owned, operated, and controlled by the farmers who needed only pay a small entrance fee and commit to sell their surplus milk (after meeting their families' needs) to the union. AMUL consisted of village societies (producing and collecting milk), district milk union (procuring technical inputs), and the milk federation (marketing milk). Specifically, the milk federation "helped to enhance the role of a consumer in the buying process" and prevented consumers from being exposed to milk shortages, high milk prices, lower quality milk, and unethical practices by middlemen (Gupta & Neela Radhika, 2004, p. 6). AMUL engaged also in backward integration (by bringing in better quality veterinary and husbandry practices) and forward integration – invested to build a plant to produce milk powder and butter - thus providing better quality and variety of milk products at more affordable prices to the consumers. As a result, "coordination and cooperation across the ethnic and social strata for a common cause helped in the eradication of many social inequalities" in India (Gupta & Neela Radhika, 2004, p. 6). Such initiatives also created jobs and ensured employment and substantial income for many poor people in India. They also promoted the role of women in the economy.

Marketing strategies of local companies under Capitalism in post-1991 India

A fundamental issue marking the transition from socialism to capitalism is whether markets emerge and are allowed to develop, replacing State-governed allocation mechanisms. The advent of pro-market reforms necessitates the creation of strong marketing capabilities by the emerging market firms to withstand the growing competition, both from foreign and domestic rivals. Thus, both post-communist and developing country companies begin to actively seek to understand and satisfy customer needs using a variety of marketing strategies: e.g., innovation, new product development and product adaptation, promotion and communication (Golden et al., 1995).

Emerging market companies started using new digital infrastructure and social media to reach the end consumer faster. For instance, Yandex, incorporated in 2004, is a search engine in Russia that generated 63.3% of all search traffic in Russia as of December 2011 by offering national and international content tailored to a variety of

digital platforms (Reuters)[2]. Using a similar approach, EKO India Financial Services leveraged high mobile phone penetration rates in India to develop cell phone-based banking solutions for the vast unbanked population of India, helping achieve a national government objective (Gupta, 2013). A necessary element of successful marketing strategy is facilitating payments, which is difficult in countries such as India, where 59% of households lack bank accounts. EKO India Financial Services saw this as a business opportunity and attempted to overcome this basic financial infrastructure gap by creating and facilitating a system of payment and collection through mobile phones, using a nationwide system of agents to allow individuals separated by vast distances to make and receive payments from one another via mobile phones, often in rural areas, with the amounts then easily withdrawn from any State Bank of India ATM. Developing countries as a group face the same problem, and only a few successful mobile payments systems have emerged – M-Pesa in Kenya, G-Cash and Smart Money in the Philippines, Vodacom in Tanzania, with each country's specific situation requiring a somewhat different solution. EKO had to develop a solution that could work across ten different mobile network operators in India, and meet the Indian government's requirement that a bank be involved in the payment transaction (unlike Kenya which has allowed Safaricom, the mobile network operator, to take on some banking functions).

India has become well-known as a software exporter and firms such as HCL India are a good illustration of how both relationships and knowledge-based marketing assets can be deployed to good effect in overseas markets. HCL developed and offered multiple modes to provide IT outsourcing and custom software development to its overseas clients (Loveman & O'Connell, 1996). First, HCL used a "body shop" approach, in which HCL personnel were sent overseas to work as contract labor at client premises in overseas locations, developing and delivering the requested software, with HCL receiving fees and paying its employees assigned to temporary overseas postings at client sites. Second, HCL allowed clients to contract with HCL to develop software, but with the development carried out at the client's preferred geographic locations, often in the client's home country and city offices. This required HCL to set up overseas subsidiaries and development sites at various cities where its major clients were located. Third, the lowest-cost alternative, where clients contract with HCL and allow HCL to develop software offshore, in India, using HCL personnel paid at Indian salary scales, typically less than half of a developed country pay scales. However, productivity could be lower, and supervision and coordination costs could be higher, with cultural differences and geographic distance affecting quality and customer satisfaction.

Similarly, the start of pro-market reforms led to more opportunities for developing e-commerce marketing capabilities in Indian companies. For instance, ITC, one of India's largest consumer product and agricultural business companies, created internet-

[2] Source: http://www.reuters.com/finance/stocks/companyProfile?rpc=66&symbol=YNDX.O. Accessed March 30, 2014.

enabled kiosks called *e-chopal* placed in farmers' villages to help the farmers search for competitive prices and share product information with their various distribution channel partners (DasGupta & Dutta, 2004; Vachani & Smith, 2008). While there were only 6 *e-chopal* kiosks in India in 2000, the number grew to 1,200 by 2002 (DasGupta & Dutta, 2004). Such innovative marketing initiatives created a direct marketing channel for the farmers by eliminating the need for channel intermediaries, who would often conceal important pricing information from both channel ends and "cream off a higher profit margin for themselves" (DasGupta & Dutta, 2004, p. 8). Thus, the development of such e-commerce marketing capabilities helped reduce logistics costs and increased profitability and growth for the Indian farmers.

Greater pro-market reforms also enabled rising access to education in India, which in turn enabled some consumers, especially those living in urban areas, to begin appreciating and demand higher quality products. This created market segmentation opportunities for the Indian companies. Cargill India was one such company that sought to market to both industrial (B2B) and consumer markets. While traditionally a supplier to large institutional buyers, Cargill India decided to target the consumer market, developing a line of branded vegetable oils, tomato products and other food items, to take advantage of a younger population segment with rising incomes. Cargill India decided to focus on selling to consumers in India, as a way of reducing their exposure to government price regulations and the volatility of commodity prices. Larger consumer sales would help increase factory capacity utilization in its edible oil processing plants. To achieve this changed strategy, it acquired Indian edible oil processing firms, developed additional brands in cooking oils, sunflower oil, and palm oil, and launched related products such as processed tomato products (Pirouz & Chandrasekhar, 2013).

In another example, using price based segmentation, CavinKare developed two types of products for its less and more affluent customers: single-use sachets priced at 50 paise per unit for the price-conscious consumers and more sophisticated 50 ml shampoo bottles priced at Rs 6 for the more quality-focused consumers. The company also offered shampoo bottles for bulk buying as an alternative affordable option. CavinKare also started expanding into holistic and herbal products for hair dye that gave natural color and nourished the hair. The company advertised specifically the "no harmful side effects" of the product, catering particularly for a new consumer segment, healthy lifestyle conscious consumers. In 1998, CavinKare entered the perfume market as well, making the perfume available in 4 variations (Mist, Wood, Dusk, and Storm) after extensive market research on over 300 variations of fragrances. It made the perfume available in "dab-on packs" (Gupta & Neela Radhika, 2004, p. 6) priced at Rs 10, the lowest price on the market in India. This marketing campaign was specifically targeted at the lower- and middle-income consumer segment, which was not the focus of foreign competition. CavinKare also entered the deodorant and talcum powder

markets targeting the urban youth market with Fun, Freedom, and Magic single-use sachet scents. By 2003, CavinKare expanded further by diversifying into the food and detergent business with new creative product offerings: it started selling pickles in sachets and dish washer bars.

As the capitalist model of economic development settles as the new market reality in emerging markets, competition intensifies. This creates the need for the emerging market companies to diversify their product line portfolios and increase their product line breadth. Ajanta Packaging, a major Indian glass-bottle manufacturing company with leading market share was faced with this product diversification imperative (Puri, 2014). Ninety percent of Ajanta's revenue came from repeat customers, and this repeat business was being threatened by newer, cheaper and environmentally as well as aesthetically more attractive substitutes such as PET bottles, Tetra Pak cartons and flexible foam packaging. Ajanta needed to develop industry-specific customer segmentation strategies, such as developing PET bottles and packaging for the pharmaceutical industry and for the shampoo, and toiletries segments of fast moving consumer goods.

These changes do not reduce the attention paid to bottom of the pyramid customers in India. For instance, Godrej Chotukool, one of India's largest consumer durable goods producers, was launching an unconventional alternative to refrigerators, aimed at the "bottom of the pyramid" (BOP), operating on a 12 volt battery, and priced at about half of the price of the lowest-priced refrigerator. Since 80% of Indian consumers did not own refrigerators, Godrej had to target these non-consumers, while thinking about distributing the product to rural consumers through NGOs, as opposed to using traditional refrigerator distribution channels, balancing the likely higher cost and possible inefficiencies of using NGOs against their greater reach and familiarity with the target rural BOP segment (Dhanraj, Suram, &Vemuri, 2011).

The market-opening reforms that create opportunities for the local companies also intensify competition at home, from new domestic firms. We earlier cited the successful rise of the AMUL cooperative dairy group. With pro-market reforms in India, these cooperatives have begun to face significant competition from private enterprises. For example, since the early 1980s, the Bihar State Milk Cooperative Federation (COMPFED) had been marketing dairy products gathered from about 4000 village cooperatives. Rising competition from private firms who were offering higher payments to some farmers, coupled with shortages of milk supply due to floods and other environmental factors, began forcing COMPFED to re-examine its marketing strategy, from milk procurement, to cost of service delivery, to dairy product pricing, and the choice of distribution channels. To avoid losing dairy suppliers to the newer private firms, it had to persuade its farmer-suppliers of the value of long-run sustainability fostered by the cooperatives' efforts (Adhikari & Jha, 2012). We next discuss the implications of our findings.

4. Discussion, Future Research Venues, and Conclusion

We presented a stylized comparison between two broad models of economic development in emerging markets: socialism and capitalism. We specifically distinguished between two types of socialist economic development: Soviet communism (as experienced, e.g., in the pre-1990s CEE transition economies) and Fabian socialism (as experienced, e.g., in pre-1991 India). We then analyzed the marketing strategies of companies from emerging markets operating under these different models of economic development. While the general thrust is in the direction of pro-market liberalization, Staehr (2011) notes that for several smaller Eastern European countries, democratic reforms have been implemented at the expense of market-oriented economic reform; the implication is that while reforms have regulated and attempted to unify markets across borders within the enlarged European Union, there has been less market-economic reform.

While our focus was specifically on the marketing strategies of CEE transition economies and India, as key representatives of emerging markets, future research can extend our ideas in several new directions and broader contexts. For instance, future studies can analyze the marketing strategies of other developing countries such as, e.g., China, which is also a transition economy but not post-communist yet. China is yet to reform its political system to the extent that the CEE countries did after they abolished communism. Thus, it would be interesting for future research to analyze if and how emerging market companies based in the countries that have reformed both politically and economically differ from their counterparts based in the countries that have reformed primarily economically in terms of their marketing strategies.

More research is also needed to understand the marketing strategies of other non-transition developing countries beyond India, e.g., countries in Africa, Latin America, or the Middle East, which have also experienced their own versions of socialism (Heilperin, 1960; Rapley, 1996). For instance, recent research has emphasized the need to study the reverse innovation strategies of emerging market companies aiming to enter developed country markets (Govindarajan & Trimble, 2012; Govindarajan & Euchner, 2012). Hang, Chen, & Subramian (2010) report on such reverse innovation strategies at several Asian emerging market firms, noting the advantages arising from being forced to consider dominant characteristics of emerging market consumers such as their affordability constraints and the resulting innovation efforts addressed at improving price-performance ratios so as to better serve the mass markets in these nations. Obtaining sustainable competitive advantage from marketing strategy is often facilitated when complemented with related strategies such as cost efficiency. Stojcic, Hashi, & Telhaj (2013) found that market share of firms in transition economies was positively related to restructuring behavior that included improvements in cost efficiency, labor productivity, investment and increasing experience. Kaufmann & Roesch (2012) note

that the level of motivation, opportunity and ability can all constrain emerging market firms as they attempt to ratchet up their marketing efforts, leading some firms to rely on low-cost advantage alone in place of also building up marketing capabilities.

As firms in these liberalizing emerging economies become more adept at marketing, they will naturally seek to extend their competitive advantage into foreign markets, and several interesting research questions arise surrounding the choice of locations for international marketing efforts. For example, Radlo (2012) found that Polish firm marketing strategies had evolved through two phases, with home market success and learning leading to regional expansion into neighboring Central and Eastern European countries, often using equity-based modes of entry. Furthermore, while we focused on the marketing strategies of home-grown emerging market companies, future research may extend our reseach by analyzing the marketing endeavors of advanced country companies entering the emerging markets. For instance, Kwon (2010), in a study comparing the performance of Korean subsidiaries in India and China, found that actions such as developing and maintaining networks with suppliers, customers, distributors and government authorities helped the Korean subsidiaries understand local customers better. Thus, it would be interesting to study if local or foreign companies can meet domestic consumers' needs better. For example, some emerging market firms face difficulties in brand building because of negative country of origin effects (Guzman & Paswan, 2009). The role of cultural brands has been suggested as a possible way to counteract such negative country of origin effects as it builds the brand around the group's cultural identity, myths, roots, and future aspirations, which may be better appreciated by the group's consumers (Guzman & Paswan, 2009).

Within-country regional differences in marketing strategies can also be analyzed by future research. For instance, some recent advances in this area suggest that there are significant regional differences in brand perceptions in Russia. Residents in St. Petersburg were more receptive than Moscow residents to corporate endorsements as an indicator of quality, while residents of Moscow regarded international (market) success as more indicative of a brand's quality relative to St. Petersburg residents (Jakubanecs & Supphellen, 2010). Future research can examine other factors in such regional brand perceptions beyond differences in economic and consumer culture development. Improvements in media infrastructure and the growing ubiquity of mobile phones across emerging markets provide an additional avenue for brand building, using social media such as Facebook, Twitter and YouTube to create consumer communities which can through peer support share product experiences and collectively enhance product utility, benefiting individual firms in their customer orientation and differentiation efforts (Berthon et al., 2012; Kaplan & Haenlein, 2010). There may also be regional convergence taking place, alongside regional differences. Kholodilin, Oshchepkov, & Siliverstovs (2012) point out that within Russia, there is strong regional convergence among high-income regions located near other high-income regions, while the overall

speed of regional convergence is slow, with implications for adapting marketing strategies within Russia, by regional profiles.

Overcoming channel inadequacies and underdeveloped physical distribution infrastructure may offer additional promise for emerging market firms in their market orientation drive. Under such conditions, both business and political ties may have to be deployed to raise channel performance, as well as changing channel governance structure to fit distributors' role orientation (Dong, Li, & Tse, 2013; Dong, Tse, & Hung, 2010). Further, emerging market firms could benefit from evolving their channel intermediary use and the intensity of channel intermediary use, in line with changing market and competitive conditions and with product life-cycle evolution (Low & Cheng, 2009).

Lastly, more research is needed into how emerging market companies can develop productive consumers through marketing; i.e., consumers who not only spend their money on products but also become more constructive members of their communities (Letelier, Flores, & Spinosa, 2003). Letelier et al. (2003) suggest that companies can develop productive consumers by stressing not just product innovation, but also cross-selling, shared cultural values, customer retention, and involvement with community. For instance, Cemex's Patrimonio Hoy aims to aid low-income consumers in building affordable homes at a sustainable pace in Mexico. Similarly, Grameen Bank is another salutary example of a company that helps develop productive consumers by using microfinance programs to support micro-enterprises by women in Bangladesh. In a similar vein, firms can benefit by educating their emerging market customers, so that they have a sound basis for judging product performance and assessing their satisfaction as customers. For instance, Dou, Li, & Su (2010) found that knowledge asymmetry, in both professional knowledge and local knowledge, affected the satisfaction or dissatisfaction of local clients of foreign advertising agencies, as it created goal incongruence, gaps in the goals set by local clients and as set by their advertising service providers. Customer support investments are another means of enhancing customer focus and consequently bolstering emerging market firm performance (Khavul et al., 2010).

In sum, our study suggests that what can distinguish emerging market firms in their marketing adaptation to pro-market reforms is their ability to become learning organizations, closely tuned to the specific needs of the local consumers and adept at maneuvering within the structures and competitive forces of a capitalist economy.

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