International development agencies have been at work in emerging and frontier markets for decades. Multinational corporations (MNCs) have only in the last decade focused their activities in these areas in anticipation of greater economic growth there. This raises a natural question: are there some lessons that can be transferred from the development community to the business community? We argue that those lessons can be distilled into a collection of “rules” or set of guiding principles for companies operating in emerging markets. Multinationals should consider these rules in developing an emerging markets strategy.

INTRODUCTION

Last year marked the tenth anniversary of the widely circulated 2001 Goldman Sachs BRIC report that pushed emerging markets high on the strategic agenda of global business.1 After the collapse of the Internet-cum-telecom boom, Goldman Sachs, McKinsey, and other analysts predicted that in the coming two decades the majority

---

Uvin is Academic Dean and Henry J. Leir Professor of International Humanitarian Studies at The Fletcher School. Chakravorti is Senior Associate Dean for International Business and Finance, Executive Director of the Institute for Business in the Global Context and Professor of Practice in International Business at The Fletcher School. We gratefully acknowledge the comments and suggestions of our colleague, Kim Wilson.
of the world’s GDP growth and virtually all of its population growth would be traced to these markets. In fact, five countries (Brazil, Russia, India, China and Mexico) alone were expected to account for half of this growth. It comes as no surprise, then, that multinationals in virtually every sector have been busy formulating an emerging market strategy. Typically, such strategies are based on experience from mature markets. Companies try to gauge how emerging markets are different and then look for ways to modify the mature-markets baseline to account for those differences.

This approach makes sense: it builds on a set of principles derived from better-understood markets. Yet could MNCs benefit by taking a different approach to building an emerging markets strategy—one that uses an alternative frame of reference rather than extrapolating from experiences in “home” markets? We propose that firms build the foundation of their emerging markets strategy by considering the actual operating experiences of entities with a track record in emerging and frontier markets: development aid organizations.

International non-governmental organizations (NGOs) such as CARE, World Vision or Oxfam, and multilateral agencies, such as the World Bank and the United Nations Development Program (UNDP) have been at work in emerging and frontier markets for decades. Lessons learnt by these organizations can be transferred from the development community to the business community. The applicability of those lessons also has public policy implications for policymakers in emerging markets.

This following article resulted from a series of conversations between the co-authors that transcended the boundaries of two professional fields that have traditionally been quite far apart: international development aid and international business. From our collaboration, we devised eight “rules” for companies that seek to do business in emerging markets, borrowing from the experiences of aid organizations that have previously worked in the developing world. We introduce and discuss those rules below, approaching each from our respective experience and academic disciplines.

**Rule #1: All action is political.**

*Uvin:* My experience suggests that—whether one wants it or not, intends it or not, recognizes it or not—everything a development actor does is political. A simple declaration that an outside actor has no political aims will not alleviate the inevitable political fallout of its actions. It may allow the actor to preserve an apolitical and purely idealistic illusion for some time, but none of the political effects of its activities will disappear; they will simply accumulate and catch up with it eventually.

There are multiple reasons for this. First, the poorer a country, the more every economic decision has major social and distributional implications. The stakes are higher, and hence the conflicts about these stakes are bigger and more omnipresent. Second, in many poor countries, institutions are weak; consequently, patronage, power and politics are more likely to interfere in even the smallest decisions. Third, the less developed and the less free markets are, the more artificial scarcities and odd distortions create opportunities for gain by some, frequently at the expense of others. As a result, every action has political implications.
Most of the time, the politics will be more exclusionary, violent, and contested than outside actors expect. Apart from the moral dilemmas this poses, the practical problem is that some people will likely be angry at these actors or even consider them part of the problem, and they may have no idea why this is the case. As long as those people are weak and poor, that may not affect these actors much, but if they organize well and/or get a coalition of foreigners to publicize their plight, these actors will suddenly start looking far worse than you expected.

This first law is very hard for all of us to accept. Even development practitioners, who have been working in these areas of the world since the beginning, took decades to come to grips with this insight. It is still deeply resisted and often conveniently forgotten by many today.

Chakravorti: You would think that recognizing the law may be harder for managers from the private sector to accept, as the sense of being apolitical is even more deeply part of their basic mental outlook. While those managers who deal with corporate social responsibility (CSR) work may be aware of local politics and governance, their colleagues tend to see their core business work as entirely a-political.

The private sector is more attuned to this reality than one would give it credit for. Entry into an emerging or frontier market typically involves some form of baptism by political fire: cutting through regulations, laws, red tape, corruption by political and bureaucratic gatekeepers — in addition to a recognition of the need for cross-subsidies of some kind and, more generally, a quid pro quo as the entry ticket. The moment a company plays in such a market, however, it sides with a political constituency and risks alienating others who might be important for long-term commercial success. Too often, political alliances have a short half-life.

At the same time, problems associated with running afoul of the law may arise at a later stage. Once managers overcome entry barriers (or start-up barriers, for homegrown enterprises), they face two difficult political challenges.

First, a company’s choices made at entry, while born out of expedience and need, do have long-term political consequences. This is most obvious when political environments change and managers suddenly find themselves and their companies marginalized, associated with now discredited power holders, subject to “politically motivated” investigations, considered enemies by some political parties and leaders, and so on (the experiences of many companies in Russia, or of Enron in India, come to mind).

Second, while they may have been willing to cut a political deal at entry or start-up, companies subsequently tend to have far more difficulty imagining and preparing for the unintended consequences of market penetration — most of which also have political
implications. They are very focused on the growth that satisfies the Chief Financial Officer’s directives, which leads to an emphasis on economic metrics, target consumers, efficient resources utilization, cost management, minimizing payback periods—all frequently at the expense of social, environmental and political considerations. Managers on the ground have short time horizons: they know they are on the job for a short stint before they prove their ability to thrive under adversity and then move “up” to more prestigious markets. In other words, they often do what is expeditious, focusing on the bottom line and quarterly targets rather than thinking holistically and longer-term about the broader impact of their commercial initiatives (see rule 6). At the core of near-term/quarterly success is a focus on the bottom-line or on meeting financial targets, which means certain factors or segments of the stakeholder population or other externalities are necessarily excluded. Such exclusion is a recipe for ignoring the wider political ramifications of a campaign focused on market penetration.

Rule #2: You cannot avoid elites.

**Uvin:** You have been mainly focusing on ‘big politics’—the sort of relations with national figures one needs to establish and grow a company. This big politics is real, and you make a convincing argument that MNCs are good at that. But my argument also refers to small politics—the politics of daily decisions about whom you hire, whom you contract with, what land you buy, and so on. This brings me to my next point. Development agencies have a serious problem with local elites. Often they do not recognize them. Because they want to believe that everybody is equal, part of an entity called “country” that needs “ownership,” or, at the local level, the “community” that needs “participation,” they fail to see that within countries and communities there exists great inequality, exclusion, and divergence of interests. As a result, they sometimes suffer by running afoul of the local power structures without being prepared.

At other times, especially in highly authoritarian and unequal countries, development organizations do recognize elites, but their default approach is to circumvent or weaken them. They want to reach out directly to the poor, the marginalized, the women, the excluded, etc. This rarely works. Elites know far more than the outside experts do about local contexts; they have been there and will stay around far longer; they can benefit from the acquiescent attitudes and calculations of the disadvantaged themselves; and they possess many more tools for manipulation than outsiders are aware of. Development professionals would be far better off directly interacting with elites, seeking to create positive sum interactions with them that may also provide benefits to the poor, and using the power of argumentation, socialization, and incentive systems to change elite preferences and behavior. Elites learn and change, after all, just as we do.

**Chakravorti:** It seems to me that this is an area where well-run businesses are ahead of the development sector. Business managers are much more attuned to the critical role of local elites. Well-run businesses implicitly—and often explicitly—think about
their markets as a network with power concentrated within various hubs. Unilever, for example, operates in many emerging economies precisely by understanding how the elites act as the key distribution nodes in various second and third-tier cities/towns on down, which gets their soaps and detergents to the middle and bottom of the pyramid.

In fact, the very foreignness of the target markets and difficulties of reaching the intended consumers causes business managers to actively seek out elites, who are both knowledgeable and have power. Businesses commonly establish ways to align incentives with certain elites as core aspects of their strategic and operational models. Without such help, they might fail at profitable market penetration due to finite resources and limited local insight.

**Rule #3: What you see is rarely what you get.**

*Uvin:* The less developed a socio-political system is, the more it is the case that formal rules, decision makers, procedures, and institutions are not the important ones. Informal institutions exist everywhere, including in the world’s richest countries. But in emerging and frontier markets, the gap between the informal and the formal is often far more extensive. As a consequence, there often exist formal laws and newly built courts, but no justice; tender boards and bids, but no competition; elections and parliaments, but no popular choice; gender laws, but no benefits to women; banking regulations, but pervasive cronyism.

What accounts for these wide gaps? At the core lies the fact that in many post-colonial, “modernizing” countries, the formal institutions of states, civil society, and markets have been imported and copied, not created from within. For many people, these institutions possess little legitimacy; they are not natural, self-designed or internalized. As a result, they become spontaneously perverted.

For development practitioners, this is troublesome. Practitioners often spend enormous amounts of time and money implementing technically sophisticated solutions that work at home, only to have them circumvented or re-appropriated by these informal institutions. Often, development agencies are hostage to a class of intermediaries who work both levels simultaneously, like chess masters playing on two boards at the same time. Most outsiders have no idea of the existence, let alone the rules, of the second “invisible” board. Their only tools lie in the realm of the formal, and they are always checkmated on the invisible board.

*Chakravorti:* For businesses, this law presents a dilemma. On the one hand, profit-seeking can make managers agnostic to institutions. That is, businesses can be equally profitable in systems that feature formal or informal institutions; if desired outcomes are not delivered through one set of institutions, a savvy manager will seek alternatives. As long as the prevailing system works for the company’s business objectives, there is no need to understand or judge it.

On the other hand, private sector enterprises are typically subject to many forms of scrutiny—from auditors, the wider management team, the board, regulators, the press, and other stakeholders. Even if the real chess game is being played on a different board,
managers risk violating disclosure rules, company policies, and ethical standards by playing the game with an informal institution—even when no laws are being broken. These issues become even more salient when the enterprise is publicly traded and is therefore subject to even more scrutiny and disclosure requirements. As a result, competing on the invisible chessboard may not be a viable option for many enterprises. This puts those companies from countries with strong regulations and enforcement at a disadvantage compared to those from countries where such regulations do not exist or are weakly enforced. It also may create temptations for employees to play on the invisible chessboard, with potentially negative political or legal repercussions down the road.

Either you are not being told what is really happening or nobody gives a damn.

Rule #4: Projects that go according to plan are irrelevant.

_Uvin:_ An axiom among some savvy development and conflict resolution veterans states that if a program does exactly what it was planned to do, one of two things is going on: either you are not being told what is really happening (and things thus are not going according to plan; they only appear that way to you), or nobody gives a damn. Conversely, any program that is being modified, toned down, captured, or contested is becoming locally owned. Now, who does the owning—elites or counter-elites, those opposed to change or those in favor—is the question that development practitioners should have to be concerned with.

Meaningful outcomes in the social sphere never reflect initial plans. On balance, that is probably a good thing, particularly if the plan emanates from outsiders and is intended for societies where endemic poverty, deep social division, and absence of clear rules are the norm. This doesn’t mean that plans are unnecessary but it does mean that linear execution is the enemy of meaningful impact. Plans should instead be flexible, allowing for change, opposition and reappropriation, ongoing analysis, and continuous learning. The development field is moving in this direction, although the project cycle continues to pose major constraints on development practitioners’ capacity to do so.

_Chakravorti:_ Businesses are much more restrained in their enthusiasm for deviation from the plan. Plans are essential for the organization of private sector enterprises in setting targets, assigning metrics, determining compensation, approving budgets and managing employees. Experienced managers usually understand that plans and roadmaps do not always survive contact with reality. But these plans do establish a baseline for initial resource allocation and decision-making. Plans also play a very important role in setting expectations, which in turn determine whether the company and its managers are rewarded or penalized. The act of meeting, exceeding, or underperforming expectations is generally much more critical than actual performance. Successful business leaders have learned that the key is to not be dogmatic about the first version of a plan. Uncertainty from many sources—such as the market, technology, and finance—is inherent in every business proposition. Companies, like development
organizations, have to anticipate those uncertainties. Here, too, the more evolved ones create risk management strategies: hedging their bets, building in flexibility to adapt to new information, developing crisis management plans, buying insurance, and taking a portfolio approach. Many business plans involve the consideration of alternative scenarios that highlight the key uncertainties and variations on the future context and on the resulting plans. In fact, businesses have become quite sophisticated in their recognition of uncertainty and have developed instruments to “de-risk” themselves. That said, plans and the goals of adhering to them are still central to their modus operandi.

Business has much to learn from development on how to think about the sources of uncertainty in more holistic terms — to create a richer set of scenarios and recognize the multiple stakeholders and their multifaceted incentives (economic and non-economic). That said, private sector projects that go according to plan may be rare, but such plans are rarely irrelevant. In fact, the larger the organization, the more it struggles with any deviation from the plan. Predictability, routine, and process are the keys to capturing economies of scale and scope. The rare occurrence of projects going according to plan is generally a matter of celebration, especially since one expects that — as they say — stuff happens.

**Rule #5: The process is the product.**

_Uvin:_ This, then, may well be a major area of divergence between regular business operations and development actions: the nature of social change is so complicated, so full of feedback loops and uncertainties, and so determined by the specificities of time and place, that anything that is rigid and run according to a pre-determined plan will fail to address the real problems at hand. My insight is still highly relevant for CRS or community relations officers, though. You spoke about the role of process in your last remarks, and this is also the subject of my next point.

In development, it is increasingly obvious that, rather than the actual physical products of a project, the way agencies interact with people and institutions is the essence of what is left behind. What matters is not so much which school or hospital was built, but who conceived it, who decided on the priorities, who did the building, who was the broker, who knew about the project and who did not. Were the usual people excluded or not? Were the usual elite in charge or not? Did things happen transparently or not? Was corruption present throughout or not? Did people learn to conceive, organize, demand, and negotiate or not?

The consequence of this statement is that much of development work is (or should be) about facilitation, mediation, negotiation, learning, and relations — not about money or technical knowledge, even though most people think that this should be the prime, if not the sole, focus of international aid. Technical knowledge can be bought or
brought. Social learning, the emergence of new networks, the capacity to conceive and bargain, and confidence in oneself: money cannot buy any of these. They emerge—or are stifled—as a result of processes, and have much greater and far-reaching impact relative to actual products.

Chakravorti: Businesses, on the other hand, live or die by their abilities to deliver a product to the customer. In the absence of the right product delivery to the right customer at the right time, a business cannot expect to remain competitive for long. It is important, however, to distinguish the “early wins” from a sustainable and robust longer-term growth trajectory. While early wins are necessary to keep management interest alive in the endeavor, a proven upward trajectory in sales penetration or establishing scalable high-quality manufacturing or sustainable extraction practices or reliable supply chains and logistics is crucial. Such a trajectory is impossible in an emerging market without a clear process for how a business enterprise solves the three critical problems of affordability, appropriateness (in terms of usage context, sustainability, availability of complements, etc.) and access to consumers. Such a process is often at the heart of an innovation in the company’s business model. Getting this model right is generally far more important than getting the early batches of product sold. This allows the company’s operations to get to scale and become self-sustaining.

In this sense, we have a paradoxical outcome: even though the product is what defines a company, it is crucial to have a process in place that is tested in the emerging market environment and has the capability to get the product sales onto a sustainable growth path—again, at scale. It often takes several experiments to get the process right, so managers learn how to build in points of flexibility and opportunities to learn from past experiences. Such a locally tailored process may ultimately be the defining reason for a company’s success in an emerging market. That said, a process must start somewhere, which brings us to the next rule.

Rule #6: How you start determines where you end up.

Uvin: Given the importance of process, the legacy of a project or organization’s start can’t be changed later on. Once you enter a community, approach a partner, or negotiate with a government in a certain way, it will be hard to switch direction, especially if the political and social conditions remain the same. If you started in a confrontational manner, it will be hard to move toward genuine collaboration and trust. If you began in a condescending and offensive way, it will be hard to develop truly respectful relationships; if you approached people first in an authoritarian or top-down mode, it will be hard to add in meaningful participation later; if you allowed corruption to dominate your entry into a community, it may be near impossible to reverse that course; if you developed a reputation for unreliability early on, it will be very hard to shake that off; and so on. Vested interests come into being in order to maintain this modus operandi; attitudes and assessments become locked into position; mistrust and miscommunication (or the opposite) become the norm.
Chakravorti: While a development agency may view this situation as one with all the facets of a classic “bad marriage,” a business manager would worry about path dependence and may consider an arsenal of management weapons to fight against it. As with any kind of relationship, starting off on a bad note makes it hard to rebuild goodwill, trust, and cooperation. Yet a good start may buy you some “currency” or favors that you could use down the road, but it does not guarantee a free pass. Businesses are just as dependent on social norms, relationship-building, and human foibles as any other enterprise. Relative to relationships in the development and aid world, there is likely to be a much clearer logic of mutual self-interest that governs how business relationships and interactions evolve. Business newcomers to emerging market environments may therefore find it surprising, even frustrating, that rational self-interest is not the only dominant driver of behavior.

That said, a poor start or even a crisis—such as a public health disaster, pollution, negative media coverage, displacement of local industry, labor unrest, etc.—is often expected as a company moves into a new market, particularly those markets that are as yet unknown and not completely stable. Businesses invest in marketing, branding, and public relations in anticipation of such outcomes, and quite frequently are successful in rebuilding goodwill if need be. Conversely, a good start can breed complacency and arrogance. Managers let their guard down and do not invest as much in nurturing relationships, and this could either lead to a bad outcome or create an opening for a highly motivated competitor to enter and position itself as the better alternative.

Rule #7: All change begins with internal change.

Uvin: In the development field, report after report, study after study, and policy paper after policy paper describe the right path, the brilliant solution, the new approach— and few to none of these produce the expected results. This is in part because it is hard to create empowering social change in the tough and volatile circumstances of emerging and frontier markets, where people live with long histories of weak institutions, absence of rule of law, profound inequality, social exclusion, and widespread corruption. But it is also because most reports fail to look at the internal incentives, organizational rules and procedures, and human capabilities that condition what comes out of an organization. It is difficult to effect meaningful change with outside stakeholders if the same process did not first occur inside the aid agencies themselves.

Chakravorti: Private sector companies have a mixed record as far as this law goes. Whenever a multinational operates across national borders, it must grapple with fundamental tensions between the economies of scale of operating in a standardized manner across the globe vs. serving distinct emerging markets with distinct
organizations customized to the needs and context of each market. Where one draws the line often depends on the source of competitive advantage in the emerging market in question. The more the competitive advantage relies on superior cost structures, operational efficiencies, and a global brand, the less it makes sense for the company to make major changes to its organization in a local market. On the other hand, the more the company’s competitive advantage derives from deep insights drawn from local knowledge and home-grown relationships with customers, suppliers, regulators, and other key stakeholders, the more the need for internal change as the emerging markets organization is established. There are other instances where such internal change is necessary for political and socio-cultural reasons, where a “foreign” brand may not play well with consumers. In fact, many companies go in with a local partner or even acquire a local player to enable the change.

It is also useful to note that internal change may be necessary not only in the emerging market but also at headquarters. For example, in the early stages of the outsourcing or off-shoring, “non-core” functions, such as back-office processing, call centers and technical support, were transplanted to low-cost emerging markets. Over time, as the low-cost nature of these markets started exhibiting higher productivity characteristics, certain core functions, such as R&D, data analytics, and market research, were also transplanted. As the progression continues and the emerging markets are given priority because they represent the company’s fastest-growing consumption opportunities, other crown jewels, including the CEO’s office, may move in that direction as well.

Rule #8: Lessons learned stop you from learning.

Our favorite lesson is that, in fact, there are no lessons learned; there are only good questions—and all of the answers are location-specific. It is the one law that both the development and the business communities can completely agree on. In essence, it tells us not to get too complacent about knowing all the laws. Every emerging and frontier market offers fresh lessons for those who are ready to learn. The more you operate in them, do development work in them, or conduct business in them, the more they change. Progressively, even the laws change.

POLICY IMPLICATIONS AND CONCLUSION

Private sector enterprises do, indeed, have much to gain from the experience and longer track record of development organizations in emerging and frontier markets. The laws that govern development work provide guideposts for businesses to help them get beyond the orthodoxies and beliefs developed in the core markets when formulating an emerging markets strategy. The laws may not all carry over directly, but they do give business strategists and policymakers several counter-intuitive insights to think about.
The biggest challenge, for both development and business organizations, is to develop sensitivity to the political and social specificities of emerging and frontier markets, as well as policies that allow them to achieve their goals while appreciating how the policies apply in context. These markets are not simply primitive versions of the core markets (i.e., pretty much the same, except that they have worse roads, less reliable electricity, or poorer consumers). They are fundamentally different places, both from core markets and from each other.

There are some clear implications for business decision-makers. The first is to establish principles and rules of engagement with local stakeholders that are deeply internalized and clearly advertised to the outside world. Often, managers see rules as enemies, constraining freedom and creativity. But clear rules can be companies’ best friends, providing not only reputational benefits but also allowing their employees to navigate the troubled waters of unfamiliar contexts. They help establish public rules of engagement accepted by all parties and can become integral to the brand.

Second, operating in emerging markets requires an exceptionally high willingness of all actors to question themselves, to seek feedback (including about questions they did not even know existed), and to constantly learn and adapt. Senior leaders must create incentives for their employees, at all levels, to dare to be critical in new ways—and make this part of the organization’s emerging markets doctrine and “rule-book.”

Third, the prime source of relevant knowledge in emerging and frontier markets will often be local actors who are deeply familiar with the political and social contexts and the “invisible chessboards.” These local actors may be the country manager or the plant manager or the salesperson on the ground; in all instances they are far removed from headquarters. They may even be outside the organization: building relations between headquarters and local civil society organizations, partners, media, and academics may be critical, too.

What are the implications of all this for public policy? Policymakers in emerging markets are attempting to encourage foreign investment and drive domestic growth through participation in the global economy. They also want to balance those goals with a host of other considerations: promoting domestic industry; enabling transfer of technology; preventing anti-competitive behavior by large, well-resourced multinationals; ensuring that externalities—such as environmental impact, public health issues, etc.—are internalized; protecting human rights, labor and product safety laws, and ensuring economic and social “inclusion;” preserving local communities and cultures; and ensuring improvement of public infrastructure and living conditions.

The responsible management of these trade-offs can be corrupted by local elites and political stakeholders with access to elites and are willing to sell out to the highest bidder. The policymaker has neither the monitoring capability nor the resources to align the incentives of all players at the invisible chessboards. When this fact is combined with poorly designed corporate processes and under-prepared managers used to working only in mature markets, the policymaker’s task can become monumental.

Far too often, the relationship between multinational corporations and policymakers veers between two undesirable extremes: from a coziness that breeds its own form of
corruption to a highly adversarial relationship, both of which come at great cost to societal welfare. Yet in most cases, policymakers and business leaders can be partners in promoting the welfare of citizens and it can be in their mutual interest over the long-term to engage in such a partnership. For the business, a policymaker can be one of the “local actors” with whom it maintains a transparent dialogue. The policymaker, likewise, should insist that the MNC establish clear rules of engagement, advertised publicly, and drilled into managers’ operating mindset. The education of senior management on local issues can facilitate a balance between the pressing needs of the country and the corporate demands from headquarters. This can help management act on our Rule #7: All change begins with internal change.

Genuine and sustained success in any emerging market aligns the objectives of businesses and policymakers by simultaneously helping build the company’s brand equity and the policymakers’ political equity. Given the potential obstacles to getting there and the many constituencies and the games on “invisible chessboards” along the way, a true spirit of public and private partnership is the only practical way to achieve emerging market success in all its manifestations. Y

— April Williamson served as Lead Editor for this article.

NOTES


2 Before our paths crossed as deans at The Fletcher School, we inhabited different professional worlds. Peter Uvin had been engaged in the humanitarian and development field with NGOs, international aid agencies, and bilateral donor government organizations. He has worked in and studied a wide range of environments: from post-conflict countries, such as Rwanda and Burundi, to more classic developing economies, such as India and the Philippines. Bhaskar Chakravorti had been a consultant—most recently as a partner at the international consulting firm, McKinsey & Company—to many of the world’s largest multinational corporations looking for growth and innovation opportunities in emerging markets. His work had involved multiple countries in sub-Saharan and North Africa, Asia, and Latin America.