

■ GLOBAL PERSPECTIVE

## ***Smaller and Larger Firms' Marketing Activities as a Response to Economic Privatization: Marketing Is Alive and Well in Croatia\****

Croatia is a strategic link between the Mediterranean and many central and eastern European countries and between northern and southeastern Europe. Its importance as an economic trade route for access to much larger markets has been recognized throughout history. In 1991, Croatia declared its independence from Yugoslavia and began moving toward a free market economy system. After 45 years of state control of its economy and a devastating civil war, Croatia is just now beginning to recover. The transition to a free market economy has produced some significant challenges for companies in Croatia. This article focuses on how those challenges have affected the marketing activities of firms in Croatia.

Historically, Croatia has predominantly been a Western rather than Eastern European country in its culture, politics, and commerce and in past centuries has been culturally and economically tied to its northern and western neighbors more than to its eastern neighbors. Although its Western orientation has helped considerably during its transition period, the first three years after independence produced a highly volatile economy in Croatia. For example, in 1993, the annual inflation rate was 2000 percent, with a GDP growth of -3.2 percent. In 1994 inflation was over 1500 percent for the

year, and GDP growth was -3.7 percent. As an example of the incredible instability during that time, October 1993 saw an inflation rate that was close to 39 percent for the month, while the month of December of the same year saw a monthly inflation rate of -0.5 percent (Akpinar 1995; *The Banker* 1995). On the other hand, inflation in 1995 stabilized at approximately 3 percent and was expected to increase slightly to approximately 5 percent for 1996, while growth in the GDP is expected to be approximately 3 percent for 1996, signaling a substantial turnaround in economic health and stability (Akpinar 1995). The European Bank for Reconstruction and Development has rated Croatia as making significant progress toward a market economy, emphasizing the stability of Croatia's economy (Aoki and Kim 1995).

One of the first steps required for the long-term success of a transitional economy is the transfer of state-owned corporate assets to private ownership. The purpose of privatization is to provide companies and managers with an incentive to improve the efficiencies of business activities, to pursue profitable ventures, and to grow and prosper (Miller 1994). The effect of privatization should include more business startups, increasing numbers of small and medium-sized enterprises, increased competition, increased numbers of choices for consumers, and a general increase in economic activities (Kastelan-Mrak and Vehovec 1995; Miller 1994).

Privatization of firms in Croatia began in earnest in 1992. As of 1994, approxi-

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mately 85 percent of all firms eligible for privatization in Croatia had an ownership structure composed of at least a majority private ownership (Croatian Privatization Fund 1994). Privatization in Croatia during the years 1991 to 1994 resulted in a decrease in the number of large firms by approximately 39 percent, while the number of smaller enterprises increased by 211 percent (Biljan and Lovric 1995). As reported by Biljan and Lovric (1995), the structure of Croatia's economy suggests defining larger firms in Croatia as having more than 250 employees and defining smaller firms as having fewer than 250 employees. For all size categories, the average number of employees per enterprise declined, indicating a drive for efficiencies in privatized firms (Kastelan-Mrak and Vehovec 1995).

The real test of the effectiveness of the transition to a free market economy is whether, at the individual firm level, managers change the way in which they conduct their business activities (Ennew et al. 1993; McDonald 1993; Miller 1994; Shipley and Fonfara 1993). The transition to a free market economy has produced two significant sources of turbulence. The first is that customers' preferences are changing, creating a market in which a company's customer base is different. The second is that new entrants into the market in the form of business startups and foreign competitors have significantly increased the intensity of competition, making it much more difficult to keep customers. Past research has indicated that to remain successful in the face of such market turbulence and the increasing intensity of competition, companies in non-transitional economies will increase the level of their market-oriented activities (Jaworski and Kohli 1993; Lusch and Laczniak 1987). Additionally, a stronger focus on supplier relations should also be evidenced under these conditions as firms strive to improve the quality and cost-effectiveness of their products (Landeros and Moncyka 1989; Spekman, Kamauff, and Salmond 1994).

In the turbulence of Croatia's new economic structure, the adaptability of Croatian companies might be affected by a number of business characteristics, including the firm's size, the firm's ownership structure, the type of business, and whether the firm sells to consumer or industrial customers (Brush 1992; Kastelan-Mrak and Vehovec 1995; Martin and Grbac 1995; Rekettye, Ghobadian, and Liu 1995).

Based on the above considerations, a survey was conducted to investigate the following three research questions:

1. *Are the changes companies have made in their marketing activities after privatization related to the extent of privatization?*
2. *Have smaller companies increased their marketing activities more extensively than larger companies in Croatia after economic privatization?*
3. *Is the extent to which firms in Croatia are implementing marketing activities after economic privatization was initiated related to the size and type of business or to the type of product sold?*

## Method

A mail survey was developed and sent to the CEOs of 500 randomly selected businesses in Croatia during June 1995. Of the 500 questionnaires, 125 were returned, yielding a response rate of 25 percent. Nine questions were asked relating to four basic marketing activities (strategic planning, customer information collection and maintenance, competitor information collection and maintenance, and supplier relationship management). Questions used a scale of one to six anchored by "not done at all in our business" and "done extensively in our business." They were also asked about the extent to which the company engaged in certain marketing-related activities. Each question asked about the activity in the firm before the economic privatization program and then asked about the activity after the privatization program was started. Additional questions asked about the characteristics of the business including the category of the business (retailer, wholesaler, manu-

**Table 1**  
**Mean Responses for Small and Large Croatian Firms: Extent of Activity in Each of the Four Marketing Activities Before and after Economic Privatization**

	Customer Information		Competitor Information		Strategic Marketing Planning		Supplier Management	
	before	after	before	after	before	after	before	after
Smaller firms	2.65 <sup>a</sup>	3.33 <sup>b</sup>	2.84 <sup>a</sup>	3.59 <sup>b</sup>	3.63 <sup>a</sup>	4.63 <sup>c</sup>	3.17 <sup>a</sup>	3.92 <sup>b</sup>
Larger firms	2.88 <sup>a</sup>	3.52 <sup>b</sup>	2.53 <sup>a</sup>	2.97 <sup>b</sup>	3.5 <sup>b</sup>	3.96 <sup>b</sup>	3.63 <sup>b</sup>	3.94 <sup>b</sup>

<sup>a,b,c</sup> Within each marketing activity, means with different letters are significantly different from each other at  $p < .01$  using a post hoc test.

facter, or service), the type of primary product or service sold (consumer, industrial), the number of employees, and the ownership structure.

### Results

Ownership was classified into three types: primarily state owned firms (17 percent of the firms in the sample); mixed ownership (5 percent); and primarily privately owned (78 percent). The distribution of ownership structure of our sample matches the distribution of ownership structure of the population according to the Croatian Privatization Fund (1994), suggesting that our sample is representative of the population of firms in Croatia.

Retailers made up 11.4 percent of the sample, wholesalers made up 8.1 percent of the sample, manufacturing 42.3 percent, and service firms 36.6 percent of the sample (3.2 percent of the sample did not respond to this question). Consumer products companies comprised 62.4 percent of the sample and 33.6 percent of the sample were industrial products firms. Firms were classified into two size categories, with 68 percent (85 firms) of the sample having fewer than 250 employees, and 32 percent (40 firms) of the sample having more than 250 employees. This size distribution was representative of the size distribution of firms in Croatia.

To determine whether privatization had an effect on the marketing activities of firms and whether smaller companies responded differently from larger com-

panies, the following ANOVA between and within subjects was conducted: 2 (before vs. after privatization) X 4 (type of marketing activity: customer information vs. competitor information vs. planning vs. supplier relationship management) X 2 (number of employees: fewer than 250 employees vs. more than 250 employees). A significant three-way interaction emerged from the analysis ( $F = 12.57$ ;  $p < .001$ ), as well as a main effect for the type of activity ( $F = 20.19$ ;  $p < .001$ ) and for the before-after privatization factor ( $F = 84.64$ ;  $p < .001$ ). Table 1 displays the mean responses for firms in each of the conditions of the analysis. Post hoc comparisons from the three-way interaction indicated that as companies went through the transitional phase of economic privatization, smaller companies differed from larger firms on some of the four marketing activities but not on all of them.

Follow-up analyses revealed that collecting both customer and competitor information significantly increased after privatization for both larger and smaller companies. The Croatian government's policy on economic privatization evidently stimulated firms of all sizes to significantly increase the extent to which they collect and maintain market information.

Smaller firms significantly increased their strategic marketing planning after privatization. Larger firms did not. Additionally, after privatization, smaller firms also reported significantly higher levels of strategic marketing planning

compared to larger firms. This finding would suggest that larger firms had a much more difficult time adapting their marketing activities to the new economic conditions of increased competition and market turbulence than did smaller firms.

Smaller firms also reported significantly more activity in supplier relationship management after privatization than before privatization, whereas larger firms did not significantly change the extent to which they engaged in supplier relationship management. Small firms were significantly lower on supplier relationship management activities prior to the economic transition, so the increased activity of smaller firms after economic privatization had the effect of bringing small firms up to the same level as larger firms with respect to managing suppliers.

A similar ANOVA was conducted to determine the extent to which private ownership affected four marketing activities of firms in response to the changing economy. The two-way interaction between ownership and before-after privatization was significant, indicating that the degree of ownership did make a difference in how firms responded to the new market conditions ( $F = 3.89; p < .02$ ). Post hoc analyses indicate that across all four marketing activities, privately owned companies significantly increased their marketing activities after privatization ( $M_{\text{after priv.}} = 3.83$ ) compared to before privatization ( $M_{\text{before priv.}} = 3.02; t = 6.09; p < .001$ ). State-owned and mixed ownership companies did not significantly change their marketing activities after privatization compared to before. Private ownership firms did begin to behave in a more market-oriented manner, which was the goal of the Croatian privatization program. Additional analyses using business type and product type indicate that neither business category nor product type had any effect on the way in which firms were responding to the new economic conditions.

### Conclusions

Privatization and the transition to a free market economy in Croatia have resulted in increased economic activity,

increased numbers of businesses, increased competitive offerings, and increased economic stability. What effect has this had on the marketing activities of smaller and larger firms? Results from this research clearly show increased marketing activity among companies after privatization. All firms in the sample significantly increased their collection of customer information and their collection of competitor information indicating a desire among these managers to know how to better satisfy their customers and how to either remain competitive or become more competitive. Increased usage of market-related information by these firms would suggest Croatian firms are becoming significantly more market-oriented than they were prior to the privatization.

Smaller companies have significantly increased their marketing planning activities and their supplier relationship management activities after privatization, while larger companies have not changed the extent to which they engage in these two marketing activities. Additionally, smaller firms indicated they were doing significantly more marketing planning after privatization than larger firms reported doing after privatization.

Apparently, smaller firms in Croatia have been better able to adapt to their changing environment than larger firms. This might be because larger firms must coordinate these changes in marketing activities among several managers within the company. Because many managers in Croatia have not had to become involved with marketing concepts in the past, coordination of these activities may be much more difficult in larger firms.

Transferring ownership from the state to private individuals should create a desire among those individuals to make their business more competitive. The data support this rationale for privatization. Those firms that were primarily privately-owned significantly increased these activities while the state-owned firms had not implemented a significant change in their marketing activities. Because smaller firms made more changes than larger firms and privately-owned

firms made more changes than state-owned firms, one explanation for the ownership effects was that the smaller firms were also the privately-owned firms. However, a cross tabulation of ownership by size of firm revealed that there was no relationship between those two variables ( $\chi^2 = 1.3$ ;  $p = .25$ ). This provides a strong argument that ownership and size of firm are affecting the implementation of marketing activities in Croatia's turbulent economy through different processes.

Businesses in Croatia are becoming more market-oriented as their economy continues the transition to a free market economy. Smaller companies appear to be making more progress in this regard than larger companies, but firms of all sizes are significantly increasing many of their marketing activities. As Croatia's economy continues the transition from a state-controlled economy to a free market economy, businesses will continue to develop and implement market-oriented activities which will bring them closer to the global marketplace.

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