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MARKETING CAPABILITIES, ENTERPRISE OPTIMIZATION PROGRAMS AND PERFORMANCE IN EARLY TRANSITION ECONOMIES: THE CASE OF CUBAN SOEs

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ABSTRACT**. **This paper examines for the first time the consequences of the marketing capabilities of state-owned enterprises (SOEs) in the early phase of an economic transition as well as the role of government enterprise optimization programs in such environments. A survey of 254 Cuban SOEs found that marketing capabilities (either market orientation or a competitive marketing mix) improve traditional business performance. Additionally, a competitive marketing mix mediates the relationship between the market orientation of SOEs and performance. Moreover, participating in the Cuban Enterprise Optimization Program seems to enhance the marketing capabilities of SOEs. In summary, in the early phase of an economic transition, marketing capabilities make a significant contribution to SOEs' competitiveness, and enterprise optimization programs may be effective in enhancing the SOEs' marketing capabilities.

KEYWORDS: marketing, organizational performance, SOE, transition economy, Cuba.

JEL classification: M10, L25, P2.

Introduction

The movement toward freer markets in transition economies has received a great deal of attention in the marketing and organizational literature over the last fifteen years (Batra, 1997; Fahy *et al.,* 2000; Li *et al.,* 2006; Peng, 2003; Peng and Luo, 2000; Marcinskas and Galinienė, 2005; Yiu *et al.,* 2005; Hernaus *et al.,* 2008). One of the most critical issues in a transitional environment is to determine how state-owned enterprises (SOEs) can be more competitive and improve their performance (Carlin *et al.,* 1995, 2001; Park *et al.,* 2006; Peng, 2000).

Transitional economies are those in the process of shifting from centrally planned to market-based economies through liberalization and privatization, and they therefore experience fundamental and comprehensive changes in their political systems, legal frameworks, and market structures (Gao *et al.,* 2007). Based on a longitudinal model of market-oriented institutional transition, Peng (2003) suggests that in the early phase of a transition, a market-centred strategy is not economical due to the institutional uncertainties.

He indicates that the only viable strategy for incumbent firms in such environments is a network-centred strategy. While the positive relationship between the network-based strategy of SOEs and performance in the early phase of a transition has been empirically documented (Peng and Luo, 2000), the relationship between SOEs' marketing capabilities and performance in such an environment has not been fully established. Previous research on this matter has been mostly performed in the late phases of economic transitions (Li *et al.*, 2006; Liu *et al.,* 2003; Tse *et al.,* 2003).

Furthermore, research on marketing capabilities and performance in transition economies has mainly used traditional business performance measures such as profitability, sales or market share, neglecting other context-specific performance criteria. Because firms in an early transition economy depend heavily on government decisions (Hillman and Hitt, 1999; McWilliams *et al.,* 2002), *institutional performance* criteria that are mostly related to political outcomes should also be considered (Tse *et al.,* 2003).

In planned and early transitional economies, various government ministries are the actual shareholders of SOEs (Buckley *et al.,* 2006), and as these ministries are political in nature, they tend to manage the SOEs according to their own agendas (Li *et al.,* 2006). Thus, government intervention and political pressures are a critical institutional constraint faced by chief executives in such environments (Lau, 1998), and they exert important effects on SOE strategies (O´Connor, Chow, and Wu, 2004). In some transitional economies such as China and Cuba, government intervention has been devoted to the implementation of enterprise optimization programs to assist SOEs in becoming more efficient and competitive (Travieso-Diaz, 2001). In spite of the significant efforts devoted by these governments to such programs, their real effects on the marketing capabilities of SOEs have not been previously analysed.

The key objectives of the present research are twofold. The first is to empirically analyze the relationship between the marketing capabilities of SOEs and their performance in the early phases of an economic transition. This analysis will work to establish whether a market-centred strategy positively influences SOE performance from the beginning of a transition process. Our second goal is to investigate whether enterprise optimization programs established by governments can be effective either in improving the marketing capabilities of SOEs or in enhancing the potential effects of such capabilities on their performance.

This study focuses on a unique sample of Cuban SOEs. We choose Cuba for two main reasons: first, because Cuba's economy can be considered to be in the early phases of a transition; and second, because Cuba's government has recently devoted a great deal of effort to developing an Enterprise Optimization Program for SOEs. Thus, the Cuban context is appropriate for examining both SOE marketing capabilities in the early phases of an economic transition and the role of this program in that context. In this way, our research also contributes a different viewpoint to the literature because market capabilities have not yet been systematically studied in Cuba.

The present paper should be of interest to academics, managers and government officials in transition economies. For academics, this work should be useful because it will reveal the important role of marketing capabilities during the early phases of an economic transition and provide evidence of the influence of government intervention on SOE marketing capabilities. This work should also be of interest to managers and government officials because it will provide empirical data on the effectiveness of marketing capabilities at SOEs from the very beginning of a transition process and may also demonstrate the usefulness of an enterprise optimization program for the marketing capabilities of SOEs.

To support the research on a theoretical level, we draw upon two fundamental theories: the *resource-based view* (RBV) and the *institutional theory*. Although these theories have been used together in strategy and organization research in transition economies, to our knowledge, this paper is the first to combine these theories in the marketing field in such environments.

This paper begins by establishing the theoretical model and presenting the research hypotheses. Then, we continue by describing the methodology implemented and the results obtained, and we end with our main conclusions and the major implications of our research.

1. Literature Review, Conceptual Framework and Hypotheses

1.1 Theoretical Background

The resource-based view (RBV) is concerned with the influence of firm resources and capabilities in explaining why firms differ and how they achieve and sustain a competitive advantage (Barney, 1991). From a resource-based standpoint, a "capability" is defined as a firm's ability to use its resources to achieve a desired end (Amit and Schoemaker, 1993; Nath *et al.,* 2008). Capabilities are related to context, and firms' success factors vary in different national resource environments (Wan, 2005). However, depending on the characteristics of the context, a focus on resources could create strategic inflexibility and core rigidities for a firm and lead to negative returns (Leonard-Barton, 1992). In other words, despite the important benefits of the RBV for marketing theory and practice, one of its limitations is that it does not consider how institutional factors (such as tradition, pressure, norms, habits, legitimacy, and the demands of the societal environment) affect firm performance; thus, the RBV needs to be expanded to incorporate such institutional factors.

Institutional theory focuses on the role of the political, social, and economic system surrounding firms in shaping their behaviour (North, 1990). Unlike the RBV, institutional theory takes the broader social context surrounding resource deployment decisions into account because this context also explains firm performance (Auh and Menguc, 2008). From the perspective of institutional theory, businesses in transition economies will develop marketing capabilities if the systems surrounding such businesses influence them to do so (Hoskisson *et al.,* 2000; Wright *et al.,* 2005).

In the early stages of market emergence, institutional theory is preeminent in helping to explain impacts on enterprise strategies because government and societal influences are stronger there than in developed economies (Hoskisson *et al.,* 2000). The simultaneous operation of market mechanisms and the presence of the remaining state governance mechanisms is one of the unique characteristics of the institutional change in such economies (Stark, 1996; Yiu *et al.,* 2005). As transition economies evolve, institutional theory, which describes what happens when firms must manage a variety of pressures, has to be combined with the RBV, which centres on firms' specific capabilities (Hoskinsson *et al.,* 2000).

1.2 Cuba as an Early Transition Economy

The Cuban economy has been managed through central planning since 1960, allowing the Cuban government to create a political economy as defined by the state (Rodríguez García, 2000). During the period of more rigid central planning, there was no need to periodically evaluate market dynamics; it was unnecessary to scrutinize competitive

mechanisms, and marketing capabilities could only be used by Cuban companies that competed in the international marketplace (Marquetti, 2004). However, this situation began to change in 1998, when *The Economic Resolution of the 5th Congress of the Cuban Communist Party* tacitly admitted the existence of a market under socialism (see Cuban Communist Party, 1998, p.25). At that point, the Cuban government introduced some economic reforms and the country began a slow economic transition.

Following Peng's (2003) model for categorizing market-oriented institutional transitions, Cuba can currently be labelled as a transitional economy in the early phases of a transition process. In other words, it can be understood as starting to develop a model of gradualism or "very constrained" capitalism (Shultz and Pecotich, 1997). Cuba's Index of Economic Freedom[1] is clear evidence that its economic transition is at an early stage. To compare Cuba with other transition economies, the centrally planned Chinese and Vietnamese economies have Index of Economic Freedom figures of 51% and 49.8%, respectively, while Cuba, has an index of 26.7%. The comparison is even less favourable for Cuba for the specific Index of Business Freedom[1] when compared to the general Index of Economic Freedom, where the Cuban figure is 10%, the Chinese figure is 49.7% and the figure for Vietnam is 60.7%.

In spite of its low Index of Business Freedom, Cuba is now officially open to investment and trade from market economies in most sectors (In fact, the Cuban Index of Trade Freedom is 61.7%)[1]. Cuba has fairly normal trade relationships with nearly every nation in the world, with the notable exception of the USA. Furthermore, more than 400 international economic associations and joint ventures from 50 different nations are now operating in Cuba. For instance, the Unilever personal and homecare brands are the leading consumer goods in the Cuban market (Cerviño and Bonache, 2005). As a result of this new environment, Cuban SOEs are permitted to undergo reform and to thus function like private enterprises, enabling them to adapt to growing market competition and to the increase in consumer culture among Cuban citizens (Cerviño and Bonache, 2005). As organizations recognize the presence and intensity of competition, they are more likely to seek out information about customers, evaluate that information, and use it to their advantage (Slater and Narver, 1994). Thus, organizations in more competitive environments can be expected to be more market-oriented (Lush and Laczniak, 1987; Li *et al.,* 2006), and marketing capabilities begin to be more relevant in such an environment, as is the case in the present Cuban economy (Hernandez *et al.,* 2004).

The Economic Resolution of the 5th Congress of the Cuban Communist Party, while tacitly admitting the existence of a market within the socialist society, also dictated the implementation of an Enterprise Optimization Program among Cuban SOEs. The program was first established in the Cuban armed forces (FAR) in 1988 and was introduced into SOEs ten years later. The central objective of this program is to increase SOE efficiency and competitiveness (Alhama *et al.,* 2001; Granma, 2007a; Travieso-Díaz, 2001); in the words of former Cuban Vice-president Carlos Lage, the "Enterprise Optimization Program is the most sound and promising experience that Cuba has implemented to make their SOEs more efficient" (Granma, 2007b, p.1).

In its structure and objectives, Cuba's Enterprise Optimization Program closely resembles the Chinese Enterprise Reform Program. Both countries have sought to establish independent management structures by appointing boards of directors and have tried to make their SOEs closer to Western business organizations in terms of the operational

[1] See The Heritage Foundation (2010).

freedom that they enjoy. However, Cuba has made much less progress in removing the state's control over businesses when compared to China (Travieso-Díaz, 2001).

1.3. SOEs' Marketing Capabilities and the Enterprise Optimization Program

According to Fahy *et al.* (2000), it is likely that in transition economies, firms that are still state-owned will have the greatest difficulty acquiring the capabilities necessary to adapt to the new environment. Given the extent to which an organization's administrative heritage can hinder its ability to change, the established routines and practices in SOEs are expected to impede the development of marketing skills. Thus, in its efforts to assist SOEs to compete in the new economic environment, one of the main goals of the Cuban Enterprise Optimization Program was to establish a more market-oriented philosophy and behaviour within such organizations (Alhama *et al.,* 2001; Cuban Communist Party, 1998); in other words, to set up basic marketing capabilities at those firms.

Marketing capabilities can be described as integrative processes designed for use in applying the collective knowledge, skills, and resources of a firm to the market-related needs of the business, enabling the business to add value to its goods and services while facing competitive demand (Day, 1994; Srivastava *et al.,* 2001). According to Song *et al.* (2007), marketing capabilities include knowledge of the competition and one's customers, skill at segmenting and targeting markets, advertising and pricing, and integrating marketing activity. Thus, the literature characterizes marketing capabilities in two ways: market orientation and a competitive marketing mix (Hooley *et al.,* 2005). Whereas market orientation refers to how firms are implementing a marketing concept (Kohli and Jaworski, 1990), the competitive marketing mix is the result of a business's ability to perform common marketing work routines (Day, 1994; Vorhies and Morgan, 2003), so it refers to managerial capabilities along functional marketing lines (Hooley *et al.,* 2005; Vorhies and Harker, 2000).

Market orientation rests fundamentally on cultural values. Thus, creating a market-oriented organization is essentially a process of cultural transformation (Gebhardt *et al.,* 2006; Narver *et al.,* 1998). The Cuban Enterprise Optimization Program is, above all, an attempt by the government to initiate a cultural transformation at SOEs (Hernandez *et al.,* 2004). However, because of their deeper embeddedness within the former institutional context, SOEs are slower than other firms to recognize the value of market-based competition (Fahy et al., 2000; Peng, 2003).

In addition to fostering the acceptance of the core values associated with the market concept, the key objective in creating a market orientation is to learn how to implement this concept (Narver *et al.,* 1998). According to the literature on market orientation, the key drivers of a firm's market orientation include emphasizing top management, interdepartmental connectedness, centralization, market-based reward systems and market-oriented training (Jaworski and Kohli, 1993; Kirca *et al.,* 2005). The following section evaluates whether the Cuban Enterprise Optimization Program addresses these key antecedents.

The political support of top management is an indispensable part of resource acquisition (Oliver, 1997). The fact that the Enterprise Optimization Program is implemented by the Governmental Group for Entrepreneurial Optimization, a group that directly reports to the Executive Committee of Council of Ministers (Marquetti, 2004), is a clear signal of the support that the program receives from the government. Because the final owner of SOEs is the Cuban government, SOEs' top management should be engaged in

emphasizing Enterprise Optimization Program principles within their companies. Because instilling a culture of market orientation and promoting related behaviours is one of the principles of the Enterprise Optimization Program (Hernandez *et al.,* 2004), and because the emphasis of this issue by top management enhances a firm's market orientation (Gebhardt *et al.,* 2006; Jaworski and Kohli, 1993; Kirca *et al.,* 2005), it is likely that SOEs that follow the Program will exhibit a higher level of market orientation than SOEs that do not.

The accumulated literature on market orientation also reveals that centralization inhibits market orientation (Kirca *et al.,* 2005; Kohli and Jaworski, 1990; Liu *et al.,* 2003). Prior to 1998, Cuban SOEs were based on a Soviet economic model and were highly centralized organizations in which all key decisions were made by top government officials (Rodríguez García, 2000). *The Economic Resolution of the 5th Congress of the Cuban Communist Party* established the need to decentralize economic decision-making at different levels of the administration (Cuban Communist Party, 1998; Travieso-Díaz, 2001). On that basis, in SOEs under the Enterprise Optimization Program, decisions have to be developed collaboratively and not imposed on workers; workers are now obliged to think about the instructions that they receive from above rather than follow them without question, and workers and management can work together and discuss pressing issues with their assigned governmental group for entrepreneurial optimization (Rodríguez Taboada, 2001). Thus, given that Cuban SOEs are likely to be less centralized as a result of the Enterprise Optimization Program, they should be more market-oriented than SOEs that are not in the program.

Market reward systems have also been suggested as one of the key drivers of market orientation. When reward systems are connected to market performance indicators, the organization will be more market-oriented (Jaworski and Kohli, 1993; Kirca *et al.,* 2005). Prior to 1998, reward systems within most Cuban SOEs were very rigid and did not depend on organizational performance (Rodríguez García, 2000). The General Basis of the Enterprise Optimization Program has been an attempt to change this model and has introduced some important reforms (Gaceta Oficial de Cuba, 1998). In terms of salaries, these General Basis establish some fundamental principles: salaries must be commensurate with the economic results obtained by both the employee and the enterprise, there must be sufficient differentiation among salaries to account for the degree of responsibility and the technical demands of different positions, and salary decisions must be decentralized to the greatest extent possible (Gaceta Oficial de Cuba, 1998). In addition, incentive payments may now be provided to workers (based on retained earnings) constituting up to 30% of their base salary, and on the other hand, when projected after-tax profits are not met, salary reductions of up to 20% of the base salary may be assessed (Travieso-Diaz, 2001). Thus, because the new reward system implemented at Cuban SOEs is now more closely related to firm success, and because firm success in a competitive environment further relies on market orientation (Diamantopoulos and Hart, 1993; Harris, 2001), the new reward systems implemented as a result of the Enterprise Optimization Program should improve the employee's market orientation, and by extension, the market orientation of the whole organization.

Finally, the marketing literature also reveals that market-oriented training augments employee sensitivity to customer needs, thus stimulating actions that are consistent with the requirements of a market orientation (Kirca *et al.,* 2005; Ruekert, 1992). According to the General Basis of the Program, the first step of this program is to train the workforce and the labour unions to accept and support the process and become active participants. This stage focuses on explaining to the workforce the general principles of the Program and how they

are accomplished and securing their active cooperation through persuasion (Gaceta Oficial de Cuba, 1998). Because one of the key principles of the program is the redesign of the entire organisation with a new market focus (Monte, 2000); the employee training on market orientation provided to SOEs in the program should enhance SOE market orientation.

Another important goal of the Enterprise Optimization Program is to establish knowledge on key marketing tasks within SOEs. Marketing is one of the 16 "subsystems" of the program, together with other business activities such as quality assurance, planning, accounting and human resources (Gaceta Oficial de Cuba, 1998). The purpose of this marketing subsystem is to encourage SOEs to carry on market research studies, perform environmental analysis, develop product strategies adapted to the market, manage the sales force and use sales promotions and advertising campaigns (Faloh, 2001; Gaceta Oficial de Cuba, 1998). All of these activities should enhance SOEs' functional marketing capabilities and the firms' competitive advantage across the marketing mix.

In summary, firms develop their marketing capabilities when they can combine the individual skills and knowledge of their employees with available resources (Nath *et al.,* 2008; Vorhies and Morgan, 2005). Employees from Cuban SOEs that have gone through the Entrepreneurial Optimization Program likely have better marketing skills and knowledge than employees from SOEs that have not, and when the former employees combine these individual skills and knowledge with available resources, they should produce superior marketing capabilities than the latter. Thus, we posit the following:

> ***H1:*** *In the early phases of an economic transition, SOEs that use the Enterprise Optimization Program should have superior marketing capabilities (market orientation and competitive market mix) than SOEs that do not.*

1.4 Marketing Capabilities and Business Performance in Cuban SOEs

The marketing literature has featured extensive use of the RBV framework to understand the interaction between marketing capabilities and performance (Song *et al.,* 2005, 2007). The rationale for this approach is that because marketing capabilities are rare, relatively immobile, and not easily copied by competitors, they should lead to better business performance (Fahy *et al.,* 2000; Hunt and Morgan, 1995). Empirical research on the consequences of marketing capabilities has focused mainly on the relationship between market orientation and business performance (Narver and Slater, 1990; Jaworski and Kohli, 1993). This research has revealed the existence of a direct link between a firm's market orientation and its performance either in Western economies (Cano *et al.,* 2004; Kirca *et al.,* 2005) or in transition economies like China (Li *et al.,* 2006; Liu *et al.,* 2003; Tse *et al.,* 2003), Ukraine (Akimova, 2000) or Hungary, Poland and Slovenia (Hooley *et al.,* 2000). However, some researchers in emerging economies or in transition economies such as Ghana (Appiah-Adu, 1998), Russia (Golden *et al.,* 1995) or Saudi Arabia (Bhuian, 1997) found no significant relationship between market orientation and performance, while others such as Grewal and Tansuhaj (2001) in Thailand even found a negative link. This lack of consistency in the findings has been attributed to environmental influences that might make a market orientation uneconomical (Ellis, 2006; Kirca *et al.,* 2005; Singh, 2003). Because market orientation research is cumulative in nature, further investigation of such topics in other settings has been recommended to determine whether market orientation is a truly generic determinant of firm performance (Ellis, 2006; Langerak, 2003).

Furthermore, a competitive marketing mix plays a critical role in supporting strategy implementation (Song *et al.,* 2007), and it has been considered a major determinant of

organizational effectiveness both in Western economies (McDaniel and Kohlari, 1987; McKee *et al.,* 1989; Song *et al.,* 2005; Vorhies and Morgan, 2005) and in transition economies (Eng and Spickett-Jones, 2009; Tan *et al.,* 2006). Nevertheless, many marketing activities that are fundamental in Western economies are simply nonexistent in transition economies or are adopted at a very superficial level. For instance, in Cuba, although there are differences in the location, assortment of goods and ambiance between stores, prices are very similar in all retail formats throughout a country; all types of conventional advertising are forbidden. Only some types of merchandising and point-of-purchase activities are permitted, and the wholesaling and retailing distribution system is closely controlled by the government (Castañeda, 2006; Cerviño and Bonache, 2005).

The marketing capabilities of SOEs have not yet been studied in the setting of the early phases of an economic transition. It has been argued that due to institutional uncertainties, in the early phase of an economic transition, market-cantered strategies do not lead incumbent firms to improve business performance. It has also been argued that in such environments, only a business strategy based on networks and relationships can enhance SOEs' organizational performance (Peng, 2003). Nevertheless, because the early phase of a transition is characterized by the beginning of competition among SOEs and by the emergence of some freedom of choice for consumers, marketing should be a valuable capability within this environment. Moreover, the fact that these capabilities remain rare and cannot be easily copied by competitors in the early phase of transition marketing will make them even more important in such contexts (Fahy *et al.,* 2000). Consequently, according to the RBV, because marketing capabilities in an early transition economy such as Cuba are valuable, rare, relatively immobile, and not easily copied by competitors, they should lead to better business performance (Calatone *et al.,* 1996; Fahy *et al.,* 2000; Golden *et al.,* 1995; Hunt and Morgan, 1995). Additionally, from the standpoint of institutional theory, firms in transition economies that adapt to the pressures of the new economic context and develop marketing capabilities should fit better in that environment, consequently attaining better performance (DiMaggio and Powell, 1991; Newman, 2000). Thus, Cuban SOEs that adapt to their present competitive environment and build their marketing capabilities will fit better with the environment and exhibit superior performance. Therefore, we posit the following hypothesis:

> ***H2:*** *In the early phases of an economic transition, there is a positive link between SOEs' marketing capabilities (market orientation and a competitive marketing mix) and traditional business performance.*

In free markets, market orientation improves the competitiveness of the firm's marketing mix (Vorhies and Harker, 2000; Hooley *et al.,* 2005). In transitional economies, environmental pressures on SOEs to become market-oriented and cultivate a better fit with the new economic environment should compel those firms to also use marketing strategies. Empirical data obtained in the Ukraine (Akimova, 2000) and in Russia (Golden *et al.,* 1995) indicate movement in this direction. As Golden *et al.* (1995) posit the process of market orientation and adoption of a marketing strategy can be viewed as a sequence: first, through market orientation, the company learns the importance of assessing and tackling customer needs, at which point it should create an effective marketing mix to meet those needs. Therefore, from an institutional theory standpoint, market-oriented firms in transition economies should increase the competitiveness of their marketing mix to adapt to the more market-led context. On that basis, we hypothesize that a competitive marketing mix plays a mediating role in the relationship between market orientation and traditional business performance. Because a market-oriented SOE that also possesses a competitive marketing

mix is more advanced in the process of marketing development than an SOE that is purely market-oriented (Golden *et al.,* 1995), the indirect relationship between market orientation and performance through a competitive marketing mix should be stronger than the direct relationship. Thus, we posit the following hypothesis:

> ***H3:*** *In the early phases of an economic transition, a competitive marketing mix mediates the link between SOE market orientation and business performance.*

1.5 The Moderating Effect of the Enterprise Optimization Program

The Enterprise Optimization Program must be implemented during seven stages (Gaceta Oficial de Cuba, 1998; Travieso-Díaz, 2001)[2]. In the first stage, the workforce and the labour unions must be trained to accept and support the process and become active participants. The second stage is to conduct an initial diagnostic analysis of the enterprise; the third stage is to evaluate the results of the diagnostic analysis of the enterprise; and the fourth stage is to have each enterprise in the program develop an optimization proposal, i.e., a detailed business plan that summarizes how the enterprise proposes to optimize its operations, its functions, its organizational structure, the proposed changes in its production, and its methods of implementing internal controls, planning, contracting, human resource management, marketing, and information systems. In the fifth stage, the proposal is submitted by the enterprise to the Government Group of the Executive Committee of the Council of Ministers that oversees the business sector, and it must be approved. The sixth stage is the implementation of the proposal by the enterprise. The seventh stage is described as a continuous process of increased optimization to be undertaken once the initial objectives of the plan are accomplished.

Based on the aforementioned process, it is expected that the quality of management and the skills of the employees at SOEs that follow the program (and, as a result, the "quality" of their market orientation behaviours) should be higher for SOEs that are engaged in the program than for SOEs that are not. Although traditional market orientation scales do not explicitly measure qualitative differences in market-oriented processes (Baker and Sinkula, 1999a), if market orientation is viewed as being comprised of three core processes (generation, dissemination, and responsiveness to market intelligence), it is important to ask whether these processes are being executed well or poorly in an organization because the quality of the market orientation and its extent are also relevant (Jaworski and Kohli, 1996). Firms may be market oriented, but the quality of their market-oriented behaviours may be weak relative to those of other firms (Day, 1994; Dickson, 1996). Thus, the resources that influence the quality of market-oriented behaviours are arguably as necessary as a market orientation itself (Baker and Sinkula, 1999b).

The Enterprise Optimization Program has a particular marketing subsystem that all SOEs in the program must implement (Gaceta Oficial de Cuba, 1998). This subsystem focuses on developing key marketing tasks that market-oriented firms should be able to perform, including market research, product development, advertising, sales promotion, and marketing planning and control (Faloh, 2001; Gaceta Oficial de Cuba, 1998; Vorhies *et al.,* 1999). Thus, the quality of the implementation of those marketing activities is expected to be higher for SOEs that have been included in the program than for those that have not. Because the quality of marketing capabilities may have a synergistic effect on the

[2] During the middle of 2007, only 797 out of 2732 SOEs, about 30% of the total, had gone through this Program; however, these 797 firms made up 51% of total SOE profits and 72% of total Cuban foreign income; conversely, SOEs that have not undergone the Program are less efficient and profitable (Granma, 2007a; 2007b).

relationship between marketing capabilities and performance (Baker and Sinkula, 1999a), we hypothesize that the relationship between marketing capabilities and traditional business performance will be stronger among SOEs that have gone through the program than among those that have not. Thus, we posit the following hypothesis:

> ***H4:*** *In the early phases of an economic transition, the positive link between the marketing capabilities of SOEs (market orientation and competitive marketing mix) and traditional business performance should be stronger for firms that have gone through an Enterprise Optimization Program than for those that have not.*

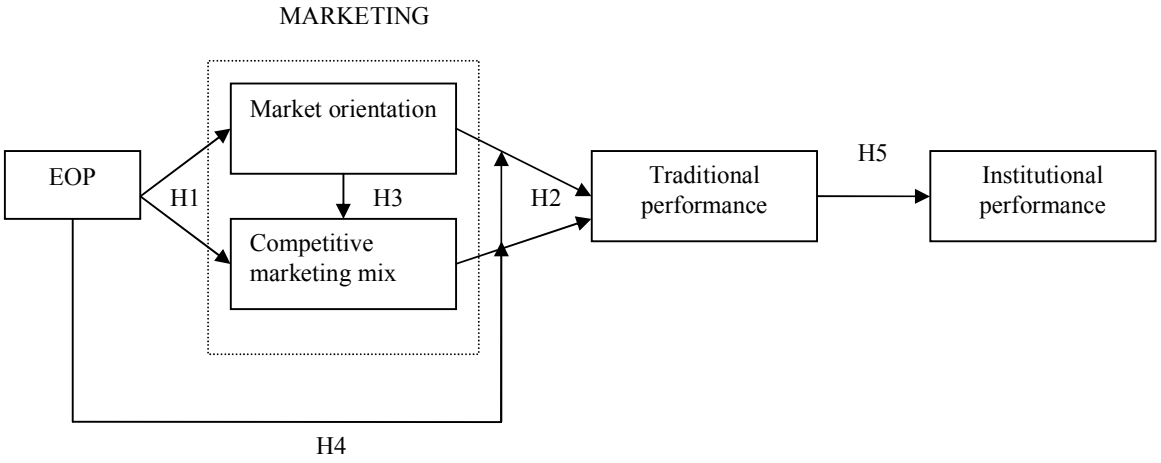
1.6 Traditional Performance and Institutional Performance

In Western countries, traditional business performance criteria such as profitability or market share are usually the right measures for assessing both organizational efficiency and effectiveness (Matsuno and Mentzer, 2000). However, due to the consequences of political decisions for firm success in transition economies, especially in the case of SOEs (Li *et al.,* 2006), other measures of performance should also be considered (Tse *et al.,* 2003). The performance domains of efficiency and effectiveness have been clearly distinguished in the literature (Ostroff and Schmitt, 1993). Because efficiency refers to an input-output ratio or comparison (Pennigs and Goodman, 1977), traditional performance criteria may be the right measure of SOE organizational efficiency in a transition economy. Conversely, given that effectiveness refers to an absolute level of either input acquisition or outcome attainment (Pennigs and Goodman, 1977), SOE effectiveness in an early transition economy depends chiefly on context-specific goals, mainly political ones. For instance, government authorization of SOE investment is completely centralized in Cuba (Granma, 2007a), and all financial institutions belong to the state. Thus, in this context, SOE effectiveness primarily depends on obtaining permits, authorizations or financing from official institutions, which we refer to here as *institutional performance*.

As we have already noted, *The Economic Resolution of the 5th Congress of the Cuban Communist Party* and the Basis of the Enterprise Optimization Program are two sound pieces of evidence of the government's willingness to improve SOE efficiency (Alhama *et al.,* 2001; Marquetti, 2004; Monte, 2000). For instance, in Cuban Vice-president Carlos Lage's own words, "SOEs that have undergone Cuban Enterprise Optimization Program should be examples of economic efficiency". The goal is "to show with empirical results that the socialist enterprise can be as efficient or even more than other types of enterprises" (Granma, 2007b, p.2 and 3).

From an institutional theory perspective, firms that adapt to environmental pressures should achieve better performance (DiMaggio and Powell, 1991; Newman, 2000). In this case, SOEs that adapt to Cuban governmental pressures and become more efficient (or in other words, those that enhance their traditional business performance) should be rewarded by the government with better financing, more permits and authorizations to import goods or invest. This should lead them to attain superior institutional performance (effectiveness). Thus, we posit the following hypothesis:

> ***H5:*** *In the early phases of an economic transition, traditional SOE performance is positively linked to institutional performance.*



Source: proposed by the authors.

Figure 1. **Conceptual Model**

2. Methodology

2.1 Sample and Data Collection

The data for our analyses were obtained from a personal survey addressed to managers of Cuban SOEs with a turnover of more than €6 million (see *Table 1* sampling and data collection for details).

Gathering marketing data is more difficult in Cuba than in most other countries because the government does not allow surveys to be conducted without the proper approval procedures, which usually take more than a year. However, through a joint research program with the Executive Business Center (CEDET) of the University of Havana, we were able to survey Cuban executives in the Executive Business Master Program in different provinces throughout the country.

2.2. Measures and Validation of Measures

Market orientation (MO) was assessed using the MKTOR scale, a 15-item Likert scale ranging from 1 (totally disagree) to 7 (totally agree). The scale has three components: *customer orientation, competitor orientation*, and *inter-functional coordination* (Narver and Slater, 1990). Competitive marketing mix (CMM) was measured using a nine-item scale across the different marketing mix activities (Akimova, 2000; Hooley et al., 1993). Traditional performance (TP) was captured through five items: (a) *sales growth*, (b) *market share growth*, (c) *profitability*, (d) *customer satisfaction*, and (e) *employee motivation.*

Table 1. Data collection, sample description and relationships among variables

Scope	National
Collection method	Personal survey
Sample size	254 state-owned enterprises (86.2% subordinated to central government; 12.2% subordinated to local government; 1.6% cooperative)
Sample procedure	Convenience sample
Fieldwork	Pre-test (June 2005); Field work (July-December 2005)

SOE characteristics		**Count**	**%**
Industry	Agricultural and Manufacturing	25	10.40%
	Services	129	53.50%
	Construction	15	6.20%
	Others	72	29.90%
	Total	241	
Number of employees	< 100	76	30.60%
	101-500	95	38.30%
	>501	77	31.00%
	Total	248	
Others	Has a Marketing department	153 out of 243	63.00%
	Is in an "Enterprise Optimization Program"	166 out of 253	65.60%
	Has export operations	65 out of 246	26.40%
	Sells to the final consumer	92 out of 245	37.60%

	Sells to the final consumer				**Export operations**				**Marketing department**				**Number of employees**					
Industry	No		Yes		No		Yes		No		Yes		<=100		101-500		>500	
	cases	%	cases	%	cases	%	cases	%	cases	%	cases	%	cases	%	cases	%	cases	%
Agriculture and manufacturing	16	11.1	9	10.3	18	10.2	6	10.7	8	9.1	15	10.5	5	6.7	7	7.9	13	17.6
Services	67	46.2	60	68.9	101	57.1	23	41.1	48	54.5	75	52.8	36	48.6	56	63.6	35	47.3
Construction	14	9.6	0	0.0	14	7.9	1	1.8	4	4.5	11	7.7	6	8.1	6	6.8	2	2.7
Others	48	33.1	18	20.7	44	24.8	26	46.4	28	31.8	41	28.8	27	36.5	19	21.6	24	32.4
Chi-squared	16.51***				11.12***				1.16***				12.83***					
df.	3.00				3.00				3.00				6.00					
sig.	0.00				0.01				0.76				0.05					

Source: data from authors' own survey.

On the other hand, institutional performance (IP) was captured using three items[3]: (a) *capacity to obtain financing*, (b) *capacity to obtain governmental authorization for purchases or investment*, and (c) *expedited governmental authorizations*. The figures for both performance indicators were compared to the figures for the firm's main competitors over the last three years. All responses were provided based on a seven-point Likert scale ranging from "better" to "worse" (than major competitors). *Table 2* presents descriptive statistics for all of the items being presented.

[3] See Tse *et al.* (2003) for an example of the use of these items in the Chinese business environment.

Table 2. Descriptive statistics for scale items

	Mean	Std.Dev.
ITEMS: MARKET ORIENTATION SCALE (MO)		
(P02.1) Salespeople share information about competitors	4.49	1.97
(P02.2) Business strategies are driven by increasing value for customers	5.77	1.50
(P02.3) We achieve rapid response to competitor actions	4.27	1.93
(P02.4) Our commitment to serving customer needs is closely monitored	5.24	1.81
(P02.5) Managers from different departments regularly visit customers	4.17	1.94
(P02.6) Information about customers is freely communicated throughout the company	5.36	1.87
(P02.7) Competitive strategies are based on understanding customer needs	5.29	1.88
(P02.8) Business functions are integrated to serve market needs	5.35	1.69
(P02.9) Our objectives and strategies are driven by the creation of customer satisfaction	5.42	1.69
(P02.10) Customer satisfaction is frequently assessed	5,31	1.69
(P02.11) After-sale service is truly important for us	4.73	1.97
(P02.12) Top management regularly discusses competitors' strengths and weakness	4.79	1.96
(P02.13) Our managers understand how employees can contribute value for customers	4,87	1.69
(P02.14) Customers are targeted when we have an opportunity for competitive advantage	4.89	1.99
(P02.15) Different functional areas share resources	5.13	1.86
ITEMS: COMPETITIVE MARKETING MIX SCALE (CMM)		
(P03.3.1) Price competitiveness	4.85	2.00
(P03.3.4) Brand image	4.64	1.82
(P03.3.5) Product portfolio	5.11	1.77
(P03.3.6) Relationships with local or international suppliers	4.94	1.93
(P03.3.7) Distribution coverage within the Cuban market	4.99	1.92
(P03.3.8) Market research	4.74	1.72
(P03.3.10) After-sales service	4.56	1.87
(P03.3.11) Product design	4.34	1.86
(P03.3.12) Product packaging	3.73	1.88
ITEMS: TRADITIONAL PERFORMANCE SCALE (TP)		
(P02.2.1) Sales growth	5.36	1.50
(P02.2.2) Market share growth	5.15	1.69
(P02.2.3) Profitability	5.16	1.49
(P02.2.4) Customer satisfaction	5.14	1.51
(P02.2.10) Employee motivation	4.83	1.59
ITEMS: INSTITUTIONAL PERFORMANCE SCALE (IP)		
(P02.2.7) Capacity to obtain financing	4.72	1.77
(P02.2.8) Capacity to obtain governmental authorizations for purchases or investments	4.63	1.83
(P02.2.9) Ability to obtain expedited governmental authorizations	4.35	1.76
N	254	

Source: data from authors' own survey.

To assess the consistency of the components of the market orientation scale, we conducted a confirmatory factor analysis (see *Table 3*). Based on the results, three original items had to be dropped: "Managers from different departments visit customers regularly"; "After-sales service is truly important for us"; and "Salespeople share information about competitors". These three items were eliminated for two reasons that make it difficult to achieve convergent validity for their measurement scales:

- The factor loadings are lower than 0.6 (Bagozzi, 1980; Bagozzi and Yi, 1988; Hair *et al.,* 2006).
- The average variance extracted (AVE) is equal to or lower than 0.5 (Fornell and Larcker, 1981): 0.43 for customer orientation and 0.50 for competitor orientation.

Table 3. CFA with original items

Dimensions	Factor loadings
Customer orientation (CR: 0,82; AVE:0,43)	
(P02.2) Business strategies are driven by increasing value for customers	0.78
(P02.4) Our commitment to serving customer needs is closely monitored	0.72
(P02.5) Managers from different departments regularly visit customers*	**0.45**
(P02.9) Our objectives and strategies are driven by the creation of customer satisfaction	0.70
(P02.10) Customer satisfaction is frequently assessed	0.68
(P02.11) After-sale service is truly important for us *	**0.55**
Competitor orientation (CR: 0,83; AVE: 0,50)	
(P02.1) Salespeople share information about competitors*	**0.58**
(P02.3) We achieve rapid response to competitor actions	0.69
(P02.7) Competitive strategies are based on understanding customer needs	0.80
(P02.12) Top management regularly discusses competitors' strengths and weakness	0.70
(P02.14) Customers are targeted when we have an opportunity for competitive advantage	0.74
Interfunctional coordination (CR: 0,83; AVE: 0,55)	
(P02.6) Information about customers is freely communicated throughout the company	0.68
(P02.8) Business functions are integrated to serve market needs	0.83
(P02.13) Our managers understand how employees can contribute value for customers	0.82
(P02.15) Different functional areas share resources	0.62

Notes: Chi-square=83.04; df=65; p = 0.06511; RMSEA = 0.030;
*Deleted items. CR: composite reliability; AVE: Average variance extracted.

Source: data from authors' own survey.

Table 4. CFA with depurated scale

Dimensions	Factor loadings
Customer orientation (CR: 0,82; AVE:0,53)	
(P02.2) Business strategies are driven by increasing value for customers	0.70
(P02.4) Our commitment to serving customer needs is closely monitored	0.74
(P02.9) Our objectives and strategies are driven by the creation of customer satisfaction	0.79
(P02.10) Customer satisfaction is frequently assessed	0.69
Competitor orientation (CR: 0,82; AVE: 0,53)	
(P02.3) We achieve rapid response to competitor actions	0.68
(P02.7) Competitive strategies are based on understanding customer needs	0.81
(P02.12) Top management regularly discusses competitors' strengths and weakness	0.69
(P02.14) Customers are targeted when we have an opportunity for competitive advantage	0.73
Interfunctional coordination (CR: 0,84; AVE: 0,57)	
(P02.6) Information about customers is freely communicated throughout the company	0.69
(P02.8) Business functions are integrated to serve market needs	0.85
(P02.13) Our managers understand how employees can contribute value for customers	0.82
(P02.15) Different functional areas share resources	0.64

Notes: Model fit: Chi-squared=49.09; df=43; P=0.24223; RMSEA=0.022; CFI = 0.93
All loadings were significant at 99% of confidence.
CR: composite reliability; AVE: Average variance extracted.

Source: data from authors' own survey.

Following these modifications, the scale met all dimensionality, reliability and validity requirements (see *Table 4* and *Table 5*). The reliability of the scale is proven because the composite reliability of the three dimensions is higher than 0.6 (Bagozzi and Yi,

1988). Convergent validity is proven because the factor loadings are significant and higher than 0.6 (Bagozzi, 1980; Bagozzi and Yi, 1988; Hair *et al.,* 2006) and also because the average variance extracted (AVE) for each dimension is 0.5 or higher (Fornell and Larcker, 1981).

Table 5 shows the discriminant validity of the constructs considered here. Discriminant validity is assessed through average variance extracted (Fornell and Larcker, 1981). In fact, a construct should share more variance with its indicators than with other constructs. This happens when the AVE square root is superior to the estimated correlation among each pair of constructs.

Table 5. Discriminant validity

	Customer orientation	Competitor Orientation	Interfunctional Coordination
Customer orientation	0.73		
Competitor orientation	0.48	0.73	
Interfunctional coordination	0.46	0.41	0.76

Notes: Diagonal-AVE squared root. Below: estimated correlations among factors.

Source: data from authors' own survey.

Table 6. CFA with final items

	Factor loadings
Customer orientation (CR: 0.81; AV E: 0,52)	
(P02.2) Business strategies are driven by increasing value for customers	0.677
(P02.4) Our commitment to serving customer needs is closely monitored	0.697
(P02.9) Our objectives and strategies are driven by the creation of customer satisfaction	0.817
(P02.10) Customer satisfaction is frequently assessed	0.679
Competitor orientation (CR: 0.80; AVE: 0,51)	
(P02.1) Salespeople share information about competitors	
(P02.3) We achieve a rapid response to competitor actions	0.663
(P02.7) Competitive strategies are based on understanding customer needs	0.785
(P02.12) Top management regularly discusses competitors' strengths and weakness	0.727
(P02.14) Customers are targeted when we have an opportunity for competitive advantage	0.674
Inter-functional coordination (CR: 0,78; AVE: 0,5)	
(P02.6) Information about customers is freely communicated throughout the company	0.608
(P02.8) Business functions are integrated to serve market needs	0.764
(P02.13) Our managers understand how employees can contribute value for customers	0.782
(P02.15) Different functional areas share resources	0.61
Competitive marketing mix (CR: 0,78; AVE: 0,5)	
(P03.3.4) Brand image	0.703
(P03.3.6) Relationships with local or international suppliers	0.615
(P03.3.7) Distribution coverage within the Cuban market	0.661
(P03.3.8) Marketing research	0.783
Traditional performance (CR: 0.7; AVE: 0,5)	
(P02.2.2) Market share growth	0.616
(P02.2.4) Customer satisfaction	0.721
(P02.2.10) Employee motivation	0.631
Institutional performance (CR: 0,81; AVE: 0,94)	
(P02.2.7) Capacity to obtain financing	0.713
(P02.2.8) Capacity to obtain governmental authorization for purchases or investments	0.809
(P02.2.9) Ability to obtain expedited governmental authorizations	0.785

Notes: Model fit: Chi-squared = 396.180; df = 192; p = 0.000; RMSEA = 0.065; CFI = 0.919
All loadings were significant at the 99% confidence level.
CR: composite reliability; AVE: average variance extracted.

Source: data from authors' own survey.

Table 7. Discriminant validity

	Market orientation	Competitive marketing mix	Traditional performance	Institutional performance
Market orientation	0.97			
Competitive marketing mix	0.475	0.70		
Traditional performance	0.675	0.66	0.65	
Institutional performance	0.363	0.39	0.62	0.77

Notes: Diagonal: AVE squared root. Below: estimated correlations among factors.

Source: data from authors' own survey.

The final items and reliability levels for the scales related to all the constructs of our model (the scales for measuring market orientation, competitive marketing mix, economic performance and institutional performance) were determined using the same process. *Table 6* and *Table 7* present the measurements of the final items and constructs employed in our research.

Because all of the data came from the same respondents answering the same questionnaire, common method bias might exist. Following the approach of other researchers (e.g., Joshi and Sharma, 2004), Harman's one-factor test was performed on the items to assess whether common method bias affected our data. If there is a substantial amount of common method variance, then either a single factor will emerge from the factor analysis or one general factor will account for the majority of the covariance among the variables (Podsakoff and Organ, 1986). In our case, common method bias was not a problem. The factor analysis resulted in 4 factors with eigenvalues greater than 1 (accounting for 60% of the total variance), with the first factor accounting for 36% of the variance. Thus, common method bias does not affect our data.

3. Hypothesis Testing

Hypothesis 1 postulates that in the early phases of an economic transition, SOEs that follow an Enterprise Optimization Program should have marketing capabilities (market orientation and a competitive market mix) superior to those of SOEs that do not. Table 8 shows that as expected, the level of market orientation displayed by SOEs in the program (5.25) is higher than that of SOEs outside it (4.92), and this difference is statistically significant at the 0.05 level. *Table 8* also shows that SOEs in the program have a higher level of customer orientation and inter-functional coordination.

Table 8. Marketing capabilities among firms based on their participation in an EOP

	Participation in EOP	N	Mean	St. Dev	F	Sig.
MARKET ORIENTATION	No	87	4.92	1.40	3.86	0.05
	Yes	166	5.25	1.22		
Customer orientation	No	87	5.23	1.47	2.98	0.08
	Yes	166	5.54	1.26		
Competitor orientation	No	87	4.60	1.61	2.40	0.12
	Yes	166	4.91	1.49		
Inter-functional coordination	No	87	4.92	1.50	4.33	0.038
	Yes	166	5.30	1.32		
COMPETITIVE MARKETING MIX	No	87	4.56	1.65	4.63	0.032
	Yes	166	4.97	1.32		

Notes: *p <0.1; ** p < 0.05; *** p < 0.01.

Source: data from authors' own survey.

However, the level of competitor orientation is not significantly different between SOEs participating in the program and those that are not. Furthermore, the marketing mix competitiveness for SOEs in the program (4.97) is significantly higher than that for SOEs outside it (4.56). In summary, the results suggest that SOEs in an Enterprise Optimization Program do have market capabilities superior to those of SOEs outside it. Thus, hypothesis 1 can be accepted.

Hypotheses 2, 3, 4 and 5 were tested using an SEM estimated through AMOS. Regarding the fit of the model, χ^2 is 395.693 with 193 df (p = .000). χ^2/df is lower than 3 and higher than 1 (2.05); RMSEA, .064 (< 0.08) and CFI, .92 (>.9). Consequently, we can conclude that the model and the data fit reasonably well.

Table 9. Estimated coefficients

			MODEL		
			Estimate	(Std. error)	Standard coefficient
CMM	<---	MO	0.462***	(0.082)	0.474
TP	<---	MO	0.354***	(0.070)	0.448
EP	<---	CMM	0.360***	(0.081)	0.444
IP	<---	TP	0.728***	(0.116)	0.599

Notes: p <0.1; ** p < 0.05; *** p < 0.01.

Source: data from authors' own survey.

Table 9 above presents the estimated coefficients. The standardized coefficient between market orientation and traditional performance is 0.448 (indicating a significant relationship between the two constructs); the coefficient for market orientation and competitive marketing mix is 0.474; the figure is 0.444 for competitive marketing mix and traditional performance; and finally, the figure is 0.599 for traditional performance and institutional performance. All of these results are statistically significant. Therefore, the results for hypotheses 2, 3, and 5 agree with our expectations. However, in testing hypothesis 3, which postulates that the competitive marketing mix mediates the relationship between market orientation and traditional business performance, we need to follow some additional steps (Hair *et al.,* 2006, p.867). First, we need to verify whether i) market orientation (alone) is significantly correlated with traditional performance; ii) market orientation is significantly correlated with competitive marketing mix; and iii) competitive marketing mix is significantly correlated with traditional performance. Then, if the relationship between market orientation and traditional performance remains significant and unchanged once the competitive marketing mix is included in the model as an additional predictor (with market orientation and competitive marketing mix now predicting traditional performance), then the idea that mediation exists is not supported. On the other hand, if the relationship between market orientation and traditional performance becomes weaker but remains significant when competitive marketing mix is included as an additional predictor, then partial mediation is supported. Finally, if the relationship between market orientation and traditional performance is reduced to the point that it is not significantly different from 0 after competitive marketing mix is included as a mediating construct, then full mediation is supported. In our case, the relationship between market orientation and traditional performance becomes weaker but remains significant when competitive marketing mix is included as an additional predictor. (Working from a coefficient of 0.530 that is significant at the 0.01 level, the inclusion of competitive marketing mix decreases the coefficient to

0.354, which is also significant at the 0.01 level). Thus, the idea of partial mediation is supported.

Table 10. Multigroup analysis

			Enterprise Optimization Program (EOP)					
			Structural weights constrained		Unconstrained model			
					Has followed the EOP		Has not followed the EOP	
			Estimate	Std. error	Estimate	Std. error	Estimate	Std. error
CMM	<-	MO	0.481***	0.082	0.566***	0.104	0.225*	0.126
TP	<-	MO	0.363***	0.071	0.339***	0.092	0.354**	0.116
TP	<-	CMM	0.346***	0.079	0.360***	0.112	0.367**	0.126
IP	<-	TP	0.698***	0.114	0.634***	0.137	0.812***	0.233
CMIN			750.365***		731.662***			
DF			409		387			
CMIN/DF			1.835		1.891			
CFI			0.869		0.867			
RMSEA			0.058		0.06			

Notes: *p <0.1; ** p < 0.05; *** p < 0.01; Standard error in brackets

$\Delta\chi$ =18,704; Δdf. =22; p = 0.664 => the model with constrained structural weights is not worse than the unconstrained model.

Source: data from authors' own survey.

We also tested H4, which compared firms participating in the Enterprise Optimization Program to those that were not (see *Table 10*). We ran the multigroup analysis twice: once with the constraint that the structural weights were the same among the firms in the two groups and another without this constraint. For the model assuming the same structural weights for both groups of firms, the estimated coefficient between market orientation and traditional performance is significant (0.363). When the estimation is conducted without the constraint, the estimated coefficient for market orientation and traditional performance for firms that have gone through an Enterprise Optimization Program is 0.310, while the figure for firms that have not gone through this program is 0.121.

Table 11. Summarizes the results of the hypotheses testing

Hypothesis	Results
H1: SOEs that follow the Enterprise Optimization Program should have marketing capabilities superior to those of SOEs that do not.	Accepted
H2: There is a positive link between the marketing capabilities of SOEs and traditional business performance.	Accepted
H3: A competitive marketing mix mediates the link between an SOE´s market orientation and traditional business performance.	Accepted
H4: The positive link between the marketing capabilities of SOEs and their traditional performance should be stronger for firms that have gone through an Enterprise Optimization Program than for those that have not.	Not accepted
H5: The traditional business performance of SOEs is positively linked to institutional performance.	Accepted

Source: data from authors' own survey.

However, we cannot say that this difference is significant because the model with the constrained structural weights does not fit significantly worse than the unconstrained model ($\Delta\chi$ =18,704; Δdf. =22; p = 0.664), so there is no need to assume that the structural weights are different for the two groups. In other words, in the early phases of an economic transition, the positive link between the marketing capabilities of SOEs (market orientation and a competitive marketing mix) and economic performance is not stronger for firms that are in the Enterprise Optimization Program than for those that are not. The summary of hypotheses testing is presented in *Table 11*.

4. Discussion and Implications

4.1 Discussion and Implications for Researchers

This research makes several contributions to the marketing field. First of all, these data are the first report on the marketing capabilities of SOEs in an early transition economy like Cuba. Previous research on marketing capabilities in transition economies was carried out when the formerly centrally planned system had been significantly reformed or when the Communist party had been removed from the government. No prior research has analyzed the consequences of marketing capabilities on SOE performance in the early phases of an economic transition when a Communist government is still ruling the economy, as is the case in Cuba. We first had to validate the measurement scales used to assess marketing capabilities (market orientation and a competitive marketing mix) in this context. The results demonstrate that Narver and Slater's scale, with slight modifications, is a valid and reliable instrument for measuring firms' market orientations in the early phases of an economic transition. Although the scale was first developed in the US, it appears to work rather well in capturing the construct of market orientation in a Cuban cultural context. The reliability coefficients and the confirmatory factor analysis for the market orientation constructs show that the scale is appropriate based on the criteria established in the literature. However, three items had to be dropped from the original scale. One refers to the importance assigned to after-sales service by the firm. This could be a consequence of the lack of spare parts in the Cuban market as a result of the difficulty of importing them (Piñero, 2009). The second item removed from the scale deals with the frequency with which managers from different departments at a firm visit customers; this task is probably not an attribute of market-oriented firms in Cuba because the centrally planned culture still prevalent among Cuban management does not encourage visiting customers. Finally, the third item that we had to drop pertained to salespeople sharing information about competitors. This may not be done frequently because business information is very difficult to obtain in Cuba and certain details remain shrouded in secrecy (Cerviño and Bonache, 2005).

We also validated a scale to assess marketing mix competitiveness in early transition economies like Cuba's. The final scale had only four items: market research, distribution coverage within the Cuban market, brand image and useful relationships with national or international suppliers. Because prices are almost the same within Cuba, price competitiveness is not an issue in this context. In addition, product items like product range, design and packaging also had to be removed from this scale, suggesting that product issues are not relevant for marketing mix competitiveness. According to Batra (1996), SOEs in transition economies tend to have high brand awareness, although they do not always have reputations for high-quality products.

On the other hand, our empirical data reveal that in the early phases of a transition, marketing capabilities significantly boost SOEs' traditional performance. The results obtained show that market orientation (or in other words, the implementation of the marketing concept) is a key marketing capability for SOEs from the very beginning of the economic transition process. In addition, the results reveal that a competitive marketing mix is also a significant marketing capability that enhances the traditional performance of SOEs from the beginning of an economic transition. As in Western economies, a competitive marketing mix clearly improves economic performance. Thus, while the options for using marketing mix strategies are limited in the Cuban business environment, an SOE that is able to put a competitive marketing mix into operation may benefit from superior performance.

Moreover, the data show that a competitive marketing mix partially mediates the relationship between market orientation and traditional performance. In other words, market orientation has a direct effect on performance, and a competitive marketing mix leverages this effect. Thus, although market orientation is an important capability for SOEs in the early phase of a transition, organizations that simultaneously exhibit market orientation and a competitive marketing mix attain better performance than those organizations that only exhibit a market orientation.

Likewise, we have confirmed the positive relationship between traditional performance and institutional performance. It has been proposed that in transition economies, socialist values and traditions form part of the formal rules (through government directives regarding economic activities) and part of the informal rules (through their influence on managerial practices and routines) (Peng and Luo, 2000). SOEs that conform to these expectations may be rewarded with access to bank loans and other financial resources, although these firms may be close to bankruptcy (Xu *et al.,* 2006). Our research shows that the reverse is also true: SOEs that achieve better traditional business performance and end up being more efficient can also be rewarded with access to financial resources, permits or authorizations, thus achieving better institutional performance and becoming more effective.

Furthermore, our research contributes to the literature as the first study on the role of enterprise optimization programs within transition economies. In Cuba, the Enterprise Optimization Program has aimed to enhance SOE efficiency, establish a more market-oriented philosophy and behaviour among those organizations, and improve SOE competitiveness (Alhama *et al.,* 2001; Cuban Communist Party, 1998; Granma, 2007a, b; Travieso-Díaz, 2001). Our results suggest that SOEs that are participating in the program enjoy marketing capabilities superior to those of SOEs that are not; they exhibit a better market orientation and superior marketing mix competitiveness. However, in terms of market orientation, no significant difference was found in the level of competitive orientation for SOEs that take part in the program as opposed to those that do not. This finding could result from the legacy of the former culture of monopoly that exists in those organizations.

In addition, our empirical data show that following the program does not moderate the relationship between marketing capabilities and traditional performance. Thus, although our results suggest that the program may increase SOE marketing capabilities (in other words, the degree of such capabilities), they also show that this program does not make a difference in terms of the potential for marketing capabilities to enhance traditional performance, or in other words, to enhance the quality of those capabilities.

4.2 Implications for Managers of SOEs

This study has an important implication for managers of SOEs because it shows that developing strong marketing capabilities in the early phase of an economic transition should be a successful way to build a sustainable competitive advantage. As we have seen in Cuba, as the market is becoming more open and free, SOEs should undergo a significant cultural transformation to become more market-oriented, and they will also have to learn conventional marketing techniques to become more capable at executing marketing practices. Following a government enterprise optimization program may help to increase the marketing capabilities of a firm. However, because of the cultural heritage of monopoly and central planning that is at play in this context, when Cuban SOEs are trying to improve their market orientation, their strongest efforts should probably be directed toward enhancing SOE competitor orientation. As in developed markets, satisfying consumer needs and wants is not enough; the firm must do this better than its competitors, and thus organizations should be customer- and competitor-oriented (Narver and Slater, 1990).

Moreover, although there are limited opportunities to use marketing mix capabilities in the early phases of an economic transition due to the influence of central planning, which will probably remain significant, our results show that SOEs that are better at developing such capabilities will achieve superior performance. In these environments, SOE managers should devote special attention to capabilities such as gathering market data, brand image (as a way of differentiating the product) and achieving good distribution throughout the market. In this way, managers will be able to transform traditional SOEs into *marketized firms* (Nee, 1992), making them able to compete successfully with private firms in a mixed economy.

4.3. Limitations and Future Research

Although this study has provided some insight into marketing capabilities in a very early TE, it is important to recognize some limitations of our research. First, the data for this study were collected using the key informant approach. Future research should assess market orientation, competitive marketing mix, and performance using more than one informant per firm. Second, we made use of subjective measures of traditional and institutional performance. Although subjective performance measures have been extensively used in the literature, and although they have been repeatedly demonstrated to be highly correlated with more objective measures, it would have been better to employ objective ones. Another limitation is that this study is based on responses from executive managers who were attending an Executive Business Master Program at the University of Havana. The data would be more representative of Cuban businesses if we had used a mail survey; however, mail surveys in Cuba require a permit from Cuban authorities that is both difficult and time-consuming to obtain. Finally, our work is based on a cross-sectional study, whereas longitudinal research would have been a better methodology for our purposes. Therefore, future research on these limitations would be more than welcome.

Further research is also needed concerning the antecedents of SOE marketing capabilities in early TEs. In the present study, we have explored the influence of an enterprise optimization program on SOE marketing capabilities. However, we did not have the data that would have been necessary to test for casual relationships. Thus, future research should analyze the relationship between following this program and the firm's level of marketing capabilities while taking into account the effects of other antecedents derived

from the literature, including the characteristics of top management teams, organizational resources, or reward systems (Kohli and Jaworski, 1990). Furthermore, some have argued that marketing capabilities could be improved if the majority of board members of Cuban SOEs were professional managers instead of state officials, as they presently are (Castañeda, 2006; Travieso-Díaz, 2001). Future research should also be conducted on this issue.

Additionally, this work considered the competitive marketing mix as a one-dimensional variable. However, previous research has shown the importance of the interdependencies that exist among the different marketing mix components and performance (Eng and Spickett-Jones, 2009). Therefore, future research could explore the interdependencies among market orientation and the different marketing mix decisions in an early TE.

Future research should also analyse the moderating effect of the enterprise optimization program on the relationship between marketing capabilities and performance. Our data only gave us information about SOEs that take part in an enterprise optimization program compared with those that do not. It could be of interest to investigate whether there might be a moderating effect on the relationship between marketing capabilities and performance after a certain amount of time in the program.

Conclusions

Having conducted the first examination in the Cuban economy of the consequences of SOE marketing capabilities during the early phases of an economic transition, we can suggest that those capabilities (market orientation and a competitive marketing mix) improve traditional business performance and that a competitive marketing mix mediates the relationship between SOE market orientation and performance. Thus, we are confident in suggesting that during the early phases of an economic transition, marketing capabilities make a significant contribution to SOE competitiveness. Our results also indicate that in such environments, SOEs that engage in a government enterprise optimization program may enjoy better marketing capabilities. As a result, SOEs should be willing to participate in such programs.

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MARKETINGO PAJĖGUMAI, ĮMONIŲ OPTIMIZAVIMO PROGRAMOS IR VEIKLA ANKSTYVOSIOSE PERĖJIMO EKONOMIKOSE: VALSTYBEI PRIKLAUSANČIŲ ĮMONIŲ ATVEJIS KUBOJE

Joan Llonch, Alex Rialp, Josep Rialp

SANTRAUKA

Atlikus empirinius kokybinius tyrimus 254 Kubos valstybei priklausančiose įmonėse (VĮ), šiame straipsnyje pabrėžiami valstybei priklausančių įmonių marketingo pajėgumai ankstyvosiose ekonomikos perėjimo fazėse bei pasekmes. Išvados rodo, kad tie marketingo pajėgumai (marketingo orientacija ir konkurencingas marketingo kompleksas), faktiškai pagerina tradicinio verslo efektyvumą ir taip pat konkurencinis marketingo kompleksas tarpininkauja tarp valstybei priklausančių įmonių rinkos orientacijos ir veiklos ryšių.

Autoriai yra įsitikinę, kad per ankstyvąsias pareinamosios ekonomikos fazes, marketingo galimybės gali įnešti reikšmingą indėlį į valstybei priklausančių įmonių konkurencingumą, naudodamos sektoriaus įmonių optimizavimo programomis.

REIKŠMINIAI ŽODŽIAI: marketingas, organizacijos veikla, valstybinės organizacijos, pereinamoji ekonomika, Kuba.