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**THE DEVELOPMENT OF A MARKET ORIENTATION IN A TURBULENT,
TRANSITIONAL ENVIRONMENT - THE CASE OF UKRAINE**

LLOYD BLEWETT

Doctor of Philosophy

ASTON UNIVERSITY

March 2000

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This research is concerned with the case of Ukraine where there has been a fundamental change in the economic environment engendered by the transition from a centrally planned to a market economy and the resulting conditions of economic crisis. The way that Ukrainian marketers and consumers are reacting to this environmental change is the principal concern of the research together with the basic linkages between critical environmental elements and strategic marketing decisions

This research analyses the way in which marketing evolves in a turbulent, transitional environment. The study is based on eight case analyses within the retail sector of the Ukrainian market. The process of transition to a free market economy leads a researcher to question the validity of existing theories that have been based on empirical data that has been collected in the stable marketing environment of the West. For this reason an in-depth, theory building methodology is preferred.

A number of broad research objectives were set. Firstly, to establish whether the sales - production - marketing stages model of marketing evolution, derived from empirical data collected in stable Western environments, is relevant in the context of the turbulent, transitional environment of Ukraine. Secondly, to establish if, in this turbulent, transitional environment, idiosyncratic approaches to marketing are emerging and thirdly to assess the development of attitudes to marketing, organisation for marketing and the development of marketing strategy in Ukraine.

The main conclusions of this thesis are firstly, that the stages model of marketing orientation is not relevant in the context of Ukraine, secondly that there are idiosyncratic approaches to marketing emerging in the turbulent, transitional environment of Ukraine and finally that the above developments have a profound impact on the development of attitudes to marketing, organisation for marketing and the development of marketing strategy in Ukraine.

KEY WORDS: Marketing, Retailing, Attitudes, Organisation, Strategy

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Chapter 1. Introduction: Scope and Objectives of Research

Marketing managers respond to environmental changes such as governmental policy shifts by taking operational and strategic decisions. The marketing environment is significantly influenced by the variables of governmental fiscal and monetary policies that have the effect of rationing capital flows to various business sectors and which can enhance or impair a company's competitive advantages (Porter, 1990).

This research is concerned with the case of Ukraine where there has been a fundamental change in the economic environment engendered by the transition from a centrally planned to a market economy and the resulting conditions of economic crisis. The way that Ukrainian marketers and consumers are reacting to this environmental change is the principal concern of the research together with the basic linkages between critical environmental elements and strategic marketing decisions

This research analyses the way in which marketing evolves in a turbulent, transitional environment. The study is based on eight case analyses within the retail sector of the Ukrainian market. Macroeconomic conditions are, in the main, created by the fiscal and monetary policies of governments, (Huszagh, *et al.*, 1992), and the macroeconomic environment is in turn linked to marketing strategy, (Kotler and Armstrong, 1991). In the developed Western nations the environment allows for industries themselves to shape government policies.

There is a two way interaction between strategic marketing decisions and the fiscal and monetary policies of governments, (Huszagh, *et al.*, 1992), the response of marketing managers to the macroeconomic environment is thus proactive as well as reactive. This proactive stance is almost certainly less pronounced in the transitional economies of Eastern Europe.

The process of transition to a free market economy leads a researcher to question the validity of existing theories that have been based on empirical data that has

been collected in the stable marketing environment of the West. For this reason an in-depth, theory building methodology is preferred.

Brownlee et al. (1994), charge that the pre-eminence of quantitative, positivist studies have led to the development of "New Marketing Myopia" within marketing research. The extreme turbulence and uncertainty of the Ukraine environment at the time of the research lent itself to case study research. Case studies cope with technically distinctive situations where there are more variables of interest than data points, (Yin, 1994) and benefit from prior development of theoretical propositions to guide data collection and analysis.

Given the above, five broad objectives are set for the research:

1. To establish whether the sales - production - marketing stages model of marketing evolution, derived from empirical data collected in stable Western environments, is relevant in the context of the turbulent, transitional environment of Ukraine.
2. To assess whether, in this turbulent, transitional environment, idiosyncratic approaches to marketing are emerging.
3. To assess the development of attitudes to marketing in this environment.
4. To assess the organisation of marketing effort in this environment.
5. To assess marketing strategy development in this environment.

The structure of this research is shown in figure 1.1. Following on from this introduction chapters two and three review the relevant literature to present a

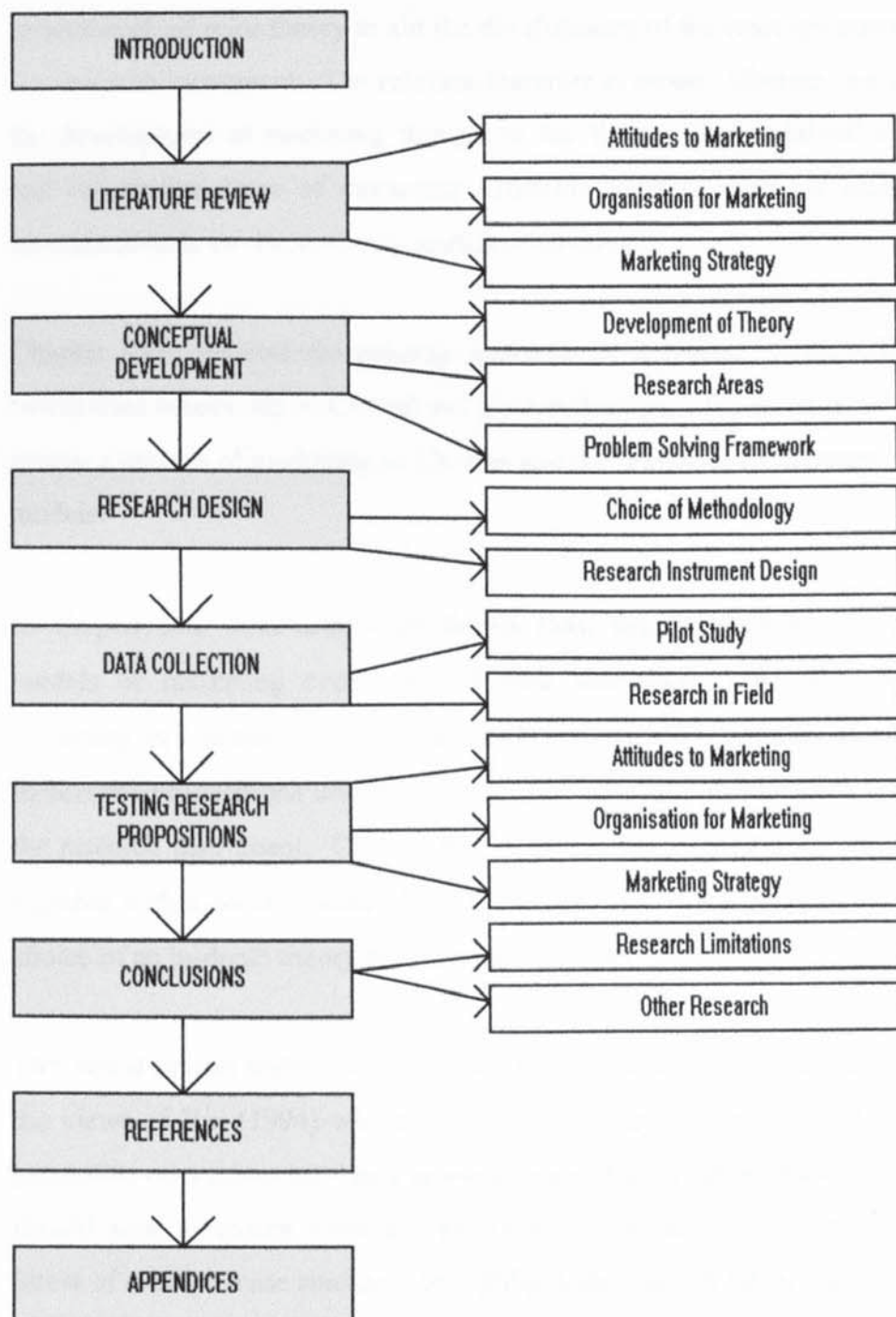


Figure 1.1 Thesis Guide

groundwork of prior theory to aid the development of the research questions and the research instrument. The relevant literature is broad. Chapter two considers the development of marketing thought in the Western industrialised economies and the current stage of marketing evolution together with the effect of the macroeconomic environment on market orientation.

Chapter three reviews the existing literature as it relates to marketing in the transitional economies of Central and Eastern Europe. It goes on to consider the unique elements of marketing in Ukraine and the relevance of Western marketing models.

In chapter four conclusions are drawn from the literature review regarding models of marketing evolution and their relevance to the development of marketing in Ukraine. From these conclusions research gaps are identified and theoretical propositions derived. These theoretical propositions are the basis of the research instrument. Chapter five describes the methodology and fieldwork together with a consideration of the Ukrainian context and an explanation of the choice of an in-depth theory building methodology.

This research uses method of agreement as an analytical tool. This is in line with the views of Yin (1994) who holds that case study research should not seek to generalise on a numerical basis as would quantitative, survey based research but should seek to ensure external validity by using analytic generalisation. The intent of multiple case studies is to highlight replications rather than to provide a statistically valid sample of a population. Yin describes this as a search for convergent evidence regarding the facts and conclusions for the case. These conclusions are then information needing replication by other individual cases.

Chapter six provides the main presentation and analysis of the research data. In this chapter comparisons are drawn between literal replications in the cases and the main cross-case analysis of theoretical replications is presented. Data provided by the research is explored organised by major subject areas and

objective data are tabulated. The richness of response made possible by case studies is used to provide additional insights.

In chapter six the findings from the analysis of data are set in their theoretical context as research propositions generated from the literature review and from theory development during the pilot and case studies are accepted, rejected or revised. In chapter seven conclusions are drawn and suggestions regarding the contribution of the research to the practice of marketing in Ukraine are made.

Chapter 2. The Development of Marketing Thought

2.1 Introduction

This section aims to describe the changes in the concept and practice of marketing in the Western industrialised nations which have led to the current stage of organisational and strategic evolution. Marketing in Ukraine is considered in detail in chapter three with emphasis placed on a consideration of the way that marketing has evolved and is evolving in the west and propositions concerning the possible ways in which marketing can be expected to evolve in Ukraine.

There is an often expressed periodisation scheme to explain the evolution of modern marketing, derived from models of the evolution of the marketing function within individual organisations, which consists of production, sales and marketing eras. It is also possible to argue however that most modern marketing practices began to develop much earlier than 1950, which is usually given as the beginning of the era of modern marketing. If this argument is accepted it is possible that there may be other periodisation schemes which better describe the evolution of modern marketing.

Marketing management grew out of a traditional sales management, transactional approach. The marketing emphasis was on product planning and development, pricing, promotion and distribution. This managerial emphasis had two elements. Firstly a standard micro-economic profit maximisation paradigm of marketing which involved the evolution of marketing departments staffed by functional specialists. The second element was the large, bureaucratic, hierarchical organisation with a pyramid shaped structure.

These two elements suited an environment that was changing less rapidly than that of following decades. Marketing organisations into the 1970s were often multi-layered as corporate centralisation allowed economies of scale and the development of specialised expertise. During the late 1970s and the 1980s this

type of organisation began to change as the concept of the strategic business unit emerged and marketing became more decentralised.

In response to global competition and other macro-economic forces new types of organisational structures have begun to emerge which are based on organisational networks characterised by flexibility and specialisation. These new types of organisation demand a new type of marketing which is often termed relationship marketing. In the Western industrialised nations marketing has moved its focus from transactions to relationships. Customers and suppliers are seen as partners in a long term strategic alliance.

Thus the firm's external environment of customers and suppliers is now not clearly delineated. Organisations are becoming boundaryless with blurred functions. These emerging organisational forms emphasise flexibility in response to customer needs. The marketing emphasis is now on long-term relationships and the assessment of which marketing functions to perform internally, purchase or engage in with a strategic partner.

Postmodernist marketing thought represents a reaction to or a departure from modernity, in a broad sense, from attempts to impose order and coherence to an acceptance of spontaneity and disorder. The postmodernist marketing perspective questions most marketing generalisations such as the predictive power of the product life cycle or the simplicity of the Boston matrix.

The possibilities of a postmodernist marketing revolution would seem to depend however on what it can offer as an alternative to existing marketing models and theories. Postmodernism proposes the primacy of the individual whereas modern marketing makes generalisations about groups of consumers. Thus relationship marketing, micro marketing and macro marketing are some of the concepts emerging as part of postmodernist marketing thought.

2.2 The evolution of modern marketing.

There is a widely held belief in marketing text books, (Assael, 1985), (Evans and Berman 1985) in the concept of a model of marketing's evolution through production, sales and marketing eras. This evolutionary model has at its base Keith's, (1960) study of the evolution of marketing at the Pillsbury company. According to this study the firm's production era began with its founding in the 1869 and continued until the 1930s, being characterised by a management emphasis on production rather than distribution. These dates closely match those suggested by Ansoff, (1980) for the mass production era which he says occurred in the USA between 1880 and 1930.

In the 1930s the sales era began characterised by energetic personal selling backed by research and advertising followed in the 1950s by the marketing era a time of sophisticated customer orientation. Keith's account is thus that of how a marketing orientation came about and indeed, as pointed out by Gilbert and Bailey, (1990) his article begins with an inference that at the time of writing, (1959), consumer orientation was only beginning to be accepted as a business concept with far reaching implications.

The production-marketing-sales concept is supported by Baker, (1985) among others who identify clearly identifiable stages of economic development. These explain from a general economic viewpoint the reasons behind the evolutionary process described at Pillsbury.

Baker describes the economic development of the UK economy which Gilbert and Bailey represent in five stages. Firstly the development of a craft industry which brought specialisation, the decline of self-sufficiency and the need to purchase specialised supplies. The volume of production is small and sold locally. The second stage is the division of labour required by increased production. Division of labour increased efficiency enabling lower prices. Increased demand in turn necessitated the development of distribution channels. This emphasis on distribution and selling is the beginning of marketing practice.

The third stage is described as the industrial revolution characterised by economies of scale and a product orientated management. The prevailing marketing policy is described as producing a standardised product at the lowest possible price. The next stage is said to be a period of international trade and industrialisation with export-led growth. The period is characterised by stable demand in the domestic economy which is said to have produced a production orientation.

If demand overall exceeds supply it is argued that there is little need for a market orientation. The fifth stage was one where excess supply was created as demand grew more slowly than productivity. Increased consumer affluence led to competitive advantage being based on areas of the marketing mix other than price.

This fifth stage of economic development marked the beginning of the modern marketing concept. It is a descriptive simplification of complex events and it is necessary to consider the marketing experience of individual firms within the suggested stages of economic development. Keith's description of the evolution of marketing at Pillsbury is similar to that of Baker's, and indeed of Ansoff's summary of the development of marketing in the USA, but related to the experience of one company.

The Pillsbury company was formed for production rather than consumer demand reasons. That is because high quality raw materials and water power were available rather than because a gap in the market or growing need had been identified, and there was therefore an absence of consumer consciousness. The belief of the founder was that if a high quality product was produced there would be a demand for it. At this time salespeople were seen as impassive intermediaries not charged with increasing sales.

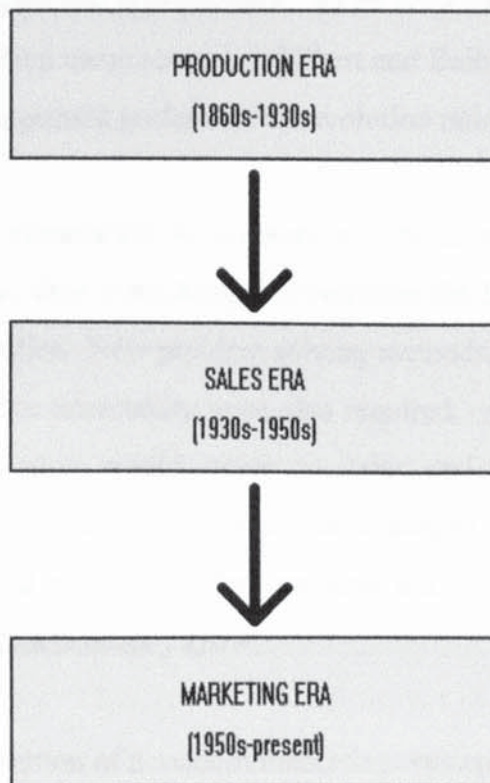


FIGURE 2.1: Production-Sales-Marketing Eras Model of the Evolution of Marketing.

During the company's sales era consumers tastes and needs became more important and attempts were made to analyse the market. This however was to find more effective ways of selling existing products to growing markets rather than to identify new gaps and opportunities. Keith does not suggest in his article why this sales orientation came about but Gilbert and Bailey, (1990) suggest that this was due to a management preference for evolution rather than revolution.

They argue that the stimulation of markets and development of a marketing orientation was costly, time consuming and required the threatening acquisition of new skills and facilities. New problem solving methods, structural change and the acceptance of future uncertainty were also required. Additionally, power in the company organisation would move to sales and marketing personnel. Management therefore chose to use aggressive selling to tailor demand to meet the products they could supply in order to extend the life of the production era and the management practices they knew.

None the less the evolution of a modern marketing concept continued to proceed gradually. Gilbert and Bailey propose that the sales era was a natural occurrence providing a step between the production and marketing periods, the sales era was thus the stimulus for the development of the modern marketing concept. According to Keith's account the beginning of marketing at Pillsbury was signalled by the gradual introduction of consumer research and new product development and was the result of the need for a management function to direct and control all other corporate functions including production and sales.

The production-sales-marketing eras model of marketing evolution came to be accepted both because it was held to be the experience of most US companies of the time and because the events related closely to established marketing development theory. In order to accept fully the production-sales-marketing eras concept it is necessary to accept the inference that a sales orientation did not exist before or during the production era but came into being purely as a result of supply exceeding demand. In the same way it is necessary to accept that marketing practices were not developed until it was apparent that hard selling

into the market was not as effective as focusing on providing consumer satisfaction.

The concept of marketing evolving through three stages involves a number of generalisations. Firstly, that neither sales or marketing practices were fully applied in business until towards the end of the production era in the 1930s. Secondly, that sophisticated marketing practices were not used by businesses until the 1950s. Thirdly, that during the production era there was little or no competition and demand exceeded supply and fourthly, that before and during the production era firms gave little thought to marketing.

Keith described this evolution as "typical", but the general applicability of this evolutionary model has been questioned by later writers. Dixon, (1981) found that sophisticated marketing thought had occurred centuries before. Bucklin, (1972) suggested a much longer gestation period for modern marketing institutions and Fullerton, (1988) presents a case against the production era which also weakens the accepted view of the sales and marketing eras which have been said to follow it.

The generalisation inherent in the production-sales-marketing model have been questioned by a number of writers who claim that the production era never occurred and the practices associated with the sales and marketing eras were often applied before the historical period when they are said to have been first applied. Middleton, (1989) criticised the production-sales-marketing concept by claiming that a customer orientation is as old as civilisation citing Roman sword makers who manufactured to the specific specifications of their customers. He also criticises the concept for over-emphasising the importance of customer-led marketing over asset-led marketing and the business approach of balancing company objectives with the needs of customers. The production era concept has also been criticised by Baudet and Van De Meulen, (1982) and Dixon, (1981).

Fullerton holds that the production era, which is commonly dated from about 1870 to 1930, had a number of characteristics. Firms focused their attention on physical production seeking to overcome supply problems by the use of new technology and more efficient management techniques. This meant that distribution was a secondary concern largely left to wholesalers and retailers. The output was of limited product lines which reflected production requirements in concept and design rather than the needs of customers. At this time demand exceeded supply, disposable incomes were generally growing and there was little competition in each particular product market. This meant that wholesalers and retailers could rely on unsophisticated methods to sell products, and therefore gave little thought to more sophisticated marketing practices.

The evidence for a production era actually occurring does not rest on Keith's example of the Pillsbury company alone, which, being a single example may not have been in any way typical of the time. The traditional view of the industrial revolution however does emphasise technological advances in production and transportation, and industrialisation did lead to increasing real incomes which in economic theory would indicate an increase in demand. This, if really the case, would indicate that the only real challenge facing the management of organisations at the time was on the production rather than the sales side of operations. The technological advances in production at the time such as the application of steam and electricity made the use of more complex machinery possible. This, coupled with improvements in training and factory methods made possible a massive increase in the number and variety of manufactured goods, (Landes, 1969).

These increases in production were achieved rapidly in some industries, such as in the mass mechanical production of cloth, and would have created a sense of confidence that production problems could be tackled and solved. However the production revolution was by no means finished in some industries by the 1930s and it is possible to think of industries, such as the hand finishing of clothing which still require intensive hand labour today. At this time some firms were orientated mainly towards production and paid little or no attention to marketing,

(Meikle 1979). Production and technological improvement remained as major interests of business well into the 1920s, a period which has become known as the era of mass production, (Hounshell 1984).

The mass production era was seen as the beginning of an age of plenty as is evidenced by the admiration at the time of the icon of mass production Henry Ford. Marketing however was being revolutionised at the same time and despite the genuine achievements of productivity, writers such as Fullerton, argue that this is insufficient to prove that there really was a production era which in turn evolved into sales and marketing eras.

Fullerton presents four arguments against this traditional supply side interpretation of the industrial revolution, an interpretation which supports the production era concept. Firstly it is argued that it is an established historical fact that at the time competition was intense in most businesses, that over-production was common and demand frequently uncertain. Secondly, that conscious demand simulation was of vital importance in developing advanced modern economies and that without this the production revolution would not have occurred. The third argument is that the notion of a production era does not account for the vigorous marketing efforts made by many enterprises at the time, and fourthly that the production era concept ignores the rapid growth of new marketing institutions outside of the manufacturing firm.

One of the characteristics of the production era is held to be a steady growth in disposable incomes which resulted in demand increasing more quickly than supply. This however is not a factor which can be held in isolation apart from the influence of the business cycle, changes in the social and demographic environment, changes in demand and problems associated with over-production and competition.

During the years which are termed the production era there were massive social and demographic changes particularly a massive movement of people from the country to urban areas. These people constituted a large potential market but one

which had never been focus of business effort before, and which would have required considerable marketing skill to tackle, (Fullerton, 1988). Consumer tastes can be expected to have been changing ever more rapidly, and the emergence of women as the main buyers of consumer goods indicates a need for rapid learning by business people. In a similar way business unpredictability may be associated with the changes in patterns of demand for many products. The production era is associated with several severe recessionary periods, in the early 1870s, the early 1890s and in the 1920s which, together with the First World War and its aftermath, must have caused great commercial uncertainty.

Fullerton also argues that over-production was in fact a problem in both the United States and Europe during the years associated with the production era. This he believes was the result of the introduction of mass production techniques which introduced an imperative to produce at full capacity, regardless of demand, because not to do so implied a loss of interest and capital. Competition is also seen as having intensified after 1870. Restrictions on entry into markets were few and capital to do so was generally available. Business conduct at the time, as exemplified by the high capitalists of the era such as J. D. Rockefeller and Pierpont Morgan was characterised by unrestrained ambition and aggression and was associated with energetic marketing and selling.

It is thus possible to argue that the business conditions associated with the production era did not exist. The production era concept also assumes strong demand for whatever products were put on the market and that the demand for and aggressive consumption of products occurred automatically with the supply of affordable products. This would seem to imply a belief in production creating its own demand, in contrast to the theory of (Gilboy, 1932) that the creation of increased demand by conscious effort (marketing or selling) counted equally with the technological revolution in production in developing the modern industrialised economies.

Increased production alone, or in conjunction with improved transportation, could not have resulted in large increases in demand, but purposeful activity by

merchants and entrepreneurs could, which in turn stimulated production (Fullerton, 1988). Thus, the activities of production and marketing working together produced results which neither activity alone could have produced. The view that marketing and production worked in unison is supported by McKendrick, Brewer and Plumb (1982) who show this tandem activity at the time of the industrial revolution in England. Production pioneers such as Mathew Boulton and Josiah Wedgewood also pioneered marketing, developing demand by the use of techniques such as market segmentation, product differentiation, prestige pricing, testimonials, and direct mail which are normally associated with the modern age.

There is therefore early evidence of the use of demand -enhancing marketing, and in the same way that British production technology was taken up eagerly elsewhere in Europe and in the United States so too were aggressive British marketing practices (Fullerton, 1988). By the early 1900s American marketing writers were describing "demand creation" as a fundamental management task (Converse, 1930, Shaw, 1916) and a range of marketing tasks including advertising, personal selling and creative pricing policies were being used to stimulate sales of products such as automobiles and cigarettes. It can therefore be argued that throughout the period known as the production era there was a corresponding ,if not greater, emphasis on marketing activities designed to stimulate and create demand. Indeed as production technologies continued to improve, leading to enhanced productive capacity ,and as new products entered the market, the need for demand stimulation was crucial to business success.

Producers are generally ascribed a passive role in demand stimulation during the production era. The reality however may be that producers were at the forefront of nearly all marketing functions during the period (Fullerton, 1988). This trend was prominent in the United States but also occurred in Britain and the rest of Europe. Producers became dissatisfied with the merchant wholesalers who had dominated marketing but who were negative towards new products and brands and could no longer supply adequate market intelligence. This led producers to conduct their own distribution efforts which took in market analysis, product

design, distribution, promotion and pricing. This meant that by the 1920s wholesalers were no longer in the dominant marketing position (Chapman, 1979).

In the years between 1870 and 1930 many organisations took a progressive stance in their marketing activities, readily adopting improvements such as formal sales training as they emerged. Branding and the use of trademarks for example, although in existence prior to 1870 developed rapidly during the period with companies like Pears Soap (UK) leading the way (Wilson, 1954). Packaging to improve branding came to be of greater importance with companies like Lever (UK) introducing the first laundry soap cartons in the 1880s (Wilson, 1954). Marketing analysis in the form of competition intelligence and studies of market potential and customer needs came to be important during this period. For example market research departments were established by firms such as the U.S. Rubber Company, Swift and Company and the Curtis Publishing Company between 1910 and 1920 (Fullerton, 1988).

There are also examples of the distribution, pricing and promotion elements of the marketing mix coming to prominence during the period known as the production era. Producer owned retail stores which allowed direct sales to consumers were pioneered by Singer (US) in the mid 1880s. At the same time there was increased direct sale to consumers via door to door selling and some direct mail, and evidence of producers taking over wholesale functions to allow direct sales to consumers. Producers also had increased contact with independent retailers during the period and such marketing innovations as sales training, window displays and sales literature were introduced (Converse, 1930). The use of manufacturer supported consumer credit was introduced by Singer in the U.S. in the 1850s and was common in the automobile industry in the early 1900s (Hounshell, 1984) and market-plus pricing which reflected the need to include branding and promotion costs over and above commodity costs in a products price became common, (Shaw, 1916)

During the period known as the production era advertising expanded enormously as producers took on the task of communicating with final consumers to build awareness and product appeal. This expansion took in both direct mail and co-operative advertising. Soap firms such as Lever and Pears in the U.K. were particularly large advertising spenders from the 1870s onwards, (Wilson, 1954). Increasing use was also made of promotion via company sales forces. Sales training improved greatly during this period and there was also increased provision of sales aids such as displays, free gifts, money off coupons and direct mail follow ups. Most firms in the U.S. and Europe had their own sales forces by 1920 and many technical firms had introduced sales engineers, (Fullerton, 1988). Attention to the needs of buyers was an important aspect of the marketing efforts of successful producers. Producers were aware that a single product could not satisfy every consumer and market segmentation was widely used before 1930, (Shaw, 1916).

This evidence indicates that during the years that have become known as the production era a large number of companies were, or became, active marketers. Additionally many of these companies that were applying marketing techniques were extremely successful and influential, such as Unilever in the U.K. and Singer in the U.S. It would appear that the nature of enterprise and the pace of growth were increasingly determined by those organisations which were focused on both production and marketing.

It is possible to argue therefore that the notion of a production era as a stage in the evolution of the marketing concept undervalues the marketing efforts of producers at the time. It may equally be the case that the production era concept undervalues the development of the major institutions of modern marketing which took place during the period. This is evidenced by the fact that most of the marketing institutions with which we are familiar today, for example advertising agencies, mail order, air freight and other distribution methods, were well established by the beginning of the 1930s having developed throughout the production era period.

With regard first to physical distribution, air and container freight services in the U.S. were well under way by the 1920s and the shipment of freight by truck grew rapidly from 1900 onwards. Parcel post, which allowed the development of mail order businesses, and refrigerated rail cars, which allowed the long distance shipping of fresh produce had been established since the 1870s and grew incrementally during the period, (Converse, 1930).

The production era also witnessed the introduction and development of many of the distributive institutions and methods which are familiar to modern marketers. Cash and carry stores which allowed lower prices and faster service were introduced in the U.S in 1908 and adopted by grocery stores and most chain stores. Similarly self service, which allowed low prices and increased the importance of advertising, packaging and store displays, was introduced in 1916 and widely adopted in the U.S. by grocery chains and independents, (Converse, 1930). Vending machines first came into use in the 1880s and by the 1920s were common in both the U.S. and Europe. Refrigerated and "talking" machines were in use before the 1920s.

Mail order retailing grew massively during the period and was an important method of demand stimulation for innovations. It allowed producers to by-pass unmotivated retailers, and for a company like Sears (U.S.) it was a vital marketing tool in the presentation of a large selection of products at low prices to the important rural market. The years of the production era were also the time of the introduction and rapid expansion of other well known marketing institutions, most notably the chain store, the department store and new types of wholesale operation, (Converse, 1930).

The growth of chain stores saw the introduction of such elements of "modern" marketing as standardised operations, volume buying, careful sales analysis, stock control and employee training. Their use of low pricing and display brought about major changes in retailing. In the same way the department store, which was an important pioneering institute of modern retailing, became dominant during the production era. Department stores in many ways introduced

the first customer focused policies with their attention to display, layout and overall atmosphere and attempts to discern what customers really wanted, (Converse, 1930). Department stores also concentrated on systematic purchasing, tight management and stock control and direct buying from manufacturers. They also catered to women and thus helped to develop the norms of modern retailing. New institutions also developed during this period to service manufacturers and retailers who wished to by-pass merchant wholesalers. These new style wholesalers, such as co-operative wholesalers, concentrated on assembling and dispersing goods.

By 1900 advertising agencies in the U.S. and Britain did creative work as well as media analysis and placement, (Fox, 1984). There was very rapid growth of advertising agents in the following years as the use of advertising exploded. After 1900 American agencies were established as major marketing consultants, doing research for clients even in such areas as the psychology of advertising and promotion, and helping in the design of products and packaging. It was also during the so called production era that marketing became established as an academic discipline with the first U.S. marketing courses running by 1902 and widespread by 1920, (Bartels, 1976).

It is evident from the above analysis that the period from 1870 to 1930, as well as being characterised by a rapid evolution of productive activities, was an era of considerable advancement of marketing activities and institutions. The development of new marketing institutions at this time enabled producers to conduct ambitious marketing programs. The emergence of new types of retail institutions made products more readily available and more attractive to buyers, improved methods of physical distribution and wholesaling meant that products could circulate more extensively and more quickly and advertising agency activities increased awareness and consumer desire. These newly developed marketing institutions were not only characterised by efficient and rational management themselves but also forced existing organisations to become more efficient and responsive to customer needs in order to defend themselves from new entrants, (Fullerton, 1988).

The new retailing institutions that emerged at this time placed a great managerial emphasis on understanding the needs and motivations of customers and the ways that those needs could be satisfied. This development was equally true of advertising where not only had the quality of adverts increased greatly by the 1920s but advertising agencies were leading the way in the use of market research, customer orientated product design and packaging and psychological research into such areas as recall, recognition, comprehension and ad location, (Fox, 1984., Fullerton, 1988). Many of these advances in marketing research remain as the common currency of advertising agencies today.

In summary the years known as the production era were, as well as a time of significant production gains, a period when there were so many advances in proactive marketing activity that to give the era such a simplistic title is surely misleading. The well documented trends in marketing advancement, such as the development of new marketing institutions and activities, suggest that to fully accept the concept of distinct production, sales and marketing eras is to mislead ourselves about the true nature of business evolution.

The period between 1930 and 1950 is often been described as a period of hard-selling known as the sales era which was followed post-1950 by the development of modern marketing in what is known as the marketing era. The sales era is believed to have begun after the Great Depression when harsh economic conditions forced hard pressed firms to use hard-selling. The truth is more likely to be that those firms that survived and prospered were those that were market orientated and who placed an emphasis on understanding the needs of buyers and how these could be satisfied, particularly during a time of economic recession. Fullerton finds a buyer orientation in the trade periodicals of the U.S. auto industry, and an emphasis in popular sales manuals of the period for retaining customers for the future even at the expense of the immediate sale. As has already been described many of the activities associated with modern marketing were in place well before 1950, and to claim that marketing only began after the 1950s would appear to be disingenuous.

There is thus evidence that marketing activity existed between 1860 and 1920 and this indicates that marketing was being practised by the time normally called the sales era occurred. Management was aware of techniques other than selling to influence the market and indeed problem solving, consultative approaches to the market may have been of more influence than hard selling. Fullerton's evidence shows overwhelmingly that much of the practice of modern marketing was in place before 1950.

The conclusions that Fullerton draws from his evidence however may have some weaknesses. Gilbert and Bailey claim that Fullerton's argument is based on assumptions which over-simplify the beliefs of traditional theorists treating the suggested summaries of the various eras not as the guide-lines to a systematic approach but as a succession of "catastrophic" periods. It was never intended in the theory they argue that the beginning of each new era depended entirely on the existence of the last. For example Fullerton argues against the existence of a marketing era by saying that many marketing practices existed before 1950. Advocates of the production-sales-marketing evolutionary concept perhaps would agree, but maintain that these practices had not been combined into one discipline until then. Indeed there appears to be no evidence to suggest that this combining of disciplines occurred before 1950.

Fullerton's argument against the existence of a production era would appear to be much stronger, but this is not necessarily grounds for attacking the validity of the existence of sales and marketing eras. Gilbert and Bailey cite Bartel's, (1970) study of the writings of the time to indicate that selling was the predominant management focus of the time. They also find fault in Fullerton's argument about the level of demand which existed during the production era claiming that he is contradictory and does not give evidence for the aggressive consumption he ascribes to the period. There would appear however to be evidence presented that demand was at least erratic at this time and that the success of selling techniques and the degree of aggressive consumption was probably relative to the underlying level of demand.

Gilbert and Bailey concede that Fullerton's dispelling of the production era is convincing but think that this does not necessarily disprove the notion of sales and marketing eras although it does complicate the history of their development. To talk about the evolution of marketing in the Western industrialised nations is to imply that change has occurred over time, which is a logical enough implication. Given the above analysis the more pertinent question would perhaps be whether marketing evolution took place in a series of sudden, major developments, such as in the production-sales-marketing era model, or, as modern marketing did not emerge out of nothing, the evolution had some other antecedents.

Hooley, *et al*, (1990), studying attitudes to marketing in Britain, identified four distinct approaches to marketing which they found supported a natural progression of marketing development within companies which was in line with Keith's, (1960) phases of marketing evolution at the Pillsbury company. The nature of their study did not allow them to extrapolate that these stages of evolution towards a full marketing orientation applied to all companies, although they strongly suggest that this is the case.

It must be noted from the study by Hooley *et al* that the four distinct approaches that they identified all co-existed at the same time. What may happen is that the firms approach evolves following a recognised pattern but that the existence of generalised evolutionary eras is more problematical. It is therefore some way from certain that the evolutionary model that applies within individual companies also applies to the evolution of marketing in general. Given that a convincing case can be argued against a model of marketing evolution which involves a few large steps over a relatively short period of time it is worth considering other evolutionary models which may have merit.

The "continuity" model is suggested as an alternative to the production-sales-marketing eras model of marketing evolution, by writers such as Hollander, (1986). It is perhaps closer to the factual evidence about past marketing in that it highlights the existence and intelligence of past marketing, implying that

marketing in much the same form as today, existed far back in time. This theory however would appear to underestimate the real changes that have occurred to marketing during its history. Marketing in the modern era is all pervasive and of greater impact on society than it has been at any time in the past and although the foundations of marketing may go back into history it is an entirely different thing to say that marketing has not changed over time.

It is perhaps more likely that the evolution of modern marketing has involved the increasingly further development of marketing practices which have existed in the past. Fullerton, (1988) posits a "complex flux" model which sees the evolution of marketing into the modern age as a complicated and fluid process which has involved at the same time dramatic change, incremental change and continuity. This model offers a four era periodisation of modern marketing's evolution which suggests that marketing systems have grown and increased in complexity as new methods and institutions have joined older ones and that older institutions may persist despite the rapid growth of new ones. In the complex flux model rapid change is allowed but bases rapid change on preceding developments. Marketing innovations are thus, at least in part, based on preceding practice and developments. The model also takes into account the fact that new developments may not always be improvements both in terms of individual organisations and in terms of society.

The first stage of marketing's evolution proposed in the complex flux model is the era of antecedents when the stage was set for the development of modern marketing. This period began around 1500 in Europe (Germany and Britain) and around 1600 in the United States. At this time important breakthroughs were made in the theory and practice of business which made possible the development of modern marketing. In particular capitalism, which was held in very low esteem at the beginning of the period, began to take hold and spread together with the facilitating financial and distributive institutions. Important distributive business institutions originated at this time including fixed location retail shops, advertising, wholesaling, warehouses and travelling salespeople.

Financial institutions such as banks, credit, stock exchanges and paper money and methods of demand determination and stimulation also emerged.

The second stage of marketing proposed by the complex flux model is an era of origins, when modern marketing begins. This period begins in Europe in about 1750 and in the United States in about 1830, and has as its main characteristic the start of pervasive attention to stimulating and meeting the demands of almost all of society, the overriding preoccupation of modern marketing. The period saw tremendous developments in production methods and transportation and was an era of aggressive business capitalism against a background of ever more intensive competition. This aggressive business instinct was brought to profitable fruition by the use and development of the marketing institutions and activities of the previous era. In practical terms this meant the use of vigorous promotion activities, targeting potentially profitable segments of the market and developing products with the needs of buyers in mind. The period saw an incremental increase in the intensity and scope of marketing activities particularly in Britain, although this new style of aggressive marketing was quickly copied elsewhere in Europe and in the United States.

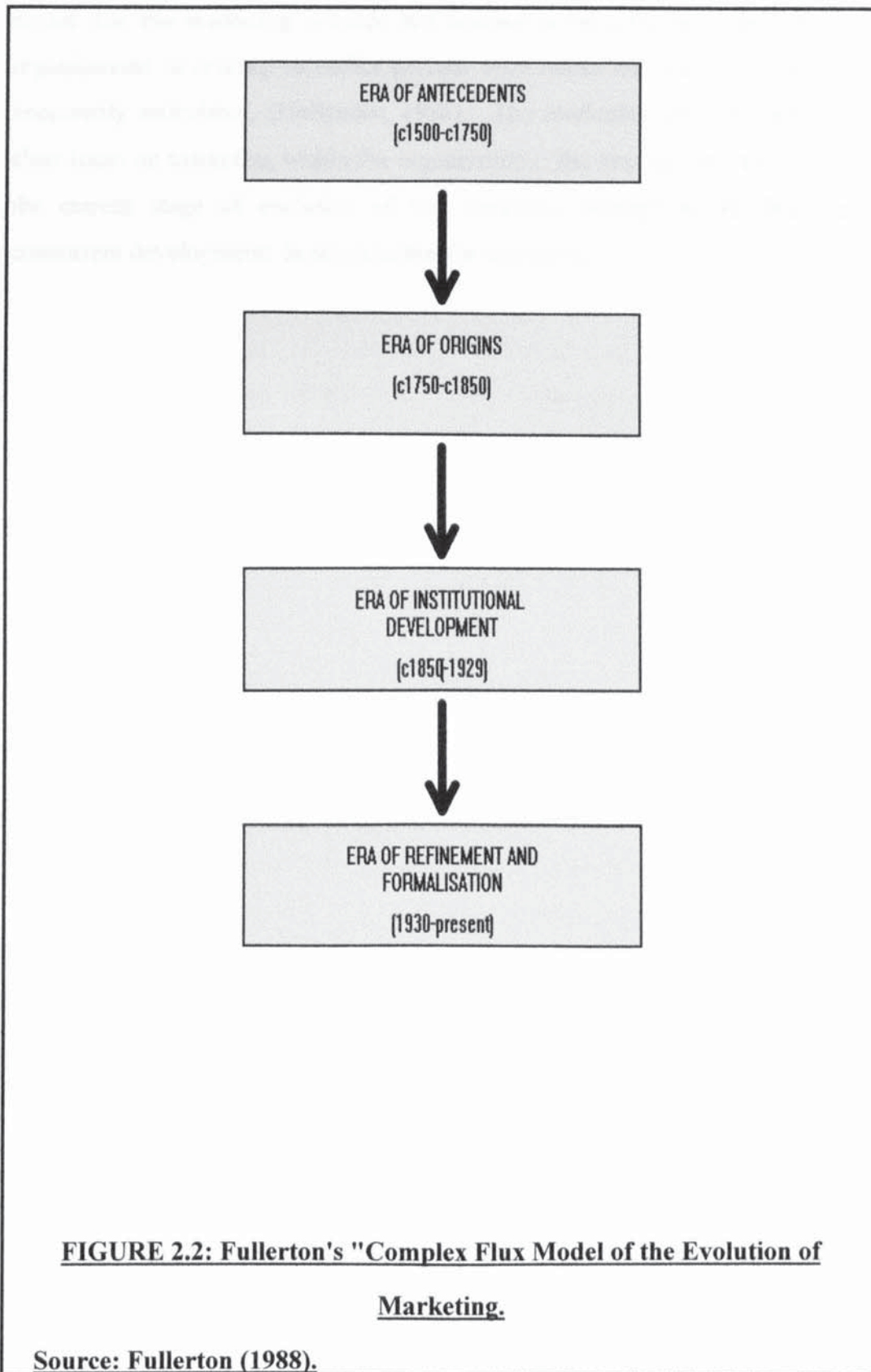
The third stage of the complex flux model of marketing evolution is an era of institutional development when the superstructure of modern marketing, the associated marketing practices and institutions began to be built. In Britain this period began in 1850 and in the United States about 1870 and lasted until 1929. The development of these marketing practices and institutions was an organic development from changes in the previous era particularly improvements in production and transportation.

The advent of mass production necessitated the large scale stimulation of demand, and the increase in the degree of physical separation between buyers and sellers meant that there was a requirement for institutions which enabled producers to understand and communicate with potential customers at a distance. These requirements were met through the use of advertising, marketing research, improved physical distribution and the expansion of retailing. Marketing at this

time became a pervasive element in society and much of the population became consumers in the sense understood by modern marketing.

The fourth era of marketing evolution described in the complex flux model is a period of refinement and formalisation which has occurred from 1930 to the present time in both Europe and the United States. During this period marketing has continued to develop despite the turbulence of the depression, the Second World War and attacks on consumerism. The pace of change in marketing, particularly distribution and retailing, has continued to accelerate with the development of institutions such as supermarkets. The eras most distinguishing feature however is described as the further refinement and formalisation of marketing institutions and practices which had first developed in previous periods.

In the area of physical distribution the use of air freight and containerisation, both of which were in use in the 1920s, has been considerably expanded and developed. In the same way marketing analysis is not a new feature of this period but the methods employed to gather and analyse marketing information have been greatly improved. A large body of marketing knowledge has been developed in Europe and the United States and placed in a formal framework. Marketing within organisations has correspondingly been formalised with the development of structured marketing departments.



This is a particularly important element in the evolution of marketing as it has meant that the marketing concept has become a formally articulated goal of organisations in contrast to earlier periods where marketing was practised if not necessarily articulated, (Hollander, 1986). The marketing concept calls for a clear focus on marketing within the organisation. The next section will consider the current stage of evolution of the marketing concept in the West and concurrent developments in organisation for marketing.

2.3 The current stage of evolution of marketing in the Western industrialised nations.

There is a considerable debate about the ability of marketing to adapt to the developing business environment where the rate of change is accelerating, (Webster, 1988). Middleton, (1989), argues that considerations other than the consumer are important in business management and includes in marketing such aspects as asset-led marketing and approaches based on profit maximisation. Austen, (1983) advocates a balanced approach suggesting that an organisation's task is to ensure its own health and survival. Consumer satisfaction is essential but is only one element in the success of an organisation. It is also now possible to argue that a new era of marketing evolution has now come about with the emergence of new organisational forms that will lead to a paradigm change in the concept of marketing.

The influence of marketing in the corporation today is seen by some authorities as being all pervasive. Webster, (1992) sees marketing as being responsible for much more than the sale of a product or service. It is the management function which is charged with the ultimate responsibility for ensuring that, in a competitive market place every aspect of the business is focused on providing superior value to the customer. In a similar way Webster, (1988) sees marketing as being no longer the responsibility of a few specialists. He sees a situation where everyone in the company is responsible for understanding the customer and for making a contribution to the development and delivery of value to the customer.

The marketing concept has thus come to be synonymous with having an orientation towards the customer. This in practice means that the organisation aims all its efforts at profitably satisfying its customers, (McCarthy and Perreault, 1984) by determining the needs of a target audience and creating the goods and services to satisfy them, (Kotler and Zaltman, 1971). The origins of the marketing concept can, as we have seen be traced to Keith's, (1960) article about the three stage evolution of marketing at Pillsbury. The evolution through

production and sales periods leads to a marketing phase. The implication is that this process is correct for all organisations and any organisation wishing to prosper must have a market orientation.

The marketing concept has therefore evolved into a customer orientation, which is widely accepted by the marketing community. As previously discussed however the recognition of the importance of the customer did not begin with the marketing concept, probably existing as long as there have been customers. The difference with the marketing concept is that it has become to a great extent seen as the *ideal* orientation for commercial organisations.

This point of view has been challenged, notably by Houston, (1986) who identifies circumstances where the guiding managerial philosophy should be something other than the marketing concept. In Houston's view the marketing concept is one of three concepts, marketing, sales and production that form the basis of an understanding of the management of marketing. In different circumstances each of these orientations, he argues, can be the most suitable for furthering the aims of the organisation.

The present marketing concept, as it appears in research, textbooks and seminars is also challenged as unrealistic by Gummesson, (1987). Gummesson claims that it should be replaced by a new marketing concept that aims at integrating both the interactional and relational aspects of marketing and allotting them proper weight. An emphasis on relationships and interaction in marketing has developed out of new theories of services marketing and industrial marketing and also out of practical experience. Building and maintaining relationships have important long-term implications thus impacting the strategic and long-range planning of the firms marketing.

It is certainly true that marketing management, as a business function, developed out of a traditional sales management approach which emphasised product planning and development, pricing, planning and distribution. Marketing research developed as a management practice aimed at matching the firm's

productive capabilities with the needs of the market place. The marketing concept in the 1950s argued that marketing was the principal function of the firm because the main purpose of any business was to create a satisfied customer, profit was not the firm's objective but the result of the objective of satisfying customers (Levitt, 1960).

The marketing concept was not completely adopted by industry (Webster, 1988). Into the 1960s stress was placed on seeing marketing from a broad social and economic perspective by understanding marketing institutions and functions. The managerial point of view, which focused on the level of the firm, was criticised for its perceived inability to consider the broader social and economic issues associated with marketing. The 1960s saw a new concept of managerial marketing emerging with an analytical framework which incorporated the behavioural and quantitative sciences (Webster, 1992).

This newly evolved managerial approach to the marketing concept had as its foundation a call for greater analytical rigour which took the form of a microeconomic analysis of the firm which emphasised profit maximisation (Anderson, 1982). The units of analysis were transactions in a competitive market with fully integrated firms controlling virtually all the factors of production, the firm was connected with its customers and with other firms by transactions (Webster, 1992). Marketing management analysis in this microeconomic concept focused on profit maximisation (finding the point where marginal cost equals marginal revenue) and was thus an analysis of demand, revenue, costs and profitability. Market researchers used behavioural science models to structure the definition of problems and identify variables and the relationships between them. Hypothesised relationships were tested by the use of statistical analysis to manipulate data.

The use of these formal analytical techniques to solve marketing problems led to a requirement for specialists and marketing departments came to include functional specialists in areas such as sales, advertising, promotion, distribution and marketing research. Webster, (1992) cites consumer packaged goods

companies with brand management systems, such as Procter and Gamble and Colgate-Palmolive, as being among the first to introduce professional marketing departments. Other companies, such as General Electric and IBM are given as examples of marketing professionals being concentrated at the corporate level in departments of market research, operations research or management science.

This emphasis on specialised, professional marketing expertise was well suited to large, bureaucratic, hierarchical organisations and their associated strategies, structure and culture. Marketing management, as distinct from marketing concepts and market orientation, thus became associated with large, divisionalised, functional organisations characterised by hierarchical layers of management. This pyramid shaped organisational structure embraced functional specialisation and integrated operations, with little need to obtain services by contracting outside the organisation.

Organisations of this type were dominant during the 1950s and the 1960s, the period when the managerial approach to marketing was evolving. Large organisations of the hierarchical type were characterised by slow and deliberate movements after careful analysis of information and the resulting options. This method of operating suited an environment that was not changing as quickly as that of the present day, and where capital was invested in assets committed to clearly designated purposes, namely large scale production of highly standardised products in order to achieve scale economies. Microeconomic, profit maximising marketing analysis was well suited to operations and organisations of this type with its requirement for careful problem definition, leading to the development and evaluation of multiple decision alternatives and thus to the choice of the profit maximising alternative (Webster, 1992).

In such an environment the task of the marketing function was, in the first instance, to ensure via a thorough understanding of the market place that the organisation was producing products that consumers were demanding and that would satisfy their needs. Once this fundamental requirement for an optimal, standardised product range was in place the task of the marketing function was to

use advertising, promotion and distribution to generate demand, create consumer preference and manage channels of distribution between the organisation and the consumer. In support of these requirements market research and analysis tested alternative methods to ensure that the most efficient were employed.

Into the 1970s marketing management tended towards centralisation at the corporate level which allowed scale economies and the development of specialised expertise together with tight control of marketing efforts. Marketing management organisation was generally in layers of management with control exercised through the processes of financial and budgetary reporting.

The late 1970s and the early 1980s saw the emergence of the concept of the strategic business unit which began to change the arrangements for marketing organisation (Webster, 1992). Management at the corporate level of organisations began to devolve the responsibility for operating level marketing decisions and for profits out to operating business units thus making marketing a less centralised function in many large organisations.

Another feature of the 1970s and the 1980s was that markets were becoming increasingly more competitive. This together with recessionary factors, influenced large organisations with many layers of marketing managers and analysts to seek to reduce their administration costs by downsizing and layering. In addition to increased global competition this new era was characterised by advances in communications, transport and information technology that increased the choice of products available to consumers, made better products at a lower cost available and reduced the importance of a products country of origin.

Given these changes in the global business environment it is unsurprising that the marketing concept and the associated practice of marketing have been evolving in subtle ways in recent years which have fundamentally changed the focus of marketing. This new conception of marketing focuses on the management of strategic partnerships to position the firm between suppliers and customers in the

value chain (Webster, 1992). The aim of this reinterpreted marketing concept is the delivery of superior value to the customer and the payback to the organisation is that the relationship with the customer has come to be seen as the key strategic resource of the business.

The strategic importance of a marketing led, customer focused organisational culture is described by Conner, (1991) and Fiol, (1991). An organisational culture focused on the customer is seen increasingly as a key strategic resource which will define an organisations uniqueness and be the focus in a network organisation, for the co-ordination of the organisational parts towards a common objective. This customer focus will require increasingly large investment in information and the associated technology giving a strategic advantage to firms large enough to make the investment. Firms that do not adjust to this customer focus are predicted to disappear or become highly specialised parts of a network organisation.

These new organisations are likely to be strategic network partnerships between manufacturers, distributors, designers, information specialists and providers of technology (Webster 1992). To these network organisations it is the ongoing relationship with its customers which is the main business asset and which defines the business. Marketing is the function with the responsibility for being the expert on the customer and keeping the rest of the organisation informed about the customer. Marketing at the corporate and business unit levels will merge with the strategic development and planning function with responsibility for monitoring the environment, co-ordinating network activities and information management.

This is part of a change in marketing focus from transactions to relationships. Thorelli, (1986) and Anderson and Narus, (1991) see an increasing need for relationship management skills as customers and suppliers become seen more as partners with whom the organisation has a long term strategic relationship. These skills may be part of the organisations core competencies providing a link between suppliers and customers on the value chain. This new emphasis on

relationships with suppliers and customers may lead to a greater need for co-ordination between marketing and the sales and buying functions in the organisation (Webster, 1992). This is consistent with the trend towards a blurring of the boundaries between both the management functions in organisations and between the firm and its environment.

In recent years the transactional approach to marketing has been challenged to such an extent that some authors have suggested that a "paradigm shift" is occurring (Berry, 1995, Wilson, 1995). The new paradigm is called relationship marketing a term that has been used to reflect a number of different types of relational marketing activity including Database, Interaction and Network marketing (Coviello et al., 1996). Some of the most recent research, (Brodie et al., 1997) however, has produced results which show that, for many firms, transactional marketing is relevant and practised concurrently with types of relationship marketing.

These new forms of business organisations first began to come to prominence in the 1980s as patterns of global competition forced organisations to adopt more flexible forms (Thorelli, 1986, Miles and Snow, 1986.). These organisations were characterised by organisational structures which can be visualised as a wheel, where the spokes are links between the core organisation at the hub and strategic partners at the rim rather than the pyramid shape of the hierarchical organisation (Badaracco, 1991).

These new organisations also had other characteristics in common including an emphasis on partnerships between firms, multiple types of partnership and ownership within the organisation i.e. divisions, licenses, franchises, an emphasis on team-work between members of the organisation and co-operating firms and less emphasis on formal management control, evaluation and reporting.

Webster, (1992) describes network organisations as confederations, that is loose, flexible coalitions, guided from a hub. At the hub the key functions are the development and management of the alliances, co-ordination of financial

resources and technology, definition and management of core competencies and strategy, developing customer relationships and managing information resources. In this analysis of network organisations the function of marketing is to keep all of the network partners focused on the customer and informed about changes in customer needs and wants and competitive action.

These organisations with their emphasis on flexibility, specialisation and relationship management instead of market transactions have a variety of names including "networks" (Miles and Snow, 1986.) and value adding partnerships (Johnston and Lawrence, 1988). These organisations depend on administrative processes but they are not hierarchies, their purpose is to respond rapidly to competitive moves and changes in technology and customer preferences. Although their transactions are influenced by market forces they are more dependent on negotiation within an ongoing relationship, (Thorelli, 1986.).

The emergence of new organisational types which emphasise long term customer relationships and the management of strategic alliances have made the narrower concept of marketing as a market transactions focused, profit-maximisation problem appear out of touch. Relationships and alliances raise a new set of strategic and organisational issues which require marketing management to expand beyond its micro-economic conceptual framework . The nature of these new organisational structures means that the marketing emphasis is moving from the analysis of products and firms to that of people, organisations and the social processes of ongoing relationships, (Webster, 1992.).

Network organisations are the corporate structures that are the result of multiple relationships, partnerships and strategic alliances. Webster, (1992) suggests that the marketing function in the focal firm changes as we move along a continuum that runs from pure transactions to network organisations. The role of marketing is thus different in different types of relationship and alliance. Moving along the continuum firms use less market control and more administrative and bureaucratic control. The first step on the continuum is a move from pure transactions to repeated transactions between buyer and seller. The next step is to

a long term, market controlled, but still essentially adversarial, relationship. This is followed by a real partnership, based on mutual trust where partners approach total dependence in certain areas of activity and prices are negotiated with reduced market pressure.

Strategic alliances, epitomised by joint ventures resulting in the formation of a new company with its own capital structure, are the next step on the continuum. These are defined as new enterprises to which both parties commit resources and which have a strategic importance to both. Examples of such strategic alliances would include research projects or a joint product development team. The next step on the continuum is the network organisation resulting from multiple relationships.

The importance of this continuum of organisational types for the current understanding of the marketing concept is that the function of marketing is different at each step. At the beginning of the continuum, the level of pure transactions, we are considering an activity which is rare in a competitive marketplace, a transaction where all of the necessary information for a purchase to take place is contained in the price and the role of marketing is reduced to finding buyers. This is probably a situation which is of more value to microeconomic, profit maximisation analysis than to a description of the conditions that apply in the "real" market. None the less marketing literature of the 1970s, (Bagozzi, 1975) often uses transactions as a basic unit of analysis of marketing management.

Pure transactions occur once, between two partners and have no prior or subsequent involvement between the parties. Price is the main determinant of the buying decision and there is thus no branding, product differentiation, product loyalty or credit. Transactions of this type are suitable for, and often used in, the microeconomic, profit maximising analysis of marketing but in reality seldom, if ever, occur in the real world where most transactions are in the context of a relationship between a marketer and a customer.

Moving along Webster's continuum the next step is the repeated, frequent purchase of branded and packaged consumer goods, components and some maintenance and operating supplies. The marketing of such products involves advertising and sales promotion to win customer preference over other brands. The function of marketing in these circumstances is to develop product differentiation in order to create consumer preference and brand loyalty and thus repeat purchases with the ultimate result of earning higher prices and profits.

The situation of repeated purchases is the precursor of an ongoing relationship between company and customer as, although direct contact between the marketer and the customer is unlikely, there are the rudiments of trust and credibility present. Relationships are important in marketing because they make transactions more cost efficient from the point of view of both the consumer, who can negotiate favourable terms from suppliers and have convenience gains, and the marketer, through economies in advertising and promotional activities.

Relationships have traditionally been of clearer advantage in industrial markets. The use of interactive databases however, has made relational marketing more possible in consumer markets, and advances in information technology have put more consumers in direct contact with sellers. Relationship marketing is not a new concept for marketers and has long been an issue in markets where after sales service is required. With the advent of network organisations it is however becoming more of a priority.



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FIGURE 2.3: Webster's Continuum of Marketing Relationships and Alliances.

Source: Webster (1992).

The next step on Webster's continuum involves a movement from repeated transactions to a long-term relationship. The value of the management of long-term relationships as a strategic asset was recognised by Jackson, (1985) and Webster, (1984) as pressures in the global market place in the 1980s forced many organisations into a situation of greater interdependence with their suppliers and customers. Prices in these situations are more likely to be set by negotiation than by the market and issues such as quality come to have more importance.

In the 1980s Japanese products, manufactured under systems where quality and low cost were dependent on strategic partnerships with suppliers begun at an early stage of the products development, came to global prominence. This pattern of co-operation with a small number of very reliable suppliers, incorporating a Japanese just in time stock system, became a model for American companies ahead of an adversarial system of sourcing supplies (Frazier, Spekman, and O'Neal, 1988). This is the next step on Webster's continuum, mutual, total-dependence buyer-seller relationships. It represents a further movement away from a focus on the individual sale and towards a need to develop a long term mutually supportive relationship with customers and suppliers.

Gerlach, (1987) looked at Japanese organisational types coming into use in the United States. In these organisational systems can be seen the origins of the networks and alliances that are coming into prominence in the West. Gerlach describes the *kanban* system which depends on the close relationship of suppliers and sub-contractors within a *keiretsu*. These structures consist of groups of firms with interlinked ownership and trading relationships bound in reciprocal long-term relationships of great stability.

The next stage on Webster's continuum occurs when the supplier and customer partnership takes the form of a new organisation with the intention of moving each partner towards a long-term strategic goal, a strategic alliance such as a joint venture. This is of importance to marketing because strategic alliances are defined by their emphasis on improving a firm's competitive position by shared

objectives and shared commitment of resources (Devlin and Bleakley, 1988). Virtually all of the many types of strategic alliance are of importance to marketers as they involve relationships with customers or with potential competitors to develop new products, markets or technology. Strategic alliances and joint ventures, where the company has a separate capital structure, are more flexible than traditional organisational forms but are closer towards hierarchical, bureaucratic organisations than towards network organisations

Network organisations are the last step in the continuum in an evolution away from transaction based, traditional hierarchical, bureaucratic organisations and towards flexible partnerships, alliances and networks. In these new types of organisation, traditional ways of organising for marketing and thinking about marketing activity have to be refocused on long-term customer relationships, partnerships and strategic alliances. Networks are the organisational structures that result from multiple strategic alliances often combined with other organisational forms such as divisions and subsidiaries.

The emergence of network organisations and strategic alliances has meant that the narrow concept of marketing management as a microeconomic, profit-maximisation activity that has as its focus a single transaction or a number of repeated transactions appears increasingly out of touch. In a business world that increasingly talks in terms of long-term relationships and the management of strategic alliances marketing needs to address a new set of strategic issues. Although ongoing relationships are the focus, buying and selling are still the fundamental issues of interest to marketers, the analysis however is from the viewpoint of social processes, people and organisations rather than products and firms. This means that in the 1990s significant changes in marketing's conceptual base have been taking place.

Changes in the concept of marketing's role in the organisation have occurred at the three strategic levels at which marketing operates, the corporate level, the business or strategic business unit level and the operational level (Boyd and Walker, 1990), although the distinction between these levels can be expected to

become less explicit in the new organisations. Webster, (1992) believes that in some cases marketing has disappeared as a distinct management function at the corporate level, and that in the same way as the distinction between the firm and its external environment of customers and suppliers has become blurred in network organisations, so do the functional boundaries within organisations.

At the corporate level managers are faced with an initial strategic problem of positioning the firm in the value chain by deciding what the organisation will buy, make and sell which is based on an assessment of the firm's distinctive competencies (Prahalad and Hamel 1990). An additional strategic problem is to define the companies business, mission, scope, shape and structure. Corporate level management is increasingly considering questions of scope and shape, as seen in the decision to enter into strategic alliances. This involves specific analysis of whether the firm should rely on markets, long-term relationships, strategic alliance or an integrated, multifunctional hierarchy (Webster, 1992). There is now a more flexible set of organisational forms from which to choose involving many kinds of relationships and alliances in addition to the basic question of which activities should be performed internally and which should be sourced from outside suppliers.

Marketing at the corporate level of strategy, in traditional hierarchical structures has three roles. Firstly, to assess the attractiveness of the markets potentially available to the firm in terms of customer needs and competition to ascertain the firms potential competitive effectiveness. Secondly, to be an advocate for the customers point of view and to promote a customer orientation. Thirdly, it is the role of marketing to develop the firm's value proposition in a way which reflects the firm's core competencies and the needs of the customer and to articulate this value proposition to the market place (Anderson, 1982, Webster, 1992.). Thus at the role of corporate strategy the marketing manager must speak for the customer and for corporate values which put the customer first.

This proposition is supported by Hooley, (1993) who defines three roles for marketing in leading quality management. These are firstly, to identify customer

requirements and to communicate them throughout the organisation. Secondly, to match the requirements of the chosen customer set with the capabilities of the organisation, thus competitively positioning the organisation. Thirdly, it is the role of marketing to marshal the appropriate organisational resources and apply them to meet the needs of customers.

At the level of the strategic business unit Day and Wensley, (1988) see strategy as having a different base to strategy at the corporate level. Business strategy involves a more detailed analysis of customers and competitors and the resources and skills available to the organisation to compete in specific market segments. This competitive strategy is developed by managers in the individual business units. The key strategic question is therefore how the organisation will compete in its chosen business. This strategic activity amounts to a planning process aiming to segment the market, target suitable segments and position the company with regard to the target segments. Although this strategic planning activity was closely associated with the corporate level in hierarchical organisations the process of strategic planning has become more distinctly a function of the individual business unit in recent years (Webster, 1992). This movement of strategic planning responsibilities to the level of the business unit is particularly true of network organisations where the distinction between marketing and strategic planning can become blurred.

The marketing function, at the business unit level in network organisations, has also acquired a new responsibility (Webster, 1992). Marketing managers in these organisations are responsible for deciding which marketing functions and activities are to be purchased in the market, performed internally or performed by strategic partners. This may apply to marketing services such as research, advertising, sales promotion and telemarketing as well as to suppliers of raw materials and components. In network organisations marketing managers also have a role to play in deciding whether suppliers and channel members are committed to long-term relationships aimed at delivering superior value to the customer. In this sense Webster sees in the network organisation the mature form of the marketing concept. Network organisations are market driven and

have an organisational form designed to be flexible in meeting market requirements. They also continuously ask questions of themselves and their partners which ensure that the organisation maintains its customer orientation.

Marketing, compelled by market forces to more thoroughly respond to customer needs and develop long-term customer relationships, has also taken on a new form at the tactical level. This is the level of the implementation of the business strategy through decisions about products, prices, promotion and distribution. This marketing strategy is delegated to functional managers who use management tools to productively allocate the organisations resources to markets, customers and products.

It is clear from the above that the evolution of new forms of organisation in the market place has in turn resulted in a new stage in the evolution of the marketing concept. In the traditional hierarchical organisation the firm stood by itself with borders designed by its own organisational chart. There was a clear boundary defined between the firm and its external environment of markets where the firm carried out transactions with suppliers and with customers.

In the economic conditions which now prevail this distinction between the firm and its environment has blurred or disappeared. The new organisational forms, emphasising flexibility which have evolved in response to changing customer needs have led to redefinitions of marketing which differs at the corporate, business and tactical levels.

2.4 Postmodernism and marketing.

The importance of postmodernism in the context of this research is that it represents the most recent stage in the evolution of marketing thought in the Western industrialised nations. In this respect it is an important element in considering the state of the art of marketing and provides a benchmark against which the development of marketing in Ukraine can be considered. That said it is necessary to look at postmodern marketing with a critical eye as there would appear to be a number of arguments which can be applied against the claims of postmodern marketing over the modern marketing concept.

There is no intellectual consensus as to the nature of postmodernism although it is generally seen as a reaction to the era of modernity which, beginning in the late sixteenth or early seventeenth century had sought to overcome irrationality by developing universal laws and truths via the accumulation of objective knowledge. Modernism is the set of social, cultural and economic idea systems and institutions which signalled the development of science as the basis of universal knowledge, secularism, the pre-eminence of individual reason and the emergence of rational structures in the social and economic order.

The characteristics of modernism are thus objectivity, rationality and the search for universal laws which would enable the human physical and social environment to be analysed, planned and controlled (Turner, 1990). These universal laws are termed "metanarratives" by postmodernists, a name which signifies that these "narratives" are stories which determine society's concept of the human condition. Metanarratives are the universal concepts designed to explain the social, cultural and economic aspects of modernity, they are an attempt to explain human experience in terms of grand themes such as capitalism, communism and the like.

Modernism therefore implies a belief in an external reality about which generalisations and predictions can be made. Consequently theories adopted by marketing, such as Maslow's hierarchy of needs, the 4 Ps and the Boston Matrix

can be seen as modernist as they attempt to make universal statements about marketing concepts. The extent to which modernism has influenced the academic study of marketing is inherent in the narrative of the historical development of the marketing concept. The evolution from production to sales to marketing epochs as described elsewhere in this section is a typically modern analysis showing progress by stages from a crude to a refined level. As will be shown, a postmodernist view of marketing questions the accuracy of this evolutionary interpretation and of other marketing concepts.

Postmodernism is a cultural condition and philosophical position that questions the fundamental assumptions of modernism, modernism claims to have liberated the individual but postmodernism argues that it is as oppressive as the system it replaced Brown, (1995). Postmodernity is generally seen as the current period of world history where modernism is changing or coming to an end. Lyotard, (1984) defined postmodernism as "incredulity towards metanarratives" whilst Gitlin, (1989) sees postmodernism as the abandonment of the search for order and unity leading to fragmentation. Fragmentation is an important concept within postmodernism. Its implication is that there is no unified subject and thus no unified truth on which to converge. The human physical, social and mental condition is therefore fragmented with no grand meaning or theme.

Thus the characteristics of postmodernity are the disappearance of authority, unity, continuity, purpose and commitment and the emergence of fragmentation, complexity and irreverence (Venkatesh, 1989). Postmodernism rejects metanarratives that demand a single perception of reality in favour of a multiplicity of narratives and freedom from conformity.

It is only recently that postmodernism has been recognised as important to marketers but it is now beginning to be argued (see below) that marketing is the ultimate metanarrative of postmodernity. It is argued that consumption is the characteristic feature of postmodernism (Brown, 1993a), and that marketing phenomena play a pivotal role (Brown, 1993b). Postmodernism is also often linked to political and economic changes that have occurred in recent times, in

particular in Eastern Europe (Sonderlund, M., 1990), (Rothman, J.,1992). Additionally, as mentioned above postmodernism has implications for existing marketing concepts.

It is however argued (Firat and Venkatesh, 1993) that the postmodernists may be mistaken and that the market and the practice of marketing may be the new metanarrative. Firat and Venkatesh have identified five categories of postmodern conditions on which they base this view: hyperreality; fragmentation; reversal of consumption and production; decentering of the subject; and paradoxical juxtapositions of opposites.

Hyperreality is when something that was a simulation or "hype" becomes real. Hyperreality is the idea that reality is constructed, and therefore it is possible to construct things that are more real than real. What is real therefore is purely a function of context, culture, history and time. For example, advertising can give a product new symbolic meanings such as attractiveness, health or beauty which when accepted by consumers constitute a new reality. Perfume for example has a reality beyond its modern or scientific meaning, the hyperreality of glamour and sex appeal is now the reality. Marketing is the practice which creates the phenomenon of hyperreality actively seeking to give new significance to words terms and brand names. Indeed postmodernists (Baudrillard, 1987) comment that consumers show a tendency to prefer the hype to the "real" for example theme parks and the emergence of "virtual reality". Hyperreality is also identified in the way that marketing and advertising use the style and form of movies and music videos, which already incorporate advertising and marketing, thus creating an age of "metamarketing" where marketing itself is marketed.

Postmodernists like Baudrillard argue that there is nothing beyond the surface of this hyperreality, the image is the substance and to search beyond is modernistic futility. This hyperreality can not be put to a modernist test of truth or falsity, but the importance of this postmodernist proposition is illustrated by the strategic importance given to positioning and image by marketers.

Postmodernists maintain that modern culture is fragmenting and this is expressed by the marketing system in terms of more and more specialised products. The postmodernist consumer is seen as having many individual moments of consumption, all independent of each other, all of which represent different self images of the consumer and which require independent fragmented products. The fragmented lives of consumers as expressed by expanding self images and lifestyles, are represented by marketing not only in a plethora of brands and images but in new shopping environments which become part of consumer's recreational lives.

The importance of this aspect of postmodern culture to the marketer is, according to Firat and Venkatesh, the need to manufacture different images for people who will be consuming the same product. Marketing plays a key role in the postmodern world in giving products meanings which are independent of their functional uses and the process of competition can only increasingly separate products from their original contexts. In the postmodernist world products are becoming representations of images indeed the product *is the image* rather than the functional product itself.

Baudrillard, (1987) and other postmodernists give more value to consumption than to production. Modern marketing has always emphasised consumption stating as its main aim the satisfaction of consumer needs through consumption (Kotler, 1987.*et al.*) and the individual's identity in society has increasingly been defined not in terms of what one produces but in terms of what one consumes. Postmodernists see consumption as a social act with symbolic meanings which influence social relationships (Baudrillard 1987) and also as production in itself as the type of human being is produced by the consumption choices made by that consumer.

The modern view of the world places the individual at the centre, as the subject in control of interactions with objects. The postmodernist view sees the object as determining the pattern of consumption. For example, when using a computer or a microwave oven the human being often follows instructions generated by the

object which controls the procedure of consumption. In the postmodern world there is therefore a confusion between the subject and the object and this is reinforced by a marketing system which encourages consumers to see themselves as images in a social market i.e. as busy executives, caring parents etc. Both the product and the consumer are positioned by this marketing orientation.

Postmodern culture is characterised by the juxtaposition of opposites (Wilson, 1989). For example when shopping for mundane items classical music may be playing or in advertising a product may be simultaneously lampooned and promoted. The postmodernist consumer does not see these examples as paradoxes however but as "experiences" and opportunities for "playful experimentation" (Firat and Venkatesh, 1993). This juxtaposition of opposites is seen as creating a disposition towards irony which in the market place translates into a culture where no commitment to a product other than a trial purchase is required. From the marketer's viewpoint this would indicate a need to build relationships with the consumer in order to create repeat purchases.

In the postmodern world the market has become the way that society resolves its affairs. This subordination to the market embraces for example politics where polling, marketing campaigns, advertising and the use of image consultants and the resulting "marketisation" of policies is increasingly prominent. This is seen by Firat and Venkatesh as conclusive evidence that marketing is becoming dominant in all institutions of Western society and the market the only mediator of legitimacy. Life for the individual consumer in the postmodern world is therefore increasingly experienced through the market.

As previously noted modernist marketing concepts which seek to make universal predictions such as the product life cycle, the Boston matrix and other generalisations are treated with scepticism by postmodernists. In addition to questioning the veracity of these metanarratives, which it must be said are also questioned by many "modernists", postmodernists equally question the achievements claimed for existing marketing theory. Indeed there is evidence that

this lack of deference towards existing marketing theories may not be without good cause. Despite thorough research over many years concepts such as the product life cycle can not be regarded as universally predictive (Wood, 1990) and many viable products may have met an untimely end due to the application of this theory. Similarly the Boston matrix has been criticised as restrictive and outmoded (Morrison and Wensley, 1991). In defence of these marketing theories it must be pointed out that even the original inventors of these concepts did not hold them to be universal and there is substantial empirical support for the product life cycle (Hooley, 1995).

Postmodernism therefore highlights the limitations of some marketing theories, although it would seem that this is already being done to some extent by the process of "modernistic research". It does however also raise the question of the overall direction of modern, scientific, marketing practice and whether this is the most appropriate path for companies and society as a whole to be following. This however is only one implication that postmodernism has for marketing. There are also societal and cultural changes associated with postmodernism which may have profound implications for the future study and practice of marketing.

Firat and Venkatesh, (1993) describe a number of major implications for marketing in postmodernism. They argue that postmodernism has allowed marketing processes to be extended to other cultural areas resulting in a hyperreal, lack of distinction between art and commerce. A future is foreseen where advertising news and drama are mixed in a postmodern collage, implying a disintegration of the boundaries defined by modernism.

The implication for marketing in this is a need to come to terms with greater diversity and difference. Fragmentation of style and form is a prominent postmodernist theme, and this has implications not so much for products as for imaging and communications. Marketers will thus be faced with new bases for product positioning as an increasing diversity of lifestyles and ideas come to have commercial potential. Firat and Venkatesh see marketing increasingly

representing non-mainstream lifestyles in promotional efforts rather than the traditional values of the social and political elite. The paradox of postmodern culture is that there are an infinite number of lifestyles which accept and reject elements of the dominant values simultaneously.

Although postmodernism calls into question many marketing generalisations and has many implications for the study and practice of marketing as described above it is debatable whether a postmodern - marketing paradigm switch will occur. As previously noted postmodernism employs many of the concepts of marketing in a pivotal way. Modern marketing has been successful and postmodernism proposes little in its place. However in addition to challenging accepted marketing concepts, postmodernism provides a conceptual base for considering marketing issues as well as having other attractions for the marketing practitioner.

Brown, (1993b) describes several implications of postmodernism which are attractive to the discipline of marketing. Firstly, postmodernism has implications for the reconciliation of marketing theory and marketing practice. If marketing practice does become increasingly influenced by postmodernism modernist marketing, concepts may in turn appear increasingly divorced from reality. Secondly, Brown sees postmodernism providing a rationale for the fragmentation of marketing thought. Postmodernism allows that either side of a debate may apply in an infinitely diversifying market.

The third attraction of the postmodern concept to marketers as seen by Brown, and possibly the most important, is that it provides a philosophical foundation for many of the emerging marketing concepts. These emerging marketing theories associated with postmodernism are worth individual consideration at this time, although the issue of emerging marketing strategies will be dealt with more thoroughly in the following section.

- a) Micro-marketing.** (Schlossberg, 1992) The fine tuning of marketing so that it speaks to consumers almost individually.
- b) Maxi-marketing.** (Rapp and Collins, 1990) The attempt to increase brand loyalty and sales by direct involvement with individual customers.
- c) Database marketing** (Davies, 1992) Emerging from the ability of direct marketers to communicate with large numbers of consumers as individuals.
- d) New marketing.** (McKenna, 1991) Is based on attempts to integrate the consumer into the organisation aiming to build a sustainable relationship between organisation and customer.
- e) Wrap-around marketing.** (Kotler, 1992) Places an increased emphasis on the problem of retaining customers, rather than the traditional marketing emphasis on obtaining new customers.
- f) Value-added marketing.** (Nilson, 1992) Focuses on improving existing products rather than launching new ones.
- g) Relationship marketing.** (Christopher *et al.* 1992) Emphasises both getting new customers and keeping existing ones.
- h) Neo-marketing.** (Cova and Svanfeldt, 1992) Proposes a complete break with the old rules of marketing.

Brown argues that these emerging marketing concepts have two basic components in common. Firstly, they emphasise that the customer should be dealt with as an individual and secondly, they are characterised by a desire to retain existing customers and products rather than to create new ones. This is in contrast to modernistic marketing which seeks to make generalisations about consumers as a mass or at least about sizeable segments of consumers, and which emphasises newness and innovation.

However in opposition to this it can be argued that modern marketing has always had as a central theme the identification of target segments. The key question has been how many segments are required to adequately explain a market. Markets have become more fragmented with more segments with fewer customers in each. In some markets this has led to the need to form relationships with

individual customer targets. The degree of segmentation has always been an empirical issue rather than a philosophical one.

Postmodernism however is a cultural and philosophical development rather than a methodology or set of research techniques. The influence of postmodernism on marketing theory and practice has until recently been little discussed in the marketing literature. This may be due to a lack of interaction between marketing and other disciplines such as literature, architecture and art where the postmodern perspective has had a much higher profile. It may be the case as previously discussed, that modern marketing is already a postmodern institution or that the complexity of postmodernism creates a perception that there are no immediate applications or implications for the theory and practice of marketing. If so, it is apparent from the previous discussion I believe, that this is a mistaken conception. Postmodernism proposes new and interesting insights into the nature of marketing. Marketing has already been taken up by the postmodernists and such marketing related phenomenon as the culture of consumption and issues of advertising and promotion have become central to their interests.

These arguments have been incorporated into the general discussion of postmodernist marketing. A few broad points remain to be made however. Although postmodernism has not been discussed to any extent in the marketing literature until quite recently many of the central ideas have actually been evolving for some time but have not been labelled as postmodern. Although postmodernism calls into question many of the generalisations of modern marketing it would seem to replace them with others. Indeed although postmodernists claim as their central idea scepticism towards metanarratives it can be argued that they are seeking to impose marketing as the new metanarrative.

2.5 The influence of macroeconomic forces on marketing management.

The global marketing environment is significantly influenced by the variables of governmental fiscal and monetary policies which have the effect of rationing capital flows to various business sectors and which can enhance or impair a companies competitive advantages (Porter, 1990). Marketers must respond to environmental changes such as governmental policy shifts by taking operational and strategic decisions.

In transitional economies, such as Ukraine there has been a fundamental change in the macroeconomic environment engendered by the transition from a centrally planned to a market economy and the resulting conditions of economic crisis. The way that marketers and consumers are reacting to this environmental change is discussed in detail later in this section and in following sections. This section serves to describe the basic linkages between critical environmental elements and strategic marketing decisions (see Figure 2.4 below).

Macroeconomic conditions are, in the main, created by the fiscal and monetary policies of governments, (Huszagh, *et al.*, 1992), and the macroeconomic environment is in turn linked to marketing strategy, (Kotler and Armstrong, 1991). In the developed Western nations the environment allows for industries themselves to shape government policies. There is a two way interaction between strategic marketing decisions and the fiscal and monetary policies of governments, (Huszagh, *et al.*, 1992), the response of marketing managers to the macroeconomic environment is thus proactive as well as reactive. This proactive stance is almost certainly less pronounced in the transitional economies of Eastern Europe.

The relationship between the macroenvironment and marketing has a number of different aspects therefore. Firstly with regard to the effect of the macroenvironment on marketing strategy. Jain, (1989), reported that macroenvironmental factors had a particular influence on target market and standardisation versus adaptation decisions. Naor, (1986), looked at the effects

of resource constraints on market actions in government-driven economies. Other studies of the influence of the macroenvironment on marketing strategy have includes such areas as the product life cycle, (Lambkin and Day, 1989), and research and development, (Myers, *et al.*, 1979).

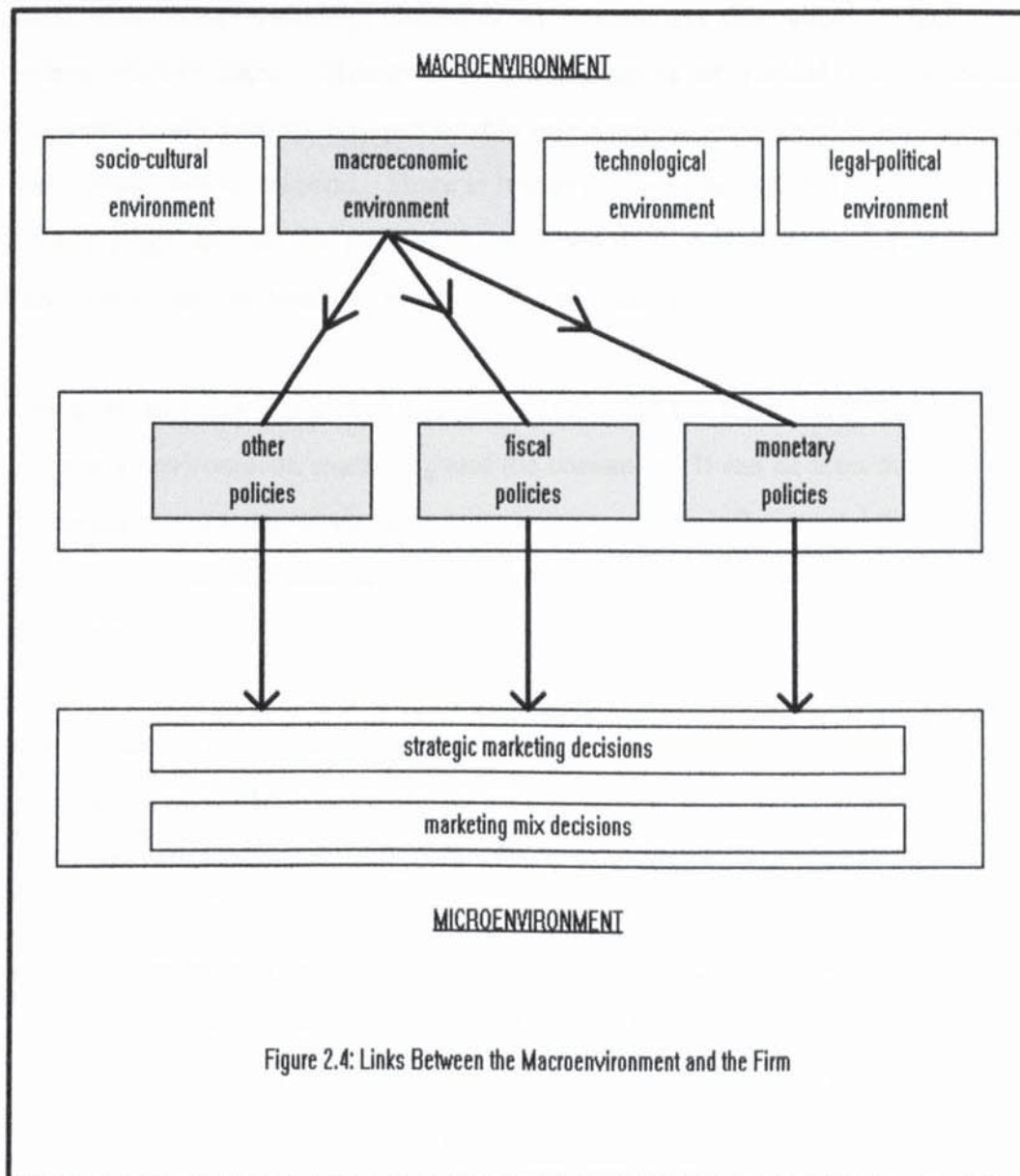


Figure 2.4: Links Between the Macroenvironment and the Firm

The macroeconomic environment also has links with marketing practice as well as marketing strategy. During the late 1970s and early 1980s research was done concerning the effects of inflation recession and shortage on marketing decisions

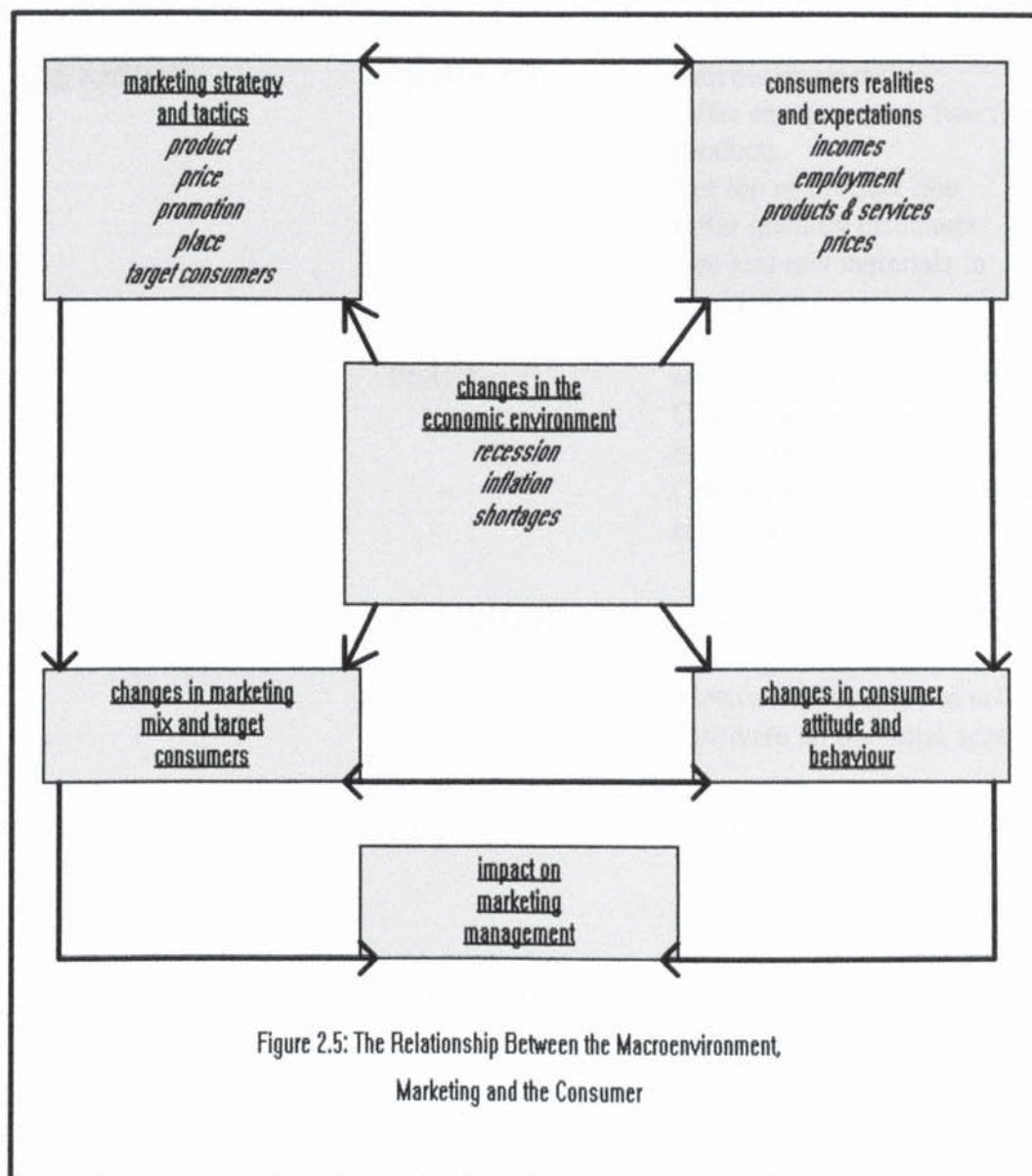
(i.e. Shama, 1978, 1981). Conceptual frameworks were proposed to manage the social and political effects of inflation, recession and shortage on marketing decisions.

When changes to the macroeconomic environment follow a definable and predictable trend marketing managers and consumers can adjust to them and indeed exploit them. However in circumstances of radical change where economic conditions are less predictable marketing managers and consumers are less certain how to respond. There is however one certainty, that marketing and buying practices will be profoundly influenced by and have to adjust to the macroeconomic environment in which they are taking place.

The diagram below presents a framework showing the relationship between the economic environment, marketing and the consumer. It can be seen that changes in the macroeconomic environment, such as recession, inflation and the shortage of consumer goods influence both marketing management and the behaviour of consumers.

The influence that macroeconomic change has on consumers and marketing managers lead marketers to develop new strategies and tactics to deal with the new economic conditions. To give a basic example, in conditions of economic recession marketing managers may use strategies designed to stimulate demand. In conditions of shortage consumers may hoard products and in conditions of inflation they may save less. The adjustments that macroeconomic conditions cause marketing managers and consumers to make, alters the relationship between the two with regard to prices, products and product mixes, promotional appeals, credit conditions and places of selling and purchasing.

The economic conditions that exist in transitional economies at the time of this research are, far greater in severity but none the less akin, to the conditions of stagflation that occurred in the developed Western nations in the 1970s. Stagflation is a condition of the economic environment comprising any combination of three factors, recession, inflation and shortage.



A situation, such as this, where there is simultaneously inflation, recession and shortages of consumer goods, creates contradictory pressures on marketing managers. Any measure taken by a company, such as an anti-recession measure, may increase the impact of the other environmental conditions, inflation and shortage. A number of common strategies and tactics used by marketers to adapt to environmental conditions are given below Shama, (1978).

<u>Economic Condition</u>	<u>Mix Element</u>	<u>Strategies and Tactics</u>
<u>RECESSION</u>	PRODUCT	Narrow product line Offer cheaper, more functional products Cut top of product line Offer quantity discounts Use less raw materials in production
	PRICE	Lower prices when possible Offer price discounts Ease credit Change price differentials in product range to increase total demand
	PROMOTION	Increase promotion to stimulate demand Motivate sales force to sell more Cultivate all potential accounts
	PLACE	Increase distribution outlets Motivate wholesalers to buy more Offer products direct to consumers
	CONSUMER	Cultivate even marginal accounts Selective treatment of consumers to maximise sales Research how recession effects consumers
	OTHER	Innovate Increase Productivity Diversify
<u>INFLATION</u>	PRODUCT	Narrow product line Offer cheaper more functional products Purchase raw materials strategically Use lower grade production materials Avoid quantity discounts
	PRICE	Raise prices frequently

		Change price differentials in product range Stop price discounting Tighten credit
	PROMOTION	Promote more profitable products Decrease promotion via advertising and personal selling Demarketing through promotion
	PLACE	Use higher prices for differentiation Limit distribution Limit quantity per customer
	CONSUMER	Drop marginal accounts Maximise customer loyalty Research effects of inflation on consumers
	OTHER	Innovate Increase productivity Diversify
<u>SHORTAGE</u>	PRODUCT	Narrow product line Offer cheaper more functional products Purchase shortage materials strategically Stretch use of shortage materials Research substitute materials Introduce substitute products Avoid quantity discounts
	PRICE	Raise prices Adjust prices upwards periodically Change product line differentials to reduce demand for shortage products Stop price discounting Tighten credit
	PROMOTION	Decrease promotion of shortage goods Increase promotion of available products Demarket through promotion
	PLACE	Limit distribution Limit quantity per customer

CONSUMER

Drop marginal accounts
Maximise consumer loyalty
Research how consumers are
effected by shortages

OTHER

Innovate
Increase productivity
Diversify

It can be seen that in an economy where there is simultaneously recession, inflation and shortages of consumer goods it is virtually impossible for a marketing manager to trade off the various adjustive strategies and tactics. It is necessary in these circumstances for the marketer to adopt different adjustment mixes for different products or product lines by constructing and evaluating various marketing mix packages with regard to conditions in the macroenvironment.

Shama, (1978) found that a macroeconomic environment characterised by stagflation had a profound effect on marketing management. All marketing mix decisions as well as decisions about which consumers to target were effected. The most drastically effected decision area was price, not surprisingly given the immediate financial effects of inflation, followed in descending degree of impact by product, target consumers, promotion and location decisions where the effects of macroeconomic conditions take longer to feed through.

Similarly, Shama found that the most drastic adjustment measures taken by marketing managers in response to macroeconomic conditions were in the area of pricing and the least in the areas of promotion and location. With regard to the individual decision areas of the marketing mix different degrees of adjustment measures were taken, the overwhelming balance of adjustments however being strictly defensive.

Within the price component of the marketing mix the principal responses were to make frequent price adjustments and to place a stronger emphasis on profit

margins. It was found to be less common for marketing managers to use tactics of competitive pricing, stricter credit or to provide extra services to justify higher prices. With regard to product decisions the three most common responses made by marketing managers were to reduce product lines, pursue research and development and to source alternative raw materials.

With regard to promotion decisions marketing managers favoured the discounting of slow moving products and the increased use of money-off coupons to increased promotion budgets and widening the responsibilities of sales forces. The most popular location adjustment was the widening of distribution channels with little willingness to sell direct to consumers and cut out the wholesaler. The major adjustment measures taken with regard to consumers was the avoidance of marginal accounts, and increased attention paid to loyal customers. There was some increase in consumer research but little attempt to capitalise on new markets created by the economic conditions.

The effects of stagflation on consumers were found to be drastic too. Not surprisingly, the overwhelming majority of consumers surveyed by Shama reported that the economic conditions of recession, inflation and shortage had negative effects on them. The principal feeling was one of frustration at the financial difficulties engendered by the macroeconomic conditions. Consumers, as well as marketing managers were most effected by price factors, noticing that they were paying higher prices for goods and services and expecting to pay still higher prices in the future.

Consumers reported that there were more low quality products on the market, more new products but variety was not decreasing. The majority of consumers sought to buy less of everything and to delay the purchase of durable goods. There was little evidence that consumers perceived that the promotional efforts of companies had decreased. More products were bought wholesale and more time on average was spent shopping. The research confirmed that the price element of the marketing mix is the factor most effected by economic conditions of inflation, recession and shortages. As a result of the effect on prices, product offerings

were the next in line to change, followed by changes in promotion and place decisions.

It is interesting to note how these consumers in the USA adjusted to the prevailing macroeconomic conditions. The most widely reported adjustment was to become more comparative shoppers, followed by becoming less wasteful and by becoming more energy conscious. Consumers also widely reported that they had changed their habits and preferences and judged products and services in a new way. The net result is that macroeconomic conditions had created, at least temporarily, a new breed of consumers to those which had existed at the time of economic well-being. Their reactions to the marketing mix were totally different to the reactions of consumers prior to the advent of stagflation.

2.6 Conclusion

This section considered the influence of prevailing forces in the macroeconomic environment on the future evolution of marketing strategy and emerging organisational forms. The marketing responses to changes in fiscal and monetary policy are diverse but indicate a link between environmental elements and strategic marketing decisions (Seth, 1992, Kotler, *et al.*, 1985), Rossow, (1988)). These elements in the macroenvironment are not just economic and political. There are social, legal and technological factors which have the most profound influence on the practice of marketing.

Macroeconomic forces are having an impact on marketing practices and require new marketing concepts and strategies. Numerous emerging marketing strategies are described in the literature, most notably relationship marketing (Christopher *et.al.*, 1992, Davis and Davidson, 1991), but also borderless marketing (Davis and Davidson, 1991), mass customisation (Davis, 1987), customer focused quality and networked marketing.

The rapid changes in industrial structure and global competition which have occurred in recent times indicate a future environment of unprecedented diversity. New types of highly flexible marketing organisations will be needed to cope with this environment. These new marketing companies serve as the organising hubs of complex networks of functionally specialised firms. New forms of organisation such as marketing exchange and marketing coalition companies are described in the literature (Achrol, 1991).

The conclusion is that macro-economic conditions profoundly influence the development of attitudes to marketing, organisation for marketing and the development of marketing strategy. This shapes theory for testing the development of marketing in Ukraine and allows the development of an overall model (Chapter four) that has environmental uncertainty shaping managerial perceptions which influences approaches to market, strategic types, marketing mix decisions and ultimately performance.

The fact that conditions of macroeconomic difficulty cause consumers to behave differently to the way they would behave in times of economic plenty is the main lesson in this for marketing management. It is obvious that the macroeconomic conditions that prevail in this research field will have a profound effect on the way that consumers behave and this in turn will be a principal influence on the way that marketing develops in transitional economies. The particular implications, for Ukrainian marketing, of economic crisis conditions are discussed in chapter three, together with the experience of marketers in other transitional Central and Eastern European countries.

Chapter 3. Marketing in Transition Economies

3.1 Introduction

In chapter two, the evolution of Western marketing from a managerial-sales-transactional approach based on hierarchical, bureaucratic organisations to a model based on network organisations and relationship marketing was described. In addition the influence that the macroenvironment has on marketing management was considered. This section moves on to a discussion of the current position of marketing in Ukraine and in other transitional countries.

The following analysis therefore attempts to consider both the way that marketing has evolved in the Western industrialised nations, and the nature of the business conditions that are developing in Ukraine. When these two elements are considered with reference to the development of marketing in other transitional countries it will be possible to begin to hypothesise about the way that attitudes to marketing, organisation for marketing and marketing strategy will evolve in the unique circumstances that have emerged in Ukraine.

The development of a consumer orientation among managers in Ukraine means that marketing will change from focusing on planners and regulators to satisfying consumers. Marketing in Ukraine is changing from a situation where there was little or no competition, management control over marketing mix decisions or marketing planning, to a situation where there is increasing competition, management control and marketing planning. As the market economy evolves in Ukraine managers will increasingly focus their product, price, promotion and place decisions on satisfying consumers needs as in the West.

Managers in Ukrainian enterprises have begun to shift their focus from production, technology and quotas to sales and marketing. This involves active search for know-how in market research, customer analysis, advertising and promotion, adaptation to changing patterns of consumer demand and the resulting modification of production programmes.

A country's stage of economic development influences attitudes to production, distribution and consumption. This implies that managers in a transitional economy like Ukraine may not be aware of modern management and marketing practices. The relevance of the Western marketing model is therefore limited and will be influenced by many factors, most notably education about capitalism, development of infrastructure and legal and contractual frameworks, development of a business culture, progress in marketing research and demand forecasting and development of a customer orientation.

Consumers in transitional nations have made purchases in a market that is different in almost every way from that which has prevailed in the West. It is almost impossible for a consumer to have a marketing orientation in a market which is characterised by shortages and lack of product choice. It may well mean however that consumers in these markets will, because for example of fear of shortages, behave in a way that appears irrational to someone with a Western market orientation.

This may mean that new patterns of consumer behaviour emerge. The implication of this for the development of a marketing orientation is that the marketing techniques that have been developed in the West may not be appropriate for the conditions which exist in the transitional nations. It may therefore be the case that a whole new concept of what a market orientation means will have to be developed in order to have relevance to the conditions which are emerging in the transitional countries.

This section initially looks at specific forms of consumer behaviour in conditions of economic crisis such as those that exist in Ukraine at the time of the research. The way in which the behaviour of consumers in that environment can be expected to impact on Ukrainian marketing management is then considered more thoroughly in the following sections.

Changes in the marketing systems of Eastern European and other transitional countries have been noted for over a decade and pre-date the sweeping changes in political and economic systems that occurred after 1989 (Samli, 1986). These early changes were from authoritative systems to integrative macro systems and came about due to a series of economic and political reforms. These reforms led to economic and managerial decentralisation and caused enterprises to become more responsible for location, distribution, product and price decisions. Samli identified four stages in this early evolution of marketing in transitional economies. These stages were authoritative, directive, mixed middle and integrative. The movement being away from a command economy and towards a demand economy.

An increasing share of the economy in many of the transitional nations is now accounted for by privately owned enterprises. However as noted by Ferguson, (1992), many of the transitional economies of Eastern Europe have increasingly the appearance of market economies but do not in reality have the institutions, skills and expertise that enable a market economy to operate. The adjustments that have occurred have brought with them rising unemployment, falling living standards and strained infrastructures.

3.2 Consumer behaviour in a crisis environment.

The economic reforms that have been taking place in Ukraine in recent years have led to a number of serious problems for the local consumer. Leonidou, (1992) studying similar conditions in Russia, reported that consumers cite a number of serious problems from which they are suffering. The most important difficulty mentioned by consumers is the irregular supply of goods in the shops, which is due to the poor production levels and inadequate distribution system, in terms of both transport and storage. Market rumours about future supply shortages cause panic buying and prolonged real shortages particularly of foodstuffs.

Other problems complained of by consumers are the lack of a variety of products and brands from which to choose, and the long queues which form for basic consumer products and foodstuffs. Government efforts to relieve these problems have improved this situation to some degree but the basic problems with the infrastructure of the distribution system remain.

Despite this the consumer is revealed as surprisingly quality conscious, and the poor quality of products is a frequent complaint. These complaints about quality are frequently associated with foodstuffs and with semi-durable products such as clothes and shoes. Consumers also face difficulties due to the rationing of certain goods such as sugar, cigarettes and vodka, as well as some foodstuffs, which has periodically been imposed and from the high prices which have been the result of inflation in recent years.

In order to realise an effective marketing strategy it is necessary to understand the way people behave in different types of consumption activity. A large body of work exists concerning consumer behaviour in different environmental conditions. It may be the case however that many of the theoretical generalisations described in Western marketing literature are inadequate to describe the behaviour of consumers in transitional countries such as Ukraine.

Ukraine is in a situation of protracted and deep economic, social and political crisis. There are considerable shortages in the supply of consumer goods, high inflation and falling real incomes as well as rationing of various types. These macroeconomic factors have a considerable influence on the shape of consumption and on consumer behaviour in the process of satisfying needs. Obviously in a macroenvironment of this type it is necessary to adopt different research assumptions with regard to a consumer's environment. In the economically developed, market-driven economies the existence of market equilibrium is assumed which implies that the preferences of consumers are a sound basis for production decisions and for the allocation of resources.

Gajewski, (1992), considered the Polish economy following its transition from a centrally planned economy, at a time when it was experiencing very similar macroenvironmental conditions to those which currently prevail in Ukraine. He formulated a number of general assumptions about the consumer environment which applied in such economic conditions.

In a shortage economy a seller's market predominates in the case of most goods and services. There is little scope for market regulation and markets are additionally distorted by the parallel existence of non-market regulations, most notably different types of administrative distribution. The phenomenon of "demand overspill" means that, even in markets where demand is satisfied and administrative distribution eliminated, consumer behaviour is distorted by unsatisfied demand in other markets. Consumer's freedom of choice is limited by poor supply and they are thus unable to signal their real needs and preferences to marketers.

These assumptions about the consumer environment which exists under conditions of shortage mean that in Ukraine consumer sovereignty either does not exist or is very limited. These characteristic environmental conditions also generate specific reactions and behaviours on behalf of consumers. These reactions and patterns of consumer behaviour were described by Gajewski in three phases of consumer behaviour; when consumer needs are shaped, when purchases are made and in the consumption phase.

Considering first the way in which the needs and aspirations of Ukrainian consumers can be expected to be shaped by the macroeconomic conditions that exist in that country. It is evident that a huge and deepening gap exists between the needs of the Ukrainian consumer and any possibility of those needs being satisfied. Indeed the unsatisfied needs of the vast majority of consumers in transitional economies have been increasing for a number of years (The Economist, 1994). The younger generation in particular holds out little hope of attaining decent material standards, particularly with regards to housing, in the near future.

Dietl and Gajewski, (1988), and Beskid *et al.*, (1984), observed a characteristic tendency amongst Polish consumers, in situations similar to those which exist in Ukraine, for a market materialisation of household goals. In essence, at times of economic crisis, consumers, feeling a fundamental economic threat, turn increasingly to material values and away from other non-material aspirations such as good health and leisure.

In practical terms, Gajewski, (1987), found that in situations of economic crisis a lower priority is placed on satisfying consumer needs related to the home and it's equipment, recreation and tourism and cultural entertainments. Not surprisingly there was a relatively insignificant move away from satisfying the most elemental needs, particularly food, indeed this need was protected at the expense of other needs and aspirations. Additionally, Gajewski found that despite the rising cost of food in a crisis economy there was an intensified demand and resignation from the purchase of non-food items.

In Ukraine, as was observed to be the case in Poland in the above studies, it can be expected that there will be a strong trend to imitate the consumption patterns of the developed Western nations. Although there is a low degree of need satisfaction it does not follow that aspirations are necessarily low. The dominance of needs over wants in Ukraine may lead to a unification of the way that needs are satisfied resulting in a standardisation of lifestyles adopted by various consumer groups.

These potential emerging segments of consumers are discussed in following sections.

The purchase behaviour of Ukrainian consumers can be expected to be strongly influenced by an environment characterised by high rates of inflation, declining real incomes and restricted access to consumer products. The principal effect of inflation on the Ukrainian consumer is to make real and expected price rises a crucial element in purchase behaviour. As reported in *The Economist*, (1994), consumers become more pessimistic about the country's economy and expect both future price rises and greater shortages. This has the effect of making consumers ready to accept higher prices and expend more time and energy in obtaining and hoarding products Gajewski, (1992).

If Ukrainian consumers, as seems to be the case, distrust the future purchasing power of their currency the propensity to consume will increase and the propensity to save will decrease. This means that the propensity to save for highly priced consumer items will decline as inflation means that the time needed to save for such items as cars is beyond the decision horizons of most consumers. The counter to this is the possibility of forced savings due to the lack of consumer goods on which to spend income. Such circumstances are likely to remove rationality from the purchase decisions of consumers and increase hoarding of those products which become available.

Consumers purchase decisions in these circumstances are obviously not governed by current needs but rather by a need to safeguard themselves against future events. This means that there is likely to be the forced substitution of products some way distant from those needed or aspired to by the Ukrainian consumer as shortages and fears of inflation compel people to buy whatever products become available. Market shortages and other constraints on freedom of choice simplify the purchase decision but complicate the purchase process. This has led in Ukraine, as it did in Poland (Gajewski, 1992), to the development of a considerable black market and the associated speculation.

An environment of inflation and shortages of consumer goods means that the structure of consumption is different to that which applies in a more balanced macroeconomic environment. Gajewski, (1992), notes that spending on food, tobacco and alcohol tends to increase in relation to the consumption of non-food items but also that the consumption of services as a proportion of consumer spending declines.

Another feature of consumer's consumption behaviour which is enhanced at a time of economic crisis is what Gajewski calls "consumption renaturalisation". By this is meant a trend towards increased inputs of consumers own labour in the running of households and thus a corresponding decrease in the purchase of market services. In practice this means a decline in the market for household repairs and renovation services, cosmetic and hairdressing services and other services such as laundry washing and catering.

This is all part of a defensive reaction by consumers to a drop in real incomes caused by crisis macroeconomic conditions. Another reaction identified by Gajewski is what he calls "extended exploitation". This occurs when insufficient supply and relatively low quality of production leads consumers to extend the time during which possessed durable goods are exploited.

The changes in the behaviour of Ukrainian consumers, which can be expected to be brought about by economic crisis and the transition from a centrally planned to a market economy, obviously negate many notions of behaviour described in the developed Western nations. The fact that consumers must respond to market disequilibrium and falling living standards must also influence the marketing activities of Ukrainian companies.

In the Western marketing model the needs of the consumer direct the supply of goods and services through preferences expressed in the market. In a situation of market disequilibrium the main emphasis of the activities of companies is on adapting to the economic environment. This is because in a situation of deep market disequilibrium, and often in former socialist countries a monopolistic position,

companies are in a much stronger economic and organisational position than households and can therefore dictate to consumers the terms on which exchanges take place.

In Ukraine there is a substantial surplus of demand over supply which suggests in principle that companies do not experience any barriers to sales and can indeed sell everything that they produce. Additionally, because there are many consumers competing for scarce products, companies should be able to obtain high prices for their output, although this is restrained by declining real incomes. This means, in marketing terms, that Ukrainian companies would not be interested in conducting extensive marketing research or in utilising the results of research in their strategic and production planning.

There are also implications for the development and marketing of new products. Given that almost every product, even those of a low quality, marketed by companies will be accepted by consumers, there is little incentive for firms to develop new products or innovations and place them on the market. Ukrainian companies can therefore be expected to show an indifference to innovation and to any activities connected with new product development. Gajewski, (1992), reported that in similar economic conditions in Poland, companies devote more attention to the organisation of material procurement and to production processes. Manipulation of the market was usually limited to raising prices.

This reaction to economic conditions by companies was also reported as having feedback effects on consumers. If enterprises are orientated towards production rather than towards the needs of consumers there is the possibility of negative socio-economic phenomena. Firstly there is the possibility of serious inefficiencies in the use of factors of production but also the manifestation of negative feelings in consumers. Inflation, shortage and the associated inability to satisfy needs leads consumers to express their dissatisfaction in non-market ways, perhaps by social unrest. In the Ukrainian situation this may be the only aspect of consumer behaviour which influences the producers of goods and services.

In chapter two the effects of crisis economic conditions, inflation, recession and shortage on the behaviour of consumers were described using a framework of Western concepts of consumer behaviour. Studies by Shama, (1978, 1981, 1992a), Kotler, (1974), and Kelley and Scheewe, (1975), have shown that consumers, in a macroeconomic environment of inflation, recession and shortage, respond by developing strategies to increase their resources, such as becoming more efficient consumers. These studies are obviously based on experiences in developed Western nations where the conditions of economic crisis are in contrast to previous experience.

The framework that has been developed to consider the behaviour of consumers in these economic conditions has also been effectively applied in Brazil by Johnson, (1987, 1988), and in the Philippines by Huszagh *et al.*, (1992). These studies are important to the development of marketing in Ukraine as they describe the impact that extreme macro-economic change can be expected to have on the Ukrainian consumer. The diagram below, (Figure 3.1) shows the way in which the drastic macroeconomic changes which have occurred in Ukraine, and the other formally socialist nations of Eastern Europe, as a result of the transition from centrally planned to free market economies, namely inflation, recession and shortages have effected the choices and behaviour of consumers.

The behaviour of consumers in Ukraine and the other countries of Eastern Europe has been going through a process of fundamental change since the moves towards market-regulated demand and political democracy began in mid-1989 (Leonidov (1992), Miller (1992), Koptev (1992)). The very limited research into these changes in Ukraine and the more extensive research which has taken place in countries such as Poland and Hungary suggest differences both in the strategies and speed of the transition to democracy and a market economy and in the associated transformation of consumer behaviour (Kaikati (1992), Hunter (1992), Reddy (1992)).

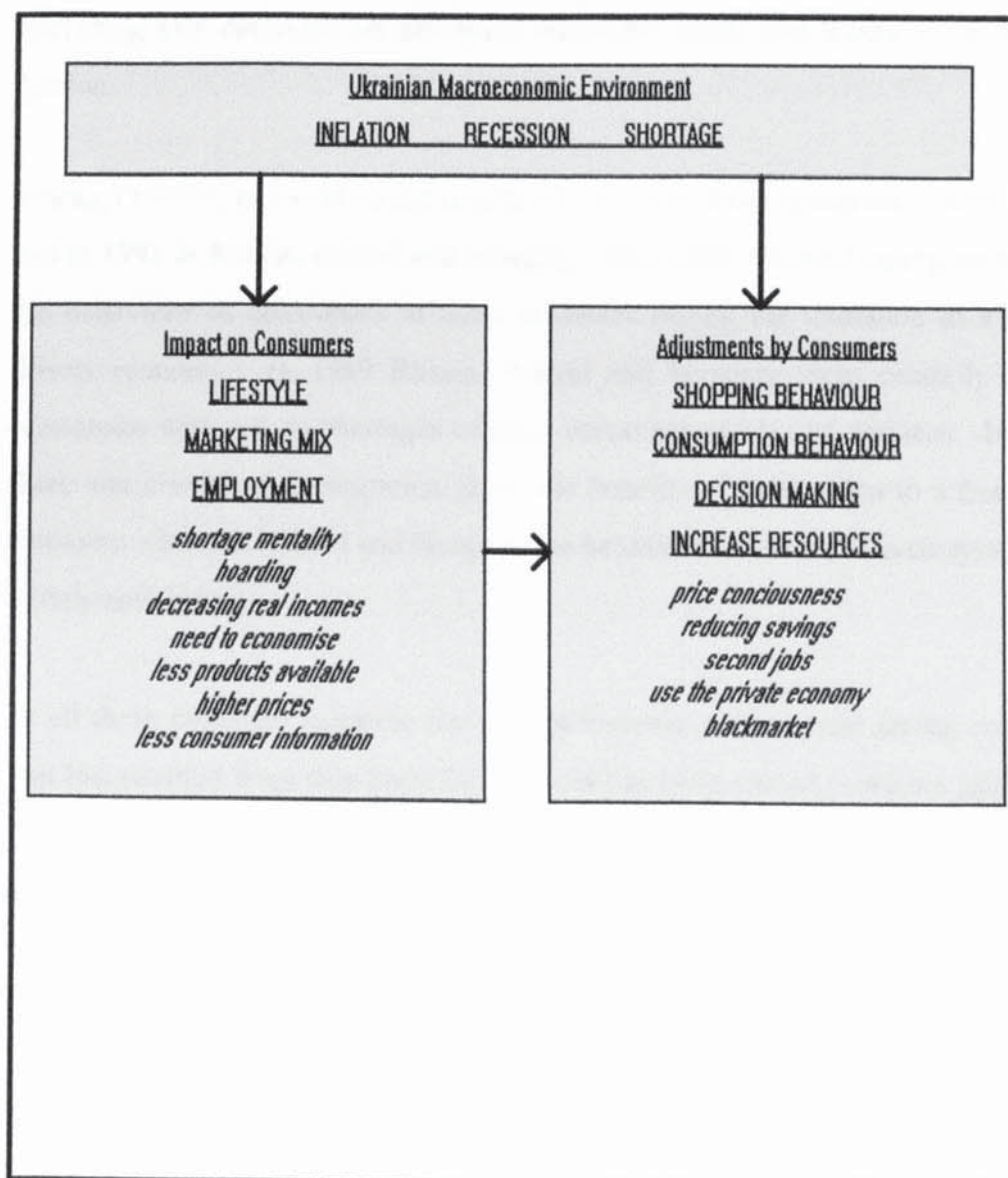


Figure 3.1: The Ukrainian Macroeconomic Environment and its impact on Consumers.

Based on the work of Shama, (1992a), marketing in Ukraine can be expected to change from a focus on regulators and planners to a focus on the satisfaction of consumer needs. As the transition to a consumer-driven market takes place management control of the marketing mix can be expected to increase and there can be expected to be an increase in marketing planning. The transformation of the behaviour of Ukraine consumers is of central importance in this because, as the market economy evolves, Ukraine marketing managers will increasingly focus their

marketing mix decisions on satisfying consumer needs and wants in the Western fashion.

Shama, (1992b), reported on the results of consumer focus group interviews in 1989 and in 1991 in Russia, Poland and Hungary. This study revealed emerging trends in the behaviour of consumers in these countries during the transition to a market-driven economy. In 1989 Russia, Poland and Hungary were centrally planned economies with severe shortages of most consumer goods and services. In Russia there was considerable suspicion about the benefits of a transition to a free market economy whilst in Poland and Hungary the benefits of a market-driven system were widely anticipated

In all three countries however the macroeconomic environment facing consumers that has resulted from this transition process has been one of recession joined with inflation, or stagflation. The decline in real purchasing power meant that by 1991 despite abundant supplies of consumer goods in Hungary and Poland, consumers did not have sufficient purchasing power to participate in the market. In Russia the position was, somewhat different as consumers were subject to conditions of shortage.

Prior to the commencement of the transition to market economies these three countries had stable and predictable social systems, if somewhat inefficient in the supply of consumer goods. The prospect of unemployment and declining living standards was thus all the more extreme. Shama's study indicated that the impact on consumer behaviour had been more pronounced in Poland and Hungary than in Russia. Unlike Russian consumers, consumers in Poland and Hungary appeared to have reached a favourable consensus.

Thus, despite the fact that consumers in all three countries reported an erosion in their standards of living, Polish and Hungarian consumers generally agreed that the overall economic situation and outlook had improved, that consumers had more choice and information and therefore less need to hoard, that more products were available and more widely distributed and that there were more awareness creating

promotional messages. In Poland and Hungary therefore, despite the fact that prices have increased and real incomes have fallen, the transition to a market economy is perceived by consumers as having a beneficial effect.

In Russia however the position was found to be somewhat different. Here there were also conditions of higher prices and falling real incomes, but Russian consumers, except for a small segment, saw little positive in the changes that were taking place, and were generally pessimistic about the future. Russian consumers felt greater needs to economise and work harder to make ends meet, that shopping was more difficult and that there was less product information available. Many felt a continuing need to hoard products against shortages.

Shama's study also looked at the adjustments that consumers in Russia, Poland and Hungary were making to the economic conditions in which they found themselves. In general consumers in all three countries adjusted to the transition to a market economy by attempting to increase their resources, by changing shopping and decision making behaviour, and by choosing a different marketing mix.

Consumers in all three countries were seeking to increase their incomes by following a number of common strategies. These included maintaining their standard of living by reducing savings, participating in the private economy by selling products and services directly to other consumers, getting second jobs or, if retired re-entering the employment market. Anecdotal evidence would also suggest an increasing reliance on the black-market particularly in Russia. At the same time consumers were complementing these strategies by seeking to reduce consumption, do more comparative shopping and decrease risk by buying better quality, or more durable, products.

In contrast to the way the study showed that Russian consumers were not impacted by the market economy to the same degree as Polish and Hungarian consumers the findings suggest that Russian consumers are adjusting in a similar way, although not to the same degree by increasing their resources, changing their shopping and decision making behaviour and adjusting their choice of marketing mix.

Shama suggests that this may be because Russian consumers expect that the market economy may continue to develop in Russia and are adjusting to an anticipated economic environment. Russian consumer adjustments were different in two ways to those of Polish and Hungarian consumers however. Fewer Russian consumers either tried to get better jobs, probably not a feasible option, or became more brand loyal, possibly because of few brands to choose between.

Shama makes the interesting point that many of the consumer adjustment activities were consistent with the hierarchy of needs described by Maslow (1954). Many consumers stated that as basic day to day needs were met they began to move to satisfy other needs which it had been impossible to satisfy until the more basic needs were met. In practice this would indicate that in a country in the position of Russia consumers would not begin to demand on a large scale products such as electronic goods and automobiles until the more basic needs for products such as food, clothing and shelter had been met. An aspect of the development of the consumer in transitional economies, widely reported in the news media, (e.g. *The Economist*, January 29th, 1994), and supported by Shama's study, is the development of a considerable underclass of economically disenfranchised consumers. The impact of the market economy varies with the socio-economic status of the consumer.

3.3 The development of a market orientation in transitional nations.

Zurawicki and Becker (1994), described the development of the marketing function in the transitional economies of the former Central and Eastern European nations in terms of the product, price, distribution and promotion elements of the marketing mix. With regard to the product component of the mix they describe a situation where the condition of shortage, and lack of choice of products which had existed prior to economic liberalisation has been greatly relieved.

Western branded goods are now freely available thanks in large part to the profit seeking activities of local entrepreneurs. This would seem to indicate that consumers in these countries will rapidly develop brand awareness and loyalties which can be exploited by the marketing techniques that have been developed in the West. If this were the case it could be taken as a firm indication that a market orientation can be expected to develop. However, as with so many marketing issues in the transitional nations the process is complicated by the nature of the marketing environment.

To effectively develop a brand Western marketers can rely on a more or less effective legal system which seeks to protect ownership and property rights. This is not the case in many of the transitional nations where piracy, counterfeit goods, and poor protection of commercial property rights are common. In addition these markets are characterised by the large scale supply of end of line items and seconds which makes the merchandising practised by emerging private enterprises erratic (Zurawicki and Becker, 1994).

As previously described price levels in many of the transitional economies have risen rapidly and do not on the whole relate to the purchasing power of consumers. The effect of this on the development of a market orientation is considerable as it makes more difficult, and of course simultaneously more necessary, the essential marketing activities of calculating profitability and setting the medium and long term prices of products. Western branded products are usually marked up to prices

above the level of Western Europe, indicating that market penetration is not commonly sought through a competitive pricing policy.

With regard to the price element of the marketing mix therefore the development of a market orientation would appear to depend on the development of a market where firms have to set prices with regard to factors which are of daily concern to Western marketers namely the purchasing power of consumers in the target market and the price levels of competing goods and services. The development of a market orientation in pricing is further hindered by infrastructure problems such as the scarcity of consumer credit and the inability of locally manufactured products to compete with Western branded products due to high production costs and quality problems.

The lack of purchasing power in the transitional economies may also be a barrier to the development of a market orientation in the distribution element of the marketing mix. Prestigious Western retailers who have opened branches in the capitals of the transitional nations of Central and Eastern Europe are unlikely to expand for some time as they rely on such a small proportion of the local population as their customer base. Their presence in these markets is more likely part of a strategy to make an early introduction of their brand into the consciousness of local consumers and to gain publicity in their Western markets.

It is again however the absence of a developed business infrastructure that has restricted the development of a market orientation in the area of distribution. Communication and transportation systems are, although improving in some countries, on the whole of a poor quality in the transitional nations. Small sized markets also mean that it is difficult to achieve the economies of scale in distribution which have enabled many Western retailers to develop successful marketing strategies.

With regard to the development of a marketing orientation in the promotion area of the marketing mix Zurawicki and Becker, (1994) report that no specific sales promotion strategies have emerged but that advertising has become fashionable as

an instrument of market penetration. The development of these elements of Western sales promotion depends on both improvements in the circulation of printed media and the achievement of a higher level of market saturation.

The availability of advertising media, print, radio and television has increased dramatically in many of the transitional nations. To be effectively utilised by marketers however there is a requirement for greater availability of accurate readership, listening and viewing figures. It is only when the availability of such information enables organisations to make rational advertising decisions that a development of a marketing orientation in the promotions area of the marketing mix may become possible.

In a similar way the development of such established Western marketing practices as the use of direct mail is hindered by the poor availability of data-bases. Zurawicki and Becker, (1994) found that the creation of data-bases is viewed with suspicion by the general public but as a substitute for direct mail campaigns such techniques as the distribution of literature on the streets were being employed. The use of such relatively simple promotional activities can be taken as an indication of an orientation towards the promotion of sales but are some way removed from being an indication of the development of a true market orientation in the area of promotions.

It is possible to argue therefore that this perceived lack of momentum in the movement of companies in the transitional nations towards the development of a market orientation may be due to a number of characteristic elements of these societies which remain as a residue of their collectivist past. The suspicion aroused by the creation of data-bases has been cited as an example. Some of these elements are environmental, such as the lack of a sound business infrastructure, and others are societal and attitudinal.

Bogdanowick-Bindert and Ryan (1993), describe the fear that has developed in some transitional nations that the development of a free-market economy is associated with a decline in moral and ethical standards. This of course is not

surprising in societies that for many decades saw profit taking and the individualism associated with capitalism as corrupt. Indeed in many transitional countries these fears have not been allayed by experience with high levels of corruption and the association of the criminal element with business activities.

As has been discussed above a highly inefficient marketing environment still exists in most of the transitional nations. Many of the basic elements of a business infrastructure are still inadequate. This includes such basic elements as an effective distribution system, sufficient credit and a workable legal system. Accounting practices in many transitional countries have not been suitable for capitalistic business practices (Trevor, 1992). This has led to an orientation towards the short term as mid and long term marketing planning require accurate measurements of performance.

This may mean that new patterns of consumer behaviour, perhaps for example, based on irrational buying behaviour due to the fear of shortages, emerge. The implication of this for the development of a market orientation is that the marketing techniques that have been used in the West may not be appropriate for the conditions which exist in the transitional nations. It may therefore be the case that a whole new concept of what a marketing orientation means will have to be developed in order to have relevance to the conditions which are developing in the transitional countries.

3.4 The development of marketing strategy in transitional nations.

Porter, (1980) identified four main approaches to business and marketing strategy by case observation: industry-wide cost leadership, industry-wide differentiation, focused cost leadership and focused differentiation. Miles and Snow, (1978), also described four strategic types based on the degree of adaptive capability in product or market development: defenders with little adaptive ability, prospectors who adapt to a high degree by identifying and capitalising on emerging market opportunities, analysers and reactors.

Walker and Ruekert (1987), fused the typologies of Porter and Miles and Snow. They identified three strategic types; prospectors, low cost defenders, and differentiated defenders. These strategic types emerged from a two dimensional model involving on one hand the intensity of product market/development and on the other the basis of competitive advantage, cost or differentiation.

The three approaches described above are theoretical models which were tested by empirical research. Other research has sought to identify by extensive empirical research the type of strategies which exist within industries. Hooley *et al.*, (1992) identified five generic marketing strategies by considering the variables of objectives, strategic focus, market targeting and positioning. These generic marketing strategies were used by Hooley *et al.*, (1993) to identify five distinct marketing-strategy types emerging in the transitional Hungarian market.

These strategies were defined within two underlying groupings. Firstly those strategies that were essentially a defensive response to market conditions efficiency focus defenders, quality focus defenders and low price defenders. The second grouping comprised two strategies that were expansionist market share challengers who are prepared to confront competition and organic growth segmenters who exploit the growth of the market which is taking place organically.

Zurawicki and Becker, (1994) identified three emerging levels of business operation in the transitional nations of Central and East Europe small entrepreneurial

businesses, foreign-owned and managed large business operations and large state-owned enterprises. For each of these levels they described emerging marketing mix characteristics and marketing strategies.

Small entrepreneurial business operated under the command economies outside of the planned system as the suppliers of goods, as basic as food and clothing, that were unavailable under the official allocation system. In some countries such as Hungary and Poland many of these operations were allowed to trade by the authorities albeit in a restricted fashion. Indeed these restrained trading conditions helped to develop the skills that have enabled many of these companies to trade successfully in the difficult markets they presently operate in.

It can be seen that the experience of operating on the margins of the official economy could lead to a flexible consumer orientation and an ability to make the use of available marketing techniques to locate customers and to source supplies and distribution channels. These businesses have always tended to specialise in the supply of goods which meet the specialised needs of small groups of consumers. This coupled with continuing situations of shortages creates market conditions where niche marketing strategies can be successful.

The market in which these small businesses operated has however changed to a considerable extent since movements towards a market economy began. One most notable change is that since their operations have become legitimised they are free to carry out promotional activities of the type that in the West would be associated with a marketing orientation. Indeed this has to some degree been necessitated by increased competition from both other small businesses and from larger organisations who can identify gaps in the market by observing the success of smaller entrepreneurial businesses.

Thus although these small businesses may be good at finding opportunities in the market, they often do not have sufficient buying power and scale economies to allow them to exploit them. There are high levels of unsatisfied demand in many of the

transitional economies and consumers have become more educated about such matters as pricing and sources of supply.

These smaller businesses have been used to a premium pricing policy in the days of the black market and in many cases do not have efficient enough operations or the necessary business systems to enable them to compete on price with the larger organisations. This does not sound dissimilar to the situation that prevails in some Western markets such as food retailer where smaller, independent retailers seek strategies based on non-price elements of the marketing mix.

Zurawicki and Becker (1994) find that this process is starting with the development of small, skill-orientated businesses pricing in a flexible way in line with the pattern of supply and demand. Evidence is also found of small businesses following strategies based on charging high prices as they introduce new products to the market or exploit new markets and then lowering these prices as competitive pressure increases.

Promotionally these small businesses are unsophisticated, their customer base is small and the market is generally well known to them, with a strong personal selling orientation. Distribution systems are also rudimentary by Western standards. Selling may be door to door, in the street or through small shops. Ordering, transportation and the storage of product is often similarly makeshift.

These small entrepreneurial businesses are characterised by a strategy of pursuing fast growth by taking all possible opportunities including those with a high risk. In terms of the Porter framework they are adopting a focused, differentiation strategy by concentrating on market segments to which they can introduce new products at premium prices. In terms of the Miles and Snow analysis they are prospectors continually seeking to open new markets in which they can profit before there organisational weaknesses are exposed by larger scale reactors entering the market.

In terms of the five strategic types identified by Hooley *et al.*, (1993) these small business probably sit most easily in the category of organic growth segmenters.

They are oriented towards growth but through the growth of the market as new segments emerge rather than through direct competition with competitors for market share. The fit is not exact however as this group do not appear to be using quality as a positioning strategy so much as the supply of new products to the market.

The growing, although still limited number of foreign-owned larger businesses operating in the transitional nations of Central and East Europe offer, on the whole, branded products with a high status perception in the minds of local consumers. As previously stated theirs is essentially a long term strategy given the low levels of purchasing power that still prevails in these markets, although there are also current gains to these organisations by achieving world wide exposure.

These foreign-owned businesses are, on the whole selling the same products in the transitional countries that they sell to the rest of the global market and at similar prices to those charged in Western Europe. This lack of differential pricing to account for lower levels of purchasing power is indeed necessitated by the high costs of entry into the market, the costly distribution systems which exist and to the low sales volumes that can be achieved. There has been little incentive, given uncertain environmental factors, for these foreign-owned organisations to use their expertise to develop more efficient distribution systems.

The consumer in transitional countries is typically both price sensitive due to lack of purchasing power and simultaneously willing to accept that premium prices will be charged for highly desired Western brands. There would thus appear to be a need for more detailed market segmentation than in Western markets. In the same way these foreign-owned organisations have not attempted to use promotional activities which are adapted to local market conditions.

It is less obvious where these foreign-owned businesses would be positioned in terms of the five strategic types identified by Hooley *et al.*, (1993). They do appear to share the goals associated with the group described as market share challengers because their goals are concerned with long-term market position building rather than short-term survival. It can also be assumed that given their expertise in the

techniques of Western marketing they will also take a lead in the development of marketing planning in the transitional nations.

There are also however important differences between the way in which these foreign-owned businesses are operating and the behaviour of market share challengers. Chiefly, although they would appear to be concerned with building long-term market share they are not using a low price strategy. Distribution, reputation and range would however be areas of competitive advantage.

Like organic growth segmenters they have a positioning strategy focused on market segments with sufficient purchasing power so to some extent they are also in terms of Porter's analysis focused differentiators building a position based on superior quality while targeting specific market segments. This, returning to the five strategic types identified by Hooley *et al.*, (1993) is characteristic of the group termed quality focus defenders, at least with regard to that group's longer-term goals. The foreign-owned businesses are however operating with a view to expansion rather than defence of their position.

The third element of Zurawicki and Becker's triad of emerging business types in the transitional nations of Europe are the large state-owned or newly privatised enterprises. Many of the large businesses in these countries are foreign investments either as joint ventures or wholly owned subsidiaries. Large state-owned organisations in these fragmenting markets have found it difficult to focus in on the new consumer-driven market segments which have emerged. Their strategy has on the whole been to survive and rationalise.

These large state-owned or newly privatised organisations have very restricted marketing knowledge. Under the command system they produced goods which to a considerable extent would not have been produced in a market driven economy and are therefore poorly positioned to meet the quality and price requirements of the new market. They are also now for the first time facing real competition from both the emerging small businesses and the foreign-owned organisations that have moved

into the market. Some however have been able to compete effectively on price by offering products which are substitutes for the more highly priced Western brands.

Their prices however are still relatively high, due in the main, to high trade mark ups and poor marketing skills. These large state-owned or newly privatised enterprises are essentially price takers rather than price givers with little of the pricing flexibility shown by many smaller entrepreneurial organisations. In a similar way these organisations have found difficulties in adjusting from a distribution system geared to the delivery of bulk orders to one which requires more flexibility to meet the needs of a segmented market.

In terms of the strategies identified by Hooley *et al.* (1993), these organisations would appear to be strategically within the broad defensive grouping. Whether their focus is on efficiency, quality or price is less clear. They are certainly risk adverse and Zurawicki and Becker (1994), describe them as being in a "survival mode". This would indicate that these organisations are clearly in the strategic grouping described as efficiency focus defenders who are described by Hooley *et al.* (1993), as having survival as their top priority.

Indeed this is further confirmed by the finding in the Hooley *et al.* (1993) study that a high proportion of the firms in this strategic grouping were state-owned, although many were also privately-owned but without foreign capital or management expertise.

This defensive strategy is pursued internally through attempts to increase efficiency and productivity and by attempting to meet the needs of targeted segments with products which are of a similar price and quality to those offered by competitors. Some do however claim to have a cost advantage over competitors placing them in Walker and Ruekert's low-cost defenders strategy grouping. They are thus clear market followers unlikely to see marketing planning and new product development as important elements of their survival strategy. They are unlikely to have a marketing department therefore.

It can be seen therefore that the marketing strategies associated with the types of businesses identified as emerging in the transitional nations of Central and Eastern Europe by Zurawicki and Becker fit with some comfort into the groups of marketing strategies identified by Hooley *et al.* (1993) in the Hungarian market. The marketing strategies identified as emerging in the transitional nations are different in some ways to those identified in Western markets (Doyle and Hooley, 1992). They are on the whole more defensive which is not surprising in the market conditions that existed in Central and Eastern Europe at the time of the studies.

There is however a clear indication that the economic environment is a vital element in determining the types of marketing strategies that will be adopted by organisations. The marketing environment in the transitional nations has been created by the transition from a command to a market driven economy. This set of circumstances has never existed before so it is therefore unsurprising that new hybrid forms of marketing strategy will emerge to cope with these unique market conditions and indeed to meet the needs of new groups of consumers and new types of business organisations.

The emerging Ukrainian market is different again to that which is developing in other transitional nations. In Ukraine the pace of reform, for political and other reasons, has been slower and the economic problems to be overcome more severe. It would perhaps therefore not be surprising to find in the evolving Ukrainian market that groupings of marketing strategies, different again from those emerging in other transitional economies, are beginning to be employed. These strategies may well be of a type which are adapted to the unique environment which has developed in Ukraine rather than to the marketing environment which has formed strategy in the West.

Prior to the commencement of the process of transition to a market-driven economy, managers worked in stable, predictable, centrally planned environment, where such managerial functions as production, pricing, planning, distribution, promotions and research and development were performed in a simple, mechanistic way.

Coupled with the move from a centrally planned to a market-driven economy have been macroeconomic problems , namely high rates of inflation, economic recession and unemployment. Organisations in transitional economies have had to come to terms with producing and selling without the threat of competition to working in a highly competitive environment. Managers are having to adjust to this new environment by implementing marketing strategies and tactics which will enable their organisations to survive.

A major element in the changes that have occurred in the transitional economies of Central and Eastern Europe was the need to transform the economy from a command economy characterised by chronic shortages and inefficient and insufficient supply to a free market economy characterised by abundant, consumer responsive supplies of goods and services. Before 1989, the acceptance of Western management concepts and practices was extremely limited and lacked consideration of both operational efficiency and consumer satisfaction (Shama, 1993).

The moves towards the implementation of a market economy have however led to an increase in the use of Western business tools such as marketing and accounting (Shama and McMahan, 1991) as well as business school openings by several Western universities. Although the changes towards a market economy constitute business opportunities for international organisations, which are being exploited by an increasing number of Western companies, the level of knowledge about how marketing managers are adapting to their new operating environment would appear to be limited.

There have been many studies which have focused on general business guide-lines for Russia and Eastern Europe (i.e. Quelch *et al.*, 1991) and which have generally concluded that countries such as Hungary and Poland offer better business opportunities than other transitional economies. Other studies, most notably Shama 1992a, have looked at business managers in other Eastern European countries in transition from a centrally planned to a market-driven economy and portrayed the development of a consumer orientation among marketing managers.

Shama in his study of Yugoslavia before its collapse in 1992 concluded that marketing would change from focusing on planners and regulators to satisfying consumers; from little or no competition to more competition; from little or no management control over marketing mix decisions to more control over such decisions and from little planning to more planning. The study stated that other countries in Eastern Europe had been undergoing a similar management transformation.

The situation in Ukraine, Russia and other former elements of the Soviet Union is somewhat different to that in other Eastern European countries in transition in that the changes have been more gradual, inconsistent and often contradictory. In such countries as Poland and Hungary consumer demand is coupled with widely available supply, but a lack of consumer purchasing power. In Ukraine however there are still conditions of shortage, in other words demand still exceeds supply.

The effect on marketers of the transition to a demand driven economy must therefore be considerable as forces new to most managers are introduced. These forces effect such basic areas as the nature of the marketing environment, the structure of demand and the attitude of customers. Shama, (1993) surveyed the attitudes of managers in Eastern European countries with regard to the effects of the developing market economy.

The survey revealed that enterprise managers in transitional economies agreed, or strongly agreed about the effects of the developing market economy in a number of areas. It was agreed that there was now a higher level of competition than before the reforms. Virtually all of the managers interviewed recognised the sudden emergence of competition for markets and customers, but in many cases, lacked either the skills to develop or implement competitive business strategies, or in some cases, especially in the large military-related industries, were forbidden by law to initiate any strategic action.

It was strongly agreed by enterprise managers that high levels of inflation coupled with the effects of recession were being experienced. Pricing has been cost

orientated rather than based on market considerations and therefore many managers responded to inflation by raising their prices, disregarding the price of competing domestic products and of imported products in some cases. These managers, not surprisingly discovered that local demand for their products declined.

The decline in demand caused by recessionary conditions in the transitional economies meant that many of the managers interviewed by Shama had to scale down production, which in turn contributed to the decline in gross domestic product and the further erosion of living standards. This strategically necessary cut in production left managers in a seemingly difficult position because, due to inflation, they also had to raise prices, at a time when low levels of demand would indicate that a reduction in prices would be a more logical strategic alternative.

However, an indication of the shortage situation is given by the fact that enterprise managers strongly disagreed that they had experienced difficulty in passing cost increases on to customers. Thus, even in conditions of severe recession and declining real incomes consumers are still willing to pay higher prices for goods and services because of the excess of demand over supply.

Managers agreed that there had been a sudden and significant drop in exports. Until mid 1991 many of the large enterprises in Russia had export agreements with other COMECON countries, which in many cases accounted for most of their production. Within a very short time this situation had changed dramatically and a severe shortage of orders resulted. Shama's study does not reveal to what use this suddenly freed production capacity has been put.

It might be thought that with such high levels of consumer demand production could be switched to satisfying domestic needs. It may be the case however that the lack of mechanisms for measuring consumer's needs and wants, coupled with an incompatibility between the plant required to make the products demanded for export and the new demand for consumer products which are in short supply, means that such a switch in production is a difficult process for management to inaugurate. Enterprise managers strongly agreed that there are insufficient and inefficient

distribution channels. All managers thought that the distribution of products and services was incapable of reaching the consumer when and where the consumer wished.

Shama found that because market forces were still in the early stages of evolution in Russia managers reported no impact on several decision areas which were revealed as having been strongly effected in the other Eastern European countries where managers were surveyed. Russian managers disagreed that a product orientation was not suitable for consumer markets and that a production orientation was causing problems. These statements were strongly agreed with in all the other countries which had moved towards a demand driven economy.

<u>IMPACT</u>	<u>RUSSIAN MANAGERS</u>	<u>POLISH MANAGERS</u>
Increased competition	yes	YES
Decreased government support	yes	YES
Decreased exports to Eastern European countries	yes	YES
High inflation	YES	YES
Recession	YES	YES
Drastic reduction in demand	no	YES
High inventories	no	YES
Increasingly selective customers	no	YES
Increase in accounts payable	no	YES
Increase in accounts receivable	no	YES
Production orientation creating problems	no	YES
Production orientation not suitable for consumer markets	no	YES
Increasing difficulty in passing cost increases to customers	NO	YES
Distribution channels limited in number	YES	YES
Inefficient distribution channels	YES	YES
Added cost of hidden unemployment	yes	YES

YES = Strongly agree, yes = Agree, NO = Strongly disagree, no = Disagree

Figure 3.2: Impact on Russian and Polish management of a market-driven economy.

Source: Shama (1993).

Again, in contrast to the other countries surveyed, Russian managers reported no reduction in demand, that consumers were not becoming more selective, that there had been no increase in inventories and that there had been no increase in accounts payable or receivable. This suggests that the process of converting to a market economy and using management practices, strategies and tactics suitable for a market economy is yet to develop fully in Russia. It may also perhaps be the case that, because most managers of Russian state-owned enterprises were appointed because of their connections to the communist party, they are simply not equipped to work in the context of a free market.

Given the close union between Ukraine and Russia during the Soviet era it is to be expected that, at least to some degree, the attitudes of Ukrainian managers will be closer to those revealed in Russia than to those that have emerged in other transitional economies.

The effects of the market economy in Eastern Europe, as revealed by Shama's study, have made many managers realise how outdated was the business system based on central planning, especially in the environment of an increasingly market driven environment in which they are now operating. In particular, managers in Eastern Europe have begun to realise that product quotas, production orientation, emphasis on quantity rather than quality, cost-orientated pricing and disregard of consumer satisfaction are outmoded practices.

Most managers in Ukraine, and other transitional countries, do not have the skills that are required to exploit the commercial opportunities that are being presented by the movement towards a free market (Osborn, 1992). Managers in Eastern Europe have not been expected to take the initiative, but rather to wait for production and distribution orders which stopped coming once the command economy began to dissolve.

Shama, (1993) however reports that adjustments to market economies have begun to be made by companies on two levels in the transitional economies of Eastern and Central Europe. Firstly on the level of management within existing enterprises and secondly on the level of creating new, privately owned companies. State owned enterprises, especially the smaller ones and those with some exposure to Western markets are reported as increasing their market orientation, responsiveness to consumer needs, exports to the West and their diversification. In many cases these adjustments are stimulating strategic management thinking and practices amongst the managers of state owned industries.

At the time of Shama's study these adjustments were more pronounced in those countries, such as Poland, which were further along the road to a free market than Russia. None the less there seems to be a pattern emerging in Eastern Europe,

which Ukraine may well follow, of increasing agreement amongst managers about a developing marketing orientation. There are a number of emerging elements to this marketing orientation, which importantly, are similar to the adjustments made by American marketing managers in the 1970s when faced with the same macroenvironmental elements of stagflation.

The principal marketing strategies and tactics being adopted in Eastern Europe and outlined in Shama's study are:

- Managers are becoming more orientated towards the market and more responsive to the consumer.
- Improving product quality.
- Changing product design, assortment, finishing and packaging.
- Increasing promotional efforts such as personal selling and point of sale displays.
- Increasing merchandising efforts.
- Using competitive pricing.
- Instituting promotional pricing and price discounts in some cases.

The most striking feature has been the creation of a separate marketing function by some companies. These have in the main begun as an effort to increase sales but have begun to address issues pertaining to product and marketing mixes to satisfy consumers and increase demand. These are mainly sales people therefore that are performing the role of a marketing department. It is again worth emphasising that Russian managers who are operating in a market where demand exceeds supply have taken few adjustment measures. It is probably reasonable to take it that Ukrainian managers will begin to follow the pattern of managers in other transitional nations once the impact of the market economy on their operations becomes more pronounced.

<u>ADJUSTMENT</u>	<u>RUSSIAN MANAGERS</u>	<u>POLISH MANAGERS</u>
Greater market orientation	yes	YES
More consumer responsiveness	no	YES
Beginning of marketing effort	no	yes
Search for management and marketing education geared to market economies	yes	YES
Improved product quality	no	YES
Improved product design, assortment, finish and packaging	no	YES
Competitive pricing	NO	yes
More promotional pricing	NO	yes
Some price discounting	NO	yes
Greater use of promotion	NO	yes
More point of sale displays	NO	yes
More merchandising	no	YES
Increased sales effort	NO	yes
Increased number of distribution outlets	NO	yes
Diversification	no	YES

YES = Strongly agree, yes = Agree, NO = Strongly disagree, no = Disagree

Figure 3.3: Marketing adjustments by Russian and Polish managers of state owned companies in response to a market driven economy.

Source: Shama (1993).

The emergence of privately owned companies in Ukraine is a significant development towards a market economy. The performance of private companies in other transitional economies such as Poland and Hungary is impressive and is making a considerable contribution to employment and gross national product. In Ukraine most such companies are newly formed co-operatives, restaurants and business services.

The management of these private companies, very often the owners also, are very different to the managers of state owned companies (Manoukovsky, 1994). Generally they are younger and more professionally educated with entrepreneurial and market orientations. They make profits by satisfying consumers and are thus

open to the use of Western marketing and management techniques. Their focus is on satisfying consumers by improving product quality and distribution, by using promotion strategies and by setting prices in accordance with demand in the market.

Managers of private companies

Market orientated
 Consumer orientated
 Rely on market signals
 Price according to market demand
 Use promotional tools
 Use more efficient distribution
 Sales background

Managers of state-owned companies

Plan orientated
 Production orientated
 Rely on personal contacts
 Price according to costs
 No use for promotion
 Distribution is state-dictated
 Engineering background

Figure 3.4: The development of marketing in privately owned and state owned companies in the transitional economies of Eastern Europe.

Source: Shama (1993).

3.5 Marketing in Ukraine in the Soviet era.

In chapter two the macroenvironment and the effect of conditions of shortage, recession and inflation on the development of marketing management was described. It was shown that these environmental conditions influence the behaviour of both managers and consumers and thus have a profound influence on the way that marketing can be expected to evolve in Ukraine.

This section aims to describe the current position of marketing in Ukraine by considering the extent to which management has begun to think not only in terms of production and sales but in terms of satisfying consumer needs. To try and gain an understanding of the extent to which a marketing era has begun in Ukraine it is necessary to consider the nature of enterprise management both before the transitional process began and now that the process, however flawed, is under way. Evidence would indicate that there was a concept of marketing in Ukraine before the transitional process began but that this was of a type that would not in any way be recognised as a market orientation in the West.

Prior to the commencement in Ukraine of the transition from a command-driven to a market-driven economy the concept of marketing, as understood in the West, would have been alien to the management of state enterprises. This does not mean that the idea of marketing as a means of satisfying needs was totally absent as the central planning process allowed for a socialist concept of marketing as identified by Naor, (1986). This was a view of marketing as a process of scientifically-determined need satisfaction as expressed through the planning process.

This process of need satisfaction was dependent on the central planning process identifying which goods and services were demanded and in what quantities. Thus target levels of output were specified by Gosplan, the state planning committee, inputs to provide these specified outputs were allocated by Gossnab, the state supply committee and prices were set by Goskomtsen, the state pricing committee. This central planning process meant that enterprises were totally insulated from the

effects of market forces, receiving none of the signals from the market that in the Western economies determine the nature of organisation's activities.

Ukrainian enterprises were thus operating in a seller's market characterised by monopolistic production and distribution conditions. These conditions meant that there was no need for marketing and indeed the centrally-planned era produced continuous shortages and widespread consumer dissatisfaction with available goods and services (Naor, 1994). Although periodic attempts were made by the central-planning authorities to place a greater emphasis on the production of consumer goods industrial production was always a priority, something which contributed to consumer, and in the end political, discontent.

The current transitional period in Ukraine has been characterised by moves towards economic decentralisation, ending monopolies and reducing central control by devolving power down to the enterprise level. Mixed economic conditions have emerged with varying degrees of ownership of the means of production. The importance of this for the development of marketing is that the traditional seller's market, featuring shortages and subsidised prices has been replaced, in a limited way in some areas by buyers markets and market determined prices. It is only to the extent that these trends continue to become more firmly entrenched that the need to utilise marketing in Ukraine will grow.

In Ukraine there is indeed a realisation that in order for the economy to emerge from the difficult economic conditions that have accompanied the recent changes there must be a movement away from the traditional emphasis on production towards an emphasis on distribution, pricing, product development and promotion (Naor, 1994). The extent to which enterprises begin to adopt a market approach however is also reliant on economic conditions.

It has been shown in previous sections that the development of marketing is strongly linked to the nature of the marketing environment particularly to prevailing economic conditions. In Ukraine at the present time this economic environment is characterised by excess demand and shortages although this is somewhat mitigated

in its full effect by limited purchasing power. Situations of excess demand would indicate that there is little incentive for the managers of enterprises to embrace the marketing concept in order to improve their businesses performance.

This point has been developed by Ennew *et al.*, (1993) who state that soft budget constraints, which existed during the era of central planning, made the needs of consumers irrelevant and gave enterprise managers no incentive to ensure that their products met market needs. These soft budget constraints gave rise to the conditions of shortage by separating the survival of organisations from the necessity to be viable in terms of producing a surplus. The emphasis for Ukrainian enterprise managers was on the production of target levels of output regardless of whether this satisfied the needs of the market. In such a situation it is the seller who must carefully consider the market in order to identify sources of supply.

The adoption of a market approach in Ukraine is therefore seen as being dependent on a hardening of budget constraints occurring as a result of the transitional process. This will lead the management of enterprises to seek to improve the performance of their organisations by identifying target markets and develop their output in line with the needs of those markets.

The development of the marketing concept in Ukraine and the evolution of a market orientation depends on a link being made between the satisfaction of consumer needs and the performance of organisations. In order for this to happen organisations must have incentives to satisfy consumer needs, either rewards for doing so or fear of the consequences of not doing so, and consumers must have sufficient purchasing power.

It is only in such circumstances that managers will have an incentive to adopt the Western marketing concept. This does not mean that a market approach can not develop in Ukraine in circumstances that do not equate exactly to the freer market conditions of the Western economies. It may be the case that a unique and specifically Ukrainian understanding of what constitutes a market orientation will

evolve in line with the very different market conditions in which enterprises are operating.

The operating environment facing Ukrainian organisations has hardened considerably during the transitional period. State support for industry has been removed to a considerable degree making the survival of organisations dependent on the identification of a suitable market for its products and not simply on its ability to produce target levels of output. Considerable constraints and barriers to the development of the marketing concept in Ukrainian enterprises remain however. These constraints and barriers are a result of both the nature of the infrastructure and of market conditions. They are also due to the attitudes of both consumers and the managers of enterprises.

3.6 Macroevironmental influences on the development of a market orientation in Ukraine.

The position of marketing in Ukraine, as in the Western industrialised nations cannot be divorced from the economic environment and the influence that this has on consumers. Political variables such as free elections and political pluralism are often pre-requisites for a well functioning market and influence the marketing decision making process. Ukraine is moving closer to a free market economy. This will change the nature of marketing but it is unlikely that it will become identical to the West because marketing reflects social and economic preferences which will continue to be different in Ukraine.

Marketing strategies in Ukraine are closely related to the macroeconomic process of political and economic democratisation, bringing marketing closer to that of the free market economies. Ukrainian marketing strategies, as in other previously centrally planned Eastern European countries, can be expected to increasingly focus on customer satisfaction by offering desired marketing mixes. The use of consumer and market research and of strategic planning can be expected to increase.

The following sections discuss the way in which emerging trends in Ukrainian marketing will change marketing managers from order takers to entrepreneurs motivated to produce profits by satisfying customer needs. The continued emergence of these trends however, depends on the development of a macroeconomic environment of free markets and multi-party political systems.

The behaviour of Ukrainian consumers is also strongly influenced by emerging macroeconomic factors. Research into the behaviour of consumers in transitional economies shows them adjusting to the market economy by increasing their resources, changing their shopping and decision making behaviour and adjusting their choice of marketing mix. This cultural change has profound implications for the development of marketing in Ukraine.

Ukraine has been undergoing a process of change from a culture of maternalism to a culture of accountability, and changing from an environment of monopolistic security to one of competitive uncertainty. The changes that have occurred in Ukrainian organisations in recent years have pushed Ukrainian managers and employees towards a concern for profitability and individual accountability.

This process has required a significant modification of the national culture and also a drastic restructuring of organisational cultures. These changes mean that marketing in the "new" Ukraine is taking place in a very different cultural and organisational environment to that which existed before the movement towards a market-driven economy began.

Prior to the era of "perestroika" set in place by Mikhail Gorbachev in the late 1980s, organisational culture in Ukraine (the set of shared values, goals, ideals, norms for behaviour and cultural symbols that govern the behaviour of individuals, Shaw *et al.*, 1991), was characterised by maternalism rather than accountability. Maternalism is an organisational culture which is protective of employees, where individual security is a priority goal, and where individual accountability is de-emphasised. Following the rules of the organisation is more valued than taking risks, innovation and individual initiative. Efficiency is not an important goal (Shaw *et al.* 1991).

Maternalistic cultures tend to exist most often in an environment relatively free of competitive forces such as that which has until recently applied in Ukraine. Ukrainian organisations are now moving towards a culture of accountability similar to that which applies in Western organisations. In such cultures individuals are held responsible for their performance. Initiative, efficiency and innovation are valued. External competitive forces are present and the effects of individual behaviour on profitability are of great concern (Shaw *et al.*, 1991).

Until the recent moves towards a market-driven economy central planning was the norm for Ukrainian industries. Management autonomy was very low and performance was measured in terms of meeting the goals set by the government,

with little incentive to produce above the set level (Vaneyeva, 1989, Linz, 1988), indeed some disincentives as exceeding production targets often led to higher targets for next year and made bonuses harder to achieve.

Before Perestroika	After Perestroika
<u>The external environment</u>	<u>The external environment</u>
Monopoly/No competition	More competitive
Guaranteed profit	Profits and organisational survival not guaranteed
Gov't regulation and control	Less government control
Low environmental uncertainty	More environmental uncertainty
<u>The internal environment</u>	<u>The internal environment</u>
Heavily staffed bureaucracies	Individual responsibility emphasised
Centralised control of marketing / production / planning / personnel	Entrepreneurship Encouraged
Welfare mentality	Greater decentralisation
Efficiency not measured	Managers expected to plan
	Surplus employees let go
	Rewards tied to performance
	Efficiency measured and rewarded

Figure 3.5: The Environment of Ukrainian Organisations.

Source: Derived from Shaw (1991).

In recent years Ukrainian organisations have faced changes in their external environment which have challenged existing organisational cultures. These changes have involved the implementation, in stages, of full cost accounting, autonomy and self-management of state owned organisations. State enterprises will no longer be subsidised, receive free utilities and facilities, be supplied with raw materials, or automatically be able to sell all of their output to the state. Self financing from the

enterprises own profits and buying and selling in a more open market has been initiated. It is now possible for inefficient firms to go bankrupt and for surplus workers to be made redundant (Gurevich, 1987., Hewett, 1988).

State owned Ukrainian enterprises are now permitted to keep a percentage of their profits which they can spend on improving facilities, bonuses and benefits. Performance related pay has become increasingly emphasised. In addition to the changes in state owned facilities, long-term leasing of land for agriculture and the co-operative and private ownership of manufacturing facilities have been introduced. These changes have obviously had a considerable effect on the internal operation of Ukrainian firms.

3.7 Conclusion: Models of marketing evolution and their relevance to the development of marketing in Ukraine.

Keith's, (1960) production-sales-marketing eras account of the evolution of a marketing orientation in an individual company is widely accepted. Ansoff's, (1980) summary of the development of marketing in the USA supports Keith's account from the generalised economic viewpoint. Baker, (1985) also shows clear stages of economic development which supports Keith's interpretation of the Pilsbury phenomenon.

The generalisations of the production-sales-marketing model have been criticised by a number of writers as we have seen most notably by Fullerton, (1988). He argues quite convincingly that the production era never existed and the principles of marketing and selling were practised at an early stage. Fullerton's argument however does have some considerable weaknesses most notably that he over simplifies the beliefs of the traditional theory, taking it as an allegation of fact rather than a systematic explanation.

In conclusion it is possibly the view of Gilbert and Bailey, (1990) that is closest to a true understanding of marketing evolution. In any particular historical environment successful business practices will be noted and adopted. The adoption of marketing practice is an ongoing chain of events stimulated by a changing environment. In this way through environmental influences, observation and theory the practice of selling evolved out of a production orientation and in turn evolved into modern marketing. However as will be seen in the following parts of this section, it is modern marketing which in turn is undergoing revision as the rate of environmental change accelerates.

The importance of this for the development of marketing in Ukraine is whether the production-sales-marketing eras evolutionary model is likely to apply there. In the main this would seem to depend on prevailing macroeconomic conditions (see section two.). At the time of the research the economy of Ukraine and of other transitional economies was characterised by stagnation or decline coupled with high

inflation. The Ukrainian economy in particular had been in the grip of a deep recession whilst at the same time suffering from both shortages, particularly of consumer goods, and from high levels of inflation.



Figure 3.6: Gilbert and Bailey's Model of the Adoption of Marketing Practice.
Source: Gilbert and Bailey (1990).

These conditions in the macroenvironment have two important influences on the development of marketing in Ukraine. Firstly managers can be expected to behave differently in a climate of recession, shortage and high inflation to the way they would behave in more favourable economic conditions. Secondly shortages in the supply of consumer goods, high inflation and a fall in real incomes exert a strong influence on the shape of consumption and the behaviour of consumers. This in turn will influence the way that marketing develops in Ukraine.

Marketing in the transitional economies of Central and Eastern Europe would appear to be moving closer to that of the Western free market economies. The nature of marketing in Ukraine is likely to be influenced by this. However due to the way that marketing reflects the different social and economic preferences that continue to exist in that country it is unlikely that it will become identical to that of the West. It can be expected therefore that the relationship between marketing strategy and the economic environment, in the case of Ukraine characterised by recession, inflation and shortage, in an economy undergoing the transition from central planning to the free market, will follow a different model to that in free market economies.

Research in other Eastern and Central European economies indicates how Ukrainian managers may react to the economic environment with which they are faced. Shama, (1992) found that marketing managers in the former Yugoslavia reported that economic stagnation and inflation had a widespread impact but that in comparison to marketing managers in the USA they took weak measures to adjust to these environmental forces.

Shama found that an economic environment of recession and inflation had an important impact on marketing management by effecting the components of the marketing mix. He found this to be particularly true of pricing policies as one would expect in an inflationary situation but also with regard to promotion and distribution decisions, product line decisions and the selection of target consumers.

Shama also described the ways that Yugoslavian marketing managers adjusted their marketing mix policies in response to an environment of recession and inflation. With regard to the price element of the marketing mix the main response was to adjust prices frequently but also to price competitively and to place a stronger emphasis on profit margins. The most important promotional response was to broaden the responsibility of the sales force whilst a majority of marketing managers re-examined their distribution channels. The most important product related adjustment was to increase research to improve long-term strategies.

The importance of the above is that it indicates the way that marketing in Ukraine can be expected to develop given the prevailing environment of a stagnant or recessionary economy, inflation and shortages of consumer goods. Although the Ukrainian economy is a transitional one it still has many of the characteristics of a command economy although these have become increasingly blurred. The work of Shama has shown that there are different relationships between the environment and marketing strategy in free and planned economies.

The focus of marketing management in the Western economies has been on consumer satisfaction. It can be expected that marketing in Ukraine at the present stage of its development will focus on the flow of products from the producer to the final consumer with this distribution channel focus supported by an emphasis on personal selling effort. This can be expected due to the joint effects of economic recession, inflation and a shortage of consumer goods leading to excess demand and thus little regard for consumer satisfaction.

This will mean that consumer research in Ukraine will remain quite rare whilst other forms of marketing research such as research into distribution channels may develop more rapidly. This set of circumstances is similar to those which are thought to have existed at the time of the production era as described in chapter two. A focus on channels of distribution was however a characteristic of marketing in the USA in the 1950s.

The implication of the above is that the relationship between the economic environment and marketing strategy in transitional countries with a legacy of central planning is different to that in a free market economy. The degree of impact of recession, inflation and shortage on marketing management was shown by Shama, (1992) to be greater than the adjustments made to the marketing mix in response contrary to marketing management behaviour in the West. It may be the case that Ukrainian managers do not have the freedom to take the actions that are necessary due to the remnants of the culture of state control.

At this point there would appear to be five possibilities which could be put forward about the development of marketing in Ukraine. These possibilities are fully developed into theoretical propositions and research areas in chapter four.

- Firstly given that the main characteristic of the production era in the USA and Europe was an excess of demand over supply, and that this is precisely the situation that exists in Ukraine, it can be expected that Ukrainian businesses will have a production orientation.
- Secondly it could be proposed that the extent of foreign competition in a market with increasingly freer access and the need of newly privatised Ukrainian enterprises to generate revenue will mean that a sales orientation will be prominent in Ukrainian organisations.
- The third possibility could be that despite the considerable barriers to marketing in Ukraine, the influence of marketing orientated business practices prevailing in the industrialised world will mean that Ukrainian organisations will move straight to a market orientation without evolving through production and sales eras.
- The fourth possibility could be that given that a new historical era, described in this section, has come about, Ukrainian organisations will immediately adopt new organisational forms and business practices such as network organisations and relationship marketing.
- The final possibility could be that some different pattern altogether is emerging which reflects different preferences, political variables and other environmental factors in Ukraine.

Business in Ukraine as in other East European countries is moving closer to that of free market economies. While the nature of marketing in Ukraine will be changed by this move, it may not necessarily become identical to that in the Western economies or as social and economic preferences will remain different in Ukraine.

The proposition that businesses in Ukraine will show a production rather than a sales and marketing orientation is strongly supported by the existing macroeconomic conditions. The Ukrainian situation can be characterised as the economics of shortage against a background of economic stagnation, or indeed decline, and strong inflation. There is a situation of protracted and deep economic, social and political crisis, considerable shortages in the supply of consumer goods and a fall in real incomes. The main effect of this for the development of marketing in Ukraine is that in the case of most goods and services a seller's market predominates.

It would seem logical to infer from the models of marketing evolution that have been discussed, that given the substantial surplus of demand over supply in Ukraine the conditions for a production orientation are predominant. There may be several indications of a production orientation.

- In principle this means that practically every product, even of a low quality will be accepted by consumers and enterprises will display little interest in developing and putting new products on the market (Gajewski, 1992).
- This would suggest that Ukrainian organisations are characterised by innovation indifference, not conducting any activities associated with product development.
- This production orientation would be manifest in more attention being paid to the procurement of materials and the organisation of production processes with manipulation of the market limited to raising prices. There would be little evidence of advertising or selling activity

In a situation where many buyers are competing with each other for scarce consumer goods the main barrier to sale is the restriction on disposable incomes. Ukrainian organisations if production orientated, would not be expected to engage in extensive market research or to utilise its results in their activities. This attitude could also be promoted by relatively restricted autonomy of organisations and by the narrow scope of the functioning of market mechanisms in the economy.

It may be the case however, that Ukrainian organisations have moved beyond a production orientation to be highly conscious of consumers wants and needs. This process began at Pilsbury (Keith, 1960), with attempts to analyse the market, not with the purpose of identifying gaps and opportunities but with the intention of finding better ways of selling existing products to developing markets.

- If Ukrainian companies are showing a sales rather than a production or marketing orientation one would expect to see this behaviour repeated.

Keith does not attempt to explain in his history of the Pilsbury company why a selling orientation came about. This process is costly, time consuming and psychologically threatening due to the need to acquire new skills and facilities, to change systems and structures, particularly power structures, to develop new problem solving structures and to accept increased levels of uncertainty about the future.

- Given this choice Ukrainian organisations may favour evolution over revolution and choose to use aggressive selling techniques in order to tailor demand to their supply.

It may be the case however that the third possibility is true that Ukrainian organisations have accepted the practices associated with the modern marketing concept.

- At Pilsbury the marketing era was signalled by the gradual adoption of consumer research and new product development. If Ukrainian organisations have begun to develop a market orientation it can be expected that these activities have started to be developed.
- The development of a true market orientation within Ukrainian organisations could be identified by the recognition by the management of Ukrainian organisations of the need to build into their companies a new management

function that directs and controls all other corporate functions and focuses those functions on the needs of the consumer.

As previously stated, modern marketing is itself undergoing revision as new business practices and organisational forms evolve. As the rate of environmental change accelerates it can only be expected that this process will continue in the Western industrial nations.

- Given that this new historical era in the evolution of marketing has emerged it could be proposed that Ukrainian organisations will by-pass production, selling and modern marketing and move straight to an acceptance of such concepts as network organisations, relationship marketing and postmodern marketing.

Given the underdeveloped nature of the private business sector in Ukraine this is possibly an unlikely proposition.

- It is more likely that there is evolving in Ukrainian organisations a uniquely Ukrainian business orientation or evolutionary process. This new business concept may be evolving, through observation and theory, in a way that is more adaptive to the changing Ukrainian situation.

The transition of Ukraine from a centrally planned to a market economy can be expected to generate an increased interest in Western management approaches as it has done in other Eastern European countries. This, together with greater economic freedom, freer market entry and high levels of unsatisfied consumer demand can be taken as an indication that marketing will become increasingly important.

Ennew *et al* (1993), identify the hardening of organisational budget constraints due to the transition to a market economy as the main factor generating an interest in marketing in similar transitional circumstances in Russia. This process emphasises the link between organisational performance and the ability to make beneficial market exchanges.

There are however a large number of factors that will hinder the adoption of the marketing concept in Ukraine. These will be discussed in detail in the following sections but it is worth noting at this stage that these barriers to marketing in Ukraine are considerable. The high level of monopolisation and vertical integration in Ukraine has reduced competition and thus the need for marketing practices. Similarly economic factors most notably high inflation mean that although there is considerable unsatisfied demand consumers do not have the spending power with which to signal their preferences (Ennew *et al*, 1993). There are organisational and infrastructure barriers to a marketing orientation and also attitude and ability gaps.

This research will test which of the above possibilities are present in the turbulent, transitional economy of Ukraine. These possibilities have been identified from the relevant literature an analysis of which has also revealed a number of gaps in existing knowledge. These gaps are described in the following section. In chapter four the above possibilities are developed into theoretical propositions and research issues.

3.7.1 Research gaps

The development of a market orientation in organisations operating in the advanced industrial economies of the West has been well covered by the literature (Slater and Narver, 1994; Kohli and Jaworski, 1990; Narver and Slater, 1990). In the Western economies there are clear differences in the extent to which organisations exhibit a market orientation (Hambrick, 1983). Overwhelmingly however, organisations focus on the interests of their customers (Manu, 1993) and, due to the effects of both competition and the choices exercised by well informed consumers, organisational activities are a reflection of the needs of customers.

This area of research has not, until recently included organisations in countries that are making the transition in economic system from a command economy towards a free market system. Recently more research has begun to consider the development of marketing in former communist countries such as Russia (Golden et.al., 1995), Hungary, Poland and Bulgaria (Hooley et.al., 1993).

None of these studies have focused however on the development of attitudes to marketing, organisation for marketing and the development of marketing in the specific sector of retailing nor have they considered the uniquely turbulent transitional environment of the Ukraine now an independent nation but with a background as an integral part of the former Soviet Union.

Organisations in command economies agree to deliver specified goods or services on behalf of the state at a pre-determined price. There is therefore little need for organisations to manage the marketing mix of their products to meet the needs of customers. Limited competition and demand that generally exceeds supply makes product differentiation and promotional mix variables unimportant. Customers are prepared to buy whatever products are available. Such activities as market research and the branding of products are not undertaken and prices are pre-set by the government rather than by the forces of supply and demand.

An entire generation of managers in Ukrainian retailing organisations were socialised in this system. The collapse of the communist government and the introduction of freer markets has led to an increased recognition of market forces. It would be expected that companies would begin to adopt more active measures to seek customers through characteristics associated with a market orientation. The situation in Ukraine is unique however and the concept of market orientation has been developed within the context of the development of organisations in the Western industrialised economies.

Chapter 4. Development of theoretical propositions

4.1 Introduction - Research concept

This research is designed to examine the nature of the development of a market orientation in a transitional economy where the operating environment has become increasingly turbulent as demand has moved towards regulation by the market rather than by a centralised authority.

In particular the research considers whether organisations in a turbulent, transitional economy exhibit signs of a developing market orientation and the implications of this orientation in terms of attitudes to marketing, organisation for marketing, marketing strategy and organisational performance.

The research considers whether, in the turbulent, transitional environment that existed at the time of the study, attitudes to marketing, organisation for marketing and marketing strategy develop in a unique way which allows organisations to adapt to their environment. The term *market orientation* is almost synonymous with the term *customer orientation* (Shapiro, 1988) in that it denotes that an organisation is "market driven" or "close to the customer". It is a culture that;

"places the highest priority on the profitable creation and maintenance of superior value while considering the interest of other key stakeholders" (Slater and Naver, 1995)

A market orientation depends on the ability of a business to generate intelligence about its customers and other current or potential market participants, to disseminate that intelligence throughout the business and to use that intelligence to create and deliver value to the customer (Jaworski and Kohli, 1996, Slater, 1997).

This research also considers the extent to which those organisations in the Ukraine retail sector which have moved closer to a market orientation, as understood in the Western industrialised economies, are proving to be the most successful in terms of performance. The counterpoint to this is the extent to which organisations are

adapting strategies, unique to the turbulent, transitional environment, based on relationships which move beyond the marketing era to constitute a type of postmodern marketing.

In order to achieve this aim market orientation is examined by the use of a Environment-Strategy-Performance model. This model is used in conjunction with data collected from interviews with the senior managers with marketing responsibility which form the basis of case studies of Ukrainian retailing firms.

4.1.1 Research proposition

This research is concerned with the possibility that managers of retailing organisations in the turbulent transitional environment of the Ukraine have adopted a market orientation. It also considers whether the development of a market orientation along Western lines is possible or indeed appropriate in the unique conditions which exist in that economy.

In the marketing literature, which almost universally is concerned with the situation in the Western industrialised economies, the concept of a market orientation has had two focuses. The first typology (Kohli and Jaworski 1990, Kohli, Jaworski and Kumar 1993) is concerned with the organisations ability to adapt to and organise around the market. The extent to which the organisation has a market orientation is seen in terms of three broad business activities; the generation of market intelligence, the dissemination of this intelligence and the organisation-wide responsiveness to it.

Narver and Slater (1990) describe an alternative view of what constitutes a market orientation by proposing three behavioural components;

- customer orientation
- competitor orientation
- interfunctional co-ordination.

These three behavioural components are seen in terms of their ability to predict the success of the organisation as indicated by long-term focus and profitability.

Deng and Dart, (1994) have integrated the typologies of Kohli and Jaworski, (1990) and Narver and Slater, (1990) to define market orientation as the implementation of a business philosophy, the marketing concept.

The marketing concept has been defined by Deng and Dart (1994) as a business philosophy that holds that long-term profitability is best achieved by focusing the co-ordinated activities of the organisation toward satisfying the needs of particular market segment(s).

Market orientation is defined by them as the generation of appropriate market intelligence pertaining to current and future customer needs and the relative abilities of competitive entities to satisfy those needs; the integration and dissemination of such intelligence across departments; and the co-ordinated design and execution of the organisations strategic response to market opportunities.

Gray et.al., (1998), point out that two streams of marketing research have looked at one or other of these concepts. Marketing orientation studies with a focus on the marketing concept focus on differences between a production, selling and marketing philosophy. Market orientation studies tend to focus on the awareness of end responsiveness to *environmental* influences on marketing decision-making and implementation. In employing an environment- strategy - performance typology this research is focused on the development of a market orientation in a turbulent, transitional environment.

The typologies of Kohli and Jaworski, (1990) and Narver and Slater, (1990) have also been synthesised by Ruekert, (1992) to give a definition of market orientation which is centred on the extent to which an organisation uses information obtained from it's customers to develop and implement strategies which will meet customer needs. That is an organisation which is responsive to the needs and wants of it's customers.

An initial issue of this research therefore is the question of how to assess what constitutes a market or customer orientation in a turbulent, transitional environment. This is particularly important because of the profoundly different culture of top managers in transitional economies particularly those that have been an integral part of the former Soviet Union (Puffer, 1992).

In general in this research a market orientation is inferred from the actions, opinions and behaviour of interviewed managers which are characteristic of a customer or market driven orientation. Such an approach is consistent with the thinking of Ruekert, (1992) who maintains that strategic planning and implementation issues that focus explicitly on the needs of customers are reflective of a market orientation.

A practical example of how this is interpreted in this research would be as follows. In order to assess the needs of its customers an organisation must collect information from the market place. One indication that an organisation has a market or customer orientation is therefore the importance that it places on market research.

Thus in a transitional economy such as Ukraine, if an organisation is placing an increasing emphasis on researching its market it may be an indication of the organisation's recognition of the implications of a competitive marketplace. In the same way the organisation's commitment to meeting current and future customer needs may be indicated by an emphasis on customer satisfaction or the introduction of new products.

As previously stated this research uses an Environment- Strategy-Performance typology to examine market orientation in a turbulent transitional economy. The research is concerned with establishing if organisations in Ukraine behave like their counterparts in the Western free-market economies. The research seeks to explore if there is a positive relationship between environmental uncertainty and the adoption of a market orientation by Ukraine firms.

Additionally the research looks at whether Ukraine organisations use elements of the traditional marketing mix to implement their market orientation. It also considers if Ukraine firms with high levels of product quality and of customer service show increased performance and if performance is effected significantly by increases in the perceived importance of price and promotions.

However, as pointed out by Gray et.al., (1998) there is considerable equivocality over the relationship between market orientation and performance. Deng and Dart, (1994) found that there was a direct relationship. Greenley, (1995a, 1995b) found that any relationship between market orientation and performance was moderated by the environment. The idea that environmental variables may influence the market orientation - performance relationship is supported by Slater and Narver, (1994).

Given this the use of an environment - strategy - performance typology is of further value to research that looks specifically at the development of a market orientation in a turbulent, transitional environment. This research highlights the similarities between organisations in Ukraine as a transition economy and organisations in the free markets of the West, importantly it also considers the differences.

4.2 Development of theory

Two principal approaches to theory development have been identified in the literature (Bonoma, 1985; Parkhe, 1993; Romano, 1989). These are deductive theory testing and inductive theory building. In terms of scientific paradigms (Easterby-Smith et al, 1991) the deductive approach represents the positivist paradigm and the inductive approach represents the phenomenological paradigm.

The phenomenological paradigm can be divided into critical theory, constructivism and realism (Guba and Lincoln, 1994) of which realism is the favoured paradigm for case study research. This is because the areas for case study research are generally contemporary and pre-paradigmatic (Boing, 1994). For example, this research deals with a uniquely, turbulent, transitional environment. This means that inductive theory building is essential as deduction from existing principles is likely to be difficult as accepted constructs are clearly inadequate.

The description of realism as inductive however should not suggest that deduction has no place in case study research (Perry, 1998) with theories being built without any reference to theory. It is more a case of relative emphasis and this case study research includes deduction based on prior theory.

As stated in chapter five, grounded theory emphasises generating theory purely from data but this is the extreme position on a induction- deduction continuum. It is recognised in the literature (Glasser and Strauss, 1987. Eisenhardt, 1989), that starting from a absolutely theory free state is not possible or probably desirable.

This research therefore uses a mix of induction and deduction. Both prior theory and theory emerging from the data are involved. Miles and Huberman, (1994) emphasise "prestructured research" for qualitative research in areas where some understanding exists but where more theory building is required before theory testing can be done. This is the case with this research.

Prior theory has thus played an important role in the design of this case research and analysis of its data. Relying on pure induction alone would have prevented the research from benefiting from existing theory and pure deduction may have prevented the development of new theory.

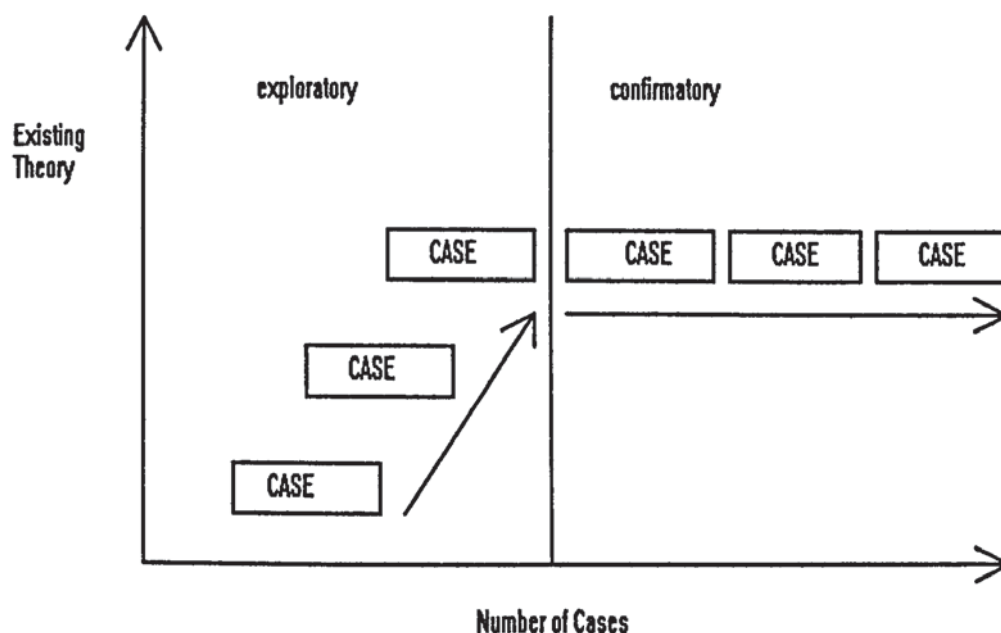


Figure 4.1: Model for Case Study Research

Figure 4.1. models the process of theory development employed in this research. The left hand side of the model shows the pilot study phase of the research (see 4.2.1). The first case (bottom left) draws almost entirely on prior theory. However data collection and analysis of subsequent pilot cases are informed by the initial concepts from the first and any other previous cases as well as from prior theory.

Thus prior theory has been obtained from both the existing literature and from pilot cases (see following section for a description of the pilot study). This prior theory then influences the data collection protocol which is used in all the main cases (right side of Figure 4.1). Prior theory therefore influences all data collection in the main

cases phase equally allowing theory to be developed from cross-case analysis of all the main cases.

As stated in Chapter five, Yin, (1994), maintains that qualitative research such as this, may still use the hypotheses and terminology of positivism. With regard to this research however there is a suggestion that the use of hypotheses generated solely from prior theory makes untenable assumptions about a unique and unprecedented contextual situation.

Glaser and Strauss, (1987) state that generating a theory from data means that most hypotheses and concepts not only come from the data, but are systematically worked out in relation to the data in the course of the research. Therefore generating a theory as shown above involves a process of research.

Therefore, for this research the development of hypotheses is the aim and not the basis of the research. As shown above this does not imply that the research can be without structure. Therefore the literature review (Chapters two and three) has generated a series of research areas. These research areas have been developed, by initial case research during a pilot survey into research propositions. These propositions are then used as the basis for the development of a structured research instrument to be applied to the main cases.

Such an approach is vital given the context of the study. There would otherwise be a danger of prejudging what is theoretically important in the turbulent and transitional case of the Ukraine. This is particularly the case as a central proposition is that, given the unprecedented conditions in the field at the time of the research, the theories that have applied in a very different context may lack veracity.

The following sections are concerned with the development of theory in three aspects of the Ukraine retailing sector, attitudes to marketing, organisation for marketing and the development of marketing strategy. In subsequent sections the research propositions which are generated from this theoretical development and

from the case research are listed. The conceptual development is completed by the design of a problem solving framework.

4.2.1 The pilot survey.

As has been described this research uses a confirmatory process of theory development where prior theory is obtained from both the existing literature and from pilot cases. This prior theory then informs the data collection in all the main cases equally and theory is generated from all cases in an operation of cross-case analysis.

These pilot cases were not intended to be a pre-test of the interview protocol to be used in the main cases. They were intended as an integral part of the development of the protocol. In summary prior theory was developed from the literature and from pilot studies to be the initial step in the theory-building process of the case-study research.

A second objective of the pilot survey was to test a research instrument to ensure that it was suitable for its purpose particularly with regard to the unique circumstances which exist in Ukraine. A thorough test of the research instrument was felt to be particularly necessary in the difficult circumstances which exist in the field both for enterprises and researchers. There were three concepts that the pilot survey was designed to clarify;

1. Firstly did the target respondents, namely Ukrainian marketing, commercial or trade managers have *access* to the required information both in terms of their job functions but also in terms of the way that questions had been framed?
2. Secondly did the respondents *understand* the survey and what was being asked of them? In particular were the questions clear and expressed in understandable terminology but also the extent to which it was possible to probe or ask open-ended questions?
3. Thirdly the pilot tested the respondent's *motivation* to answer the questions accurately and to co-operate with the research. This was particularly important in

an environment which has until recently been very closed in terms of access to information.

The pilot study consisted of a series of twenty interviews with marketing, commercial or trade managers from a variety of Ukrainian retailing enterprises and thus represented a sampling of the type of managers who were to be interviewed in the research.

The interviews were conducted in English so the researcher was able to judge the degree of co-operation and cognition. A Ukrainian / Russian translator was present to help with any problems of cognition. The respondents in the pilot survey were from other organisations than those to be considered as cases.

The principal benefit of this was to expose certain questions which were either irrelevant to the Ukrainian situation or which were beyond the understanding of the respondents. The pilot survey also revealed certain lines of question which had particular relevance to the circumstances in Ukraine and which were subsequently incorporated into the research.

The method of collecting the data was established as suitable and practicable after the changes indicated by the research were incorporated and the number of don't-know answers and refusals to answer reduced to practically zero. The pilot also strongly indicated that considerable additional information could be gained by the use of probing and open ended questions thus validating the choice of face to face interviews to form the basis of case studies as the research method.

4.2.2 Attitudes to marketing

In order for marketing practices to be adopted it is necessary for managers to understand the nature of marketing and its organisational role. This research examines the attitudes of managers to marketing and the ways in which they interpret it in the Ukraine retailing sector against the background of a turbulent transitional environment. Marketing attitudes should be closely related to the marketing strategies adopted by an organisation and may provide insights into why particular strategies are adopted.

Initial research was carried out in a pilot survey (see 4.2.1) of Ukrainian managers using as a base of prior theory the typologies identified by Hooley et al., (1993) in other transitional economies. This approach was found to be relevant to the Ukrainian situation, during the pilot study phase, and a continuum of marketing attitudes, derived from prior theory and developed and tested by the initial pilot work (see Figure 4.2) was applied to the main body of research.

The initial findings from the pilot work indicated that the number of companies that suited the market orientation profile or indeed were moving towards that profile was very small. The majority of Ukrainian organisations appeared to fit a sales or product orientation profile which was unsurprising given that the Ukrainian economy was in a state of transition and many of the fundamental variables that would seem to be necessary to spur the development of a market orientation were lacking from the environment.

In the same way the fact that, in the initial testing of the continuum, marketing was a concept that many managers struggled to define in even a rudimentary way was not an unexpected finding. It was clear from the testing of the model that Ukraine was some way behind other transitional economies in terms of the proportion of organisations that were at or near a market orientation. There were however sufficient indications that the marketing concept had become established in enough organisations to justify the inclusion of profiles towards the market led end of the continuum.

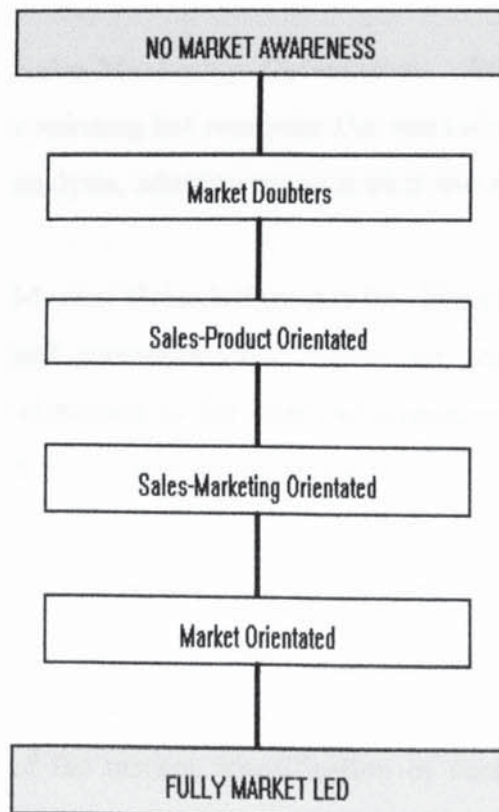


Figure 4.2: Continuum of Attitudes to Marketing in the Ukraine Retail Sector

Descriptions of the profiles which most suit the particular circumstances that were researched in the Ukraine retail sector are as follows;

Doubters: These are organisations that are unsure of what marketing really is. They admit that marketing is non-existent or unclear in their companies. They tend to confuse marketing with public relations or see it as having a sales or sales support role.

Sales-Product Orientation: Consider marketing to be mainly concerned with sales support and with promotion. At the retail level it's main purpose is to merchandise

those products which the organisation has traditionally sold or any products that can be obtained without consideration of what the market needs.

Sales-Marketing Orientation: Still focus heavily on the promotional role of marketing but recognise that marketing goes beyond sales support to include market analysis, adapting to the market and identifying and meeting the needs of customers.

Market Orientation: Are less likely to see marketing as restricted to a sales support and promotion role. They are starting to move towards market analysis and adaptation to the needs of customers. Marketing is still not the discipline which directs organisational activities.

Fully Market Led: Organisations where marketing directs their purchasing and merchandising towards products that represent a response to specific market needs. Marketing is seen as the guiding discipline for the organisation and covers analysis of the market, identification of customer needs and wants and adaptation to the market.

4.2.3 Organisation for marketing

In order to survive and prosper in a turbulent, transitional environment organisations are required to monitor external opportunities and threats and adapt their marketing strategies and organisation to address them. In the context of a marketing approach to business marketing personnel are responsible for monitoring and analysing the environment and for the resulting strategic and organisational adjustments.

This research is concerned with how companies in the Ukraine retail sector organise for marketing planning and implementation. Specifically it provides insights into the marketing orientation of Ukraine retail companies, the incidence of marketing department specialisation, more general functional specialisation, marketing organisation design, responsibility for marketing planning and implementation, status of marketing functions and the extent of interfunctional integration. Comparisons are made between organisations which do have a specialised marketing department and those which do not.

The starting point for this research was the prior theory of conventional Western marketing developed by pilot research (see above). Within this understanding marketing success depends on the development of a strategic fit between the marketing environment, strategy and organisation for the implementation of that strategy. Effective marketing organisation is required for the effective implementation of marketing and this is achieved via competent marketing led direction from senior management.

At the operational level effectiveness depends on how well responsibilities are allocated for marketing task planning and implementation. Some form of specialist marketing department is necessary to maintain the status and influence of marketing within the organisation and the dilution of marketing responsibilities to non-specialist departments.

There is also a need for close functional co-ordination as effective marketing relies partly on tasks performed by other functions such as sales and purchasing. An

important element in this is the relative status and power of functional departments in the organisation and this is linked to the leadership and culture of the company. A market orientated company would thus be characterised by planning and implementation led by market driven senior management and a marketing department with at least sufficient status to match other functional departments.

The research in Ukraine began by testing the conventional Western view of marketing organisation for applicability by means of pilot research in the field. The sample was chosen with a view to establishing a broad selection of perception of marketing in Ukraine organisations. This enabled a clear understanding of respondent terminology and marketing knowledge to be established and to avoid imposing established Western concepts of marketing organisation on the Ukraine context. These findings were then brought into the design for the main body of research.

4.2.4 Marketing strategy

Two main approaches have been adopted to identify strategic types *a priori*, where strategic types are created based on a theoretical concept and tested against data and *post hoc*, where strategic types are sought through pattern searching within empirical data. This research uses as a theoretical base the five "generic marketing strategies" developed by Hooley et al. (1992), in the United Kingdom and tested by Hooley, Beracs and Kolos (1993), against data from the transitional Hungarian market. The research then applies a post hoc approach, developing theory through initial case research, to extend understanding of strategic types by focusing on differences in approach and strategy by firms operating in the retail sector of the Ukrainian market.

Figure 4.3 provides a model, developed from prior theory and tested and revised by initial case research, which brings together strategic variables strategic types and the turbulent, transitional environment of Ukraine. Most studies of strategic types have concentrated on Western markets where Western theories and marketing techniques prevail. This model allows for the possibility that in the unique conditions which existed in Ukraine at the time of the research new hybrid or postmodern marketing strategies were emerging which enabled organisations to adapt to their particular environmental circumstances.

The selection of strategic variables on which to base strategic types is a fundamental aspect of the post hoc approach. Figure 4.3 shows a relevant set of variables which pertain to the conditions of environmental uncertainty in which Ukrainian firms operate. The setting of marketing objectives is the starting point for strategy determination. This research initially considered three main alternatives based on Hooley, Beracs and Kolos (1993), and Doyle et al. (1986).

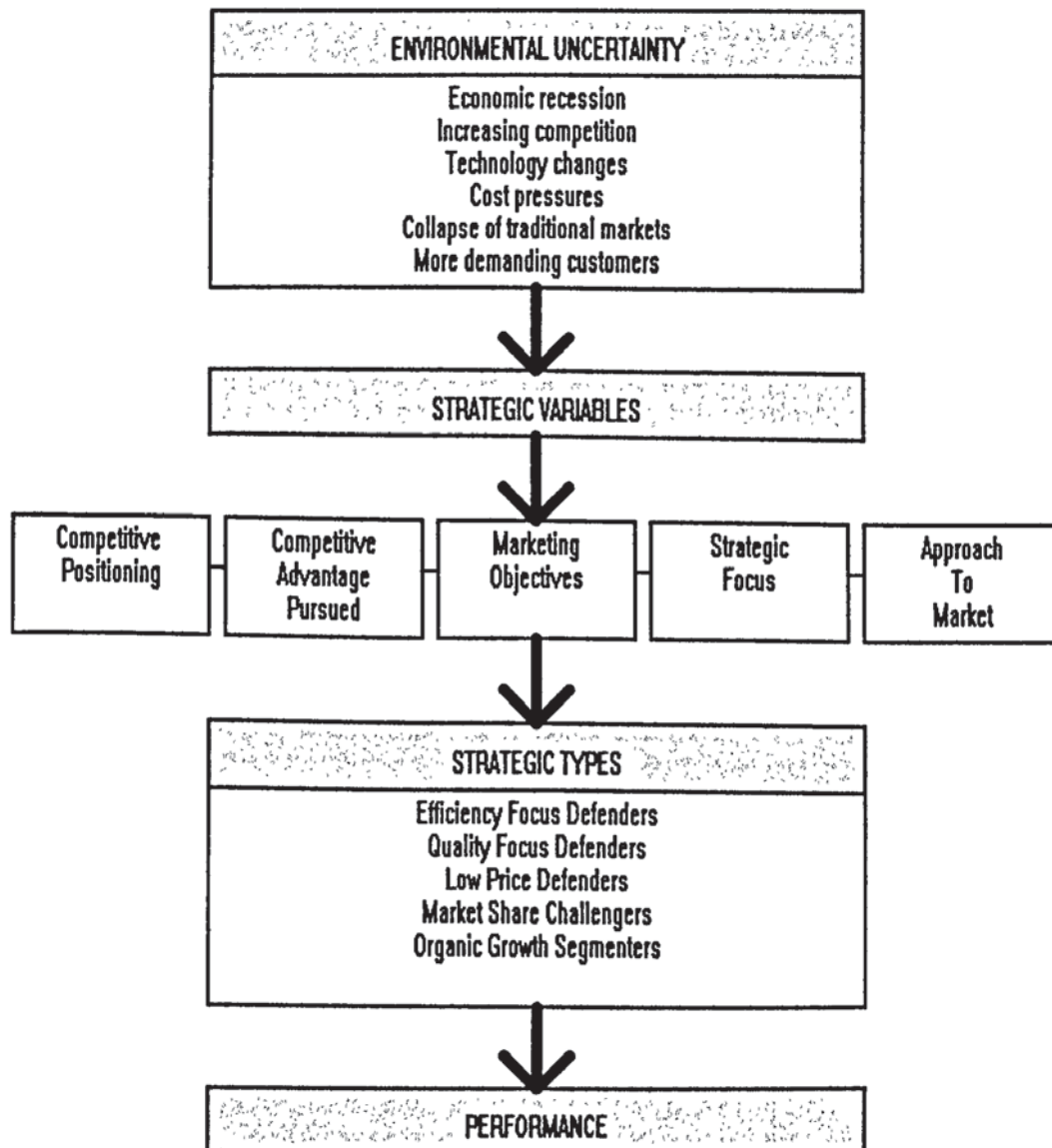


Figure 4.3: Model of Marketing Strategy Variables and Strategic Types in a Turbulent, Transitional Environment

Firstly predominantly defensive objectives designed to prevent decline by holding position or defending against competition. Secondly steady growth objectives and thirdly aggressive growth objectives. Initial pilot interviews in Ukraine showed a high proportion of organisations adopting defensive objectives due to both increases in competition and the effects of severe recession. The split into steady and aggressive growth objectives recognises that different performance outcomes can be expected from organisations which adopt a modest approach and those which adopt an aggressive position (Doyle et al. 1986, Hamel and Prahalad 1989).

A strategic focus needs to be decided once objectives have been set. If a growth objective is set this may be achieved either through an expanding market or by gaining share. Initial interviews with Ukrainian managers showed a strong emphasis on defensive objectives with an internal focus of mainly cost reductions but also other productivity improvements. There was some evidence also of proactive defence i.e. entering newly emerging markets to replace lost business.

An organisations approach to the market involves targeting either the whole market, market segments or individual customers. Initial indications in Ukraine were that the nature of market targeting depended on the size of the organisation. There were however strong indications that segmentation of markets was taking place and evidence of highly fragmented needs as individual targeting was stressed by retailers.

Strategic variables also involves positioning in the marketplace and the pursuit of competitive advantage. Positioning is determined by price and product quality as seen from the customers viewpoint but is influenced by promotions and other elements of strategy. It is by the chosen mix of price and quality that the organisation differentiates itself from it's competitors in the marketplace. Hooley, Beracs and Kolos (1993), distinguished between price-based differentiation and quality-based differentiation. Initial interviews with Ukrainian managers indeed revealed that price and quality were regarded as the main ways of achieving differentiation with some emphasis on cost differentiation but little on such aspects as after sales service.

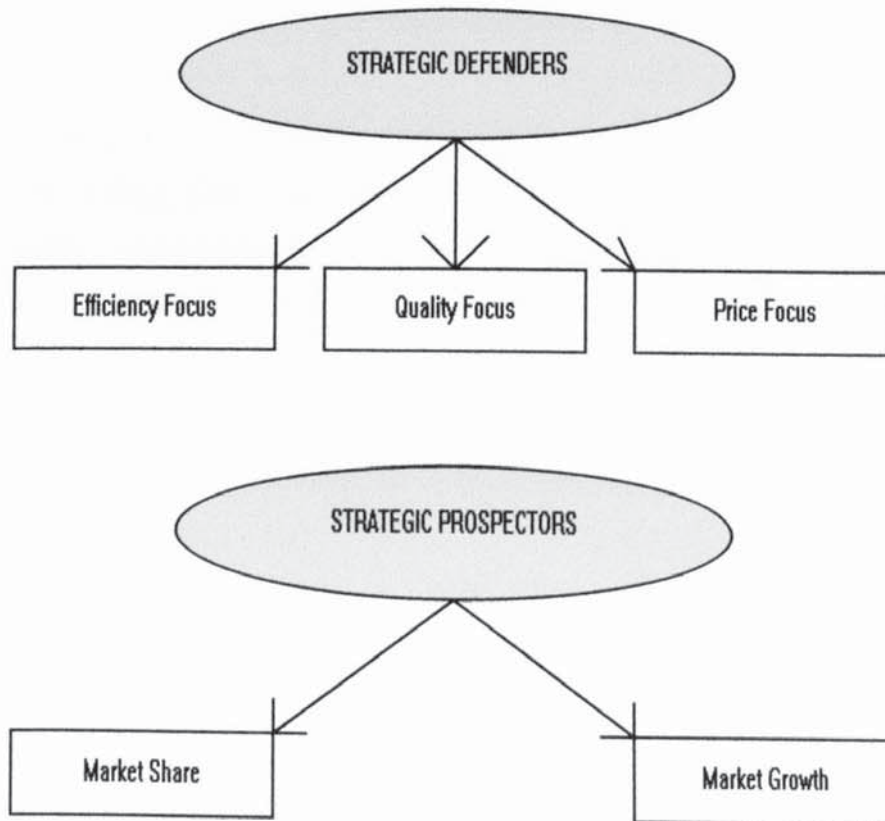


Figure 4.4: Strategic Typologies of Ukrainian Retailing Organisations

As previously stated this research uses as a base the five strategic types identified by Hooley, Beracs and Kolos (1993), as being applicable in the transitional Hungarian market. These strategic types were tested in the initial pilot survey in Ukraine and found to be largely applicable to the situation that prevailed at the time of the research.

Thus evidence emerged from the initial pilot interviews that indicated a conceptualisation based on two underlying groupings (see Figure 4.4). Firstly those that constituted an essentially defensive response to the business environment. These adopt a defensive posture through three different routes that correspond with Hooley, Beracs and Kolos's (1993), efficiency focus, quality differentiation and

price leadership. The second approach was expansionist these are the market share challengers and the organic growth segmenters.

4.3 Shaping research areas and research propositions

According to Yin (1994), and as discussed above (4.2) and below (chapter five), theory development as part of the design phase of a case study is essential. Theory development facilitates the data collection phase of the case study research and is the level at which the generalisation of the case study results will occur. The method of generalisation in case study research is not statistical but analytic in that a previously developed theory is used as a template with which to compare the empirical results of the case study.

In section 3.6 it was stated that the relevant literature indicated five possible ways in which marketing could develop in the turbulent, transitional environment of Ukraine.

- That Ukrainian businesses will have a production orientation
- That Ukrainian businesses will have a sales orientation
- That Ukrainian businesses will have a marketing orientation
- That Ukrainian businesses will have adopted new organisational forms and business practices such as relationship and postmodern marketing
- That a different pattern is emerging which reflects the transitional environment

These possibilities were tested, against a background of prior theory, in initial pilot research. Thus the basis of the theoretical framework for this research are a series of possibilities which were derived from a review of the literature. With the benefit of initial research completed at the site of the survey, and existing theory, it was possible to modify this initial set of possibilities into research areas that were relevant to the subjects that had emerged. These research areas are outlined below (4.3.1, 4.3.2, 4.3.3) and linked to the research propositions (see 4.4) within a problem solving framework.

4.3.1 Research Areas - Attitudes to marketing in Ukraine

- **Research Area 1.** In Ukraine, under the command economy, firms generally did not know their final customer or what their production was going to be used for. The link between buyers and sellers barely amounted to an exchange relationship. Currently in Ukraine information for companies is a scarce resource which may be exchanged via network relationships. As a result of this the principal way in which firms can overcome uncertainty is by means of information gained from existing relationships.
- **Research Area 2.** In Ukraine there has been little marketing education, particularly with regard to the difference between marketing and selling. There has therefore been only limited progress in changing the attitudes and approaches to business that prevailed under the centrally planned economic system. Because of this it is possible that few Ukrainian business Directors understand what marketing is and few actually implement a marketing approach to their activities.
- **Research Area 3.** Because the emphasis on achieving target levels of production that existed during the era of central planning in Ukraine made the needs of consumers secondary, enterprise managers had little incentive to ensure that their output met market needs. The hardening of the operating environment in Ukraine may be leading the management of enterprises to seek to improve the performance of their organisations by identifying target markets and developing their output in line with the needs of those markets.
- **Research Area 4.** Modernist marketing metanarratives imply a belief in an external reality about which generalisations and predictions can be made. The extreme economic and social conditions which exist in turbulent, transitional economies have created commercial environments where order is fragmented and there are no unified themes (Zurawicki and Becker, 1994). Because of this the conditions exist for the emergence of postmodern marketing, namely the disappearance of authority, unity and continuity and the emergence of fragmentation and complexity.

4.3.2 Research Areas - Organisation for marketing in Ukraine

- **Research Area 5.** Organisations with specialised marketing departments are better equipped and more committed to marketing than firms without such a specialised department. It may however be the case that Ukrainian organisations have not yet adapted to their new environment by organising for marketing or are experiencing environmental barriers to doing so.
- **Research Area 6.** If Ukrainian organisations are not tending to establish separate marketing departments as a focus for marketing activities, but rather regard marketing as part of the function of sales departments, it is to be expected, that specialised marketing services will be widely bought in from outside agencies. This however is likely to be restricted by the harsh financial environment in which Ukrainian firms are operating and the lack of marketing services available.

4.3.3 Research Areas - Marketing Strategy in Ukraine

- **Research Area 7.** If a customer orientation is developing among the managers of organisations in Ukraine it may be the case that the Ukrainian business concept is changing from focusing on planners and regulators to satisfying customers. Because of this marketing in Ukraine may be moving from a situation where there was little or no competition, management control over marketing mix decisions or marketing planning, to a situation where there is increasing competition, management control and marketing planning.
- **Research Area 8.** The economic and business environment is a vital element in determining the types of marketing strategies that should be adopted by organisations. The marketing environment in Ukraine has been created by the transition from a command to a market driven economy. This process has occurred at a slower pace and with more severe economic and political problems than in other transitional nations. Because conditions in Ukraine are so unique the strategic typologies that have been identified in the West and in other transitional nations may not meet the needs of new, emerging groups of customers and new types of business organisations.
- **Research Area 9.** In the Western industrialised nations the better performing organisations are those that create market positions by focusing on product quality, performance and design, emphasise brands enhanced by marketing communications, price competitively with superior quality, show a clear customer focus and network with key customers and suppliers. The conditions of change and uncertainty in the Ukrainian market however mean that few organisations have long-term strategic or marketing plans.
- **Research Area 10.** Before the commencement of the transition to a market economy began Ukrainian enterprises were dependent on the central planning process to identify which goods and services were demanded and in what quantities. Now however, Ukrainian organisations are not insulated from the

effects of market forces and have to look for signals from the market to determine the nature of their activities.

4.4 Problem solving framework - Research propositions

Environment-Strategy-Performance models are typologies that include environment, strategy and performance as critical constructs. An environment-strategy-performance model is a suitable typology for use in researching the development of marketing in a transitional economy as it provides two distinct benefits. Firstly it allows an understanding of a population of organisations, in this case Ukrainian retailing firms that may react in differing ways to the same stimuli. Secondly, by including influences from outside of the organisation, in this case the effects of a unique, turbulent, transitional marketing environment, it gives a multi-level view of strategy.

Figure 4.5 shows a environment-structure-performance model which provides an overall context for studying the development of a marketing orientation in a turbulent transitional economy in terms of evolving attitudes to marketing, organisation for marketing and marketing strategy. The model encompasses both the environmental antecedents and the outcomes of a developing market orientation. It also shows the direction of the relationships that are proposed and is related (see below) to the research propositions to be tested.

Environmental uncertainty profoundly influences managerial perceptions which in turn determines the organisation's approach to market, choice of strategy and marketing mix upon which performance ultimately depends. The "environment" element refers to the external environmental component. In the case of Ukraine this would include such factors as uncertainty created by changes in the macromarketing environment. The "strategy" element of the model includes both market orientation, (seen in terms of attitudes to marketing, organisation for marketing and marketing strategy) and the marketing mix.

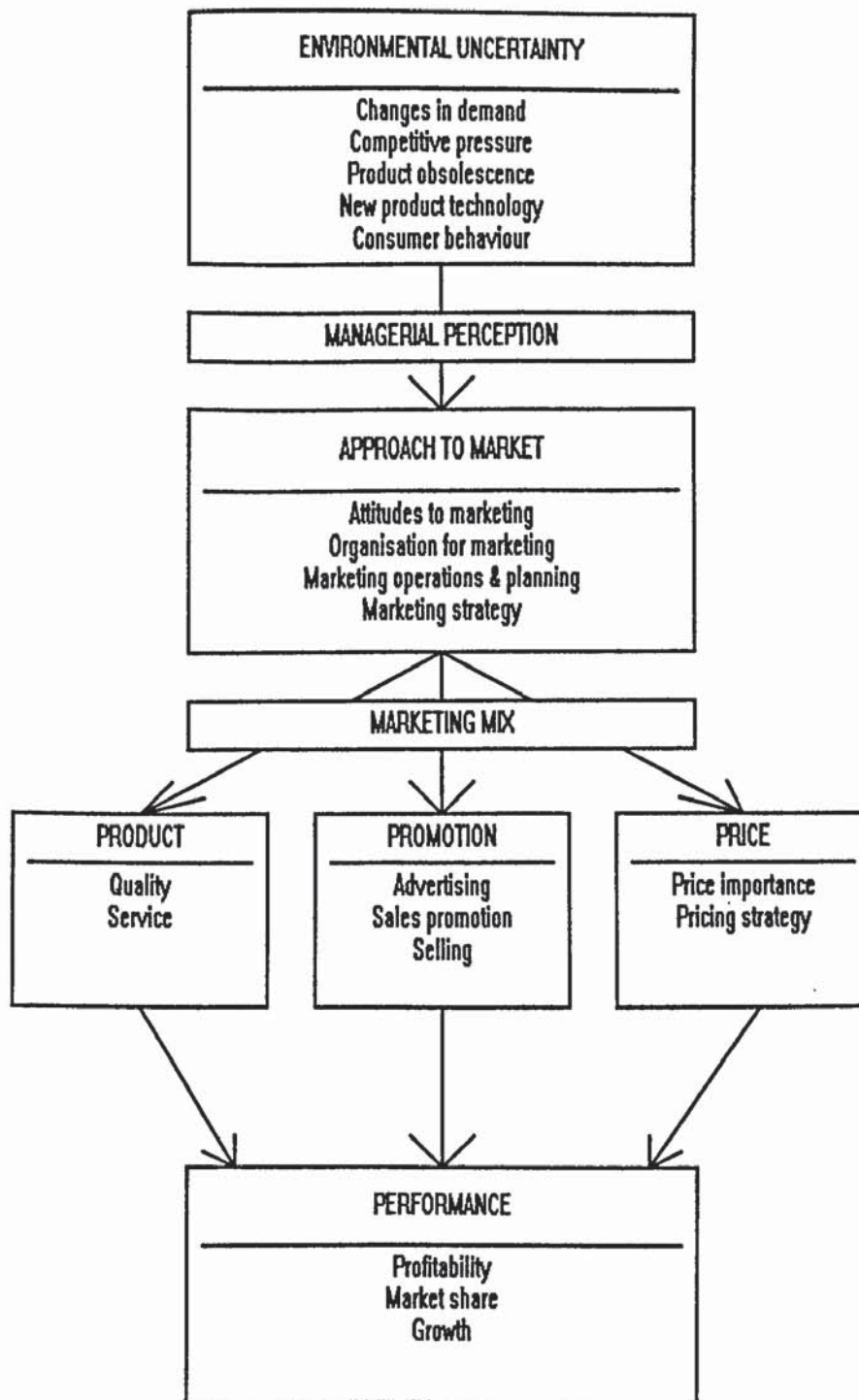


Figure 4.5: Structure-Strategy-Performance Model for Turbulent, Transitional Environments

Distribution has been excluded as an element of the marketing mix because of specific circumstances unique to the Ukrainian context at the time that the research was conducted. In the industrialised market economies of the West decisions about distribution channels can be made at the level of the firm. In the Ukraine however this situation does not yet apply as distribution channels are still largely undeveloped.

The "performance" element of the model includes a number of measures of performance in the market place. Given that there is no centralised record of company accounts in Ukraine these performance figures are largely based on the information which managers were willing to disclose, checked for accuracy by a second interview within the organisation and by cross checking with such other sources as could be found. Given the culture of secrecy and suspicion, particularly with regard to financial matters, which prevails in Ukraine as a hangover from the previous system this is the element of the model for which accurate data is the most difficult to collect.

Environmental uncertainty has been conceptualised (Sharfman and Dean, 1991) in terms of objective measures that reflect volatility. These include resource flows and degrees of competition and complexity. A different conceptualisation of environmental uncertainty is proposed by this research which involves the use of managerial assessment of uncertainty and the observation of ensuing behaviour that is indicative of managerial perceptions that the operating environment has changed in terms of complexity or stability.

This research therefore is concerned with manager's perceptions of environmental uncertainty as an antecedent to market orientation as expressed through the development of attitudes to marketing, organisation for marketing and the execution of marketing strategy. This approach overcomes one apparent problem that to an objective outside observer the environment may appear unstable it may yet be easy for managers to interpret. This approach is supported by Slater and Narver, (1994) who conclude that it is top management's

characterisation of the environment that is more important in initiating change than actual environmental conditions measured in an objective fashion.

The development of a customer or market orientation in a transitional economy such as Ukraine only makes sense for retail managers if the buying behaviour of consumers requires this. This problem solving framework has as an important element therefore the changing nature of consumer behaviour in a turbulent macro-environment.

Consumers react to obvious changes to the macro-environment such as hyperinflation by adopting strategies such as conserving resources or purchasing more carefully. Shama, (1992) developed a macromarketing model that united the combined effects of transition from a command to a free market economy with the impact of recession and inflation and studied the effect that this had on Russian consumers.

Shama found that these macroenvironmental conditions, which were very similar to those which prevailed in Ukraine at the time of the research, led consumers to do more comparative shopping and to purchase better quality or more durable products as a risk reduction strategy. These findings were confirmed by Leonidou, (1992) and these studies strongly suggest that the buying behaviour of Ukrainian consumers is influenced by changes in the macro-marketing environment.

Figure 4.6 brings together the factors of managerial perception of environmental uncertainty and changes in consumer behaviour. It appears to be a reasonable assumption that some Ukrainian retailers would react to changes in consumer behaviour brought about by a transitional environment by adopting a market orientation.

This model derived from prior theory and developed and tested by initial pilot research, (see 3.6, 3.6.1), also allows for the possibility that, in the unique circumstances that prevail in Ukraine, new hybrid forms of marketing, based

perhaps on relationships or networks, may be emerging. These may constitute a postmodern marketing which allow organisations to survive in a turbulent, transitional environment and which constitute an evolution of marketing outside of the traditional of the Western industrialised economies.

Implicit in the above model is the suggestion that firms examine their external environment before they adopt a highly market oriented strategy and environmental uncertainty is a construct of consideration in the development and implementation of strategy (Kohli and Jaworski, 1990, Narver and Slater, 1990, Slater and Narver, 1994). The inclusion of environmental uncertainty in the model is the critical factor as it indicates that what is being observed is the ability of organisations to adapt marketing attitudes, organisation for marketing and marketing strategies to turbulent, transitional change in the business environment.

The link between environmental uncertainty has been tested by a number of studies which have in the main found support for a contingency relationship (Varadarajan and Pride, 1989, Kohli and Jaworski, 1990). On the whole these studies have indicated a situation where strategic orientation and the resulting organisational performance are moderated by conditions in the competitive environment.

An organisation's market orientation may be correlated with entrepreneurial orientation or exploitation of macroenvironmental resources (Miles and Arnold, 1991). The importance of this for this research is that if environmental forces are perceived differently by managers operating in the transitional stage of a free market environment the responses among organisations operating in this environment are going to differ. It is therefore proposed that in a turbulent, transitional environment management's perception of environmental uncertainty will affect the degree of market orientation as expressed through the development of attitudes to marketing (Figure 4.6).

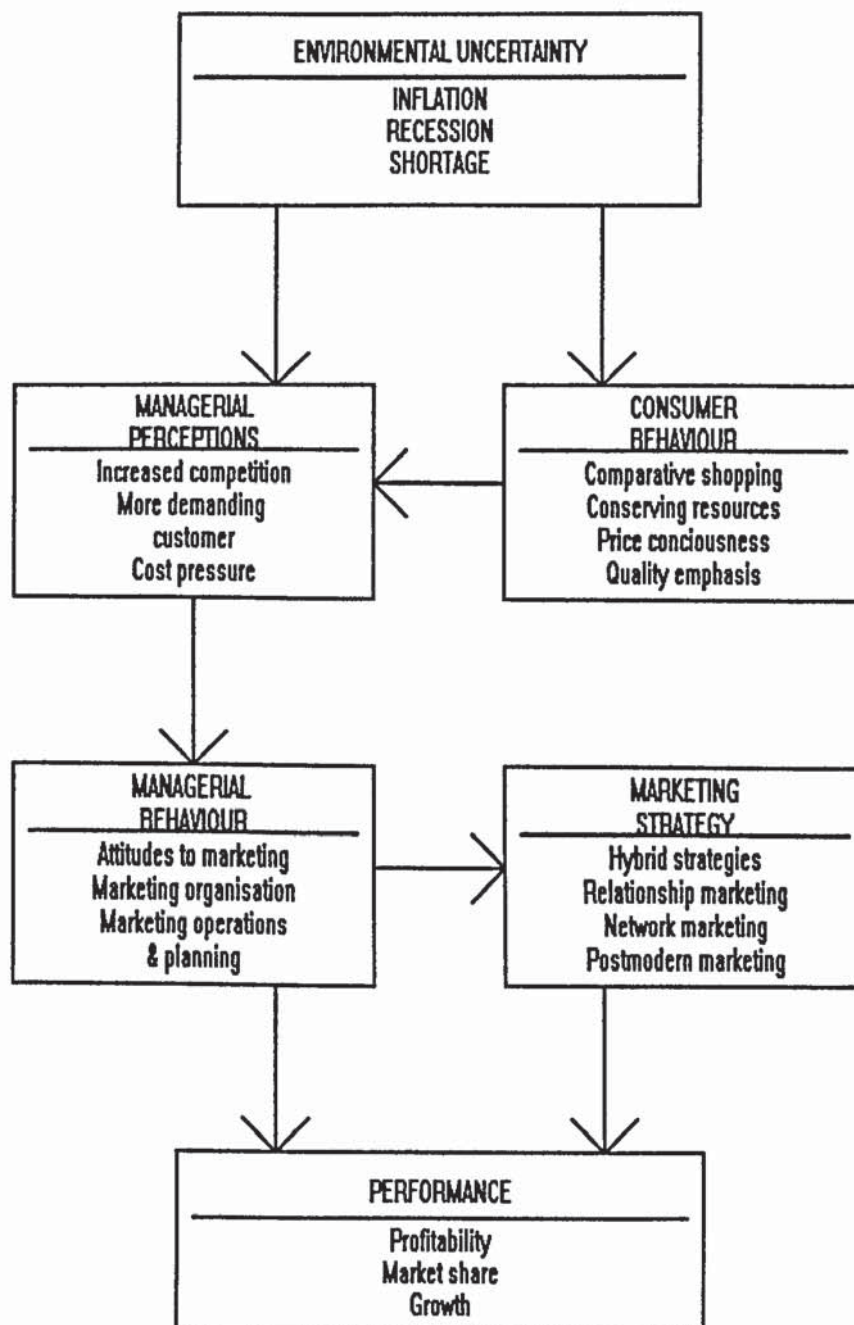


Figure 4.6: Model of Macroeconomic Transition and the Adaptation of Marketing Strategy

On this basis research propositions one to four are proposed (see Figure 4.7) to explore the question of whether increased perceptions of environmental uncertainty by managers in the Ukrainian retail sector will lead to increased market orientation. As described above (4.1, 4.2) These research propositions have been developed by a process of both inductive and deductive theory building and have their origins in research possibilities (3.6) generated from prior theory, which were then tested and developed into research areas (4.3.1, 4.3.2, 4.3.3) by initial case research at the survey site. Each research proposition below is related back to it's original research area.

- **Research Proposition 1.** In a turbulent transitional environment some organisations will define marketing as the process by which beneficial relationships are established with customers and suppliers. (Research Area 1)
- **Research Proposition 2.** In a turbulent transitional environment a majority of organisations equate marketing with selling placing little emphasis on marketing activities. (Research Area 2)
- **Research Proposition 3.** The development of a market orientation is strongly linked to the nature of the marketing environment, particularly prevailing economic conditions. (Research Area 3)
- **Research Proposition 4.** In a turbulent, transitional environment market orientation typologies and strategic approach profiles will be fragmented and the lack of unifying themes can be seen as the emergence of postmodern marketing. (Research Area 4)

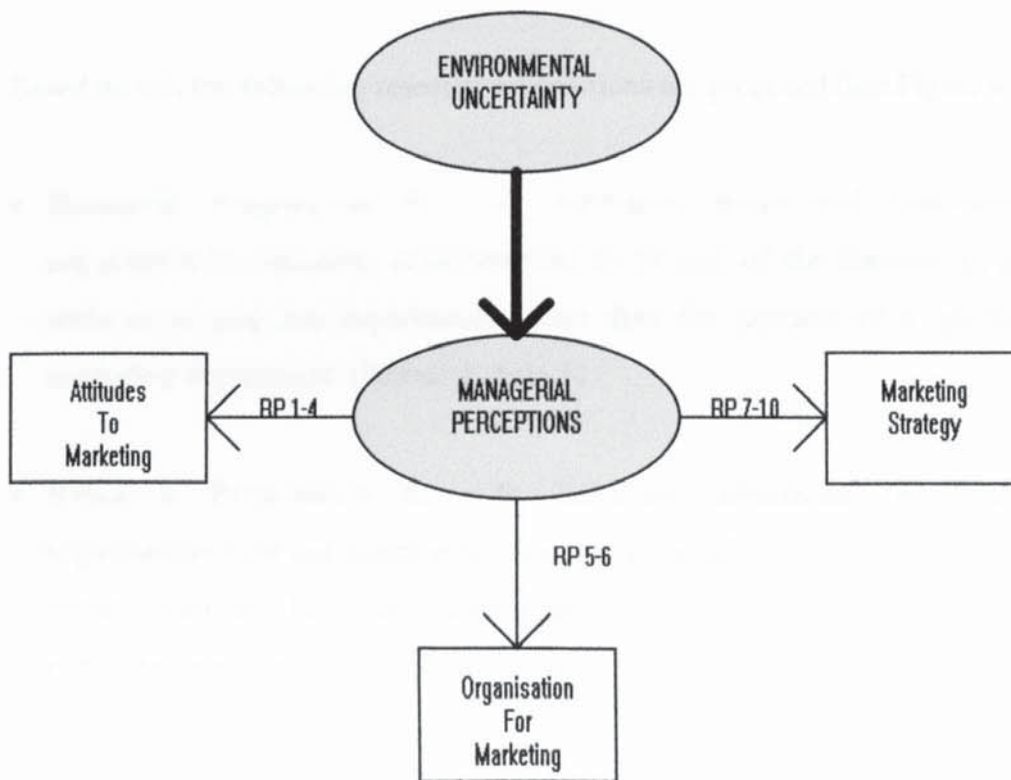


Figure 4.7: Research Propositions Map (RP = Research Proposition)

All of the conventional marketing mix variables, product, price, promotion and distribution are involved in marketing strategy (as previously stated distribution is excluded in this case as channels were so restricted in Ukraine at the time of the research). The model in Figure 4.5 shows that marketing strategy is determined by market orientation i.e. it is the way in which an organisation develops and implements a market orientation.

Market orientation is guided by information which has been obtained from the marketplace and leads towards actions directed at the markets being served (Narver and Slater, 1990, Kohli and Jaworski, 1990). Initially an organisation must recognise the importance of assessing and meeting customer needs. Following this the organisation must develop and implement an effective marketing organisation and marketing strategy designed to meet these customer needs.

Based on this the following research propositions are proposed (see Figure 4.7);

- **Research Proposition 5.** In turbulent, transitional environments organisation's marketing activities tend to be part of the function of sales, trade or commercial departments rather than the function of a specialised marketing department. (Research Area 5)
- **Research Proposition 6.** In turbulent, transitional environments organisation's do not make extensive use of specialised external marketing services such as advertising, public relations and marketing research agencies rather they perform these functions in-house if at all. (Research Area 6)
- **Research Proposition 7.** As the market economy evolves in Ukraine marketing managers are increasingly moving towards a market orientation by focusing their product, price, promotion and place decisions on satisfying customer needs. (Research Area 7)
- **Research Proposition 8.** New forms of marketing strategies, different again from those employed in other transitional economies and adapted to the unique environment which has developed in Ukraine are being employed. (Research Area 8)
- **Research Proposition 9.** Ukrainian organisations are developing a market orientation in that they increasingly placing an emphasis on customer service and the prior understanding of customer requirements. (Research Area 9)
- **Research Proposition 10.** Ukrainian organisations place a strategic emphasis on competitive pricing rather than cost-plus or other pricing methods. (Research Area 10)

4.5 Conclusion

In this chapter conclusions have been drawn from the literature review regarding models of marketing evolution and their relevance to the development of marketing in Ukraine. From these conclusions theoretical propositions have been derived.

Ruekert (1992), researching within the context of the Western industrialised economies, found that many firms with a market orientation respond to the needs of customers by putting in place systems to improve product quality and show a commitment to customer service. Implicit in the model shown in Figure 4.5 is the proposal that managers of market orientated organisations in transitional economies will begin to place an emphasis on product quality and customer service.

- This proposition is explored by research propositions 8 / 9.

Market oriented organisations recognise the need to assess and meet customer needs and need to use the promotions mix to communicate the benefits of their products to the target market. It can also therefore be expected that in transitional economies managers perceptions of the importance of promotion mix variables such as advertising, personal selling and sales promotion activities will be increasing.

- The issues here are addressed by research propositions 5 / 6 / 7.

Also, because of the implications of an increasingly competitive economy, managers of organisations in transitional economies are likely to increasingly recognise the importance of the price element of the marketing mix.

- The relevant issues in this area are explored by research proposition 10.

Marketing strategy plays an important part in determining an organisations performance (Cavusgil and Zou, 1994). This is inherent in the model proposed in

Figure 4.5 in that the link between market orientation and performance is via marketing strategy.

This provides a way to examine how managers in transitional economies are adopting or adapting the marketing concept apart from its implementation through actual marketplace behaviour. The marketing concept must first be adopted and then successfully implemented by the use of marketing strategy for the organisation to achieve positive performance (research proposition 3).

Market orientated organisations in transitional economies can be expected to develop marketing strategies that seek to meet the needs of customers (research propositions 7 / 9). Market orientated organisations may begin to attach increased importance to achieving higher quality and levels of customer service (research proposition 8), to pricing in a competitive way (research proposition 10) and to use a mix of promotion variables to communicate with their target markets. The extent to which these issues are recognised and successfully implemented can be expected to result in superior performance (research proposition 3).

The theoretical propositions derived in this chapter are the basis of the research instrument. Chapter five describes the methodology and fieldwork together with a consideration of the Ukrainian context and an explanation of the choice of an in-depth theory building methodology.

Chapter 5. Methodology and Fieldwork

5.1 Introduction

"A case study is an empirical enquiry that investigates a contemporary phenomenon within its real life context especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 1994).

The purpose of this chapter is to firstly consider the challenges posed by research into uncertain markets and then to review the research design. The turbulence and uncertainty of the Ukraine environment at the time of the research lent itself to case study research. Case studies cope with technically distinctive situations where there are more variables of interest than data points (Yin, 1994) and benefit from prior development of theoretical propositions to guide data collection and analysis.

By way of introduction to the research methodology employed for this thesis it is necessary to look at what influences the choice of methodology. Yin, (1994) states that the most important consideration for differentiating amongst research strategies is to identify the type of research question being asked. Hedrick, Bickman and Rog, (1993) propose a basic categorisation scheme for types of research questions: "who", "what", "where", "how" and "why".

This research asks the question "How, in the turbulent, transitional environment of Ukraine are attitudes to marketing, organisation for marketing and the execution of marketing strategy developing?". According to Yin "how" and "why" questions are *explanatory* and "likely to lead to the use of case studies, histories and experiments as the preferred research strategies". This is due to the fact that "how" and "why" questions deal with operational links rather than frequencies or incidence.

Easterby-Smith *et al*, (1991) identify three influences on the choice of methodology. Firstly the choice of methodology is influenced by the researcher's

own preferences, secondly by the nature of the research question (see above) and thirdly by the pragmatic concern of access.

The background of the researcher is in the discipline of international marketing management both academically and as a manager in industry. There has been a continuing debate over the future of research within the marketing area over the last decade. The field has been dominated by quantitative, positivist research which has allowed charges of "New Marketing Myopia" (Brownlie *et al*, 1994) to be made.

Day and Wensley, (1983) suggested that the future for marketing literature may be to adopt a more strategic focus. Additionally marketing literature is still focused on the testing of theories rather than the building of theories (Desphande, 1983) despite the undoubted value of qualitative research methodologies for in depth research.

Desphande described a situation where marketing scholars have ignored the implications of reliance on a single paradigm i.e.. logical positivism. By excluding a more qualitative paradigm "marketing theory has developed certain inherent methodological biases". These biases have occurred, according to Desphande because new theoretical contributions have been developed using methodologies more appropriate to theory testing than theory generation.

The choice of the Ukraine as the empirical basis of this research was based on two factors. Firstly, for in-depth research of this type a focus upon the development of marketing in one market is preferable. Secondly, at the time of the research in 1996 Ukraine was characterised by high levels of environmental uncertainty. Additionally against this background of economic crisis, so severe that questions were continually asked about the country's very survival as a free market economy, the retail sector was continuing to develop rapidly from a low base.

Finally, as stated at the beginning of this introduction the choice of methodology is governed in part by the pragmatic concern of access. For the researcher contemplating the practical difficulties of obtaining data from a distant field characterised by turbulence and disorder the appearance of a *deus-ex-machina* is always welcome. In the case of this researcher this came in the form of colleagues at both Warwick Business School and the International Management Institute of Kiev.

The practical support provided by these colleagues and by an employer who was supportive in terms of both finance and time meant that the concern of access to such a tempting, but uncertain market, could be overcome. Ukraine was judged to be, with the appropriate methodology, a suitable, if challenging, market to study.

5.2 Choice of methodology

The research question "How, in the turbulent, transitional environment of Ukraine are attitudes to marketing, organisation for marketing and the execution of marketing strategy developing?" involves a complex field of possible variables.

It involves the study of attitudes to marketing, organisation for marketing and the execution of marketing strategy in a highly uncertain and unprecedented market situation. In addition to this the actions and opinions of individual owners and managers may well be influenced by their relationship with their customers, competitors, suppliers and others in the operating environment. The purpose of this section is to explore the methodological implications of these aspects of the research question.

Hirschmann,(1986) claims that marketing has it's origins in economics and that this explains why research into marketing accords most closely with the positivist world view. Much of research into marketing he claims is guided by the scientific norms of empiricism, causality and quantification. Indeed Hirschmann could identify only one non-positivist, empirical study in the Journal of Marketing in three preceding decades.

A number of methodological assumptions are linked with positivism. Some of these were originally put forward by Comte, (1853) but this list (see figure 5.1) includes methodological assumptions which Easterby-Smith et al (1991) see as having become associated with positivism.

Independence	The observer is independent of what is being observed
Value-freedom	The choice of what to study and how to study it can be determined by objective criteria rather than by human beliefs and interests
Hypothetico-deductive	Science proceeds through a process of hypothesising fundamental laws and then deducing what kinds of observations will demonstrate the truth or falsity of these hypotheses
Operationalisation	Concepts need to be operationalised in a way which enables facts to be measured quantitatively
Reductionism	Problems as a whole are better understood if they are reduced into the simplest possible elements
Generalisation	In order to be able to generalise about regularities in human and social behaviour it is necessary to select samples of sufficient size

Figure 5.1: Methodological Assumptions Associated with Positivism.

Source: Easterby-Smith et al 1991

The above assumptions, if adhered to, predisposes field research to proceed in a theory-testing rather than theory-building direction (Bonoma, 1985). There is however concern about the way that positivism has dominated research into marketing. Hirschmann, (1996) argues that the movement in the nature of marketing towards being a more socially constructed discipline requires a more humanistic approach. Additionally some writers (Anderson, 1983, Hunt, 1994) are concerned that an emphasis on quantitative research rather than qualitative research may be a disincentive to tackling complex or interdisciplinary questions.

The methodology of this thesis has its origins rather in the need for research into marketing to embrace a plurality of methodological approaches, something which

has been recognised in a number of fields of social science. In the field of economics for example where research has been characterised by quantitative and deductive methodologies Piore, (1979) argues that qualitative research methods can be of value. It is proposed (Day and Wensley ,1983) that a more strategic stance is required by the discipline of marketing which requires in turn a broader interdisciplinary approach to answering research questions.

Existing research concerned with the development of marketing and with transitional economies covers a wide variety of fields including in, addition to marketing, economics, organisational behaviour, international behaviour and the social sciences.

It is important therefore that the methodology chosen for this research can comprehend and build upon the large body of literature that exists in those fields. Essentially the methodology must be able to identify factors which play a role in the development of attitudes to marketing organisation for marketing and the development of marketing strategy whatever their field of origin.

There is a large body of research into the historical development of a market orientation and a significant amount of research concerning the development of attitudes to marketing, organisation for marketing and the development of marketing strategy. A small amount of this research also embraces the transitional markets of Eastern Europe. Into the Ukrainian situation there is a very limited body of research and thus little understanding.

This is important because as Bonoma, (1985) suggests the choice of methodology should be influenced by the level of understanding which already exists in a field. Premature application of "theory testing normal science" is held by Bonoma to be inappropriate if there is poor theory development.

Broad, generalisable studies are limited in that they cannot explore the richness of the data and , according to Van Maanen, (1983) they tend towards giving a numerate description of qualitatively complex phenomena.

Given a high level of complexity the alternative approach is to use a methodology which seeks to provide an in-depth understanding of the issues rather than to generalise. Wilson, (1993) argues for the use of an "intensive" rather than an "extensive" methodology. Harrigan, (1983) suggests that methodologies can range on a continuum from the "fine-grained" to the "broad-grained" (See Figure 5.2). It is the complexity of the question which determines whether to use a fine or a broad-grained methodology.

Fine-grained Methodologies	Broad-grained methodologies
Captures nuances, detail of context.	Generalisable, statistical significance,
Shows improved understanding of forces underlying phenomenon in each occasional	Little knowledge of interacting forces within each observation,
No generalisability	Missing of important contingencies

Figure 5.2: Continuum of Methodologies

Source: Harrigan 1983

It has to be acknowledged from the above that there is a trade off between the depth of the research methodology and the generalisability of the findings. Fine-grained research methodologies can however provide an understanding of complex issues which broad-grained approaches cannot. For this research fine-grained, qualitative techniques are most applicable. They are according to Van Maanen, (1983) best used:

"to describe, decode, translate and otherwise come to terms with the meaning not the frequency of certain more or less naturally-occurring phenomena."

This research aims to explore the development of marketing attitudes, organisation and strategy in a country specific context. A central proposition is that the model of the development of a market orientation which is applied in the

Western context may not necessarily apply in the unique circumstances of Ukraine. Bonoma, (1985) refers to the existence of phenomenon which:

"cannot usefully be studied outside the context in which they naturally occur"

This is confirmed by Harrigan, (1993) who relates the concept of fine-grained methodology to the study of issues in their context. Further evidence that a qualitative contextual approach is preferable is provided by Denzin and Lincoln, (1994):

"Qualitative researchers are more likely than quantitative researchers to confront the constraints of the everyday social world. They see this world in action and embed their findings in it"

The conclusion therefore is that the most appropriate methodology for this research should be in-depth, qualitative and contextual.

As described by Yin, (1994) qualitative research may still use the hypotheses and terminology of positivism. As far as this research is concerned however there is a suggestion that the use of hypotheses makes untenable assumptions about a unique and unprecedented contextual situation.

For the purposes of this research a preferable approach is closer to grounded theory. Grounded theory was proposed by Glaser and Strauss (1967) and defined as:

"the discovery of theory from data" which can help to "forestall the opportunistic use of theories that have dubious fit and working capacity"

Glaser and Strauss go on to say that:

"generating a theory from data means that most hypotheses and concepts not only come from the data, but are systematically worked out in relation to the data in the course of the research. Generating a theory involves a process of research"

Therefore the development of hypotheses is the aim and not the basis of the research. This is not meant to imply that the research can be without structure particularly with such a wide field of variables. Thus the literature review (Chapters two and three) has generated a series of research questions which have been developed by a pilot survey into hypotheses which can be more truly seen as propositions. These propositions are then used as the basis for the development of a structured research instrument.

This researcher believes that such an approach is vital given the context of the study. There would otherwise be a danger of prejudging what is theoretically important in the turbulent and transitional case of the Ukraine. This is especially so as a central proposition is that, given the unprecedented conditions in the field at the time of the research, the theories that have applied in a very different context may lack veracity. Grounded theory overcomes this danger as it suggests an inductive, iterative and reflexive research process.

The units of analysis for this research are the managers of firms and the topics for analysis are the development of attitudes to marketing, organisation for marketing and the execution of marketing strategy in the Ukraine. Oligopolistic and network theories indicate however that the opinions, decisions and actions of managers of an individual firm may not be independent but influenced by the environment outside the firm.

Easton, (1993) in considering this interconnectedness concluded that as individual firms are embedded in network structures they cannot be viewed as independent units for statistical analysis. This thesis adopts a focal firm approach, examining the individual firm but in conjunction with its principle environmental relationships. The need to study attitudes to marketing, organisation for marketing and the choice of marketing strategy in context, using an in-depth methodology, inductively presents an overwhelming argument in favour of the use of case studies for this research.

An individual or group that is studied over a period of time constitutes the basic idea of *longitudinal* research since the aim is to describe or assess the change and development of some process. Intervals of time are of primary importance in this approach, since the major goal is to determine what occurs or changes over time. Advantages of this approach are that the researcher observes the same issue and the same people or events over a long period of time and is thus able to maintain considerable control over the variables being studied (Adams and Schvaneveldt, 1985).

Because the longitudinal approach uses the same sample elements over time these sample elements are viewed as identical with regard to the study variable, assuming that they are not influenced by the study process itself. Hence it is possible to have greater control and more precise measurement with a longitudinal design as the researcher can administer repeated measurement, and the sample is a matched type group.

A weakness of longitudinal design is the expense of following a population over time, and this often dictates that a smaller unit is employed. The validity of a study may also suffer due to cases dropping out because of “research fatigue” or, even if they stay with the study, the process of repeated measures and contact with the researcher may create unwanted effects with the sample member (Adams and Schvaneveldt, 1985, Lewis-Beck, 1993).

For these reasons this research uses a *cross-sectional* design but acknowledges the desirability of further longitudinal study (see section 7.3). Cross-sectional studies focus on the make up of a sample at one point in time and aim to present a broad picture with analysis on a group with regard to variables. The control of “freezing” all respondent information at a specific time makes the cross-sectional approach to data collection a very useful and widely used method (Adams and Schvaneveldt, 1985). Also, fewer resources, less time and little or no control over the sample is needed. The cross-sectional approach is obviously not as useful as the longitudinal design to assess change or development, but a number

of inferences about change can be properly assessed within the constraints of this approach (Adams and Schvaneveldt, 1985).

“In short, the cross-sectional approach has specific limitations, but for many research problems, the advantages of less time, fewer resources, larger samples, a large array of variables, and the versatility of the cross-sectional approach indicate its central utility”. (Adams and Schvaneveldt, 1985)

5.3 The use of case studies

As described in 5.1 above Yin, (1994) sees the use of case studies to be applicable where the investigator is seeking to answer "how" or "why" questions about a contemporary event over which they have little or no control. For Yin case study research is particularly relevant when the researcher wishes to cover contextual conditions believing that they are highly pertinent to the phenomenon of study.

Yin therefore seeks to define the case study as;

"an empirical enquiry that investigates a phenomenon within it's real life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used."

There are however a range of different views of how a case study should be defined. Abbott, (1993) suggests that "case" is synonymous with observation in a quantitative study. The more widely held opinion however sees the case study as a means of studying a problem in-depth and in it's context.

Different types of case have been identified by Ragin, (1992) who devised a conceptual map (See Figure 5.4) to answer the question "What is a case?".

In terms of Ragin's conceptual map cases may be either specific or general. Specific cases are those that have reference to a particular person or event while general cases refer perhaps to the firm or family. Ragin describes four ways of understanding cases which are arrived at by plotting the distinction between specific and general cases against the objectivist or subjectivist philosophies.

<u>Case Conceptions</u>		
<u>Understanding Cases</u>	<i>Specific</i>	<i>General</i>
Empirical Units	1. Cases are found	3. Cases are objects
Theoretical Constructs	2. Cases are made	4. Cases are conventions

Figure 5.3: Conceptual Map of Cases

Source: Ragin, 1992

Using Ragin's conceptual map this research can most neatly be fitted within cell 2. The focus of the research is the development of attitudes to marketing, organisation for marketing and the choice of marketing strategy under the influence of the turbulent transitional environment of Ukraine. In terms of positioning on the Ragin grid this study would be inclined to the view that cases are empirical units. Additionally this process is researched within the conventional context of the organisation. However because the developments being studied involve environmental activities outside of the organisational boundaries it could be argued that there is some overlap with cell 4.

5.4 Design of research instrument

This research is inductive and requires opportunities to probe. It does however employ a structured approach which overcomes the criticisms which have been made of cases studies namely that they are anecdotal and that they are lacking in rigour. Yin, (1994) addressed these criticisms by describing how case study research must come to terms with construct validity, external and internal validity and reliability.

Construct validity involves the establishment of correct operational measures for the concepts being studied. One principal tactic that is available to increase construct validity is the use of multiple sources of evidence (see 5.6.4) during data collection. Although this research employs structured questions along the lines of a formal *survey*, which is a legitimate type of interview for case study research (Yin, 1994), the in-depth interview is only considered as one component of the final assessment.

In addition to in-depth interviews these case studies employ multiple sources of evidence including documentation and direct evidence. It was possible during visits to survey sites to gain access to documentary evidence and to carry out direct observations that would not have been obtainable by interviews or desk research alone. This was particularly important given the need to establish reliability and to validate data in the economic and social conditions which prevailed in Ukraine at the time.

A case study's unique strength is its ability to deal with a full variety of evidence - documents, artefacts and observations as well as interviews (Yin, 1994). A major strength of case study analysis is the opportunity to use multiple sources of evidence. The use of multiple sources of evidence in case studies provides an opportunity to consider a broad range of attitudinal and behavioural issues and, most importantly, to provide evidence of converging lines of enquiry. This is the process of triangulation most strongly represented in this research by the

opportunities for direct observation and by the collection of documentary evidence.

External validity is concerned with establishing the domain to which the studies findings can be generalised. Reliability is ensured by demonstrating that the operations of a study, such as data collection procedures, can be repeated with the same results. Internal validity is dependent upon establishing a causal relationship whereby certain conditions are shown to lead to other conditions.

In order to ensure that this research has sufficient rigour to address these problems it employs in its case study design the structured approach advocated by Eisenhardt, (1989). In the same way the process of pattern matching by iterative tabulation of data described by Miles and Huberman, (1994) is used in data analysis. The process of building theory from case study research employed in this study is shown in Figure 5.4.

The research design was intended to provide a structure for data collection that ensured the reliability of the case studies and which did not exclude relevant variables. The research issues and propositions were derived from the initial review of the literature and from pilot research. These research questions were developed into a interview format which, although structured allowed scope for probing.

As stated above Yin, (1994) maintains that the structured interview is a legitimate element of case study design particularly when considered as one component of an overall assessment based on multiple sources of evidence. All interviews are potentially subject to bias, poor recall and poor articulation. It is important therefore that interview data is corroborated by other data wherever possible.

Step	Activity	Reason
Getting Started	Definition of research questions	Focuses efforts
	Possible a priori constructs	Provides better grounding of construct measures
	Neither theory nor hypotheses	Retains theoretical flexibility
Selecting Cases	Specified Population	Constrains extraneous variation and sharpens external validity
	Theoretical not random sampling	Focuses efforts on theoretically useful cases (those that replicate or extend theory by filling conceptual categories)
Crafting Instruments and Protocols	Multiple data collection methods	Strengthens grounding of theory by triangulation of evidence
	Qualitative and quantitative data combined	Synergistic view of evidence
Entering the field	Overlap data collection and analysis	Speeds analysis and reveals helpful adjustments to data collection
	Flexible and opportunistic data collection methods	Allows investigation of emergent themes and unique case features
Analysing Data	Within case analysis	Gains familiarity with data and preliminary theory generation
	Cross-case pattern search using divergent techniques	Forces researcher to look beyond initial impressions and see evidence through multiple lenses

Shaping hypotheses	Iterative tabulation of evidence for each construct	Sharpens construct definition validity and measurability
	Replication logic	Confirms, extends and sharpens theory across cases
	Search for evidence of "why" behind relationships	Builds internal validity
Enfolding literature	Comparison with conflicting literature	Build internal validity, raises theoretical level and sharpens construct definitions
	Comparison with similar literature	Sharpens generalisability, improves construct definition and raises theoretical level
Reaching closure	Theoretical saturation when possible	Ends process when marginal improvement becomes small

Figure 5.4: The Process of Case Study Research

Source: Eisenhardt 1989

This research was additionally supported by the direct observations of the researcher and local collaborators during field visits to the case study sites. A distinct advantage, in terms of accuracy, which in addition to environmental difficulties mitigated against the use of a more general postal survey approach.

The initial phase of questioning aimed to collect demographic data about the firm and its operating environment. Questioning was then structured around three areas, attitudes to marketing, organisation for marketing and marketing strategies. Multiple questions were used to probe each area.

These questions had been refined during the pilot study phase (see above, section 4.2.1) in line with Yin's, (1983) assertion that, for case study research the data collection process is not parallel but sequential. Unlike a postal survey, where data is collected at one particular point in time, case study research is a

cumulative process with each case built from a series of interviews and written with the knowledge of the findings of previous cases.

During the pilot study phase data was analysed to check whether additional areas were consistently referred to. This suggested significant questions which needed to be included. This checking mechanism continued during the case interviews as respondents were allowed to place their own emphasis on the questions in order to provide insights into their own specific situation and the issues which they believed to be of importance.

Therefore, each case interview was structured around a series of questions designed to provide insights into the research propositions which had been derived from the literature review and developed in line with the principal of theory generation during the pilot phase and case research. The list of questions is shown in Appendix 1. These questions were organised by key variables which are shown below together with the research propositions that each series of questions was designed to explore.

It is important to reiterate however that the in-depth interview was only considered as one component of the final assessment. In addition to in-depth interviews these case studies employed multiple sources of evidence including documentation and direct evidence. This was particularly important given the need to establish reliability and to validate data in the economic and social conditions which prevailed in Ukraine at the time (See 5.7.2 pages 197-198).

As previously stated a case study's unique strength is its ability to deal with multiple sources of evidence - documents, artefacts and observations as well as interviews. This is the process of triangulation, most strongly represented in this research by the opportunities for direct observation and by the collection of documentary evidence (See Appendix 2).

QUESTIONS 1-9 AND 43-47

Key Variables;

Demographics and Organisational characteristics

Product / Service Type

Firm size

Ownership

Financial Performance

Organisational Environment

QUESTIONS 10-14

Key Variable;

Attitudes to Marketing

Research Propositions;

- **Proposition 1.** In a turbulent transitional environment firms, profiled as Transitional Strategic Adaptors, define marketing as the process by which beneficial relationships are established with customers and suppliers.
- **Proposition 2.** In a turbulent transitional environment a majority of organisations equate marketing with selling placing little emphasis on marketing activities.
- **Proposition 3.** The development of a market orientation is strongly linked to the nature of the marketing environment, particularly prevailing macroeconomic conditions.

- **Proposition 4.** In a turbulent, transitional environment marketing orientation typologies and strategic approach profiles will be fragmented and the lack of unifying themes can be seen as the emergence of postmodern marketing.
-

QUESTIONS 15-19

Key Variable;

Organisation of Marketing

Research Propositions;

- **Proposition 5.** In turbulent, transitional environments organisations marketing activities tend to be part of the function of sales, trade or commercial departments rather than the function of a specialised marketing department.
 - **Proposition 6.** In turbulent, transitional environments organisations do not make extensive use of specialised external marketing services such as advertising, public relations and marketing research agencies rather they perform these functions in-house if at all.
-

QUESTIONS 20-42

Key Variables;

Marketing Strategies, Operations and Planning

Research Propositions;

- **Proposition 7.** As the market economy evolves in Ukraine marketing managers are increasingly moving towards a market orientation by focusing

their product, price, promotion and place decisions on satisfying customer needs.

- **Proposition 8.** New forms of marketing strategies, different again from those employed in other transitional economies and adapted to the unique environment which has developed in Ukraine are being employed.
- **Proposition 9.** New forms of marketing strategies, different again from those employed in other transitional economies and adapted to the unique environment which has developed in Ukraine are being employed.
- **Proposition 10.** Ukrainian organisations place a strategic emphasis on competitive pricing rather than cost-plus or other pricing methods.

It is true to say that not all questions were relevant in every case and indeed some respondents did not feel that they were in a position to answer all questions. The latter was not a significant difficulty as two respondents were interviewed for each case. If a respondent was not in a position to answer a question which was felt to be relevant to the firm, this was almost universally compensated for by probing of the additional respondent.

This is then a structured form of interviewing that is considered as one component of an overall assessment that includes, most importantly in the research context, direct observation and the limited multiple sources of evidence which were available. The principal value of the questionnaire was to give structure to the outline of the research and to give dimensions for comparison between cases - it was not the limit of the investigations. Triangulation of data was carried out where-ever possible based principally on direct observation.

5.5 Selection of cases

The choice of sector from which cases were drawn was influenced both by the researcher's professional interest in the field of retailing and by the pragmatic consideration that this sector was relatively accessible in Ukraine. The retail sector was also considered suitable for research as it was amongst the first industries in Ukraine to move towards private ownership and to be influenced by Western business ideas as foreign retailers began to move into the market.

At the time of the research Ukraine had begun to leave behind state retailing and to move towards the private ownership of retailing by local entrepreneurs, foreign companies and joint ventures. This has been associated with a rapid expansion of the retailing sector and has been a driving force behind economic and societal change (Waslyk, 1996). It had also become much easier for domestic entrepreneurs to move into retailing in Ukraine as much of the previous bureaucracy had been removed.

Additional criteria that influenced the selection of cases were:

- They represented a reasonable cross-section of Ukrainian retailing in terms of size, ownership and product types.
- Access was possible to at least two senior managers with marketing responsibility to enable cross-checking of responses.
- The organisations were situated within the Kiev area.

Initial information about firms that were operating in the Ukraine retail sector was obtained from the DTI Overseas Information Service in London and from the Commercial Attaché of the British Embassy in Kiev. The information that could be provided by these sources was very limited and it proved necessary to consult with colleagues at Kiev International Management Institute in order to review which organisations were operating in the sector.

Whilst a large number of small entrepreneurial organisations were found to be operating in the retail sector many of these were extremely difficult to access and were indeed operating on the margins of legality. A decision was thus made to focus on organisations that were reasonably well established in the sense that they were at least operating from permanent premises. Such organisations were large enough to have some management structure with responsibility for commercial operations and to have some awareness, if not knowledge of, marketing.

A full list of respondent organisations and brief description is given below. An initial analysis of these cases showed that they could be compared with each other as literal replications that is as firms within the same sector. Theoretical replications were provided by selecting cases which varied against variables such as size, ownership and product type.

5.6 Data Collection

Kiev, Ukraine

The purpose of this first visit to the survey site was to carry out initial research into the development of marketing in the Ukraine retail sector. Specifically the object of the visit was to pilot a questionnaire designed to test attitudes to marketing, organisation for marketing and marketing strategies which are emerging in this transitional economy.

Having modified the research instrument in line with the issues highlighted by the pilot survey the objective was to carry out a series of interviews with the senior managers of Ukrainian retail organisations which would form the outline of, and dimensions for comparison between, case studies.

This research, in addition to interview data, draws on multiple sources of evidence including such limited documentation as was available and most importantly on direct observation to add depth to cases. By making field visits to the case observation site opportunities were created for direct observation to substantiate the claims of respondents and the collection of some documentary evidence that would not otherwise have been available.

This is particularly important given the context of the research (see below 5.7, 5.7.1 and 5.7.2). This was an opportunity to assess reliability and validation in context which would not have been available with a mere quantitative postal survey.

5.6.1 First data collection visit to field

The use of several case studies allows cross-case analysis to be used for richer theory building (Yin, 1994). Yin advises that multiple cases should be seen as multiple experiments and not as multiple respondents in a survey. This means both that replication and not sampling logic is appropriate and that representativeness is not the criteria for case selection.

Instead cases should be chosen that either predict similar results for predictable reasons (literal replication) or produce contrary results for predictable reasons (theoretical replication), (Yin, 1994). Patton, (1990) lists 15 strategies for selecting cases such as "typical case" and "maximum variation". The underlying principle of all 15 selection strategies however is that cases should be *information rich*. This principle was fundamental to the selection of cases for this research.

Similarly there are no exact guides to the number of cases to be included. Romano, (1989), leaves the decision to the researcher. Eisenhardt, (1989), says that cases should be added until "theoretical saturation" is reached. Patton, (1990), says that there are "no rules" for sample size. The reality is that there are constraints of time and funding (Perry, 1998).

Eisenhardt, (1989), in the end, suggests between four and ten cases to generate theory with complexity and to have a convincing empirical grounding. Hedges, (1985) and Miles and Huberman, (1994) suggest a maximum of twelve and fifteen cases respectively before research becomes unwieldy. The advice of Eisenhardt has been accepted in selecting eight cases as the number of for this research. This is also within the maximums suggest by Hedges and Miles and Huberman

During the first data collection visit to the survey site case study research was completed at four Ukrainian retailing organisations. One of these enterprises was still in state ownership. The other three were at various stages in the privatisation

process with one now fully privatised. Ownership also varied from fully Ukrainian to joint ventures with prominent foreign joint-venture partners.

The four organisations were selected for the case studies on the basis that they were believed to be information rich and offered opportunities for theoretical replications. They also provided a reasonable cross-section of Ukrainian retailing in terms of size, product mix, ownership and degree of privatisation. Briefly these organisations were;

- Case A. Kiev Central Department Store, a large, monolithic, state-owned organisation with subsidiaries throughout Ukraine. Interviews were conducted with the Director (CEO) and a Commercial Services (marketing) Manager.
- Case B. The House of Gifts, once a prestigious gift store but now having to diversify as it comes to terms with the late stages of privatisation. Interviews were conducted with the Director and the Head of Commercial Services.
- Case C. Kashtan (Chestnut), a retailer of high quality accessories and luxury goods once a foreign currency store but now forced by Government policy to operate in the Ukrainian coupon economy. The Director and Sales Manager were interviewed for the case study.
- Case D. Nika, a Ukraine-Swiss joint venture a food retailer but also diversified into clothing and restaurants. The Director and Commercial Department Manager were interviewed.

At each company the initial interview was with the Director (Chief Executive). A further interview was then conducted with a manager from the marketing department, if such a department existed, or with another senior manager with commercial responsibilities.

This enabled the views of two respondents from the same organisations to be compared and contrasted. To avoid bias, for example a line manager not daring to have different views to the Chief Executive, respondents were interviewed separately.

The interviews were conducted in Ukrainian or Russian with the aid of an interpreter. This interpreter was a distribution specialist from Kiev's International Management Institute. It was obviously of great importance to use an interpreter who was familiar with the meanings of the business terminology being employed, and indeed who shared the research interest.

Analysis of these initial cases indicated a number of research findings. Research by Golden et. al., *The Dynamics of a Marketing Orientation in Transition Economies: A Study of Russian Firms*, Journal of International Marketing Vol. 3, No. 2, 1995, pp. 29-49) has indicated that in conditions of extreme economic difficulty organisations in transitional economies will adopt a market orientation as a survival strategy

In the Ukraine however there was evidence, as indicated by initial research, that attempts to impose the Western marketing paradigm on Ukrainian organisations may not be appropriate. The research has shown that Ukrainian managers are conscious of the need to monitor changes in consumer demand and to implement some type of marketing strategy. Their concept of what constitutes a market orientation however is a product of the unique cultural and economic environment that exists in Ukraine.

Initial research indicated that Ukrainian firms see marketing as a process of building relationships with both customers and suppliers in order to achieve favourable trading conditions for the organisation. This is a reflection of the unique socio-cultural conditions which constitute the Ukrainian marketing environment in particular the role of networks of relationships.

As shown by Bridgewater et. al., (1995) relationships have been the traditional means used by Ukrainian organisations to overcome uncertainty. It is thus through relationships with customers, suppliers and stakeholders that Ukrainian organisations define their marketing effort.

At this stage four case studies with a cross section of Ukrainian retailing enterprises had been successfully concluded using a research instrument that had been thoroughly tested for its suitability in a pilot study. In the turbulent, transitional circumstances which existed in the Ukraine, there is for example no reliable postal service, the use of case studies as a research method emerged as the most effective means of gathering data.

As stated above this research employs multiple sources of evidence including documentation and direct evidence. It was possible during this visit to the survey site to gain access to documentary evidence and to carry out direct observations that would not have been obtainable by desk research alone. This was particularly important given the need to establish reliability and to validate data in the chaotic economic and social conditions which prevailed in Ukraine at the time.

According to Yin, (1994) a case study's unique strength is its ability to deal with a full variety of evidence - documents, artefacts and observations as well as interviews. A major strength of case study analysis is the opportunity to use multiple sources of evidence. The use of multiple sources of evidence in case studies provides an opportunity to consider a broad range of attitudinal and behavioural issues and, most importantly, to provide evidence of converging lines of enquiry. This is the process of triangulation most strongly represented in this research by the opportunities for direct observation but also by the collection of the limited documentary evidence that was in existence .

It was decided to return to the field and conclude further case studies.

5.6.2 Second data collection visit to field

During the second phase of data collection four additional cases were completed. In each organisation two senior managers with responsibility for marketing were interviewed;

- Case E. Buchynok Odiahny One of the largest department stores in Kiev now filled with independent joint ventures in lieu of the traditional store departments. The Director and a senior Commercial Department manager were interviewed.
- Case F. Children's World Opened in 1986 initially as a children's shop now a family department store with 50% of stock owned by the staff. The Deputy Director and a senior manager were interviewed
- Case G. Ukraina Department Store One of the big three Kiev department stores stocking both foreign and locally made goods. Now selling it's shares and attempting to keep up with market developments. The Director and the Commercial Services Manager were interviewed.
- Case H. Omega Trade Ltd An entrepreneurial private company initially established as a joint venture. Specialising in consumer goods and medical products. The owner and the head of the commercial department were interviewed.

5.7 The Ukrainian context

It has been shown previously in this chapter that in order to understand the content of data it is necessary to appreciate the context in which it has been collected. If, in analysing data, the differences in the context are to be taken into account, it is a requirement of this thesis to determine how best to analyse the environmental conditions in Ukraine.

Any researcher into a highly turbulent environment is faced by challenges which do not exist elsewhere. Probably the most important of these challenges, when analysing changes in the Ukrainian environment, is to determine consistent criteria and sources of data. This is a difficult thing to achieve in a country as economically and politically fluid as Ukraine. During the research period the country was, and indeed still is, going through a time of rapid and unpredictable change as it moved away from a centrally planned and towards a free market economy. It is still far from certain how long this transitional period will last or even to predict if the outcome will be positive.

This means, in essence, that the research environment is characterised by uncertainty caused by a number of inter-related variables. The difficulty that this causes the researcher is in determining a reliable contextual trend. It is not possible to assume in the Ukrainian context that historical data can be extrapolated to provide meaningful insights into the future. This is compounded if the reliability of historical data is questionable in the first place.

Chapters two and three reviewed the literature concerning the process of transition in the Ukraine which began in 1991. The following sections will consider the difficulties in finding reliable data and in extrapolating historical data given the sweeping changes in the Ukrainian environment and consider how best the context can be analysed.

5.7.1 Sources of information

The most important question to address in analysing the Ukrainian context is the reliability of data. Information from official sources is questionable because of difficulties with timeliness, reliability and validation. There is a very limited amount of Western market research into Ukraine. Much of this has its origins in Harvard University's Project for Economic Reform in Ukraine (PERU). Market information bulletins issued by the American Chamber of Commerce provide a source of information into the Ukraine market. However, there is no one regularly updated source from the pre-transitional period to date.

There is a good deal of objective economic data describing the Ukrainian situation. Most usefully the monthly update of Ukrainian Economic Trends published monthly by the Ministry of Economy of Ukraine. This can be supplemented by the quarterly Ukraine Country Report published by the Economist Intelligence Unit. A study of this data shows a country and economy in crisis but does not show the stoicism or determination of the people of Ukraine. In the Ukrainian context there were local sources of information which proved useful but which often needed cross-validation.

Local contacts at the International Management Institute (IMI Kyiv) enabled me to connect into local networks and knew how to get such market information as existed. These contacts were also able to monitor and translate the local press and media.

Official ministries responsible for specific industry sectors can provide information about the location and number of enterprises. However information from this source is of questionable accuracy (see below 5.7.2).

Embassies have lists of organisations involved in joint ventures in the retail sector. However the accuracy of this information proved to be doubtful both in terms of completeness and timeliness.

5.7.2 Reliability and validation of sources

The validation of data is made difficult in Ukraine by a number of culturally - specific characteristics. The closed culture which prevailed in Ukraine at the time of the Soviet Union has instilled an anxiety about revealing even trivial information. As a result of this sources are seldom revealed and, as a result of the absence of reliable statistical or accounting information, much data can not be validated.

Additionally there is an unwillingness to speak on the telephone as these calls were previously monitored by the internal security forces. Indeed it is still suggested that this practice continues at the hotels frequented by Westerners. Another cultural element which mitigates against the validation of data is an unwillingness on the part of Ukrainians to admit to weakness or to a lack of knowledge.

Official data were controlled during the Soviet era. Although often the only source of information available the reliability is doubtful. There is often variations between sources and even official government and administrative bodies produce incomplete and obviously erroneous data.

The question of the reliability and validation of sources was therefore important in the context of a turbulent transitional environment such as Ukraine. Making field visits to the case study "site" created the opportunity for direct observations. Such direct observations are both a source of evidence in a case study and a means of validating the reliability of data.

To give an example of this the observation of the physical condition of buildings and working conditions indicate something of the true climate or impoverishment of an organisation. In a similar way conducting interviews in a respondent's office can give an indication of status within the organisation.

In the case of this research direct observations were made in conjunction with a local translator allowing both context and the good case practice of multiple observers. The use of multiple sources of evidence (see 5.6, 5.6.1, 5.7, 5.7.1) where ever possible was also important given the particular difficulties of reliability and validation in the Ukrainian context.

5.8 Analysing data

Qualitative research rarely tries to document universal laws; rather it divides explanations into two categories: highly unlikely and plausible. The researcher aims to build a case or supply supportive evidence. This thesis uses the suggestions of Eisenhardt, (1989) and Yin, (1994) to analyse the data that is generated by the research.

Data analysis should involve a process of within and across case analysis in order to identify patterns (Eisenhardt). Data analysis is an iterative process (Yin) which can begin in conjunction with data collection. The iterative tabulation of data is proposed as a way of advancing the process of data analysis in explanatory case studies. It is suggested that initial research issues are tested in later case studies.

John Stuart Mill (1806-1873), developed logical methods for making comparisons. His *method of agreement* and *method of difference* form the basis of *analytic comparison* of cases in qualitative data analysis. Aspects of this logic are also used when making comparisons in experimental research.

This differs from illustrative methods in that a researcher does not begin with an overall model but instead develops ideas about regularities or patterned relations from pre-existing theories or induction. The researcher then focuses on a few regularities and makes contrasts with alternative explanations.

The method of agreement focuses the researcher's attention on what is common across cases. The researcher then establishes that cases have a common outcome and tries to locate a common cause, although other features of the case may differ. The method proceeds by a process of elimination eliminating features as possible causes if they are not shared across cases that have a common outcome.

This research uses method of agreement as an analytical tool. This is in line with the views of Yin, (1994) who holds that case study research should not seek to

generalise on a numerical basis as would quantitative, survey based research but should seek to ensure external validity by using analytic generalisation. The intent of multiple case studies is to highlight replications rather than to provide a statistically valid sample of a population. Yin describes this as a search for convergent evidence regarding the facts and conclusions for the case. These conclusions are then information needing replication by other individual cases.

Researchers can use the method of agreement alone or in conjunction with the method of difference. This research uses the method of difference and the method of agreement to locate cases that are similar in many respects but differ in a few crucial ways. This helps to pinpoint features whereby a set of cases are similar with regard to an outcome and causal features and also whereby another set of cases differ on outcomes and causal features.

The method of difference reinforces information from positive cases, i.e. those with common causal features and outcomes with negative cases, i.e. those lacking the outcome and causal features. The researcher can then identify cases that may have the causal features of positive cases but lack a few key features and have a different outcome.

Yin, (1994) defines internal validity as the process of establishing causal links within research. These links were established by a process of data analysis. The structured research instrument was suited to the use of method of agreement / method of disagreement analysis but to add depth to the research this was enhanced by verbatim notes taken during interviews by the researcher and the translator/research assistant. These interview notes were transcribed as soon as was possible after each interview

Under the headings used in the research instrument, environment for marketing, attitudes to marketing, organisation for marketing, marketing strategy and performance, data were separated into direct and indirect responses to questioning. Direct responses provided generally objective data. Indirect

responses were additional points that were raised by the interviewee which qualified or elaborated on the response.

An additional information category was used to capture additional information which did not fit into the structure of the research instrument. After an interview was completed the data were compared with that of previous interviews. At this time similarities and differences were identified within each case to establish replications which allowed for the identification of patterns of behaviour.

Comparisons are drawn in following sections between literal replications in the cases and the main cross-case analysis of theoretical replications is presented. Data provided by the research is explored organised by major subject areas and objective data are tabulated. The richness of response made possible by case studies is used to provide additional insights.

The findings from the analysis of data are set in their theoretical context as research propositions generated from the literature review and from theory development during the pilot and case studies are accepted, rejected or revised. Conclusions are drawn and suggestions regarding the contribution of the research to the practice of marketing in Ukraine are made. The limitations of the research are then discussed and suggestions made for the future direction of research.

5.9 Conclusion - Summary of methodology

This research is inherently complex as it involves interactions between the attitudes, organisation and strategies of managers of organisations and a turbulent transitional environment which has profound implications for the behaviour of the firms customers and competitors. In such circumstances it is necessary to study actions in context. For this reason an in depth research methodology is preferable (Harrigan, 1983, Bonoma, 1985). So that actions can be studied in their context a case study methodology is preferred.

Data collection was centred on a structured research instrument which had been designed using the conclusions drawn from a review of the relevant literature. Sixteen in-depth interviews are conducted with managers theoretically responsible for marketing from eight Ukrainian retailing organisations. Preliminary analysis of data suggested issues that were tested for replications in other cases.

Although a structured research instrument was used respondents were allowed to place their own emphasis on the questions and to give details to issues that they thought were relevant. Information was verified by the use of multiple sources of information. This was firstly a comparison of both the factual and opinion based answers to questions provided by both the face to face interviews that were conducted within an organisation. Secondly, direct observation but also the limited market research reports, articles in the media, and internal company information where available were used to verify data.

Data collection took place in Ukraine in two phases. The marketing environment in Ukraine was analysed throughout this period so that case data could be viewed in the prevailing context. Differences in external environment conditions in between the two phases of data collection were not felt to be influential.

Data were coded under the relevant section of the research instrument and for each section other relevant information and verbatim quotations were collected to

add depth and texture to the study. It was possible to identify emerging patterns of similarities and differences by the analysis of data over the period of data collection. From these patterns the nature of attitudes to marketing, organisation for marketing and the development of marketing strategy in the retail sector of Ukraine could be identified.

This process of data analysis generated findings which were then set in a theoretical context. This enabled conclusions to be drawn in relation to the original research propositions.

Chapter 6. Presentation of Findings

6.1 Introduction

This chapter begins with a collective presentation of the case histories. This collective presentation places the cases both within their environmental context and in terms of their relationship to each other. It provides richer background to the cases than would be possible by individual descriptions and provides triangulation detail for cross case analysis.

The main body of cross case analysis presents both descriptive and tabulated evidence derived from method of agreement and method of disagreement analysis across cases. This begins with evidence of the operating environment of cases, particularly the nature of the market place. Findings are then presented under the subject headings of attitudes to marketing, organisation for marketing, strategic planning, marketing strategy, marketing mix decisions and performance.

In the following section the research propositions described in chapter four are tested against these findings and either accepted, rejected or replaced. The implications of these research propositions being accepted or otherwise are then applied to the theoretical models, also developed in chapter four, and the possibility of a refined conceptual framework considered.

The section is concluded by a consideration of the implications of this research for the practice of marketing in Ukraine, by a description of the limitations of the research and by suggestions for future research directions.

6.2 Case Histories

It is the view of this researcher that cases do not operate in a vacuum and can therefore be only properly described within their environmental context. This section thus takes a collective view of case histories. This approach has two principal advantages over individual case descriptions.

- It places cases within the radical changes in Ukrainian retailing.
- It describes cases in relationship to each other.

Taken together a richer and more complete picture emerges than would have otherwise have been the case.

Eight organisations were selected for the case studies. The basis for selection was that they were believed to be information rich and offered opportunities for theoretical replications. They also provided a reasonable cross-section of Ukrainian retailing in terms of size, product mix, ownership and degree of privatisation. Briefly these organisations were;

- **Case A. Kiev Central Department Store**, also known as TsUM, a large, monolithic, state-owned organisation with subsidiaries throughout Ukraine.
- **Case B. The House of Gifts**, once a prestigious gift store but now having to diversify as it comes to terms with the late stages of privatisation.
- **Case C. Kashtan (Chestnut)**, a retailer of high quality accessories and luxury goods once a foreign currency store but now forced by Government policy to operate in the Ukrainian coupon economy.
- **Case D. Nika**, a Ukraine-Swiss joint venture a food retailer but also diversified into clothing and restaurants.

- **Case E. Budynok Odiahu** One of the largest department stores in Kiev now filled with independent joint ventures in lieu of the traditional store departments.
- **Case F. Children's World** Opened in 1986 initially as a children's shop now a family department store with 50% of stock owned by the staff.
- **Case G. Ukraina Department Store** One of the big three Kiev department stores stocking both foreign and locally made goods. Now selling its shares and attempting to keep up with market developments.
- **Case H. Omega Trade Ltd** An entrepreneurial private company initially established as a joint venture. Specialising in consumer goods and medical products.

In Ukraine during the Soviet era two types of retailing stores existed, co-op (The House of Gifts, Kashtan, Children's World) and state owned (TsUM, Budynok Odiahu, Ukraina). Over both of these the state had complete control. The co-op stores of this time differed only slightly from the state owned stores in the way that they did business. In any case, given that the state owned all property in the Soviet Union, the ability of co-op stores to operate independently was severely limited.

Retailing at that time is best summed up by this quotation which, although it concerns conditions at TsUM made at the time of the research, gives a good indication of Soviet retailing;

"Seated solidly at the corner of Khreschatyk and Bohdana Khmelnytskoho, TsUM is the only one of the big three stores in Kiev which fully retains the air of a Soviet-era department store. Unlike at Ukraina, which is now a joint stock company, little concession has been made to modernity here. True, a few foreign companies have set up shop inside the store, the service is a little less gruff than of old, and imported goods are available. But domestically made goods are still in the majority, as is old style Soviet decor, so those seeking the truly Soviet

shopping experience should visit TsUM's dim and musty halls" (Eastern Economist, September 9, 1996, p22)

This situation began to change in 1988/89 and has gathered pace since the Ukraine declared independence. The country has begun to leave behind state retailing and has moved towards the private ownership of retailing by local entrepreneurs, (Omega Trade) foreign companies and joint ventures (Nika). This has been associated with a rapid expansion of the retailing sector and has been a driving force behind economic and societal change. (Waslyk, 1996)

Small stores first began to open in Ukraine following the introduction of reforms by the Gorbachev Government during the Soviet era. These stores became known as co-ops as by law they had to belong to a group of owners. Private ownership of retail outlets was not allowed by the state something which was indicative of government indecision in allowing capitalism to develop (Waslyk, 1996).

This had the effect of restricting growth of these stores. Equally, growth was restricted by the public's suspicious attitude towards those embracing the capitalist system for the first time. (The House of Gifts, Kashtan, Children's World)

Additionally it was not an easy matter to establish a co-operative retail outlet. The registration process was lengthy, premises were in short supply and the banking system inefficient. When established the operation of these businesses was made difficult by public opinion which accused retailers of creating shortages and driving up prices and by the monitoring activities of local authorities. Ukrainian retailers constantly told me that at this time business strategy was more to do with avoiding legislation than managing the enterprise. (The House of Gifts, Kashtan, Children's World)

"Business legislation remains unstable and arbitrarily interpreted". (Business Central Europe, The Annual, 1997)

The next major development in the ownership of Ukrainian retailing came in 1991 when the Ukraine declared independence from the Soviet Union. At this time a number of foreign companies who were already working with the Ukrainian authorities moved into the market. (Nika)

The process of privatisation in Ukrainian retailing has however not moved at a quick pace and still lags behind that achieved in other transitional nations. This has meant that many potential investors into the retailing sector have been hesitant. (Klochko and Issakova, 1996) Substantial freedoms for foreign investment are still lacking. There are still problems with obtaining suitable retail premises both from the operational and the ownership points of view. (Omega Trade, Nika)

It is difficult to provide a generalised view of the owners of private retail businesses in Ukraine. Many of the early entrepreneurs seem to have had access to start-up capital and simply saw retailing as the most straightforward and lowest risk business opportunity (Omega Trade). Of course, in a climate of hyperinflation investment in a business was regarded as a way of shielding capital from the diminishing effects of price increases (Bernardini, 1996).

“.... specialists figure that the shadow economy plays a significant role and may account for as much as 40% of GDP. This figure has been given official credence in Ukraine. In his October speech to the Verkhovna Rada, Premier Yevhen Marchuk admitted: “Generally speaking, the budget is failing to take in around 40% of it’s revenue”. (Eastern Economist, December 1996)

In general terms the retail owners and managers interviewed in these cases came from a variety of backgrounds. In the larger organisations such as department stores there tended to be a background in the old state controlled retail sector (TsUM, Ukraina). Owners and managers of smaller enterprises tend to be from either entrepreneurial backgrounds (Omega Trade, Nika, Children’s World) or to be university graduates.

The Ukrainian Government has encouraged foreign investment into the retail sector and has set out state guarantees in the Law on Foreign Investment. Foreign Investment in retailing has also been encouraged by bilateral tax treaties with a number of countries. Foreign investors are required to register with the Ministry of Finance and the Ministry of External Economic Affairs in order to benefit by the Law on Foreign Investment. (Nika)

It has now become much easier for domestic entrepreneurs to move into retailing in Ukraine (Omega Trade). Much of the previous bureaucracy has been removed. The principal difficulty facing the start-up retailer is reported to be the securing of suitable premises as most of the best locations that do not require significant renovation are occupied and there is little new-build retail space. (Klochko and Issakova, 1996)

It is required that domestic entrepreneurs have papers certifying the lease as well as certification from the fire authorities. There are in place licensing arrangements for the sale of alcohol and tobacco and certification requirements for the sale of food. It is reported that a supermarket can take about a year to open (Nika) a small retail business two to four weeks. Retailers however stress that the most time consuming operation is the identification and renovation of a suitable premises made more difficult still by the unavailability of construction and shop-fitting materials. (Klochko and Issakova, 1996)

At the time of the first research visit to Ukraine the authorities allowed retailing in either local currency, a provisional currency called coupons or karbovanets, or in hard currencies. This reflected the tradition in the Soviet Union to have stores for foreigners where products could be purchased with hard currency. Ukraine continued this tradition for economic reasons but had expressed a preference for trade to be conducted in local currency. (Voronkova, 1997)

The government issued a limited number of licenses to selected retailers, mostly with foreign share capital, to trade in hard currency (Kashtan). This was most commonly the US dollar and to a lesser extent the German mark. Instability in

the Ukrainian economy made trading in hard currency the best way to shield against hyperinflation. The second research visit corresponded with the introduction of the new currency, Hrivnia, and the complete conversion to trading in the local currency. At the time of the research however this policy had not effected the widespread trade in hard currencies.

The macro-environment for retailing in Ukraine has been characterised since 1991 by hyperinflation and diminishing GDP. This has led to falling spending power on the behalf of consumers. In recent years the majority of Ukrainians have struggled to find sufficient money for the basic necessities of life let alone consumer goods. The Ukrainian middle class has declined and more speciality stores have opened which target the rich. There are three principal types of retailing outlets operating in Ukraine at present.

- **Kiosks** are small sized outlets with mixed merchandise. Privately owned kiosks sell small quantities of particular goods which may range from sweets to electronics. The state owned kiosks depend more on the sale of newspapers and related items. Kiosks were the easiest form of retailing operation to open due to the low start-up capital required. Owners have organised into companies to gain control over such aspects of retail operations as purchasing, warehousing and distribution. The short term outlook for the kiosk sector is one of continuing growth and consolidation into chains. There is the possibility of several chains exercising control over some areas both geographically and in terms of product lines. The medium term will probably see some slow down in growth as existing kiosks and chains expand into small outlets and supermarkets. (Bernardini 1996, Klochko and Issakova 1996)
- **Small stores** which are either specialising in the sale of a particular type of product or a broad mix of merchandise. The short term prospect for these stores is probably for only steady growth but in the medium term there is the prospect for rapid growth and organisation into chains if economic conditions improve. (The House of Gifts, Kashtan, Children's World, Omega Trade)

- **Large stores or supermarkets** usually sell a wide variety of products including food and durable and non-durable goods. They may also specialise in the sale of diverse products like cars. In the short term these outlets are not likely to grow in a significant way or though some growth is likely if the economy improves. (TsUM, Budynok Odiahu, Ukraine)

In Kiev in recent years several large stores have been established. These are a mixture of joint ventures and domestically owned enterprises. (Nika) These were initially trading mainly in hard currency and are said (locally) to have performed very strongly. These businesses have tended to gather close to each other in the central retailing area but do not appear to have created a strong competitive environment. As an example, three typical food and general merchandise stores, Jemelia a joint-venture supermarket, once state-owned Kashtan and Nika are within a few minutes of each other but report low, if rising levels of competition.

These larger stores do utilise advertising and other forms of promotion. Historically foreigners were viewed as important customers as they had the ability to make purchases in hard currency and typically these businesses targeted foreign consulates and embassies with their initial promotional effort. (Nika) These larger businesses have moved into media advertisement in newspapers, radio, television and on public transport.

The majority of Ukrainian retail stores do not appear to have warranty policies and the level of service is very variable. At the time of the research there was a clear division between customer orientation in those outlets selling goods in hard currencies and those dealing in the local currency. Privately owned and joint-venture stores put more emphasis on service than those still in the state sector. (Nika, Omega Trade) It is still the case however that most Ukrainian consumers, based on local comments, do not expect or receive good service in retail stores.

At the time of the research most of the new stores trading in hard currency were obtaining their goods from European sources. There was not at the time a system of wholesale distribution in the Ukraine. Larger businesses can keep adequate

stocks and re-order when these are run down but the lack of a wholesale structure causes problems for the growth of smaller retail outlets and allows existing retailers to charge higher prices. Some smaller retailers obtain their stock from larger retailers who give a discount for bulk purchases. (The House of Gifts, Children's World)

Stores and kiosks trading in domestic currency usually obtain their stock from countries of the CIS and former Soviet Bloc. Terms of payment are easier in dealing with these countries as many accept payment in Ukrainian currency which is used for countertrade. Owners of small retail stores and kiosks are reported (Omega Trade) to obtain products for resale by personal visit to Moscow and other cities where relatively inexpensive goods can be obtained and illicitly brought back to Ukraine.

- Retailing in Ukraine reflects the domestic economy in that there are very few domestic consumer goods available at the retail level indeed such products were not produced in the Ukraine before the collapse of the centrally planned economy. Sourcing goods for retail outlets is therefore a particular problem and the lack of domestic production pushes retailers to import. (Nika) At the time of the research this was particularly evident in the state-owned stores that were remaining empty or being forced to lease space to retailers selling foreign goods. (TsUM, Budynok Odiahu, Ukraina)

There were wide varieties in pricing in evidence in Ukraine at the time of the research. Prices in the new stores trading in hard currency were higher than those in Western Europe. (Nika) Price comparisons with the smaller stores and kiosks are more difficult to make but are probably more in line with what the local Ukraine market will bear. What is more certain, although difficult to validate statistically, is that the effects of hyperinflation and the removal of state control over prices means that the cost of goods is now very much more than when the privatisation process began.

Most transactions in Ukraine appear to be handled on a cash basis with the exception of some large scale purchasers who transfer funds directly to retailers accounts. (Nika) Credit purchases are limited as there is no practical way to check the solvency of the individual customer. Cheques are uncommon and are seldom accepted in stores. In Kiev there are very few places that will accept credit cards and those that do are exposing themselves to risk of fraud as there is no dial-up access to verify the credit of the card holder.

In summary, at the time of the research, instability in the Ukrainian economy was having a direct impact on all cases. Many retail stores were changing hands, becoming privatised and some were beginning to offer better service and product selections than the state-owned stores. (Nika, Omega Trade) The owners of private stores were however faced with many obstacles beginning with difficulties in finding suitable premises from which to trade and continuing with problems of supply. The retail sector in lacked a developed wholesale distribution system.

6.3 Market environment

This research identifies three emerging levels of business operation in the Ukraine retail sector. Firstly organisations (Cases D, F, H), which have their origins in small entrepreneurial businesses and still retain an entrepreneurial character. Secondly smaller newly privatised enterprises (Cases B, C) and thirdly organisations (Cases A, E, G) which are developing from large state owned enterprises. For each of these levels it is possible to identify emerging marketing mix characteristics (section 6.8), marketing strategies (see section 6.7) and market orientations (see section 6.4).

6.3.1 The nature of the market place

The context of this research is one of fundamental change in the economic environment caused by the transition from a centrally planned to a market economy and the resulting conditions of economic crisis. The way in which marketers and consumers are reacting to this environmental change is the principal concern of the research together with basic linkages between critical environmental elements and strategic marketing decisions. Macroeconomic conditions are, in the main, created by the fiscal and monetary policies of governments, (Huszagh, *et al.*, 1992), and the macroeconomic environment is in turn linked to marketing strategy, (Kotler and Armstrong, 1991).

The study is based on eight case analyses within the retail sector of the Ukrainian market. The ownership position of these cases is shown in table 6.1. In order to understand the relationship between environment, progress towards a market orientation and performance it is necessary to consider what the research reveals about the current nature of the operating environment and possible important changes. A number of specific market factors were explored by the research. Data is presented in Tables 6.2 - 6.8.

Sharfman and Dean, (1991) conceptualised environmental uncertainty in terms of objective measures that reflect volatility such as resource flows and degrees of competition and complexity. This research proposes a different conceptualisation of environmental uncertainty which involves the use of managerial assessment of uncertainty and the observation of ensuing behaviour that is indicative of managerial perceptions that the operating environment has changed in terms of complexity or stability.

This research is concerned therefore with manager's perceptions of environmental uncertainty as an antecedent to market orientation as expressed through the development of attitudes to marketing, organisation for marketing and the execution of marketing strategy. This approach is supported by Slater and Narver, (1994) who conclude that it is top management's characterisation of the

environment that is more important in initiating change than actual environmental conditions measured in an objective fashion.

Table 6.2 shows case management's perceptions of their operating environment. There is cross case agreement that costs have risen and no shortage of other evidence to support this perception:

"Thus in January (1996) the price of services rose by 19.3%, with rents up by 67%, central heating by 27%, hot water by 26%, cold water by 19.3% and gas by 16%"
(EIU Country report, 2nd Quarter, 1996)

There is however a distinct division of cases into those who have evolved from the former state-owned enterprises and who perceive that products are in short supply, and customer spending power limited (A, B, C, E, G) and those who have entrepreneurial origins and who perceive that the relationship with their suppliers is now more important than previously (D, F, H).

CASE	TYPE
A	<ul style="list-style-type: none"> Ukraine state owned company
B	<ul style="list-style-type: none"> Ukraine state owned company
C	<ul style="list-style-type: none"> Ukraine privately owned company
D	<ul style="list-style-type: none"> Ukraine private joint venture with a foreign partner
E	<ul style="list-style-type: none"> Ukraine private partnership
F	<ul style="list-style-type: none"> Ukraine privately owned company
G	<ul style="list-style-type: none"> Ukraine state owned company
H	<ul style="list-style-type: none"> Ukraine privately owned company

Table 6.1: Ownership of cases

CASE	MARKET CHARACTERISTICS
A	<ul style="list-style-type: none"> • Costs have gone up • Products are in short supply • Our customers do not have money to spend • The relationship with our suppliers is now more important
B	<ul style="list-style-type: none"> • Costs have gone up • Products are in short supply • Our customers do not have money to spend • The relationship with our suppliers is now more important
C	<ul style="list-style-type: none"> • Costs have gone up • Products are in short supply • Our customers do not have money to spend • The relationship with our suppliers is now more important
D	<ul style="list-style-type: none"> • Costs have gone up • The relationship with our suppliers is now more important
E	<ul style="list-style-type: none"> • Costs have gone up • Products are in short supply • Our customers do not have money to spend • The relationship with our suppliers is now more important
F	<ul style="list-style-type: none"> • Costs have gone up • The relationship with our suppliers is now more important
G	<ul style="list-style-type: none"> • Costs have gone up • Products are in short supply • Our customers do not have money to spend • The relationship with our suppliers is now more important
H	<ul style="list-style-type: none"> • Costs have gone up • The relationship with our suppliers is now more important

Table 6.2: The nature of the market place

6.3.2 Market growth

The market for the products sold by most organisations is stagnant (Cases B, G) or in decline (Cases A, C, E).

“This business was considered to be a shop of prestige. Previously there were always queues but now things are different due to the difficult economic situation. Mentality of people is a big factor, they are not used to the economic situation. People who have been made redundant have gone to the markets to make money. Only old people work in shops now.” (case B)

Three cases report a growing market (D, F, H), (table 6.3). All cases agree that the market is turbulent. There is rapid change in the intensity of competition (table 6.4) and in technology (table 6.6). The chief barriers to entry is cost (table 6.5) customers needs and expectations are changing rapidly (6.7) and market segments are beginning to emerge.

“Our customers do not have money to spend, we need to find new markets, our costs have increased” (case C)

Businesses that have evolved from former state-owned organisations (Cases A, B, C, E, G) describe a main market that is in the mature phase of the life cycle (table 6.3) this is a turbulent maturity however. These organisations were more likely to report a stagnant, or declining operating environment (table 6.3). Organisations profiled as having entrepreneurial origins (Cases D, F, H), by contrast, saw their environment as new or moving towards becoming established and growing (table 6.3).

CASE	MARKET GROWTH
A	<ul style="list-style-type: none"> • The market is established • The market is turbulent • The market is in decline
B	<ul style="list-style-type: none"> • The market is established • The market is stagnant • The market is turbulent
C	<ul style="list-style-type: none"> • The market is established • The market is turbulent • The market is in decline
D	<ul style="list-style-type: none"> • The market is growing • The market is turbulent
E	<ul style="list-style-type: none"> • The market is established • The market is turbulent • The market is in decline
F	<ul style="list-style-type: none"> • The market is a new one • The market is growing • The market is turbulent
G	<ul style="list-style-type: none"> • The market is established • The market is stagnant • The market is turbulent
H	<ul style="list-style-type: none"> • The market is a new one • The market is growing • The market is turbulent

Table 6.3: Market growth

6.3.3 Changes in customer needs

Almost universally across cases there was agreement that a principal change taking place in the marketing environment was the emergence of customers who are more demanding in the goods and services that they buy (table 6.7). There is an increasing demand for better quality, more reliable products (table 6.7), (see Appendix 2, exhibit 9 where warranty terms feature prominently in advertising), and this is having an important impact on the companies and how they do business.

One interviewee responded;

“Customers would buy anything two years ago. Now quality is more important”
(Case A)

Increased customer concern with quality may be due to accelerating competition (table 6.4).

“Competition is heating up in the supermarket world and old-hand foreign residents of Kyiv express wonder at the extent of the choices compared to less than a year ago”.

(Eastern Economist, March 1995, See Appendix 2, Exhibit 12)

It is also leading organisations in the Transitional Strategic Adaptor profile (cases D, F, H) towards a recognition that markets are segmented (table 6.8) consisting of distinct customer groups with different needs which have to be met by products which fit their individual requirements. There is also evidence of an increased focus on customer needs (table 6.7) and the development of relationships with suppliers (table 6.2).

“This market seems to cater especially to the office crowd. The store is equipped western-style and offers you a wide variety of products and stationary with food primarily shipped in from Germany”.

(Eastern Economist, March 1995, See Appendix 2, Exhibit 12)

The emphasis on developing relationships with suppliers is important for two reasons. Firstly, as customers become more demanding about the products that they purchase (table 6.7) companies are under pressure to offer a wider range of products to a higher standard.

“Ex Com quickly became popular among Kyivans for its reasonable prices and good choice. It was one of the first supermarkets to sell peanut butter and household products like rubber gloves and tin foil. But with the stiff competition nowadays, Ex Com is no longer the best”.

(Eastern Economist, March 1995, See Appendix 2, Exhibit 12)

Secondly, companies in an inflationary environment, are concerned with containing costs (table 6.2) by keeping down the prices of the products they obtain from their suppliers.

One interviewee commented:

“The most significant impact of the changes over the last five years is that we are now free to find our own suppliers. Now we tell our suppliers what we want for our customers” (Case F)

Companies are thus facing an environmental pressure to provide better customer satisfaction and an internal pressure to reduce costs by efficiency. There is an obvious conflict here in that increased quality is often accompanied by increased cost. This is made more complex by an environment where there are a wider variety of products available to those companies that have developed relationships with suppliers (table 6.2) but also a shortage of supply and where customers are more demanding (table 6.7) but also short of buying power (table 6.2).

“Perhaps one of the drawbacks is its limited hours of operation 11.00-20.00 daily without a break. You can also expect to find the place closed regularly for inventory”

(Eastern Economist, March 1995, See Appendix 2, Exhibit 12)

6.3.4 Technological change

A rapid rate of technological change results in shorter product life cycles due to earlier product obsolescence. It can also shorten the lead times that are required to bring new products to the market. There was general agreement across cases in the Transitional Strategic Adaptor profile that the market was demanding more technological products (table 6.7) and, more generally across cases that the rate of technological change in the market had increased (table 6.6).

“The second international Computer Expo ‘96 will be held April 17-21 at the Sports Palace. The organizers are the Komizdat Computer World newspaper, Computers and Programs magazine and the Maldwin company. In all 79 firms will exhibit information technology. The majority are Ukrainian firms such as Ulys Systems, CDV Apple Computer, Symvol and Soft-Tronic. The number of participants is double the number at the fair earlier this year”.

(Dielovye Novosti Newspaper, April 11, 1996)

These developments are confirmed (See Appendix 2, Exhibits 6 and 7) by advertisements in the Ukraine media that emphasise technologically advanced product offerings.

CASE	COMPETITION
A	<ul style="list-style-type: none"> • Competition is increasing • Our competitors are well established • Competition from Ukraine companies has increased • Competition from foreign companies has increased
B	<ul style="list-style-type: none"> • Competition is increasing • Our competitors are well established • Competition from Ukraine companies has increased • Competition from foreign companies has increased
C	<ul style="list-style-type: none"> • Competition is increasing • Our competitors are well established • Competition from Ukraine companies has increased • Competition from foreign companies has increased
D	<ul style="list-style-type: none"> • Competition is increasing • Competition from Ukraine companies has increased • Competition from foreign companies has increased
E	<ul style="list-style-type: none"> • Competition is increasing • Our competitors are well established • Competition from Ukraine companies has increased • Competition from foreign companies has increased
F	<ul style="list-style-type: none"> • Competition is increasing • Our competitors are well established • Competition from Ukraine companies has increased • Competition from foreign companies has increased
G	<ul style="list-style-type: none"> • Competition is increasing • Our competitors are well established • Competition from Ukraine companies has increased • Competition from foreign companies has increased
H	<ul style="list-style-type: none"> • Competition is increasing • Competition from Ukraine companies has increased • Competition from foreign companies has increased

Table 6.4: Competition

CASE	MARKET ENTRY AND EXIT
A	<ul style="list-style-type: none"> • The market is expensive to enter
B	<ul style="list-style-type: none"> • The market is expensive to enter
C	<ul style="list-style-type: none"> • The market is expensive to enter
D	<ul style="list-style-type: none"> • The market is expensive to enter • The market is difficult for competitors to enter
E	<ul style="list-style-type: none"> • The market is expensive to enter
F	<ul style="list-style-type: none"> • The market is expensive to enter
G	<ul style="list-style-type: none"> • The market is expensive to enter
H	<ul style="list-style-type: none"> • The market is expensive to enter • The market is difficult for competitors to enter

Table 6.5: Barriers to entry and exit

CASE	PRODUCT AVAILABILITY
A	<ul style="list-style-type: none"> • There is more variety of products available • Customers now have more choice
B	<ul style="list-style-type: none"> • There is more variety of products available • Customers now have more choice • The rate of technological change in the market has increased
C	<ul style="list-style-type: none"> • There is more variety of products available • Customers now have more choice • The rate of technological change in the market has increased
D	<ul style="list-style-type: none"> • There is more variety of products available • Customers now have more choice • The rate of technological change in the market has increased
E	<ul style="list-style-type: none"> • There is more variety of products available • Customers now have more choice
F	<ul style="list-style-type: none"> • There is more variety of products available • Customers now have more choice • The rate of technological change in the market has increased
G	<ul style="list-style-type: none"> • There is more variety of products available • Customers now have more choice
H	<ul style="list-style-type: none"> • There is more variety of products available • Customers now have more choice • The rate of technological change in the market has increased

Table 6.6: Product availability

CASE	CUSTOMER NEEDS
A	<ul style="list-style-type: none"> • Customer needs have not changed
B	<ul style="list-style-type: none"> • Customers needs are more varied • We need to know our customers better
C	<ul style="list-style-type: none"> • Customers needs are more varied • We need to know our customers better
D	<ul style="list-style-type: none"> • Customers demand better quality products • Customers needs are more varied • The market demands more technological products • We need to know our customers better
E	<ul style="list-style-type: none"> • Customers needs are more varied
F	<ul style="list-style-type: none"> • Customers demand better quality products • Customers needs are more varied • The market demands more technological products • We need to know our customers better
G	<ul style="list-style-type: none"> • Customers needs are more varied
H	<ul style="list-style-type: none"> • Customers demand better quality products • Customers needs are more varied • The market demands more technological products • We need to know our customers better

Table 6.7: Customer needs

CASE	MARKET SEGMENTS
A	<ul style="list-style-type: none"> • We have many customers who all demand different products
B	<ul style="list-style-type: none"> • We have many customers who all demand different products • We have distinct groups of customers who want different products
C	<ul style="list-style-type: none"> • We have many customers who all demand different products
D	<ul style="list-style-type: none"> • We have many customers who all demand different products • We have distinct groups of customers who want different products
E	<ul style="list-style-type: none"> • We have many customers who all demand different products
F	<ul style="list-style-type: none"> • We have many customers who all demand different products • We have distinct groups of customers who want different products
G	<ul style="list-style-type: none"> • We have many customers who all demand different products
H	<ul style="list-style-type: none"> • We have many customers who all demand different products • We have distinct groups of customers who want different products

Table 6.8: Emergence of market segments

6.3.5 Changes in competition

Competition is intense and increasing across the cases (table 6.4) both from Ukrainian and foreign companies.

“Nowadays, there are plenty of local stores that stock good quality brand liquid and powdered detergents at reasonable prices. For example any state dry goods store will carry Tide, Ajax and the Toilet Duck. Large department stores like Ukraina, TSUM and Budynok Odyahu carry a large quantity and good selection of Kyiv-made Johnson products. Even farmer’s markets and pedestrian passageways offer Dosia detergents from Poland for KBV 130,000 and sometimes Ariel or OMO”.

(Eastern Economist, September 1995, See Appendix 2, Exhibit 13)

This intense competition may in part be due to relatively low entry barriers (table 6.5). It may partly be the case that any competition is seen as being intense after moving away from a state controlled economy. The end of the dominance of large state-owned companies is also an important factor.

Competition is now coming from new sources:

Some parts of the market are difficult to enter but the kiosks compete with every one, their costs are so low”. (case D)

6.3.6 Barriers to entry and exit

Overall the cases agree that both entry and exit barriers to the market were such that competitors were relatively free to enter or leave (table 6.5).

“The Ukrainian market attracts not only European or American food companies. The Estonian Liviko Distilleries were offering samples of Sary Tallinn liquer and Estonian Vodka”.

(Eastern Economist, May 1995, See Appendix 2, Exhibit 14)

This is in line with both the reported increases in competition levels (table 6.4), general market instability (table 6.3) and the decline of dominant state-owned organisations (cases A, E, G). The market is generally thought to be expensive to enter (6.5). This perception is perhaps inevitable in a turbulent, inflationary environment.

“The main problem with setting up business is finance, that and government policies leading to rapid change, last year we were able to sell in convertible currencies now all transactions must be in Ukrainian coupons”. (case D)

6.4 Attitudes and approaches to marketing

For marketing practices to be adopted managers need to understand the nature of marketing and its role in their companies. Prior theory (Hooley et al. 1993) and initial pilot research (see 4.2.1) identified a continuum of marketing attitudes (4.2.2) to be tested by the case research.

Findings from the pilot work indicated that few companies suited a market orientation profile. Many managers struggled to define marketing in even a basic way with the majority of organisations appearing to fit a sales or product orientation profile. There were however indications that the marketing concept had become established in some organisations and this justified the testing of profiles at the market led end of the continuum.

An additional profile, which lay outside the linear continuum established by prior theory and by the pilot research was established by the case research. This profile is that of Transitional Strategic Adaptors (cases D, F, H), organisations who adopt a transitional marketing adaptation by employing market strategies based on both relationship and transactional marketing in order to survive in a turbulent, transitional environment.

6.4.1 Sales / Product / Market orientations

Attitudes to marketing were tested by direct and indirect methods. Initial questioning offered a range of attitudes and approaches to marketing for managers to select those closest to their own. These findings are shown in tables 6.9 and 6.10. and result in a predominance of cases which can be classified as either sales-product orientated or sales-market orientated. More detailed probing however revealed a more complex pattern of approaches to the market.

Cases D, F and G are profiled as transitional marketing adaptors and are fully described in 6.4.3. Case E and case G fall into the category of market doubters. These organisations were very unsure as to what marketing really is, what it entails or its role in their business. They do see marketing as having a sales support role but in other ways indicate that marketing is unclear or does not exist in their organisations.

They do not agree with positive statements about the nature of marketing. On the whole they do not participate in any of the normal marketing activities even those of a sales promotion nature. The limitation of financial resources is emphasised most strongly in these organisations but this is secondary to a lack of understanding of marketing and the skills to implement it.

Case A fits the profile of a Sales-Product Orientation. Marketing is seen as being mainly concerned with sales support and with promotion. The main purpose of marketing is to merchandise those products that the organisation has traditionally sold or any new products that can be obtained regardless of whether these have been identified as meeting a market need.

“.... little concession has been made to modernity here..... domestically made goods are still in the majority, as is old style Soviet decor, so those seeking the true Soviet shopping experience should visit TsUM's dim and musty halls.”

(Case A described in Eastern Economist, September 1996, see Appendix 2, Exhibits 1 and 11)

There is little emphasis on marketing as a way of building relationships with customers, analysing the market or adapting to it. There is some emphasis on the promotional aspects of marketing but little on the sales element. The organisation is primarily orientated towards the products that it sells. There are some indications that they believe that marketing involves understanding the business environment. However, as shown by the following quotation, there is only a muddled interpretation of what constitutes a market led approach;

“Marketing is concerned with finding out what our competitors are doing. We take our lead from the entrepreneurs. Our marketing specialist found some branded products that we sell being sold elsewhere at \$1 less so we reduced our prices by \$2.” (Case A)

One case equates marketing with competitor analysis, but, in an echo of the Soviet past, admits that it shares it's research with companies with which it now competes;

“Marketing involves finding out what our competitors are doing. We exchange this data with other department stores as this is mutually beneficial in analysing the market”. (case G)

Two cases (B, C) corresponded to a Sales-Marketing Orientation. These companies focus on the promotional role of marketing but recognise that it goes beyond sales support to include market analysis, adapting to the market and identifying and meeting the needs of customers. However, although these organisations do try to build relationships with their customers the emphasis is on sales and their actions reactive.

This is illustrated by one respondent who says;

“Marketing is a way of increasing sales and analysing the market. A means of building a reputation with suppliers and customers” (Case C)

Another respondent says;

“Marketing is about selling and about building contacts. I will give you an example of marketing. We organise markets by telephoning factories to find out when pay day is, then load up a truck and take it directly to the factory and sell to the workers. During the Christmas holidays we organised sales in the park” (Case B)

This analysis suggests that many companies have a long way to go in understanding what marketing is about, let alone implementing it in their own businesses. To a large extent marketing is equated with selling and with sales promotion. Although these are elements of marketing, they would not necessarily be associated with enhanced market performance as there is not an appreciation of customer needs or requirements and how to satisfy those needs more efficiently than competitors.

There is evidence however that managers are attaching more importance to marketing in that they report that marketing has become more important to their organisations over the last two years and that they expect it to become more important again in the future.

“These managers are aware of marketing as something they think they should be doing, but cannot afford.... to them marketing is a way to sell more and they know they have to do that to survive”

(Interview with Retail Specialist, International Management Institute, Kiev)

Similarly the reported importance attached to marketing training is an indication of the importance attached to marketing itself. Most managers do report however that marketing in their organisations is restrained by financial and training constraints. One respondent from a Sales-Marketing Orientated organisation states;

Marketing is expensive due to the cost of advertising. We lack marketing skills and training is also expensive. We will be compelled to make them up, the tradition is against marketing.” Case B

This quotation richly illustrates a theme, marketing is equated wrongly with expensive promotional activities. This is held up as a barrier to the development of marketing. More correctly marketing development is being impeded by a lack of understanding of marketing and a lack of marketing skills. Additionally the quotation reveals that the development of a market led orientation is impeded by an organisational culture that is bound by former approaches and traditions.

“Usually no databases are collected on the domestic customers. The reason for this is mainly suspicion on the part of the population to such practices. The Soviet state has cultivated a fear of prosecution. However in several stores management admitted that they have sound knowledge of their customer profile and see lots of repeat business.”

(Interview with Retail Specialist, International Management Institute, Kiev)

CASE	UNDERSTANDING OF MARKETING
A	<ul style="list-style-type: none"> • Marketing is a way of increasing sales • Marketing is how we find out what our competitors are doing
B	<ul style="list-style-type: none"> • Marketing is a way of increasing sales • Marketing is about creating better contacts with our customers • Marketing is the way we promote the company • Marketing is about analysing the market • Marketing is the way we identify the needs of our customers • Marketing is to do with the company's image
C	<ul style="list-style-type: none"> • Marketing is a way of increasing sales • Marketing is about creating better contacts with our customers • Marketing is the way we promote the company • Marketing is to do with the company's image
D	<ul style="list-style-type: none"> • Marketing is a way of increasing sales • Marketing is how we build a relationship with our suppliers • Marketing is about creating better contacts with our customers • Marketing is the way we promote the company • Marketing is about analysing the market • Marketing is the way we identify the needs of our customers • Marketing is to do with the company's image • Marketing is something that guides everything that we do • Marketing is a way of improving quality
E	<ul style="list-style-type: none"> • Marketing is a way of increasing sales
F	<ul style="list-style-type: none"> • Marketing is a way of increasing sales • Marketing is the way we promote the company • Marketing is to do with the company's image
G	<ul style="list-style-type: none"> • Marketing is a way of increasing sales <p>Marketing is how we find out what our competitors are doing</p>
H	<ul style="list-style-type: none"> • Marketing is a way of increasing sales • Marketing is how we build a relationship with our suppliers • Marketing is about creating better contacts with our customers • Marketing is the way we promote the company • Marketing is about analysing the market • Marketing is the way we identify the needs of our customers • Marketing is to do with the company's image • Marketing is a way of improving quality

Table 6.9: Understanding of marketing

CASE	ATTITUDES
A	<ul style="list-style-type: none"> • This company currently lacks the skills to carry out effective marketing • Most people in this company do not understand what marketing is • Marketing will become more important to this company over the next two years • Marketing in this company is limited by financial constraints
B	<ul style="list-style-type: none"> • Training in marketing skills is of great importance to this company • This company currently lacks the skills to carry out effective marketing • Most people in this company do not understand what marketing is • Marketing has become more important to this company over the last two years • Marketing will become more important to this company over the next two years • Marketing in this company is limited by financial constraints
C	<ul style="list-style-type: none"> • Marketing has become more important to this company over the last two years • Marketing will become more important to this company over the next two years • Marketing in this company is limited by financial constraints
D	<ul style="list-style-type: none"> • Training in marketing skills is of great importance to this company • Marketing has become more important to this company over the last two years • Marketing will become more important to this company over the next two years • Marketing in this company is limited by financial constraints
E	<ul style="list-style-type: none"> • This company currently lacks the skills to carry out effective marketing • Most people in this company do not understand what marketing is • Marketing is of little use in a rapidly changing environment like Ukraine • Marketing in this company is limited by financial constraints
F	<ul style="list-style-type: none"> • This company currently lacks the skills to carry out effective marketing • Most people in this company do not understand what marketing is • Marketing has become more important to this company over the last two years • Marketing will become more important to this company over the next two years • Marketing in this company is limited by financial constraints
G	<ul style="list-style-type: none"> • This company currently lacks the skills to carry out effective marketing • Most people in this company do not understand what marketing is • Marketing is of little use in a rapidly changing environment like Ukraine • Marketing in this company is limited by financial constraints
H	<ul style="list-style-type: none"> • Training in marketing skills is of great importance to this company • Marketing has become more important to this company over the last two years • Marketing will become more important to this company over the next two years • Marketing in this company is limited by financial constraints

Table 6.10: Attitudes to marketing

6.4.2 Unique approaches to marketing

The marketing concept has become synonymous with having an orientation towards the customer. The organisation aims all its efforts at profitably satisfying its customers (McCarthy and Perreault, 1984) by determining needs and creating the products to satisfy them (Kotler and Zaltman, 1971). The marketing concept has become to a great extent seen as the *ideal* orientation for commercial organisations.

This point of view has been challenged by Houston, (1986) and notably by Gummesson, (1987). One reason for this is the marketing concept's inability to absorb new developments and its strict attachment to traditional consumer goods marketing. Gummesson claims that it should be replaced by a new marketing concept that aims at integrating both the international and relational aspects of marketing and allotting them proper weight.

An emphasis on relationships and interaction in marketing has developed out of new theories of services marketing and industrial marketing and also out of practical experience. Building and maintaining relationships have important long-term implications thus impacting the strategic and long-range planning of the firms marketing.

Three cases (D, F, H) have emerged from this analysis for which a Transitional Strategic Adaptors profile is proposed. These companies were less likely than others to see marketing as restricted to a sales support and promotion role. They are starting to move towards analysis of the market and adaptation to the needs of their customers.

"Kiev's retail stores are undergoing big changes and the cases you describe (D, F, H) are keeping up with the current trends. You can see from the products that they sell that they have both access to supplies and a shrewd idea of what the customers require".

(Interview with Retail Specialist, International Management Institute, Kiev, see also Appendix 2, Exhibit 2)

However, their statements that marketing is seen as a guiding discipline for the organisation can not be taken at face value. Further probing and questioning reveals evidence that the pragmatic need to survive in a turbulent, transitional environment is leading these organisations to adopt a market orientation which emphasises both the relational aspects of marketing and a pragmatic transactional approach.

The following quotation shows how one respondent, the owner of the organisation has moved his company towards a market orientation;

“Marketing in this company is about the way that we find and interact with our customers and suppliers, the way that we estimate and analyse the market situation and take corrective action” Case H

Further questioning however reveals a more pragmatic attitude;

“However, the way things are in Ukraine, personal contacts are the most important thing. You need the right relationships to survive. Our competition has more capital from the bank, for me the main thing is personal contacts” Case H

The same respondent says;

“Marketing is about customers, products and suppliers and how you analyse these things but in our situation you need to know the people well to get supplies and to get customers”

This is obviously an organisation that has advanced a long way towards a market orientation. Marketing is seen as playing a key role which spans analysis of the market, identification of customer requirements and adaptation to the market. However, although the need for marketing to steer the company is recognised, the business environment necessitates the adoption of a hybrid market orientation based on relationships and networks of contacts in order to fulfil the pragmatic need to survive.

“It is not surprising I think that these managers see marketing in this way, relationships have always been important in this country perhaps even more so under the previous system. It has always been through contacts that products that were not officially available were obtained and now in the current economic situation businesses have to understand their market to survive”.

(Interview with Retail Specialist, International Management Institute, Kiev)

In a similar way Case D can be identified as a Transitional Marketing Adaptor. Straightforward questioning reveals a superficial market orientation that, if taken at face value would indicate an organisation that is becoming fully market led. However further probing indicated an attitude to marketing that is outside a purely linear continuum of increasing market orientation.

“Marketing is about researching the market and setting policies to increase sales and build ties with customers and suppliers, supplying brand names and advertised products, promoting the company directly to customers”. (case D)

When asked to define marketing in their organisation one respondent gives an almost text book answer that indicates a market orientation;

Marketing is about researching the market and setting policies that satisfy our customers” Case F

However, further questioning reveals an attitude which has been developed by the pragmatic need to adapt to a transitional environment;

“To survive we have to increase sales and to do this we have to build ties with our customer and our suppliers that is the way ahead in our economic situation” (Case D)

A second respondent from the same organisation says;

“Marketing is about the relationship with suppliers and customers. We need to be a reliable partner but primarily satisfy the needs of the market. I see marketing as satisfying the demands of both. The reputation with suppliers and customers is the most important part of marketing.” (Case D)

There is clear evidence here of attitudes to marketing moving beyond what has previously been defined as a market orientation. Environmental conditions are leading some organisations to embrace a form of relationship marketing. These are companies that have moved beyond a product or sales orientation.

They have an advanced understanding of what marketing is but find that they must go beyond this to survive in a turbulent, transitional environment. These organisations have an attitude to marketing that embraces relationship and transactional marketing. This is a hybrid market orientation uniquely suited to survival in a prevailing environment.

“Marketing is about selling and about building relationships with suppliers.”
(case H)

Thorelli (1986) and Anderson and Narus (1991) see an increasing need for relationship management skills as customers and suppliers become seen more as partners with whom the organisation has a long term strategic relationship. These skills may be part of the organisations core competencies providing a link between suppliers and customers on the value chain.

“I define marketing as maximising groups of customers, getting good suppliers and analysing competition, it is about consumers, products, suppliers and analysis of Ukraine market but personal contacts are the most important thing for the market we are in. We have to find and interact with customers and suppliers, estimate and analyse the market situation and take corrective action”.
(Case H)

“Knowledge is Power”

(Framed slogan in English on the office wall of the Director, Case H)

6.5 Organisation for marketing

Organisation for marketing provides insights into the market orientation of companies via marketing department specialisation, general functional specialisation, responsibility for marketing planning and implementation, status of the marketing function and interfunctional integration.

Western marketing literature holds that effective marketing requires an effective marketing organisation which fits with the organisation's marketing environment and its strategy (Brown, 1993). Marketing organisation is multi-dimensional and is best achieved with direction from market-led top management (Brown, 1993).

The effectiveness of marketing at the operational level depends on how well organisations allocate responsibility for marketing (Spillard, 1985). It is generally held that some type of specialised marketing department is required to maintain the influence and effectiveness of marketing (Lynch et al., 1988). A market orientated company would thus be characterised by market-led top management and the marketing function would have at least the same status as other functional departments.

6.5.1 Marketing department specialisation

Three organisations reported (table 6.11) that they had established separate marketing departments (cases D, F, H). More typically marketing activities were reported to be part of the sales, trade or commercial departments depending on the terminology employed.

“Having a separate marketing department is at least an indication that marketing activity is being attempted and it is probable that firms with this functional specialisation are more committed to marketing and better equipped for it”.

(Interview with Retail Specialist, International Management Institute, Kiev)

The frequency of marketing department specialisation is thus low in absolute terms and indicates that either other forms of organisation for marketing are being used, that there are barriers to marketing organisation or that organisations do not think it worth while to organise for marketing.

In any case simply having a marketing department does not mean that an organisation understands marketing or carries out marketing activities well. In the same way not having a marketing department does not rule out effective marketing activity (McKenna, 1991).

“We did have a larger marketing department but this has reduced now to three people because of the cost. Each person in a product area is now responsible for marketing.” (case A)

Obviously what are being described here are product managers and this product oriented approach to marketing is repeated;

“Trade departments exist for each product line and each trade department has a marketing (i.e. product) manager.” (case E)

The incidence of separate marketing departments was not associated with larger size. Those cases with separate marketing departments (D, F, H) shared the characteristic of an entrepreneurial senior management style and fitted the transitional strategic adaptor profile. The evidence across the cases was that firms were organising by functional specialisation particularly sales, often also named the trade or commercial department, personnel and finance.

The non-adoption of a marketing specialisation is associated with those cases that have moved least towards the development of a market orientation (cases A, B, C, E, G). In all these cases respondents claimed that what they understood to be marketing operations were conducted by other functional departments notably the sales, trade or commercial department. Often the cases revealed that there was a financial barrier to the development of a specialised marketing function.

“A marketing department will have to wait” (case G)

Case A for example did have a marketing department but due to cost cutting this had been reduced to just three people and marketing responsibilities had been reassigned to managers in each product area. The marketing department retains responsibility for market and competition research only. Sales promotion is the responsibility of individual suppliers.

CASE	DEPARTMENTS
A	<ul style="list-style-type: none"> • This company has a sales (trade or commercial) department • Marketing activities are part of the sales (trade or commercial) department • This company has a purchasing department • This company has a personnel department • This company has a finance department • This company has other departments
B	<ul style="list-style-type: none"> • This company has a sales (trade or commercial) department • Marketing activities are part of the sales (trade or commercial) department • This company has a purchasing department • This company has a personnel department • This company has a finance department
C	<ul style="list-style-type: none"> • This company has a sales (trade or commercial) department • Marketing activities are part of the sales (trade or commercial) department • This company has a purchasing department • This company has a finance department
D	<ul style="list-style-type: none"> • This company has a separate marketing department • This company has a sales (trade or commercial) department • This company has a purchasing department • This company has a personnel department • This company has a finance department
E	<ul style="list-style-type: none"> • This company has a sales (trade or commercial) department • Marketing activities are part of the sales (trade or commercial) department • This company has a purchasing department • This company has a personnel department • This company has a finance department • This company has other departments
F	<ul style="list-style-type: none"> • This company has a separate marketing department • This company has a sales (trade or commercial) department • This company has a purchasing department • This company has a personnel department • This company has a finance department
G	<ul style="list-style-type: none"> • This company has a sales (trade or commercial) department • Marketing activities are part of the sales (trade or commercial) department • This company has a purchasing department • This company has a personnel department • This company has a finance department
H	<ul style="list-style-type: none"> • This company has a separate marketing department • This company has a sales (trade or commercial) department • This company has a purchasing department • This company has a personnel department • This company has a finance department

Table 6.11: Functional specialisation

6.5.2 Responsibility for marketing activities

Respondents were asked which functional department in their organisation had primary responsibility for marketing activities. The results are shown in table 6.12. Cross case analysis immediately shows that finance has little primary involvement in marketing activities and personnel none at all. Personal selling is almost universally performed by the sales department with only case H assigning primary responsibility to marketing.

“Advertising, promotional and public relations activities are the primary responsibility of the marketing department in those organisations that have one. In other cases these functions, where performed, are held to be the responsibility of suppliers”.

(Interview with Retail Specialist, International Management Institute, Kiev)

Amongst those cases with marketing departments, marketing has primary responsibility for market research, competition research and sales forecasting. Amongst other cases these tasks are most commonly performed by the sales department or senior management. Notably in every case these are assigned activities unlike those in the promotional area. Strategic planning is the responsibility of top management in all cases with marketing departments. This is generally true of other cases as well although this function is not assigned at all in cases E and G.

All cases have assigned responsibility for customer service. There is no universal pattern amongst cases with marketing departments except that this is not seen as a marketing function. Cases D and F assign responsibility to sales whilst case H sees customer service as a senior management function.

Responsibility for developing new products is universally seen as a marketing role by those firms that have marketing departments. In the retail context this is a reflection of the fact that in these cases purchasing was regarded as a department

of marketing. Universally in these cases senior management were also involved in obtaining new products.

“This is a function of the importance placed on obtaining supplies in a shortage economy and will also be generally true of those cases without marketing departments. There however it is generally the purchasing or sales / commerce departments that are charged with obtaining new products”.

(Interview with Retail Specialist, International Management Institute, Kiev)

Allocation of tasks within those cases with marketing departments is generally in line with received marketing wisdom. Responsibility is assigned to all activities. Top management in these cases have a low level of tactical involvement and thus more time to focus on strategic decision making. In most cases those companies without marketing departments give responsibility for marketing activities to non-marketing functions. Although the assigned function may be carried out this assignment is likely to influence the quality of the outcomes.

The results of this analysis indicate that three cases (D, F, H) have begun to organise according to marketing principles. The results also show that the majority of cases are poorly organised for marketing and give more primary responsibility to the purchasing and sales functions.

CASE	RESPONSIBILITY
A	<ul style="list-style-type: none"> • Selling is the responsibility of sales • Advertising is the responsibility of suppliers • Promotions are the responsibility of suppliers • Public relations are the responsibility of sales • Setting prices is the responsibility of purchasing • Market research is the responsibility of sales • Competition research is the responsibility of sales • Product selection is the responsibility of purchasing • Sales forecasting is the responsibility of purchasing • Product quality is the responsibility of suppliers • Strategic planning is the responsibility of senior management • Customer service is the responsibility of sales
B	<ul style="list-style-type: none"> • Selling is the responsibility of sales • Advertising is the responsibility of sales • Promotions are the responsibility of sales • Public relations are the responsibility of sales • Setting prices is the responsibility of sales • Market research is the responsibility of sales • Competition research is the responsibility of sales • Product selection is the responsibility of purchasing • Sales forecasting is the responsibility of sales • Product quality is the responsibility of suppliers • Strategic planning is the responsibility of senior management • Customer service is the responsibility of sales
C	<ul style="list-style-type: none"> • Selling is the responsibility of sales • Advertising is the responsibility of no one • Promotions are the responsibility of no one • Public relations are the responsibility of no one • Setting prices is the responsibility of senior management • Market research is the responsibility of sales • Competition research is the responsibility of sales • Product selection is the responsibility of purchasing • Sales forecasting is the responsibility of sales • Product quality is the responsibility of purchasing • Strategic planning is the responsibility of senior management • Customer service is the responsibility of sales
D	<ul style="list-style-type: none"> • Selling is the responsibility of sales • Advertising is the responsibility of marketing • Promotions are the responsibility of marketing • Public relations are the responsibility of marketing • Setting prices is the responsibility of senior management • Market research is the responsibility of marketing • Competition research is the responsibility of marketing • Product selection is the responsibility of marketing • Sales forecasting is the responsibility of marketing • Product quality is the responsibility of purchasing • Strategic planning is the responsibility of c.e.o. • Customer service is the responsibility of sales

Continued

E	<ul style="list-style-type: none"> • Selling is the responsibility of sales • Advertising is the responsibility of suppliers • Promotions are the responsibility of sales • Public relations are the responsibility of no one • Setting prices is the responsibility of finance • Market research is the responsibility of sales • Competition research is the responsibility of sales • Product selection is the responsibility of purchasing • Sales forecasting is the responsibility of senior management • Product quality is the responsibility of purchasing • Strategic planning is the responsibility of no one • Customer service is the responsibility of sales
F	<ul style="list-style-type: none"> • Selling is the responsibility of sales • Advertising is the responsibility of marketing • Promotions are the responsibility of marketing • Public relations are the responsibility of marketing • Setting prices is the responsibility of senior management • Market research is the responsibility of marketing • Competition research is the responsibility of marketing • Product selection is the responsibility of marketing • Sales forecasting is the responsibility of marketing • Product quality is the responsibility of purchasing • Strategic planning is the responsibility of senior management • Customer service is the responsibility of sales
G	<ul style="list-style-type: none"> • Selling is the responsibility of sales • Advertising is the responsibility of no one • Promotions are the responsibility of no one • Public relations are the responsibility of no one • Setting prices is the responsibility of senior management • Market research is the responsibility of sales • Competition research is the responsibility of sales • Product selection is the responsibility of purchasing • Sales forecasting is the responsibility of senior management • Product quality is the responsibility of purchasing • Strategic planning is the responsibility of no one • Customer service is the responsibility of sales
H	<ul style="list-style-type: none"> • Selling is the responsibility of marketing • Advertising is the responsibility of marketing • Promotions are the responsibility of marketing • Public relations are the responsibility of marketing • Setting prices is the responsibility of marketing • Market research is the responsibility of marketing • Competition research is the responsibility of marketing • Product selection is the responsibility of marketing • Sales forecasting is the responsibility of marketing • Product quality is the responsibility of senior management • Strategic planning is the responsibility of senior management • Customer service is the responsibility of senior management

Table 6.12: Departmental responsibility for business functions

6.5.3 Status of marketing

Respondents were asked about the status of marketing in their organisations and how well the marketing function was integrated with other functions. This questioning was only relevant to those cases with established marketing departments (D, F, H) although case A was included as it still had a functioning, albeit much reduced, marketing department.

The results show that marketing departments, where established, enjoy high status with regard to other functional specialisations. In all cases, except case A, marketing had at least equal status as other functions. Equally respondents reported that their marketing department worked closely with other departments.

CASE	STATUS OF MARKETING
A	<ul style="list-style-type: none"> • It is difficult in this company for marketing and sales to work together • Marketing has lower status than other departments • Marketing does not work closely enough with other departments
B	
C	
D	<ul style="list-style-type: none"> • Marketing and sales work closely together • Marketing has higher status than other departments • Marketing works closely with other departments
E	
F	<ul style="list-style-type: none"> • Marketing and sales work closely together • Marketing works closely with other departments
G	
H	<ul style="list-style-type: none"> • Marketing and sales work closely together • Marketing has higher status than other departments • Marketing works closely with other departments

Table 6.13: Status of marketing department and relationship with sales

6.6 Strategic planning

This research shows (table 6.15) that long term plans were not used in half the cases (cases B, C, E, G). This may possibly be explained by the fact that the operating environment in Ukraine was changing so rapidly at the time of the research that long term planning was not possible leading to a focus on short term survival. Environmental uncertainty leads some organisations to question the point in long term planning;

“Things are complicated by not owning the property so we can only have a strategy for one year. We have a contract with the landlord until 2008 but there is no stability in the legislation. Things depend on rent increases.” (Case B)

However, given that those cases which were employing long term plans were those that had established marketing departments (A, D, F, H) and had moved closest to a market orientation (D, F, H), it is more likely that the lack of planning is due to there being only limited recognition of the importance of planning and little knowledge of how to carry it out.

All cases were asked to provide a copy of their business plan. The limited understanding of the nature of planning is illustrated by case C who provided a four page statement with no specifics on market demand and trends, demographics or competition.

“I do not know what a business plan is. Could you please explain” (Case C)

The lack of importance attached to planning is supported by the Agency for the Development of Enterprise in Kiev;

“ Only 18% of the entrepreneurs prepared a business plan and only 2% attended a training course” ”

(Interview with the Director of the Agency)

6.6.1 Content of long term plans

When the content of strategic plans is analysed in those cases where they exist (table 6.15) it is found that three cases (D, F, H) have moved closest to developing marketing plans while in one case, case A, this is restricted to recognising that the operating environment, its opportunities and threats and pricing policy should form part of the plan although in this case marketing is recognised as being part of the plan.

“Of those entrepreneurs that prepared a business plan in our survey the majority included marketing planning in their plan”.

(Agency for the Development of Enterprise, Kiev, Interview with the Director)

In those cases that have more fully developed strategic plans there is a recognition that some sort of S.W.O.T. analysis together with advertising and promotions, distribution and ways of marketing existing products should form part of the plan. In two cases (cases D and H) this is taken further to recognise that target rates of sale, market share and financial return should be part of planning.

CASE	STRATEGIC PLANNING
A	<ul style="list-style-type: none"> • This organisation has a business plan for the next two years • Marketing is part of the business plan
B	<ul style="list-style-type: none"> • This organisation does not have a business plan for the next two years
C	<ul style="list-style-type: none"> • This organisation does not have a business plan for the next two years
D	<ul style="list-style-type: none"> • This organisation has a business plan for the next two years • Marketing is part of the business plan • Marketing directs the business plan
E	<ul style="list-style-type: none"> • This organisation does not have a business plan for the next two years
F	<ul style="list-style-type: none"> • This organisation has a business plan for the next two years • Marketing is part of the business plan • Marketing is a major element in the development and execution of the business plan
G	<ul style="list-style-type: none"> • This organisation does not have a business plan for the next two years
H	<ul style="list-style-type: none"> • This organisation has a business plan for the next two years • Marketing is part of the business plan • Marketing directs the business plan

Table 6.14 Strategic planning

CASE	STRATEGIC PLAN ELEMENTS
A	<ul style="list-style-type: none"> • Opportunities and threats • Environmental analysis • Pricing policy
B	
C	
D	<ul style="list-style-type: none"> • The company's strengths and weaknesses • Opportunities and threats • Environmental analysis • Pricing policy • Advertising and promotions plans • Distribution policy • Target rates of sales, market share or financial return • Ways of marketing existing products
E	
F	<ul style="list-style-type: none"> • The company's strengths and weaknesses • Opportunities and threats • Environmental analysis • New product development • Pricing policy • Advertising and promotions plans • Distribution policy • Ways of marketing existing products
G	
H	<ul style="list-style-type: none"> • The company's strengths and weaknesses • Opportunities and threats • Environmental analysis • New product development • Pricing policy • Advertising and promotions plans • Distribution policy • Target rates of sales, market share or financial return • Ways of marketing existing products • Sales management

Table 6.15: Elements of strategic plans

6.7 Marketing strategy - Competitive advantage factors

Cases were asked to describe the factors that they believed were of most importance to competitive success in their market (table 6.16). Every respondent indicated that competitive pricing was an important element for success. This is not surprising as it is probably the factor that relates most directly to a turbulent, transitional environment.

When asked to describe competitive disadvantages (table 6.17) it was striking that all cases perceived their costs to be higher than those of their competitors although quality was also an issue. The perception of having higher costs is possibly to be expected in a highly inflationary environment. An important area of perceived disadvantage across cases was in the availability of capital and credit;

“Investment - capital - money to start businesses, that is where our competition has an advantage, they have more capital from the bank.” (case H)

The most important factor across the cases however was the management of good relations with important suppliers. This was true of all cases profiled as Transitional Strategic Adaptors as well as being an issue across other cases (and strongly by cases A and C). In a shortage economy it is understandable that relationships with suppliers are of crucial importance but perhaps surprising that this element should be cited more often than the management of relationships with customers.

“For Ukraine the main thing is personal contacts.” (case D)

“Company profits are important as is working with the staff but relationships with suppliers and customers are the most important things in getting more business.” (case F)

“Quality, price, speed in meeting customer requirements are part of gaining business. We aim to achieve our objectives by building relationships with suppliers and customers.” (case H)

“A foreign company that wants to establish as a retailer in Ukraine without a Ukrainian partner and which has limited financial resources may find it complicated to penetrate and function in the Ukraine market. This is because what the others will obtain through their connections, this entity will have to buy.....an insider in the Ukraine market can significantly influence the speed of any type of operations.....entrepreneurs must have good connections (and money) to reach their goals”

(Interview with Retail Specialist, International Management Institute, Kiev)

The importance of product quality was universally stressed by cases within the Transitional Strategic Adaptor profile. Quality was not raised as a factor by any of the cases that had their origins in former state owned enterprises and is a key strategic difference between the better performing cases (D, F, H) and others.

This is a reflection of organisations developing a customer orientation by focusing on the needs of increasingly demanding customers. With regard to product related strategies all of the high performing cases indicated the importance of offering a wide range of products. This was felt to be important for success in an environment where new products were rapidly being introduced following economic liberalisation.

“Kyiv entrepreneurs have been quickly catching onto the demand for a more varied range of products, and with each passing month the stores stock a wider and wider selection”.

(Eastern Economist, January 1996)

“Kyiv expresses wonder at the extent of the choices compared to less than a year ago”.

(Appendix 2, Exhibit12)

The high performing, more market orientated cases were also in agreement about the strategic importance of prior market research and of the company’s reputation in the market. Advertising and promotions were not felt to be of strategic importance outside of one case (A). This is a reflection of both the underdeveloped provision of such marketing services and the lack of budgets to

pay for them. Low performing cases placed a greater emphasis on personal selling skills than high performers who emphasised the need for good relations with key customers.

“Personal selling skills are very important”. (case B)

The research shows that a number of strategic elements are associated with success across the market. Principally, as in Western markets important factors are competitive pricing and product quality although in the turbulent, transitional environment of Ukraine price comes before quality in order of importance.

However the cases profiled as Transitional Strategic Adaptors (D, F, H) placed a very strong emphasis on developing relations with suppliers and, also on developing relationships with key customers. These elements suggest that in turbulent environments a greater emphasis is placed on the creation of competitive advantage by the management of relationships and networks.

These cases are thus characterised by multiple differentiation strategies and can be profiled as pursuing competitive advantage based on the following elements;

- Competitive Pricing- Product Quality and Range- Relationships and Networking- Customer Focus.

CASE	Advantages against main competitors
A	<ul style="list-style-type: none"> • Offering a wide range of products • Having lower prices • Good relations with important suppliers • Advertising and promotions
B	<ul style="list-style-type: none"> • Good relations with key customers
C	<ul style="list-style-type: none"> • Good relations with important suppliers
D	<ul style="list-style-type: none"> • Having better designed and performing products to sell • Having lower prices • Researching the market • Good relations with important suppliers
E	<ul style="list-style-type: none"> • Offering a wide range of products
F	<ul style="list-style-type: none"> • Having better designed and performing products to sell • Good relations with important suppliers
G	<ul style="list-style-type: none"> • Offering a wide range of products
H	<ul style="list-style-type: none"> • Having better designed and performing products to sell • Having lower prices • Our company's reputation • Researching the market • Good relations with important suppliers

Table 6.16: Competitive advantage

CASE	Disadvantages against main competitors
A	<ul style="list-style-type: none"> • Higher costs • Lack of market research • Lack of quality products
B	<ul style="list-style-type: none"> • Higher costs • Higher prices • Lack of quality products
C	<ul style="list-style-type: none"> • Higher costs • Higher prices • Lack of quality products
D	<ul style="list-style-type: none"> • Higher costs
E	<ul style="list-style-type: none"> • Higher costs • Higher prices • Lack of quality products
F	<ul style="list-style-type: none"> • Higher costs • Higher prices
G	<ul style="list-style-type: none"> • Higher costs • Higher prices • Lack of quality products
H	<ul style="list-style-type: none"> • Higher costs

Table 6.17: Competitive disadvantage

CASE	MARKET SHARE
A	<ul style="list-style-type: none"> This company has the largest market share
B	<ul style="list-style-type: none"> This company has less than the third largest share of the market
C	<ul style="list-style-type: none"> This company is a niche player
D	<ul style="list-style-type: none"> This company has less than the third largest share of the market
E	<ul style="list-style-type: none"> This company has the second or third largest market share
F	<ul style="list-style-type: none"> This company has the second or third largest market share
G	<ul style="list-style-type: none"> This company has the second or third largest market share
H	<ul style="list-style-type: none"> This company has the second or third largest market share

Table 6.18: Market share

6.7.1 Marketing objectives and marketing strategies pursued

Cases D, F, H are characterised by senior management that operated, under the command economy, outside of the planned system as the suppliers of goods and services that were unavailable under the official allocation system. This experience of operating under restrained trading conditions has helped managers to develop skills that help these organisations to trade successfully in the difficult markets they presently operate in. They are profiled by this research as Transitional Strategic Adaptors.

These organisations are, through the pragmatic need to survive in a turbulent, transitional environment, adopting hybrid marketing strategies suited to survival in the prevailing environment. Having managerial experience of operating on the margins of the official economy has led to the development of a flexible consumer orientation and an ability to make the use of available marketing techniques to locate customers and to source supplies and distribution channels.

“To purchase goods a retailer has to identify the distributor or producer either in the near abroad or elsewhere. Identification of the producers or distributors is difficult as the information is very limited. There are no public databases that can be easily searched.”

(Interview with Retail Specialist, International Management Institute, Kiev)

These businesses tended to specialise in the supply of goods which meet the specialised needs of small groups of consumers. An English language journal read by foreigners living in Kiev had the following headline regarding case D in its shopping section;

“Nika targets ex-pats”

(Eastern Economist, March 1996)

This coupled with continuing situations of shortages creates market conditions where niche marketing strategies can be successful. These entrepreneurial

businesses are characterised (table 6.19) by a strategy of pursuing growth by taking all possible opportunities including those with a high risk.

In the context of Porter's, (1980) framework they are, to an extent, adopting a focused, differentiation strategy by concentrating on market segments (table 6.21) to which they can introduce new products at premium prices. In terms of the Miles and Snow, (1978) analysis they are closest to prospectors continually seeking to open new markets in which they can profit. These Transitional Strategic Adaptors emphasise the need to survive in a turbulent environment (table 6.20) but they are not defenders in terms of the five strategic types identified by Hooley *et al.*, (1993). Nor do they fit comfortably into the two expansionist categories, market share challengers or organic growth segmenters.

These organisations are oriented towards growth but both through the growth of the market as new segments emerge and through direct competition with competitors for market share (table 6.21). This group appear to be using both quality as a positioning strategy and the supply of new products to the market as a way of gaining business (table 6.22).

Nika has its address in lights over the entrance. Open daily 10.00-22.30 without a break, the service by attentive staff is truly superior. This western-style supermarket offers a wide selection of fresh and packaged products, as well as useful household items".

(Eastern Economist, March 1996)

It is however the emphasis that these organisations place on the importance of their relationships with both customers, and strikingly suppliers (see 6.7.1 above), that defines their strategic approach (table 6.16). Transitional Strategic Adaptors are characterised by a change in marketing focus from transactions to relationships. They do however still place a tactical emphasis on transactions through the need to survive in a turbulent environment.

“The most important factors in gaining more business in this market are price, quality and relations with suppliers and customers”. (case D)

The other emerging levels of business operation identified in the Ukraine retail sector involve organisations that have their origins in retail business that operated during the Soviet era and have now been privatised as joint stock companies or co-operatives. Both those cases which have evolved from organisations that supplied the foreign currency or prestige markets (cases B, C) and those which are developing from large state owned enterprises (A, E, G) have found it difficult in a fragmenting market to focus in on the new consumer driven market segments which have emerged.

“Kyiv’s central department store (case A) has an embarrassingly limited selection of swimsuits for women: a blue one piece with white flowers for KBV 2.5mn. Men’s suits are not yet available”.

(Eastern Economist, May 1996, See Exhibit 15)

In the context of the strategies identified by Hooley *et al.*, (1993), these organisations are strategically within the broad defensive grouping. Whether their focus is on efficiency, quality or price is less clear, they are risk adverse and are in a survival mode (tables 6.19, 6.20). This would indicate that these organisations are clearly in the strategic grouping described as efficiency focus defenders who are described by Hooley *et al.*, (1993), as having survival as their top priority.

This is confirmed by the finding in the Hooley *et al.* (1993) study that a high proportion of the firms in this strategic grouping were state-owned, although many were also privately-owned but without foreign capital or management expertise. This defensive strategy is pursued internally through attempts to increase efficiency and productivity (table 6.21) and by attempting to meet the needs of targeted segments with products which are of a similar price and quality to those offered by competitors.

Some of these organisations do however claim to have a cost advantage (table 6.22) over competitors placing them in Walker and Ruekert's, (1987), low-cost defenders strategy grouping. They are thus clear market followers unlikely to see marketing planning and new product development as important elements of their survival strategy.

CASE	MARKET OBJECTIVES
A	<ul style="list-style-type: none"> To defend current position and survive in the market
B	<ul style="list-style-type: none"> To defend current position and survive in the market
C	<ul style="list-style-type: none"> To defend current position and survive in the market
D	<ul style="list-style-type: none"> To achieve steady sales growth
E	<ul style="list-style-type: none"> To defend current position and survive in the market
F	<ul style="list-style-type: none"> To achieve rapid sales growth
G	<ul style="list-style-type: none"> To defend current position and survive in the market
H	<ul style="list-style-type: none"> To achieve steady sales growth

Table 6.19: Market objectives

CASE	STRATEGIC AIMS
A	<ul style="list-style-type: none"> • Survive in a difficult market
B	<ul style="list-style-type: none"> • Survive in a difficult market
C	<ul style="list-style-type: none"> • Survive in a difficult market
D	<ul style="list-style-type: none"> • Survive in a difficult market • Maximise short term profits • Build long-term market share
E	<ul style="list-style-type: none"> • Survive in a difficult market
F	<ul style="list-style-type: none"> • Survive in a difficult market • Maximise short term profits
G	<ul style="list-style-type: none"> • Survive in a difficult market
H	<ul style="list-style-type: none"> • Survive in a difficult market • Maximise short term profits

Table 6.20: Strategic aims

CASE	STRATEGIES
A	<ul style="list-style-type: none"> • This organisation aims to achieve it's market objectives by reducing costs • This organisation aims to achieve it's market objectives by taking business from our competitors
B	<ul style="list-style-type: none"> • This organisation aims to achieve it's market objectives by reducing costs
C	<ul style="list-style-type: none"> • This organisation aims to achieve it's market objectives by reducing costs
D	<ul style="list-style-type: none"> • This organisation aims to achieve it's market objectives by reducing costs • This organisation aims to achieve it's market objectives by improving the performance of our employees • This organisation aims to achieve it's market objectives by taking business from our competitors • This organisation aims to achieve it's market objectives by exploiting emerging markets (or market segments)
E	<ul style="list-style-type: none"> • This organisation aims to achieve it's market objectives by reducing costs
F	<ul style="list-style-type: none"> • This organisation aims to achieve it's market objectives by reducing costs • This organisation aims to achieve it's market objectives by improving the performance of our employees • This organisation aims to achieve it's market objectives by taking business from our competitors • This organisation aims to achieve it's market objectives by exploiting emerging markets (or market segments)
G	<ul style="list-style-type: none"> • This organisation aims to achieve it's market objectives by reducing costs
H	<ul style="list-style-type: none"> • This organisation aims to achieve it's market objectives by reducing costs • This organisation aims to achieve it's market objectives by improving the performance of our employees • This organisation aims to achieve it's market objectives by taking business from our competitors • This organisation aims to achieve it's market objectives by exploiting emerging markets (or market segments)

Table 6.21: Marketing strategies

CASE	Important strategy elements for gaining more business
A	<ul style="list-style-type: none"> • Lower costs • A wide range of products • Lower prices • Company reputation • Good relations with important suppliers • Advertising and promotions • Selling skills
B	<ul style="list-style-type: none"> • Lower costs • Lower prices • Good relations with important suppliers • Selling skills
C	<ul style="list-style-type: none"> • Lower costs • Lower prices • Good relations with important suppliers
D	<ul style="list-style-type: none"> • Lower costs • Better designed and performing products • A wide range of products • Lower prices • Company reputation • Researching the market • Good relations with important suppliers • Good relations with key customers • Advertising and promotions
E	<ul style="list-style-type: none"> • Lower costs • Lower prices • Good relations with important suppliers • Selling skills
F	<ul style="list-style-type: none"> • Lower costs • Better designed and performing products • A wide range of products • Lower prices • Company reputation • Researching the market • Good relations with important suppliers • Good relations with key customers
G	<ul style="list-style-type: none"> • Lower costs • Lower prices • Good relations with important suppliers
H	<ul style="list-style-type: none"> • Lower costs • Better designed and performing products • A wide range of products • Lower prices • Company reputation • Researching the market • Good relations with important suppliers • Good relations with key customers • Advertising and promotions

Continued

	<ul style="list-style-type: none"> • Selling skills • Offering credit terms
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Table 6.22: Strategic choice

6.7.2 Target marketing

This research identified three strategic options being followed by cases in the area of target marketing, targeting the whole market, targeting market segments and targeting individual customers (table 6.23).

“I know of several retail businesses that have located close to foreign embassies to target the employees”.

(Interview with Retail Specialist, International Management Institute, Kiev)

The most common approach was to attack the whole market (cases A, B, E, G). This approach would make most sense in a relatively homogeneous market where all customers demand essentially the same product. A second approach was to target market segments, a strategy that implies that the company is prepared to ignore other parts of the market which it either finds less attractive or where it regards itself as having less of a competitive advantage.

This second approach was followed by four cases (C, D, F, H). Interestingly all these cases stated that they also targeted individual customers. This later strategy would be applicable in a market where either all potential customers have different requirements or all individual customers had sufficient purchasing power to justify an individual approach. In the Ukraine situation it is probably the second interpretation that applies.

“Information about the company is provided to consulates, airlines etc. as employees of these organisations are important customers”. (case D)

“Most big stores target foreign consulates and embassies. Foreigners are viewed as prime customers as they have the resources to purchase goods for hard currency. It is also easier to target foreigners as addresses of the embassies and consulates are public domain and can be accessed by direct mail”

(Interview with Retail Specialist, International Management Institute, Kiev)

CASE	MARKET SEGMENTATION
A	<ul style="list-style-type: none"> • This organisation targets the whole market
B	<ul style="list-style-type: none"> • This organisation targets the whole market
C	<ul style="list-style-type: none"> • This organisation targets individual market segments • This organisation targets individual customers
D	<ul style="list-style-type: none"> • This organisation targets individual market segments • This organisation targets individual customers
E	<ul style="list-style-type: none"> • This organisation targets the whole market
F	<ul style="list-style-type: none"> • This organisation targets individual market segments • This organisation targets individual customers
G	<ul style="list-style-type: none"> • This organisation targets the whole market
H	<ul style="list-style-type: none"> • This organisation targets individual market segments • This organisation targets individual customers

Table 6.23: Market segmentation strategy

6.7.3 Quality / Price competitive positioning

Cases D, F and H are businesses that are good at finding opportunities in the market, but often do not have sufficient buying power and scale economies to allow them to exploit them (Case F, H). These organisations have efficient enough operations and the necessary business systems to enable them to compete on price with larger organisations (table 6.24).

They are flexible enough to price in line with the pattern of supply and demand (table 6.27) and to follow strategies based on charging high prices as they introduce new products to the market or exploit new markets and then lowering these prices as competitive pressure increases.

They also seek to compete on non-price elements of the marketing mix (Cases D, F, H). Promotionally these entrepreneurial businesses are becoming more sophisticated, their customer base is small and the market is well known to them (tables 6.28, 6.29).

“Customers suspect cheap products” (case D)

“Quality is the main factor for some parts of our market, price for others, it depends on the market segment, in general though quality is always before price. What is critical though is the speed of reaction to customer requirements.” (case H)

The smaller newly privatised enterprises (Cases B, C) are organisations that were established as retail business during the Soviet era and supplied the foreign currency or prestige markets they have now been privatised as joint stock companies and are having to come to terms, with difficulty, with new trading conditions. Although they sell products with a high status and price perception in the minds of local consumers their strategy is essentially short term survival given low levels of purchasing power. These businesses are, on the whole selling the same products that they sold under the command economy but now at similar prices to those charged in Western Europe.

There is therefore a lack of differential pricing to account for lower levels of purchasing power which is made necessary by the high costs of operating in the market, costly distribution systems and the low sales volumes that can be achieved. There has been little incentive, given uncertain environmental factors, for these organisations to develop more efficient business systems.

Cases A, E and G constitute a third emerging level of business operation in the Ukraine retail sector identified by this research. These organisations which are developing from large state owned enterprises find it difficult to focus in on the new consumer-driven market segments which have emerged (See Appendix 2, Exhibits 1 and 11). Their strategy has on the whole been to survive and rationalise. These large state-owned or newly privatised organisations have very restricted marketing knowledge. During the Soviet era they sold goods which to a considerable extent would not have been sold in a market driven economy and are therefore poorly positioned to meet the quality and price requirements of the new market.

“Low quality is a problem but we can still sell low quality products as demand is high” (case E)

They are also now facing, for the first time, real competition from both the emerging small businesses and the foreign-owned organisations that have moved into the market. Some however have been able to compete effectively on price by offering products which are substitutes for the more highly priced Western brands. Their prices however are still relatively high, due in the main, to high trade mark ups and poor marketing skills.

“Competition is not so much from other shops but from kiosks and out door markets” (case G)

“The pricing policy among the retail stores varies widely. A number of the stores trading in hard currency charge prices considerably higher than those in North America. It is more complicated to draw price comparisons with the other stores and kiosks, although it appears that they are usually much less expensive.”

(Interview with Retail Specialist, International Management Institute, Kiev)

These large state-owned or newly privatised enterprises are essentially price takers rather than price givers with little of the pricing flexibility shown by many smaller entrepreneurial organisations. In a similar way these organisations have found difficulties in adjusting from a distribution system geared to the delivery of bulk orders to one which requires more flexibility to meet the needs of a segmented market.

CASE	PRICE AND QUALITY
A	<ul style="list-style-type: none"> • Our prices are lower than our main competitors • The quality of our products are the same as our main competitors
B	<ul style="list-style-type: none"> • Our prices are higher than our main competitors • The quality of our products are lower than our main competitors
C	<ul style="list-style-type: none"> • Our prices are higher than our main competitors • The quality of our products are the same as our main competitors
D	<ul style="list-style-type: none"> • Our prices are lower than our main competitors • The quality of our products are the same as our main competitors
E	<ul style="list-style-type: none"> • Our prices are the same as our main competitors • The quality of our products are the same as our main competitors
F	<ul style="list-style-type: none"> • Our prices are lower than our main competitors • The quality of our products are the same as our main competitors
G	<ul style="list-style-type: none"> • Our prices are the same as our main competitors • The quality of our products are the same as our main competitors
H	<ul style="list-style-type: none"> • Our prices are lower than our main competitors • The quality of our products are the same as our main competitors

Table 6.24: Pricing and quality strategies

6.8 Marketing mix decisions

Retailing in Ukraine, at the time of the research reflected the domestic economy with the consumer goods industry producing very little output and even less of this output available for trade. When combined with the lack of a wholesale distribution system sourcing goods for retail outlets had become a major problem.

“Owners of smaller stores make frequent trips to Moscow and other cities to purchase cheaper products. They load them in the sleeping compartments on the train and bribe the customs officers so as to bring the goods back to Ukraine for resale.”

(Interview with Retail Specialist, International Management Institute, Kiev)

Retail pricing policies vary widely as to mark ups that can be achieved.

“The mark up on food products starts at about 20% but durable goods may well have a mark up exceeding 100%.”

(Interview with Retail Specialist, International Management Institute, Kiev)

Promotional and market research activity in the general economy at the time of the research appeared to be developing but still limited.

6.8.1 Marketing research and external marketing services

Close analysis of the operating environment is an important element of marketing activity in companies that have moved towards a market orientation. Three cases (table 6.25 6.26), (cases B, C, G) do not conduct marketing research at all, one case claims to conduct research occasionally as required (case E) and four continuously (cases A, D, F, H). Marketing research is described as:

“Analysing competition, prices etc.” (case D)

“The study of the product, customer, suppliers and competition” (case H)

“... something done by each product specialist who has to research and give proposals for each department” (case A)

“The study of the market in general” (case F)

Researching the market is identified (table 6.22), as an important strategy element for gaining more business by three cases (cases D, F, H). Two cases (D, H) regard themselves as having a competitive advantage in this area (table 6.16) and one (case A) a competitive disadvantage (table 6.17). Responsibility for market and competitor research is generally seen as being a sales department function (table 6.12) but where marketing departments have been established (cases D, F, H) it is recognised as a marketing function.

“People in marketing visit markets and small shops to see what is being sold and to monitor demand and supply” (case H)

There is however no evidence of a widespread understanding of what constitutes market research and of its importance and this conclusion is supported by a statement from the Agency for the Development of Enterprise in Kiev;

“Overall 58.0% of the clients said they did market research.....this number seems quite high, considering the direct experience of the Agency, and this leads

us to think that there is not a clear understanding of the concept of market research”

(Interview with Director of the Agency for the Development of Enterprise, Kiev)

The use of external marketing services is very low across cases (table 6.25). Only three organisations have used a advertising agency (A, F, H), three marketing consultants (F, G, H) and one a marketing research company (D). Although there has been an expansion in the availability of these services, particularly advertising, their provision is still very limited in Ukraine.

It is mainly the lack of financial resources to pay for advertising and other marketing services however that accounts for the low usage rates. There are also doubts about the quality and effectiveness of such services.

“We now do our own market research. We tried to invite outside marketing research contractors but did not see any beneficial effects from their activities”
(case D)

These findings are supported by other research amongst entrepreneurs in Kiev;

“Most of the respondents paid for legal support, probably as the result of the difficult to understand legislation that is not transparent.....a high percentage of entrepreneurs stated that they received help from friends.....many entrepreneurs stressed the difficulty of paying for these services, and for this reason they tried to get help from friends or parents.”

(Bernardini,1996)

CASE	MARKETING RESEARCH
A	<ul style="list-style-type: none"> This organisation conducts marketing research continuously
B	<ul style="list-style-type: none"> This organisation does not conduct marketing research
C	<ul style="list-style-type: none"> This organisation does not conduct marketing research
D	<ul style="list-style-type: none"> This organisation conducts marketing research continuously
E	<ul style="list-style-type: none"> This organisation conducts marketing research occasionally as required
F	<ul style="list-style-type: none"> This organisation conducts marketing research continuously
G	<ul style="list-style-type: none"> This organisation does not conduct marketing research
H	<ul style="list-style-type: none"> This organisation conducts marketing research continuously

Table 6.25: Marketing research

CASE	MARKETING SERVICES
A	<ul style="list-style-type: none"> • Advertising Agency
B	
C	
D	<ul style="list-style-type: none"> • Marketing research company
E	
F	<ul style="list-style-type: none"> • Advertising Agency • Marketing consultants
G	<ul style="list-style-type: none"> • Marketing consultants
H	<ul style="list-style-type: none"> • Advertising Agency • Marketing consultants

Table 6.26: Use of external marketing services

6.8.2 Pricing policy and objectives

The pricing element (table 6.27) of the marketing mix is dominated across cases by price setting to survive in a competitive market and by a desire to achieve sales growth by selling as much as possible. Only a minority of cases start price setting from the basis of cost plus a set margin (cases D, F, H).

“There is a minimum margin required to enter the market and survive” (case H)

“Prices are based on market prices but start with the need to mark up twenty per-cent on cost to survive” (case D)

No cases state that market share is a consideration but rather prices are influenced by a perception of both what the market will bear (cases A, D, H) and what competitors are charging (cases B, C, D, H).

“Five to twenty per-cent mark up is added, but this depends on demand and competition” (case F)

“The pricing policy among the stores varies widely, the prices generally adjust to what the market bears”

(Interview with Retail Specialist, International Management Institute, Kiev)

Therefore, although there is evidence that organisations are beginning to consider exterior factors originating from the market in setting their prices they are largely adopting pricing policies consistent with short term survival. The importance of competitive pricing is an obvious consequence of the general business environment and market characteristics of decreased demand and disposable incomes.

CASE	PRICE SETTING
A	<ul style="list-style-type: none"> • Our prices are determined by how much the customer will pay • Our prices are set to sell as much as possible • Our prices are set to survive in a competitive market
B	<ul style="list-style-type: none"> • Our prices are determined by what the competition are charging • Our prices are set to sell as much as possible • Our prices are set to survive in a competitive market
C	<ul style="list-style-type: none"> • Our prices are determined by what the competition are charging • Our prices are set to sell as much as possible • Our prices are set to survive in a competitive market
D	<ul style="list-style-type: none"> • Our price is determined by our cost plus a set margin • Our prices are determined by how much the customer will pay • Our prices are determined by what the competition are charging • Our prices are set to survive in a competitive market
E	<ul style="list-style-type: none"> • Our prices are set to sell as much as possible • Our prices are set to survive in a competitive market
F	<ul style="list-style-type: none"> • Our prices are set to sell as much as possible • Our prices are set to survive in a competitive market
G	<ul style="list-style-type: none"> • Our prices are set to sell as much as possible • Our prices are set to survive in a competitive market
H	<ul style="list-style-type: none"> • Our prices are determined by how much the customer will pay • Our prices are determined by what the competition are charging • Our prices are set to sell as much as possible • Our prices are set to survive in a competitive market • Our price is determined by our cost plus a set margin

Table 6.27: Price setting

6.8.3 Promotional policy and objectives

Cases claim to use a wide range of advertising methods (table 6.28). In general less expensive advertising such as in store promotions, leaflets and brochures and advertising on public transport are preferred. Those organisations (cases D, F, H) that have established marketing departments use more types of advertising and use them more extensively (See Appendix 2, Exhibits 9 and 10).

Little physical evidence of advertising effort could be provided by most cases however and where it did exist photographs and copy were often left over from the Soviet era (See Appendix 2, Exhibits 7 and 8). This was also the experience of the Agency for the Development of Enterprise in Kiev;

“More than three quarters of the respondents said they had a promotional policy. Very often when they were asked to show some promotional material, brochures, price lists and newspaper advertisements were not available”

(Interview with Director of the Agency for the Development of Enterprise, Kiev)

And is supported by survey research:

“Most stores start with an advertising campaign on the opening day of business. The marketing campaign following the opening depends on the stores resources, media advertising in newspapers and on the side of public transport is quite common but advertising is really very limited”

(Interview with Retail Specialist, International Management Institute, Kiev)

Where strategic planning is conducted, advertising and promotions are generally part of the plan (table 6.15). Where marketing departments exist advertising and promotions are seen as being the responsibility of marketing (table 6.12) otherwise it is viewed as either a sales responsibility or, in two cases (A, E) a responsibility for suppliers!

“It is the duty of foreign producers to advertise their goods in Ukraine. Ukraine goods do not need advertising because demand is greater than supply for basic

products. When the factories are working at full capacity we will help with advertising” (Case E)

In only three cases are advertising and promotions seen as an important strategic element for gaining more business (table 6.22) and only one case (A) regards this aspect of the marketing mix as an area where they have a competitive advantage (table 6.16). No cases regard advertising and promotions as an area where they have a competitive disadvantage (table 6.17).

The major barrier to the development of customer focused advertising and promotions is claimed to be expense although there are clearly attitudinal barriers and a lack of understanding as to what advertising and promotions can achieve;

“Advertising is too expensive. In an case this business is located in a prime location at the junction of two major shopping streets. That should be sufficient advertising”. (case B)

Lacking funds to pay for advertising, organisations are looking to their relationships with suppliers for assistance:

“We have always advertised on the metro but customers have diminished due to transport problems. In any case we can no longer afford it and are trying to find suppliers who will engage in co-op advertising”. (Case C)

“TsUM just advertise their trade mark and opening hours. A good reputation with suppliers is important in order to secure advertising, suppliers have to advertise for themselves, we provide the space to suppliers they have to advertise”. (Case A)

CASE	ADVERTISING AND PROMOTIONS
A	<ul style="list-style-type: none"> • Newspaper advertising • On public transport • In store promotions
B	<ul style="list-style-type: none"> • On public transport • In store promotions
C	<ul style="list-style-type: none"> • In store promotions
D	<ul style="list-style-type: none"> • Telephone promotions • Radio advertising • Newspaper advertising • Direct mail • In store promotions
E	<ul style="list-style-type: none"> • In store promotions
F	<ul style="list-style-type: none"> • Telephone promotions • Radio advertising • Newspaper advertising • By catalogue • Leaflets and brochures • In store promotions
G	<ul style="list-style-type: none"> • In store promotions
H	<ul style="list-style-type: none"> • Telephone promotions • Television advertising • Radio advertising • Magazine advertising • By catalogue • Leaflets and brochures • In store promotions

Table 6.28: Advertising and promotions

6.8.4 Product Decisions

There is evidence (table 6.29) that cases are looking to imitate successful competitors rather than lead the market in their selection of products to sell. Most cases (A, B, C, D, F, H) monitor their competitive environment for new product ideas. This is only one element of product selection however.

Three cases (D, F, H) claim to begin the product selection process by asking their customers which products are required. That the correct products are difficult to source however is indicated by the emphasis that is placed across cases on seeing what types of products suppliers are offering, an essentially re-active approach. Two cases (B, C) admit that they are still selling the same products that they did during the Soviet era.

“Retailing in Ukraine reflects the state of the domestic economy. The consumer goods industry is paralysed by a lack of production which leaves only a handful of domestic consumer goods available for trade. Today the Ukraine depends heavily on reselling. Sourcing goods for retailing outlets has become a major problem”

(Eastern Economist, August, 1996)

“One very important point to mention is the lack of wholesaling distributors in Ukraine, which creates problems for the growth of smaller retailing outlets and results in the higher prices charged by existing retailers”

(Interview, A, Solovianenko., author of survey “Retailing in Ukraine”)

Three cases (A, E, G) emphasise the strategic importance of offering a wide selection of products. Cases D, F, H, in contrast emphasise not only the quality and performance of products but the importance of having good relations with their suppliers (tables 6.16, 6.22).

“The relationship with our suppliers is the most important factor, we want to buy directly from the producer, not the wholesaler” (case H)

“We will look to use more Ukrainian products in the future if these improve in quality” (case D)

Generally the responsibility for product selection (table 6.12) is assigned to purchasing (cases A, B, C, E, G). In contrast cases D, F, H, which have established marketing departments do assign responsibility for this function to marketing.

The emphasis placed on warranties and after sales service is slight;

“Most of the stores do not have warranty policies but stores trading in hard currencies will often offer warranties and repair or replace defective products. Generally it looks like it is the customer who is asking the sales assistant to sell the goods. Privately-owned or joint venture stores put more emphasis on service but many customers still do not expect good service”

(Interview with Director of the Agency for the Development of Enterprise, Kiev)

	PRODUCT SELECTION
A	<ul style="list-style-type: none"> • Look at what the competition are selling • See what types of products our suppliers are offering
B	<ul style="list-style-type: none"> • Sell what we always have • Look at what the competition are selling • Whatever we can obtain
C	<ul style="list-style-type: none"> • Sell what we always have • Look at what the competition are selling • Whatever we can obtain
D	<ul style="list-style-type: none"> • Ask our customers • Look at what the competition are selling • See what types of products our suppliers are offering
E	<ul style="list-style-type: none"> • See what types of products our suppliers are offering
F	<ul style="list-style-type: none"> • Ask our customers • Look at what the competition are selling • See what types of products our suppliers are offering
G	<ul style="list-style-type: none"> • See what types of products our suppliers are offering
H	<ul style="list-style-type: none"> • Ask our customers • Look at what the competition are selling • See what types of products our suppliers are offering

Table 6.29: Product decisions

6.9 Performance

The assessment of performance is extremely difficult in the Ukrainian context. At the time of this research there was no standardised accounting procedure and a complete absence of centralised company records. Even the better organised cases lacked accurate management accounts and the situation was compounded by suspicion about revealing financial information.

“More than a third of state enterprise earnings never see the inside of company coffers, Western economists estimate. For private businesses - at least those that bother registering with the tax man, and more than 100,000 haven't - the figure is twice that.....much of the country's capital is in hiding - and therefore not reproducing in local banks or replenishing the state treasury.”

(Eastern Economist, May 1996)

“Many large Ukrainian companies open their own supermarkets to obtain hard-currency cash, not through the bank but through the shadow economy”

(Eastern Economist, May 1995, See Appendix 2, Exhibit14)

In such circumstances it is difficult for managers, let alone researchers to establish how well or otherwise an organisation is performing. Thankfully observation can, in this type of research, provide triangulation evidence that would not be possibly in a more detached survey. If a business is empty of customers on a Saturday morning, and in any case is visibly lacking product to sell it is difficult to take at face value a manager's assertion that she expects the business to show a profit next year. This can be illustrated as follows:

The Director of case C when being questioned about the performance of the company initial stated that they were following, successfully, their financial plan and that results were on target. The interviewer, having observed the dimly lit premises, the absence of customers and limited merchandise (See Appendix 2, Exhibit 4) questioned this. The Director then admitted that the performance of the organisation was poor and talked openly about the real situation. Similar observations provided triangulation evidence at other cases (See Appendix 2, Exhibits 1 to 6).

Additionally triangulation evidence regarding the performance of cases could be obtained through local knowledge:

“It is not possible in the present circumstances to obtain accurate financial information. However those of us that observe events in the industry can form an idea of which companies are having success and those which are not”.

(Interview with Retail Specialist, International Management Institute, Kiev)

In the same way the crisis environment that was present at the time of the research provided a difficult context in which to assess organisational performance. In order to remove environmental effects the research identified better performing cases by using a *comparative* rather than *absolute* performance measure. The better performing cases were therefore those that reported financial performance, as measured by profit and return on investment, market performance, as measured by sales and market share that was superior to their competitors over the last year.

Three cases (D, F, H), those that have been profiled as Transitional Strategic Adaptors, stood out as better performers. These cases did not fit the same patterns with regard to size or area of market activity. They did however differ from the worse performing cases in the approach they took to marketing. The better performing cases were those that had moved significantly towards a market orientation but were adopting strategies based on both relationships and transactional marketing. The worse performing cases were those that were closer to a sales or product orientation (A, B, C, E, G).

CASE	PERFORMANCE AGAINST TARGET
A	<ul style="list-style-type: none"> • Profit (worse) • Sales (worse) • Cash flow (worse) • Market share (worse) • Return on investment (not known)
B	<ul style="list-style-type: none"> • Profit (worse) • Sales (worse) • Cash flow (worse) • Market share (not known) • Return on investment (not known)
C	<ul style="list-style-type: none"> • Profit (worse) • Sales (worse) • Cash flow (worse) • Market share (worse) • Return on investment (not known)
D	<ul style="list-style-type: none"> • Profit (target) • Sales (better) • Cash flow (target) • Market share (better) • Return on investment (target)
E	<ul style="list-style-type: none"> • Profit (worse) • Sales (worse) • Cash flow (worse) • Market share (worse) • Return on investment (Not known)
F	<ul style="list-style-type: none"> • Profit (target) • Sales (better) • Cash flow (better) • Market share (target) • Return on investment (target)
G	<ul style="list-style-type: none"> • Profit (worse) • Sales (worse) • Cash flow (worse) • Market share (not known) • Return on investment (not known)
H	<ul style="list-style-type: none"> • Profit (target) • Sales (better) • Cash flow (target) • Market share (target) • Return on investment (target)

Table 6.30: Performance against target (last financial year)

CASE	PERFORMANCE AGAINST COMPETITORS
A	<ul style="list-style-type: none"> • Profit (same) • Sales (same) • Cash flow (same) • Market share (same) • Return on investment (not known)
B	<ul style="list-style-type: none"> • Profit (worse) • Sales (worse) • Cash flow (worse) • Market share (not known) • Return on investment (not known)
C	<ul style="list-style-type: none"> • Profit (worse) • Sales (worse) • Cash flow (worse) • Market share (worse) • Return on investment (not known)
D	<ul style="list-style-type: none"> • Profit (better) • Sales (better) • Cash flow (better) • Market share (better) • Return on investment (not known)
E	<ul style="list-style-type: none"> • Profit (worse) • Sales (worse) • Cash flow (worse) • Market share (not known) • Return on investment (Not known)
F	<ul style="list-style-type: none"> • Profit (not known) • Sales (better) • Cash flow (better) • Market share (better) • Return on investment (target)
G	<ul style="list-style-type: none"> • Profit (worse) • Sales (worse) • Cash flow (worse) • Market share (not known) • Return on investment (not known)
H	<ul style="list-style-type: none"> • Profit (not known) • Sales (better) • Cash flow (not known) • Market share (better) • Return on investment (not known)

Table 6.31: Performance against competitors (last financial year)

6.10 Testing of research propositions

In the following sections the research propositions described in chapter four are tested against these findings and either accepted, rejected or replaced. The implications of these research propositions being accepted or otherwise are then applied in the following chapter to the theoretical models, also developed in chapter four, and the possibility of a refined conceptual framework considered.

6.10.1 Summary of research propositions - Attitudes to marketing in Ukraine

- **Accepted: Research Proposition 1.** In a turbulent transitional environment some organisations will define marketing as the process by which beneficial relationships are established with customers and suppliers.

Relationships are important in marketing because they make transactions more cost efficient from the point of view of both the buyer, who can negotiate favourable terms from suppliers and have convenience gains, and the seller, through economies in advertising and promotional activities (Webster, 1992).

The value of the management of long-term relationships as a strategic asset was recognised by Jackson, (1985) and Webster, (1984) as macroeconomic pressures in the global market place in the 1980s forced many organisations into a situation of greater interdependence with their suppliers and customers. Prices in these situations are more likely to be set by negotiation than by the market and issues such as quality come to have more importance. Mutually dependent buyer-seller relationships represent a further movement away from a focus on the individual sale and towards a need to develop a long term mutually supportive relationship with customers and suppliers.

Relationship marketing (Christopher et. al. (1992), Davis and Davidson (1991)), focuses on two aims, getting and keeping customers and suppliers, in contrast to traditional marketing practice which has placed more emphasis on obtaining new business. Marketing practice based on customer and supplier retention and the need to enter into ongoing relationships is encouraged by the difficulty of maintaining a competitive position on the basis of short-term transactions alone. Relationship marketing has become associated with developments in postmodern marketing (Brown 1993).

Transitional Strategic Adaptors are characterised by a change in marketing focus from transactions to relationships. They do however still place a tactical emphasis

on transactions through the need to survive in a turbulent environment. Thorelli, (1986) and Anderson and Narus, (1991) see an increasing need for relationship management skills as customers and suppliers become seen more as partners with whom the organisation has a long term strategic relationship.

These skills may be part of the organisations core competencies providing a link between suppliers and customers on the value chain. This new emphasis on relationships with suppliers and customers may lead to a greater need for co-ordination between marketing and the sales and buying functions in the organisation (Webster, 1992). This is consistent with the trend towards a blurring of the boundaries between both the management functions in organisations and between the firm and its environment.

There is therefore evidence of a new marketing paradigm in Ukraine where relationship marketing and transactional marketing are practised concurrently through the pragmatic need to survive in a turbulent transitional environment. This research supports the work of Brodie et al., 1997. It produces results which show that, for many firms, transactional marketing is relevant and practised concurrently with types of relationship marketing. Research Proposition 1 is therefore accepted.

- **Accepted: Research Proposition 2.** In a turbulent transitional environment a majority of organisations equate marketing with selling placing little emphasis on marketing activities.

In any particular historical environment successful business practices will be noted and adopted (Gilbert and Bailey, 1990). The adoption of marketing practice is an ongoing chain of events stimulated by a changing environment. In this way through environmental influences, observation and theory the practice of selling evolved out of a production orientation and in turn evolved into modern marketing.

The proposition that businesses in Ukraine will show a product rather than a sales and marketing orientation is supported by the existing macroeconomic conditions. The Ukrainian situation can be characterised as the economics of shortage against a background of economic stagnation, or indeed decline, and strong inflation (tables 6.2, 6.3). There is a situation of protracted and deep economic, social and political crisis, considerable shortages in the supply of consumer goods and a fall in real incomes. The main effect of this for the development of marketing in Ukraine is that in the case of most goods and services a seller's market predominates.

On the surface it appears that given the substantial surplus of demand over supply in Ukraine the conditions for a production orientation are predominant. In principle this means that practically every product, even of a low quality will be accepted by consumers and enterprises will display little interest in developing and putting new products on the market.

This would suggest that Ukrainian organisations are characterised by innovation indifference, not conducting any activities associated with product development. This production orientation would be manifest in more attention being paid to the procurement of products with manipulation of the market limited to raising prices. There would be little evidence of advertising or selling activity

This research shows however that organisations are experiencing strong competitive pressures (Cases A, B, C, D, E, F, G, H) and cannot sell practically every product, that customers do demand better quality products (Cases D, F, H) and that new products are required by the market place. Similarly manipulation of the market is not restricted to price as use is made of both advertising and selling activity by all cases.

This research indicates that Ukrainian organisations have moved beyond a product orientation and have begun to be conscious of consumer's wants and needs. This process began at Pilsbury (Keith, 1960), with attempts to analyse the market, not with the purpose of identifying gaps and opportunities but with the

intention of finding better ways of selling existing products to developing markets. Ukrainian organisations profiled as Transitional Strategic Adaptors have accepted the practices associated with the modern marketing concept (Cases D, F, H).

In terms of the attitudes and experiences of most Ukrainian managers however there are barriers to the development of a marketing orientation. The management of the majority of Ukrainian organisations in the retailing sector has little experience of marketing activities or of operating in the macroeconomic environment that now applies. This lack of experience often leads managers to confuse marketing and selling (Cases A, B, C, E, G), (Adcock and Halborg 1992). Based on the above Research Proposition 2 is accepted.

- **Accepted: Research Proposition 3.** The development of a market orientation is strongly linked to the nature of the marketing environment, particularly prevailing economic conditions.

Bogdanowick-Bindert and Ryan (1993), describe the fear that has developed in some transitional nations that the development of a free-market economy is associated with a decline in moral and ethical standards. This of course is not surprising in societies that for many decades saw profit taking and the individualism associated with capitalism as corrupt. Indeed in Ukraine these fears have not been allayed by experience with high levels of corruption and the association of the criminal element with business activities. (Bernardini 1996, Klochko and Issakova, 1996)

As has been discussed above a highly inefficient marketing environment still exists in Ukraine. Many of the basic elements of a business infrastructure are still inadequate. This includes such basic elements as an effective distribution system, sufficient credit and a workable legal system. Accounting practices in Ukraine are not suitable for capitalistic business practices. This has led to an

orientation towards the short term as mid and long term marketing planning require accurate measurements of performance.

This means that new patterns of consumer behaviour, based on irrational buying behaviour due to the fear of shortages have emerged. The implication of this for the development of a market orientation is that the marketing techniques that have been used in the West may not be appropriate for the conditions which exist in Ukraine. It may therefore be the case that a whole new concept of what a market orientation means will have to be developed in order to have relevance to the conditions which are developing in the transitional countries. Based on the above research proposition 3 is accepted.

- **Revised: Research Proposition 4.** In a turbulent, transitional environment marketing orientation typologies and strategic approach profiles are fragmented but there are still unifying themes, such as the emergence of hybrid marketing strategies based on both transactional and relationship marketing. These developments are describable within the narratives of the modern marketing concept and can not be seen as the emergence of postmodern marketing.

The characteristics of modernism are objectivity, rationality and the search for universal laws which would enable the human physical and social environment to be analysed, planned and controlled (Turner, 1990). These universal laws are termed "metanarratives" by postmodernists, a name which signifies that these "narratives" are stories which determine societies concept of the human condition. Metanarratives are the universal concepts designed to explain the social, cultural and economic aspects of modernity, they are an attempt to explain human experience in terms of grand themes such as capitalism, communism and the like.

It is argued that consumption is the characteristic feature of postmodernism (Brown, 1993a), and that marketing phenomenon play a pivotal role (Brown,

1993b). Postmodernism is also often linked to political and economic changes that have occurred in recent times, in particular in Eastern Europe (Sonderlund, M., 1990),(Rothman, J.,1992).

The characteristics of postmodernity are the disappearance of authority, unity, continuity, purpose and commitment and the emergence of fragmentation, complexity and irreverence (Venkatesh, 1989). Postmodernism rejects metanarratives that demand a single perception of reality in favour of a multiplicity of narratives and freedom from conformity. Although there is evidence that in Ukraine market orientation and marketing strategy typologies are fragmented there are still unifying themes.which are describable within the modern marketing concept. Research Proposition 4 is therefore revised.

6.10.2 Summary of research propositions - Organisation for marketing in Ukraine

- **Revised: Research Proposition 5.** Ukrainian organisations profiled as Transitional Strategic Adaptors have established separate marketing departments but typically organisations marketing activities tend to be part of the function of sales, trade or commercial departments rather than the function of a specialised marketing department.

This research finds evidence that in the transitional environment of Ukraine management is willing to become more market orientated and that organisations have either set up marketing departments (Cases D, F, H) or were trying to set up in-house marketing structures often called “commercial departments” (Cases A, B, C, E, G). These have in the main begun as an effort to increase sales but have started to address issues pertaining to product and marketing mixes to satisfy consumers and increase demand. Based on the above research proposition 5 is revised.

- **Revised: Research Proposition 6.** In turbulent, transitional environments organisations do make use of specialised external marketing services such as advertising, public relations and marketing research agencies to the extent that these organisations exist and the organisation is able to afford them.

Market orientation has as an element the development of support industries such as advertising and marketing research agencies and media and marketing consultancies. Under the command economy advertising and promotions in Ukraine have been used mainly to propagate the state political system.

Advertising and marketing consultancies have begun to establish in Ukraine and managers are showing a willingness to use them to generate demand for consumer products (Cases A, D, F, G, H). The consumer advertising industry in Ukraine is still in its infancy. For a rapid market orientation to develop it is

important, at least at the level of the marketing mix, that a reasonably sophisticated advertising industry develops along side it. Based on the above research proposition 6 is revised.

6.10.3 Summary of research propositions - Marketing strategy in Ukraine

- **Revised: Research Proposition 7.** As the market economy evolves in Ukraine marketing managers are to a limited extent moving towards a market orientation by focusing their product, price, promotion and place decisions on satisfying customer needs. This momentum is slowed however by characteristic attitudinal elements of the society that remain as part of the collectivist past as well as the lack of a sound business structure.

The development of the marketing function in the transitional economies of the former Central and Eastern European nations was described by Zurawicki and Becker (1994), in terms of the product, price, distribution and promotion elements of the marketing mix. With regard to the product component of the mix they describe a situation where the condition of shortage, and lack of choice of products which had existed prior to economic liberalisation has been greatly relieved.

Shortages were characteristic in Ukraine at the time of this research but Western branded goods were available thanks in large part to the profit seeking activities of local entrepreneurs (cases D, F, H). This would indicate that consumers in Ukraine will develop brand awareness and loyalties which can be exploited by the marketing techniques that have been developed in the West. If this were the case it could be taken as a firm indication that a market orientation can be expected to develop. However, in Ukraine the process is complicated by the nature of the marketing environment (see Research Proposition 3).

To effectively develop a brand Western marketers can rely on a more or less effective legal system which seeks to protect ownership and property rights. This is not the case in Ukraine where piracy, counterfeit goods, and poor protection of commercial property rights are common (Klochko and Issakova 1996). In addition the market are characterised by the large scale supply of end of line items and seconds which makes the merchandising practised by emerging private enterprises erratic (Cases A, E, G).

The lack of purchasing power in Ukraine may also be a barrier to the development of a market orientation in the distribution element of the marketing mix. Retailers are unlikely to expand for some time as they rely on such a small proportion of the local population as their customer base. It is possibly however the absence of a developed business infrastructure that has restricted the development of a market orientation in the area of distribution. Communication and transportation systems are of a poor quality in Ukraine. The relatively small sized of the market for most goods at the moment due to a lack of purchasing power also means that it is difficult to achieve the economies of scale in distribution which have enabled many Western retailers to develop successful marketing strategies.

With regard to the development of a market orientation in the promotion area of the marketing mix Zurawicki and Becker, (1994) report that in other transitional nations of Eastern Europe no specific sales promotion strategies have emerged but that advertising has become fashionable as an instrument of market penetration.. There is evidence of this in Ukraine (Cases A, B, D, F, H). The development of these elements of Western sales promotion depends on both improvements in the circulation of printed media and the achievement of a higher level of market saturation.

The availability of advertising media, print, radio and television has increased in Ukraine but to be effectively utilised by marketers however there is a requirement for greater availability of accurate readership, listening and viewing figures. It is only when the availability of such information enables organisations to make rational advertising decisions that a development of a market orientation in the promotions area of the marketing mix may become possible.

In a similar way the development of such established Western marketing practices as the use of direct mail is hindered by the poor availability of data-bases. In Ukraine the creation of data-bases is viewed with suspicion by the general public but as a substitute for direct mail campaigns such techniques as the

distribution of literature on the streets were being employed. The use of such relatively simple promotional activities can be taken as an indication of an orientation towards the promotion of sales but are some way removed from being an indication of the development of a true market orientation in the area of promotions. Research Proposition 7 is therefore revised.

Accepted: Research Proposition 8. New forms of marketing strategies, different again from those employed in other transitional economies and adapted to the unique environment which has developed in Ukraine are being employed.

This research identifies three emerging levels of business operation in the Ukraine retail sector. Firstly organisations which have their origins in small entrepreneurial businesses and still retain an entrepreneurial character (Cases D, F, H), secondly smaller newly privatised enterprises (Cases B, C) and thirdly organisations which are developing from large state owned enterprises (Cases A, E, G). For each of these levels it is possible to identify emerging marketing mix characteristics, marketing strategies and market orientations (see cross case analysis)

Organisations which have their origins in small entrepreneurial businesses and still retain an entrepreneurial character are profiled by this research as Transitional Strategic Adaptors (Cases D, F, H). They are characterised by senior management that operated, under the command economy, outside of the planned system as the suppliers of goods, as basic as food and clothing, that were unavailable under the official allocation system. In Ukraine many of these operations were allowed to trade albeit in a restricted fashion. Indeed these restrained trading conditions may have helped to develop the skills that have enabled many of these companies to trade successfully in the difficult markets they presently operate in.

Transitional Strategic Adaptors lie outside a linear continuum of market orientation which runs from market doubters to fully market led (see 4.2.4).

They are transitional marketing adaptors, organisations who through the pragmatic need to survive in a turbulent, transitional environment are adopting a hybrid market orientation suited to survival in the prevailing environment.

The experience of operating on the margins of the official economy has led to a flexible consumer orientation and an ability to make the use of available marketing techniques to locate customers and to source supplies and distribution channels. These businesses tended to specialise in the supply of goods which meet the specialised needs of small groups of consumers. This coupled with continuing situations of shortages creates market conditions where niche marketing strategies can be successful.

The market in which these businesses operated has however changed to a considerable extent since movements towards a market economy began. One most notable change is that since their operations have become legitimised they are free to carry out promotional activities of the type that in the West would be associated with a market orientation. Indeed this has to some degree been necessitated by increased competition from larger organisations who can identify gaps in the market by observing the success of smaller entrepreneurial businesses (Cases A, G, H).

These businesses are good at finding opportunities in the market, but often do not have sufficient buying power and scale economies to allow them to exploit them (Case F, H). These Transitional Strategic Adaptors have efficient enough operations and the necessary business systems to enable them to compete on price with larger organisations.

They are flexible enough to price in line with the pattern of supply and demand and to follow strategies based on charging high prices as they introduce new products to the market or exploit new markets and then lowering these prices as competitive pressure increases. They also seek to compete on non-price elements of the marketing mix (Cases D, F, H). Promotionally these entrepreneurial

businesses are becoming more sophisticated, their customer base is small and the market is well known to them.

These entrepreneurial businesses are characterised by a strategy of pursuing growth by taking all possible opportunities including those with a high risk. In terms of the Porter (1980) framework they are, to an extent, adopting a focused, differentiation strategy by concentrating on market segments to which they can introduce new products at premium prices. In terms of the Miles and Snow, (1978) analysis they are, in a respect, prospectors continually seeking to open new markets in which they can profit.

Hooley *et al.*, (1993), identified five distinct marketing-strategy types emerging in the transitional Hungarian market. These strategies were defined within two underlying groupings. Firstly those strategies that were essentially a defensive response to market conditions efficiency focus defenders, quality focus defenders and low price defenders. The second grouping comprised two strategies that were expansionist market share challengers who are prepared to confront competition and organic growth segmenters who exploit the growth of the market which is taking place organically.

In terms of the five strategic types identified by Hooley *et al.*, (1993), these Transitional Strategic Adaptors, although they emphasise the need to survive in a turbulent environment are not defenders. They do not either fit comfortably into the two expansionist categories, market share challengers or organic growth segmenters. They are oriented towards growth but both through the growth of the market as new segments emerge and through direct competition with competitors for market share.

The fit is not exact therefore this group appears to be using both quality as a positioning strategy and the supply of new products to the market as a way of gaining business. It is however the emphasis that these organisations place on the importance of their relationships with both customers, and strikingly

suppliers, that defines their strategic approach. Research Proposition 8 is therefore accepted.

Revised: Research Proposition 9. Ukrainian organisations profiled as Transitional Strategic Adaptors are developing a market orientation in that they are increasingly placing an emphasis on customer service and the prior understanding of customer requirements.

The marketing concept has come to be synonymous with having an orientation towards the customer. This in practice means that the organisation aims all its efforts at profitably satisfying its customers (McCarthy and Perreault, 1984) by determining the needs of a target audience and creating the goods and services to satisfy them .

A major obstacle to the development of marketing in Ukraine is the difficulty involved in conducting marketing research to establish customer requirements. In Ukraine the majority of managers are either ignorant of the significance of marketing research (Cases B, C, E, G) or may consider consumer surveys as methods used by Governments to collect derogatory information about citizens (Reddy, 1991). These fears may also mean that there are barriers to consumer co-operation in collecting market research information. In Ukraine these fears may have lessened to some degree but the residue of the population that is fearful of giving information to strangers may still create difficulties for the marketing manager.

The development of a consumer orientation in Ukraine has been shown to have begun with the identification of a new marketing paradigm where relationship marketing and transactional marketing are practised concurrently through the pragmatic need to survive in a turbulent transitional environment. Organisations profiled as Transitional Strategic Adaptors (Cases D, F, H see 6.10.2 above) are operating in an environment that has changed from having little or no competition, management control over marketing mix decisions or marketing

planning, to a situation where there is increasing competition, management control and marketing planning.

As the market economy evolves in Ukraine these managers are increasingly focusing their product, price, promotion and place decisions on identifying and satisfying consumers needs through the pragmatic need to survive in a turbulent environment. Managers in these Ukrainian enterprises have begun to actively search for know-how in market research, customer analysis, advertising and promotion, and to adapt to changing patterns of consumer demand. Research Proposition 9 is therefore revised.

Revised: Research Proposition 10. Ukrainian organisations do set prices with regard to the price levels of competing products but also place a strategic emphasis on cost-plus pricing and pricing based on the purchasing power of consumers. The development of a market orientation in pricing is however hindered by infrastructure problems such as the scarcity of consumer credit.

Price levels in Ukraine have risen rapidly and do not on the whole relate to the purchasing power of consumers. The effect of this on the development of a market orientation is considerable as it makes more difficult, and of course simultaneously more necessary, the essential marketing activities of calculating profitability and setting the medium and long term prices of products. Western branded products in Ukraine are usually marked up to prices above the level of Western Europe (Case D, F, H), indicating that market penetration is not commonly sought through a competitive pricing policy.

With regard to the price element of the marketing mix therefore the development of a market orientation would appear to depend on the development of a market where firms have to set prices with regard to factors which are of daily concern to Western marketers namely the purchasing power of consumers in the target market and the price levels of competing goods and services. The development of a market orientation in pricing is further hindered by infrastructure problems such

as the scarcity of consumer credit and the inability of locally manufactured products to compete with Western branded products due to high production costs and quality problems.

Cross case analysis indicates that an environment of recession and inflation does not universally cause managers to price competitively. Setting prices based on the price levels of competitors was mentioned as a strategy by only three cases (B, C, H). More emphasis was placed on setting prices to survive in a competitive market. This may involve different pricing strategies including placing a stronger emphasis on maintaining profit margins by using cost plus pricing (Case D, H), setting low prices to achieve volume (Cases A, B, C, E, F, G) or price based on what it is thought the market will pay (Cases A, D, H). Research Proposition 10 is therefore revised.

6.11 Summary

This chapter has provided the main presentation and analysis of the research data. Comparisons have been drawn between literal replications in the cases and the main cross-case analysis of theoretical replications has been presented. Data provided by the research was explored organised by major subject areas and objective data tabulated. The richness of response made possible by case studies has been used to provide additional insights.

In this chapter the findings from the analysis of data have been set in their theoretical context as research propositions generated from the literature review and from theory development during the pilot and case studies were accepted, rejected or revised. In chapter seven conclusions are drawn and suggestions regarding the contribution of the research to the practice of marketing in Ukraine are made.

Chapter 7. Summary, Conclusions and Limitations

In the previous chapter the main analysis of the research data were presented, comparisons were drawn between literal replications in the cases and the main cross-case analysis of theoretical replications described. The findings from the analysis of data were set in their theoretical context as research propositions were accepted, rejected or replaced.

In this chapter conclusions are drawn and suggestions regarding the contribution of the research to the practice of marketing in Ukraine are made. Finally the limitations of the research are described and suggestions for future research directions are made.

In Chapter 1. five broad research objectives were outlined;

1. To establish whether the sales - production - marketing stages model of marketing evolution, derived from empirical data collected in stable Western environments, is relevant in the context of the turbulent, transitional environment of Ukraine.
2. To assess whether, in this turbulent, transitional environment idiosyncratic approaches to marketing are emerging.
3. To assess the development of attitudes to marketing in this environment.
4. To asses the organisation of marketing effort in this environment.
5. To assess marketing strategy development in this environment.

In this chapter the main academic contributions of the thesis are spelled out as it is clearly shown;

- That the stages model of marketing orientation is not helpful in the context of Ukraine
- That there are idiosyncratic approaches to marketing emerging in the turbulent, transitional environment of Ukraine.
- That it is possible to identify both similarities and differences between Western experience, and the development of attitudes to marketing, organisation for marketing and the development of marketing strategy in Ukraine.

7.1 Summary and Conclusions - Academic contribution and refined conceptual framework

This research was designed to examine the development of a market orientation in a transitional economy where the operating environment has become increasingly turbulent as demand has moved towards regulation by the market rather than by a centralised authority. In particular the research considered whether organisations in a turbulent, transitional economy exhibit signs of a developing market orientation and the implications of this orientation in terms of attitudes to marketing, organisation for marketing, marketing strategy and organisational performance.

The research further considered whether, in the turbulent, transitional environment that existed at the time of the study, attitudes to marketing, organisation for marketing and marketing strategy develop in a unique way which allows organisations to adapt to their environment.

The term market orientation is almost synonymous with the term customer orientation (Shapiro, 1988) in that it denotes that an organisation is market driven or close to the customer. A market orientation depends on the ability of a business to generate intelligence about its customers and other current or potential market participants, to disseminate that intelligence throughout the business and to use that intelligence to create and deliver value to the customer (Jaworski and Kohli, 1996, Slater, 1997).

This research also considered the extent to which those organisations in the Ukraine retail sector, which have moved closest to a market orientation, are proving to be the most successful in terms of performance. The counterpoint to this is the extent to which organisations are adapting strategies, based on relationships, unique to the turbulent, transitional environment. In order to achieve this aim market orientation was examined by the use of a Environment-Strategy-Performance model.

In the marketing literature the concept of a market orientation has had several focuses. One focus (Kohli and Jaworski 1990, Kohli, Jaworski and Kumar, 1993) is concerned with the organisations ability to adapt to and organise around the market. The extent to which the organisation has a market orientation is seen in terms of three broad business activities; the generation of market intelligence, the dissemination of this intelligence and the organisation-wide responsiveness to it.

Narver and Slater, (1990) describe an alternative view of what constitutes a market orientation by proposing three behavioural components; customer orientation, competitor orientation and interfunctional co-ordination. These three behavioural components are seen in terms of their ability to predict the success of the organisation as indicated by long-term focus and profitability.

Deng and Dart, (1994) have integrated the findings of Kohli and Jaworski, (1990) and Narver and Slater, (1990) to define market orientation as the implementation of a business philosophy, the marketing concept. The marketing concept has been defined by Deng and Dart, (1994) as a business philosophy that holds that long-term profitability is best achieved by focusing the co-ordinated activities of the organisation toward satisfying the needs of particular market segment(s).

Market orientation is defined by them as the generation of appropriate market intelligence pertaining to current and future customer needs and the relative abilities of competitive entities to satisfy those needs; the integration and dissemination of such intelligence across departments; and the co-ordinated design and execution of the organisations strategic response to market opportunities.

The findings of Kohli and Jaworski, (1990) and Narver and Slater, (1990) have also been synthesised by Ruekert, (1992) to give a definition of market orientation which is centred on the extent to which an organisation uses information obtained from it's customers to develop and implement strategies

which will meet customer needs. That is an organisation which is responsive to the needs and wants of its customers.

In this research a market orientation was inferred from the actions, opinions and behaviour of interviewed managers which are characteristic of a customer or market driven orientation. An example of how this was interpreted in the research would be as follows. In order to assess the needs of its customers an organisation must collect information from the market place. One indication that an organisation has a market or customer orientation is therefore the importance that it places on market research.

Thus in a transitional economy such as Ukraine, if an organisation is placing an increasing emphasis on researching its market it may be an indication of the organisation's recognition of the implications of a competitive marketplace. In the same way the organisation's commitment to meeting current and future customer needs may be indicated by a emphasis on customer satisfaction or the introduction of new products.

In order to explore these issues the research considered the extent to which Ukrainian organisations are developing a market orientation by emphasising the prior understanding of customer requirements. The research showed (research proposition 2);

- That a majority of organisations equate marketing with selling and place little emphasis on marketing activities and that a major obstacle to the development of a market orientation in Ukraine is the difficulty involved in conducting marketing research to establish customer requirements due to both managerial ignorance and consumers unwillingness to co-operate.

The research did reveal however (research proposition 9);

- That the development of a consumer orientation in Ukraine has begun with the identification of a new marketing paradigm where relationship marketing and

transactional marketing are practised concurrently through the pragmatic need to survive in a turbulent transitional environment.

Organisations profiled as Transitional Strategic Adaptors are operating in an environment that has changed from having little or no competition, management control over marketing mix decisions or marketing planning, to a situation where there is increasing competition, management control and marketing planning. As the market economy evolves in Ukraine;

- These managers are increasingly focusing their product, price, promotion and place decisions on identifying and satisfying consumers needs through the pragmatic need to survive in a turbulent environment. Managers in these Ukrainian enterprises have begun to actively search for know-how in market research, customer analysis, advertising and promotion, and to adapt to changing patterns of consumer demand.

The research was also concerned with establishing if organisations in Ukraine behave like their counterparts in the Western free-market economies. The research sought to explore if there is a positive relationship between environmental uncertainty and the adoption of a market orientation by Ukraine firms. Additionally the research looked at whether Ukraine organisations use elements of the traditional marketing mix to implement their market orientation.

The research established (research proposition 3);

- That there was a strong negative link between the operating environment of firms in Ukraine and the development of a market orientation.

It also established (research proposition 7);

- That although there was evidence that managers in Ukraine were, to a limited extent, moving the focus of their marketing mix decisions towards the satisfaction of customer needs this momentum was slowed by attitudinal

elements of the society that were remnants of the collectivist past as well as by the lack of a sound business structure.

For marketing practices to be adopted managers need to understand the nature of marketing and its organisational role. This research examined the attitudes of managers to marketing and the ways in which they interpret it in the Ukraine retailing sector against the background of a turbulent transitional environment.

Marketing attitudes are related to the marketing strategies adopted by an organisation and may provide insights into why particular strategies are adopted. Initial research was carried out in a pilot survey (4.2.1) using as a base of prior theory the typologies identified by Hooley *et al.*, (1993) in other transitional economies. This approach was found to be relevant to the Ukrainian situation and a continuum of marketing attitudes, derived from prior theory and developed and tested by the initial pilot work (see Figure 4.2) was applied to the main body of research.

The findings from the pilot study indicated that the number of companies that suited the market orientation profile or indeed were moving towards that profile was very small with the majority of Ukrainian organisations fitting a sales or product orientation profile. It was clear from the testing of the model that Ukraine was some way behind other transitional economies in terms of the proportion of organisations that were at or near a marketing orientation. There were however sufficient indications that the marketing concept had become established in enough organisations to justify the inclusion of profiles towards the market led end of the continuum.

Descriptions of the profiles established by past theory and pilot research which most suited the particular circumstances in the Ukraine retail sector are;

- **Doubters:** Organisations that are unsure of what marketing really is. They admit that marketing is non-existent or unclear in their companies. They tend

to confuse marketing with public relations or see it as having a sales or sales support role.

- **Sales-Product Orientation:** Consider marketing to be mainly concerned with sales support and with promotion. At the retail level it's main purpose is to merchandise those products which the organisation has traditionally sold or any products that can be obtained without consideration of what the market needs.
- **Sales-Marketing Orientation:** Still focus heavily on the promotional role of marketing but recognise that marketing goes beyond sales support to include market analysis, adapting to the market and identifying and meeting the needs of customers.
- **Market Orientation:** Are less likely to see marketing as restricted to a sales support and promotion role. They are starting to move towards market analysis and adaptation to the needs of customers. Marketing is still not the discipline which directs organisational activities.
- **Fully Market Led:** Organisations where marketing directs their purchasing and merchandising towards products that represent a response to specific market needs. Marketing is seen as the guiding discipline for the organisation and covers analysis of the market, identification of customer needs and wants and adaptation to the market.

The case research additionally identified a further profile;

- **Transitional Marketing Adaptors:** This profile, identified by the research lies outside a linear continuum of degrees of market orientation. It consists of organisations who, through the pragmatic need to survive in a turbulent, transitional environment, are adopting a hybrid market orientation uniquely suited to survival in the prevailing environment. This orientation contains elements of both transactional and relationship marketing.

In order to accommodate this additional profile of market orientation a revised continuum of attitudes to marketing in the Ukraine retail sector is proposed (figure 7.1 below).

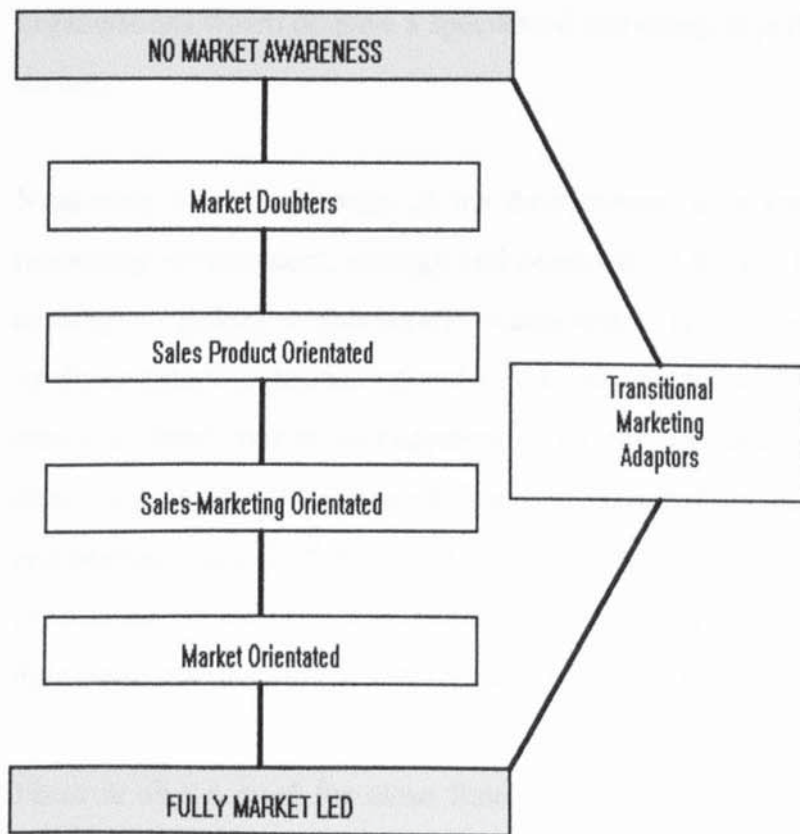


Figure 7.1: Revised Continuum of Attitudes to Marketing in the Ukraine Retail Sector

In the context of a marketing approach to business marketing personnel are responsible for monitoring and analysing the environment and for the resulting strategic and organisational adjustments. This research was concerned with how companies in the Ukraine retail sector organise for marketing planning and implementation.

Specifically it provided insights into the market orientation of Ukraine retail companies, the incidence of marketing department specialisation, more general functional specialisation, marketing organisation design, responsibility for marketing planning and implementation, status of marketing functions and the extent of interfunctional integration. Comparisons were made between organisations which do have a specialised marketing department and those which do not.

Marketing success depends on the development of a strategic fit between the marketing environment, strategy and organisation for the implementation of that strategy. Effective marketing organisation is required for the effective implementation of marketing and this is achieved via competent marketing led direction from senior management. At the operational level effectiveness depends on how well responsibilities are allocated for marketing task planning and implementation. Some form of specialist marketing department is necessary to maintain the status and influence of marketing within the organisation and the dilution of marketing responsibilities to non-specialist departments.

There is also a need for close functional co-ordination as effective marketing relies partly on tasks performed by other functions such as sales and purchasing. An important element in this is the relative status and power of functional departments in the organisation and this is linked to the leadership and culture of the company. A market orientated company would thus be characterised by planning and implementation led by market driven senior management and a marketing department with at least sufficient status to match other functional departments.

This research found evidence (research proposition 5);

- That in the transitional environment of Ukraine managers are willing to become more market orientated and that organisations have either set up marketing departments or were trying to set up in-house marketing structures often called “commercial departments” .

- These have in the main begun as an effort to increase sales but have started to address issues pertaining to product and marketing mixes to satisfy consumers and increase demand.

It is concluded;

- That Ukrainian retail organisations profiled as Transitional Strategic Adaptors (i.e. those which are profiled as having a transitional marketing adaptor orientation to the market) have established separate marketing departments but typically the marketing activities of organisations outside this profile tend to be part of the function of sales, trade or commercial departments rather than the function of a specialised marketing department.

Market orientation has as an element the development of support industries such as advertising and marketing research agencies and media and marketing consultancies. Advertising and marketing consultancies have begun to establish in Ukraine and managers are showing a willingness to use them to generate demand for consumer products . For a rapid market orientation to develop it is important that a reasonably sophisticated advertising industry develops along side it. This research therefore shows (research proposition 6);

- That in turbulent, transitional environments organisations do make use of specialised external marketing services such as advertising, public relations and marketing research agencies to the extent that these services exist and the organisation is able to afford them .

This research used as a theoretical base the five "generic marketing strategies" developed by Hooley et al. (1992), in the United Kingdom and tested by Hooley, Beracs and Kolos (1993), against data from the transitional Hungarian market. The research then applied a post hoc approach, developing theory through initial case research, to extend understanding of strategic types by focusing on differences in approach and strategy by firms operating in the retail sector of the Ukrainian market.

Figure 4.3 (section 4) provided a model, developed from prior theory, tested and revised by initial case research, which brought together strategic variables, strategic types and the turbulent, transitional environment of Ukraine. Most studies of strategic types have concentrated on Western markets where Western theories and marketing techniques prevail. This model allowed for the possibility that in the unique conditions which existed in Ukraine at the time of the research new hybrid marketing strategies were emerging which enabled organisations to adapt to their particular environmental circumstances.

The selection of strategic variables on which to base strategic types is a fundamental aspect of the post hoc approach. Figure 4.3 showed a relevant set of variables which pertain to the conditions of environmental uncertainty in which Ukrainian firms operate. The setting of marketing objectives is the starting point for strategy determination. This research initially considered three main alternatives based on Hooley, Beracs and Kolos (1993), and Doyle et al. (1986). Firstly predominantly defensive objectives designed to prevent decline by holding position or defending against competition. Secondly steady growth objectives and thirdly aggressive growth objectives.

Initial pilot interviews in Ukraine showed a high proportion of organisations adopting defensive objectives due to both increases in competition and the effects of severe recession. The split into steady and aggressive growth objectives recognises that different performance outcomes can be expected from organisations which adopt a modest approach and those which adopt an aggressive position (Doyle et al., 1986, Hamel and Prahalad, 1989).

A strategic focus needs to be decided once objectives have been set. If a growth objective is set this may be achieved either through an expanding market or by gaining share. Initial interviews with Ukrainian managers showed a strong emphasis on defensive objectives with an internal focus of mainly cost reductions but also other productivity improvements. There was some evidence also of proactive defence i.e. entering newly emerging markets to replace lost business.

An organisation's approach to the market involves targeting either the whole market, market segments or individual customers. Initial indications in Ukraine were that the nature of market targeting depended on the size of the organisation. There were however strong indications that segmentation of markets was taking place and evidence of highly fragmented needs as individual targeting was stressed by retailers.

Strategic variables also involve positioning in the marketplace and the pursuit of competitive advantage. Positioning is determined by price and product quality as seen from the customers viewpoint but is influenced by promotions and other elements of strategy. It is by the chosen mix of price and quality that the organisation differentiates itself from its competitors in the marketplace. Hooley, Beracs and Kolos (1993), distinguished between price-based differentiation and quality-based differentiation. Initial interviews with Ukrainian managers indeed revealed that price and quality were regarded as the main ways of achieving differentiation with some emphasis on cost differentiation but little on such aspects as after sales service.

As previously stated this research used as a base the five strategic types identified by Hooley, Beracs and Kolos, (1993), as being applicable in the transitional Hungarian market. These strategic types were tested in the initial pilot survey in Ukraine and found to be largely applicable to the situation that prevailed at the time of the research.

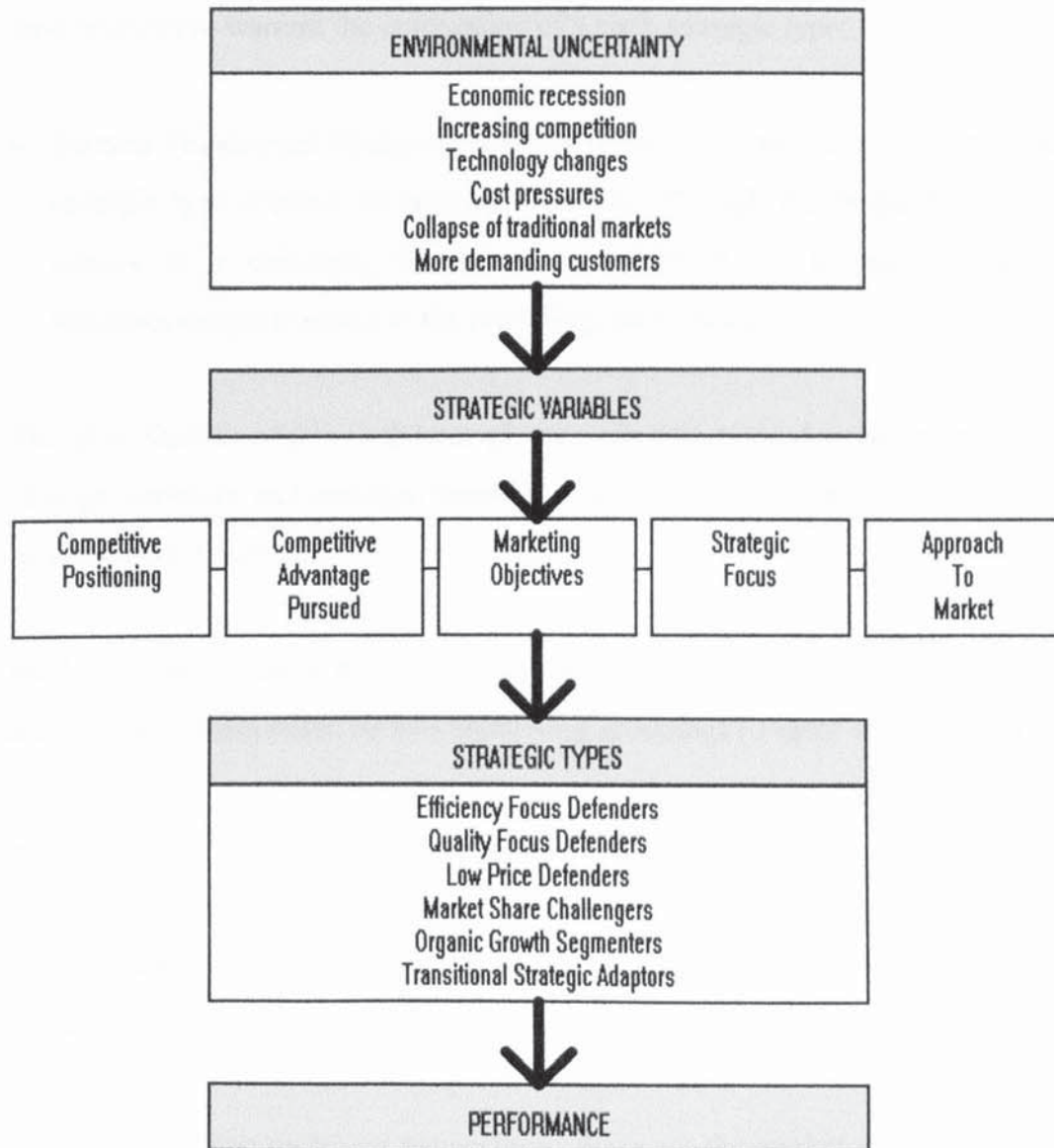


Figure 7.2: Revised Model of Marketing Strategy Variables and Strategic Types in a Turbulent, Transitional Environment

Sufficient evidence emerged however from these pilot interviews and subsequent case research to warrant the exploration of a sixth strategic type;

- Termed Transitional Strategic Adaptors (research propositions 1, 4, 8). This strategic type consists of organisations who, through the pragmatic need to survive in a turbulent, transitional environment are adopting marketing strategies uniquely suited to the prevailing environment.

The identification of this sixth strategic type allows a revised model of marketing strategy variables and strategic types in a turbulent, transitional environment to be presented (figure 7.2).

Evidence emerged from the initial pilot interviews and prior theory that indicated a conceptualisation based on two underlying groupings (Figure 4.4, section 4);

- Firstly those that constituted an essentially defensive response to the business environment. These adopt a defensive posture through three different routes that correspond with Hooley, Beracs and Kolos's (1993), efficiency focus, quality differentiation and price leadership.
- The second approach was expansionist these are the market share challengers and the organic growth segmenters.
- A third strategic approach, identified by subsequent case research was that used by organisations fitting the Transitional strategic Adaptors profile and was based on the use of both relationship marketing and transactional marketing strategies (research propositions 1, 4, 8). Policies which enabled the organisation to survive in a transitional environment.

These hybrid strategies were based on Ukrainian cultural specifics such as strong relationships and networks. The identification of this third strategic approach enables a revised diagram of strategic typologies of Ukrainian retailing organisations to be presented (figure 7.3).

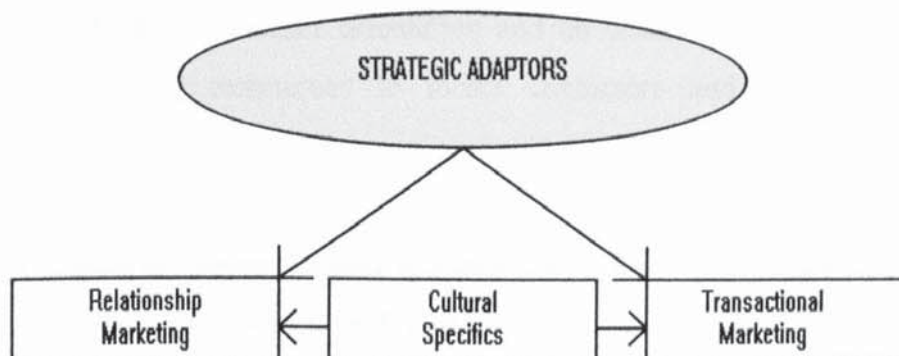


Figure 7.3: Revised Strategic Typologies of Ukrainian Retailing Organisations

- Transitional Strategic Adaptors are organisations which have their origins in small entrepreneurial businesses and still retain an entrepreneurial character.
- They are characterised by senior management that operated, under the command economy, outside of the planned system as the suppliers of goods, such as food and clothing, that were unavailable under the official allocation system.

In Ukraine many of these operations were allowed to trade in a restricted fashion. These restrained trading conditions may have helped to develop the skills that have enabled many of these companies to trade successfully in the difficult markets they presently operate in.

- They are transitional marketing adaptors, organisations who through the pragmatic need to survive in a turbulent, transitional environment are adopting a market orientation suited to survival in the prevailing environment.
- The experience of operating on the margins of the official economy has led to a flexible consumer orientation and an ability to make the use of available marketing techniques to locate customers and to source supplies and distribution channels.
- These businesses tended to specialise in the supply of goods which meet the specialised needs of small groups of consumers.
- Since their operations have become legitimised these organisations are free to carry out promotional activities of the type that in the West would be associated with a market orientation.
- These businesses are good at finding opportunities in the market, but often do not have sufficient buying power and scale economies to allow them to exploit

them. They have efficient enough operations and the necessary business systems to enable them to compete on price with larger organisations.

- Transitional Strategic Adaptors are flexible enough to price in line with the pattern of supply and demand and to follow strategies based on charging high prices as they introduce new products to the market or exploit new markets and then lowering these prices as competitive pressure increases.
- They also seek to compete on non-price elements of the marketing mix . Promotionally these entrepreneurial businesses are becoming more sophisticated, their customer base is small and the market is well known to them.
- They are further characterised by a strategy of pursuing growth by taking all possible opportunities including those with a high risk.

In terms of the Porter, (1980) framework they are, to an extent, adopting a focused, differentiation strategy by concentrating on market segments to which they can introduce new products at premium prices. In terms of the Miles and Snow, (1978) analysis they are, in a respect, prospectors continually seeking to open new markets in which they can profit.

In terms of the five strategic types identified by Hooley *et al.*, (1993), these Transitional Strategic Adaptors, although they emphasise the need to survive in a turbulent environment are not defenders. They do not either fit comfortably into the two expansionist categories, market share challengers or organic growth segmenters. They are oriented towards growth but both through the growth of the market as new segments emerge and through direct competition with competitors for market share. The fit is not exact therefore this group appear to be using both quality as a positioning strategy and the supply of new products to the market as a way of gaining business.

- It is however the emphasis that these organisations place on the importance of their relationships with both customers, and strikingly suppliers, that defines their strategic approach.

Relationships are important in marketing because they make transactions more cost efficient from the point of view of both the buyer, who can negotiate favourable terms from suppliers and have convenience gains, and the seller, through economies in advertising and promotional activities (Webster, 1992). Relationship marketing (Christopher *et.al.*, (1992), Davis and Davidson (1991)), focuses on two aims, getting and keeping customers and suppliers, in contrast to traditional marketing practice which has placed more emphasis on obtaining new business. Marketing practice based on customer and supplier retention and the need to enter into ongoing relationships is encouraged by the difficulty of maintaining a competitive position on the basis of short-term transactions alone.

The value of the management of long-term relationships as a strategic asset was recognised by Jackson, (1985) and Webster, (1984) as macroeconomic pressures in the global market place in the 1980s forced many organisations into a situation of greater interdependence with their suppliers and customers. Prices in these situations are more likely to be set by negotiation than by the market and issues such as quality come to have more importance. Mutually dependent buyer-seller relationships represent a further movement away from a focus on the individual sale and towards a need to develop a long term mutually supportive relationship with customers and suppliers.

- Transitional Strategic Adaptors are characterised by a change in marketing focus from transactions to relationships. They do however still place a tactical emphasis on transactions through the need to survive in a turbulent environment. Thorelli, (1986) and Anderson and Narus, (1991) see an increasing need for relationship management skills as customers and suppliers become seen more as partners with whom the organisation has a long term strategic relationship.

- There is therefore evidence of a new marketing paradigm in Ukraine where relationship marketing and transactional marketing are practised concurrently through the pragmatic need to survive in a turbulent transitional environment. This research supports the work of Brodie et al., (1997). It produces results which show that, for many firms, transactional marketing is relevant and practised concurrently with types of relationship marketing.

An environment-strategy-performance model is a suitable typology for use in researching the development of marketing in a transitional economy as it provides two benefits. It allows an understanding of a population of organisations, in this case Ukrainian retailing firms that may react in differing ways to the same stimuli, and by including influences from outside of the organisation, in this case the effects of a unique, turbulent, transitional marketing environment, it gives a multi-level view of strategy.

Figure 4.5 (section 4) shows a environment-structure-performance model which provides a context for studying the development of a market orientation in a turbulent transitional economy in terms of evolving attitudes to marketing, organisation for marketing and marketing strategy. The model encompasses both the environmental antecedents and the outcomes of a developing marketing orientation. It also shows the direction of the relationships that are proposed.

Environmental uncertainty profoundly influences managerial perceptions which in turn determines the organisation's approach to market, choice of strategy and marketing mix upon which performance ultimately depends. The "performance" element of the model includes a number of measures of performance in the market place. Given that there is no centralised record of company accounts in Ukraine these performance figures are largely based on the information which managers were willing to disclose, checked for accuracy by a second interview within the organisation and by cross checking with such other sources as could be found. Given the culture of secrecy and suspicion, particularly with regard to financial matters, which prevails in Ukraine as a hangover from the previous

system this is the element of the model for which accurate data is the most difficult to collect.

Environmental uncertainty has been conceptualised (Sharfman and Dean, (1991)) in terms of objective measures that reflect volatility. These include resource flows and degrees of competition and complexity. A different conceptualisation of environmental uncertainty was proposed by this research which involves the use of managerial assessment of uncertainty and the observation of ensuing behaviour that is indicative of managerial perceptions that the operating environment has changed in terms of complexity or stability.

This research therefore is concerned with manager's perceptions of environmental uncertainty as an antecedent to marketing orientation as expressed through the development of attitudes to marketing, organisation for marketing and the execution of marketing strategy. This approach overcomes one apparent problem that to an objective outside observer the environment may appear unstable it may yet be easy for managers to interpret. This approach is supported by Slater and Narver (1994) who conclude that it is top management's characterisation of the environment that is more important in initiating change than actual environmental conditions measured in an objective fashion.

Figure 4.6 (section 4) brought together the factors of managerial perception of environmental uncertainty and changes in consumer behaviour in a model derived from prior theory and tested by initial pilot research.

- This model is now revised (figure 7.4) in the light of this research to allow for the development, in the turbulent, transitional circumstances that prevail in Ukraine, of marketing strategies based on relationships and networks together with transactional marketing through the pragmatic need to survive in a challenging environment.

Implicit in the above model is the suggestion that firms examine their external environment before they adopt a highly market-oriented strategy and

environmental uncertainty is a construct of consideration in the development and implementation of strategy (Kohli and Jaworski 1990, Narver and Slater 1990, Slater and Narver 1994). The inclusion of environmental uncertainty and cultural specifics in the model is the critical factor as it indicates that what is being observed is the ability of organisations to adapt marketing attitudes, organisation for marketing and marketing strategies to turbulent, transitional change in the business environment.

The link between environmental uncertainty has been tested by a number of studies which have in the main found support for a contingency relationship (Varadarajan and Pride (1989), Kohli and Jaworski 1990). On the whole these studies have indicated a situation where strategic orientation and the resulting organisational performance are moderated by conditions in the competitive environment.

- An organisations market orientation may be correlated with entrepreneurial orientation (Miles and Arnold, (1991)) and this research supports those findings.

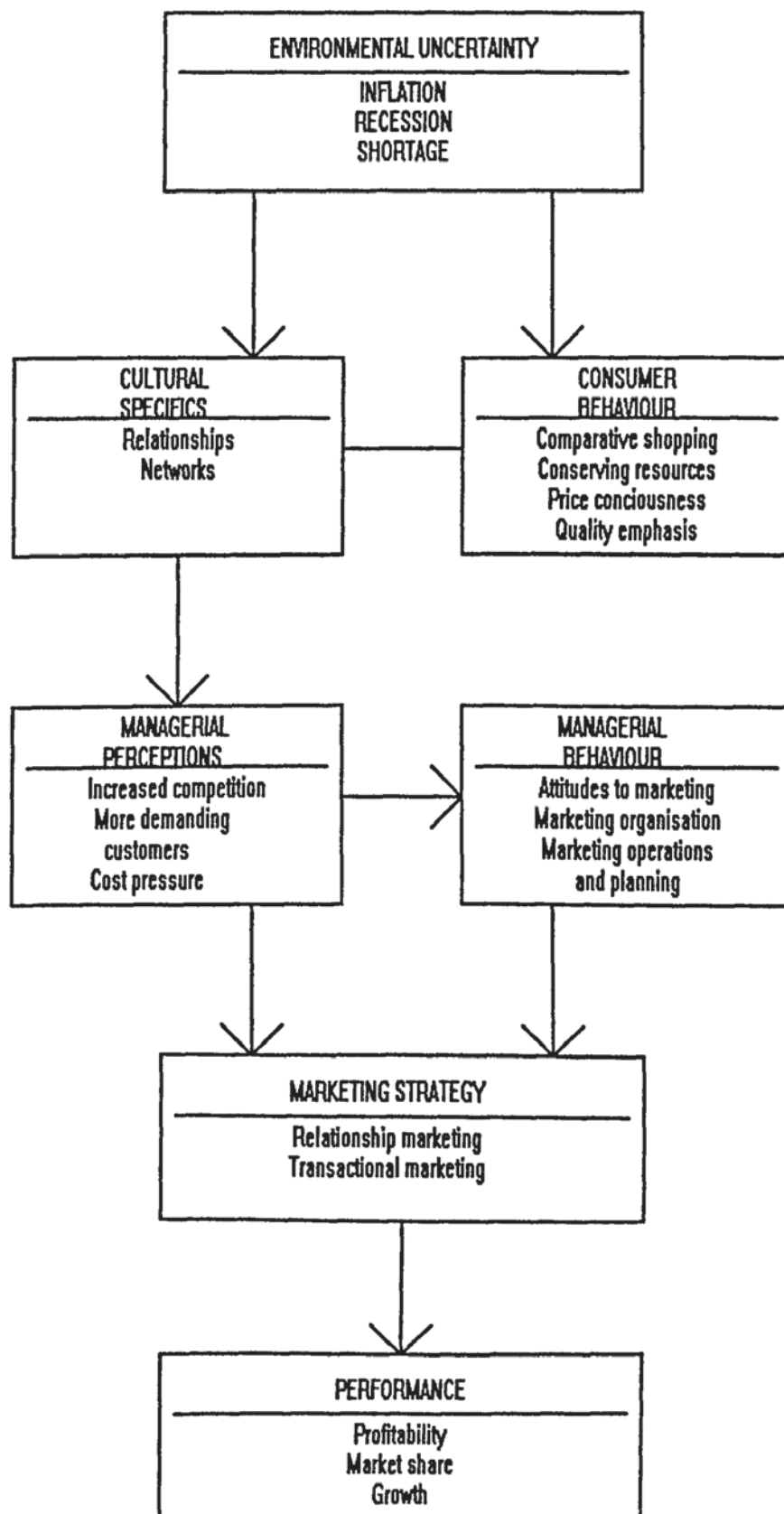


Figure 7.4: Revised Model of Macroeconomic Transition and the Adaptation of Marketing Strategy

7.2 Contribution to the practice of marketing in Ukraine

For Ukrainian managers involved with the practice of marketing economic transition has represented a paradigm shift. Ukraine has sought assistance from the Western free market nations to assist with the adaptation of its enterprises to these new circumstances. Even so it seems highly unlikely that all the elements of Western marketing management will transfer without modifications across the cultures.

There is some evidence that managers in the territories of the former Soviet Union do behave in similar ways to Western managers (Puffer, 1994). In the same way this research indicates that Ukrainian managers are aware of potential consumer demands and as a result of this they are attempting to implement recognisable Western marketing strategies. This is important both for indigenous Ukrainian organisations and for those organisations based in the West that wish to form links with Ukrainian firms.

This research does not seek to provide guidance for marketing managers looking for methods to improve the quality of their products or to improve their customer service. It does however indicate that;

- Those Ukrainian organisations that seek to provide better quality products and improved customer service do, like their Western equivalents, achieve enhanced performance. As such it provides a motivation for managers in Ukraine to pursue these goals.
- The research thus indicates that marketing managers in Ukraine would be advised to put into place improved quality control measures and to look to merchandise better quality products. This in turn implies a commitment to improved training and education in order to establish an organisation wide culture devoted to quality improvement.

- Particular emphasis should be placed on the training of those employees in customer contact positions and to the establishment of customer service departments. The research indicates that Ukrainian organisations that commit financial resources and managerial effort to improving quality and customer service can improve their performance.
- This research also indicates that for Ukrainian organisation, as for their Western counterparts, a market orientation is associated with increased performance. Organisations which have successfully adapted to the new marketing environment in Ukraine stress the satisfaction of customer needs and are likely to recognise the need to research the market and to actively search for new products to meet the needs and wants of their customers.

The research does not imply that performance is directly improved by market orientation but rather that there is an indirect effect through improved quality and customer service.

- Marketing managers in Ukraine would therefore be advised to develop those activities associated with a market orientation such as market research.

One aspect explored by this research is the adoption by Ukrainian organisations of elements of the promotions mix including advertising, public relations, sales promotions and personal selling. Little evidence emerged that the adoption of these practices in the transitional economy of Ukraine is associated with enhanced performance. This can not be a definitive conclusion however due to the factors of cultural difference and environmental restrictions.

Media are not as widely available in Ukraine as in the Western economies. Similarly there are indications that many consumers are suspicious of advertising messages from organisations associated with change that has brought economic hardship. There is much evidence that both these factors are changing however. Advertising agencies and firms providing other promotional services have now

become established particularly in the Kiev area and Ukrainian consumers are demonstrating an increasing desire for brand name products.

- It can thus be expected that the use of promotional strategies will increasingly be associated with improved performance in Ukraine
- Ukrainian managers need to research the needs of consumers and their responses to promotional activities. These findings should be viewed against the background of the competitive situation in the marketplace and a cost-benefit analysis conducted. This also implies a need to closely monitor the effectiveness of promotional activities.

Another point that must be made is that promotional activities may have a long-term benefit to an organisation particularly with regard to brand building.

- It may be the case that firms will find a medium or long term benefit flows from current promotional expenditure particularly if economic recovery comes and consumer spending power increases. Marketing managers in Ukraine need to monitor these developments in future years.

Additionally with regard to the effectiveness of promotional activities in Ukraine, this research was concerned with the importance to their organisations that Ukrainian managers attached to promotional activities. This does not necessarily translate into effective behaviour and thus, even when promotional activities were carried out, they may have been poorly executed.

- Marketing managers in Ukraine need to position their products accurately in the marketplace and time their advertising and other promotional activities in a way which enables the execution of an effective promotional strategy.

This research also gives indications with regard to pricing strategies that are of importance to the development of marketing practice in Ukraine. Principally the way price effects performance may be different in turbulent transitional

economies. Prices in Ukraine prior to the transitional period were determined in line with production plans or to meet consumption or political objectives. At the time of the research this may have had some residual influence on the way that Ukrainian managers perceived the influence of price on demand for their products.

Although Ukrainian managers see price as perhaps the most important element of the marketing mix they may lack the marketing skills to devise effective pricing strategies. Consumers may also lack the experience of free markets which enables those in the West to understand pricing variations and value associations.

- In an environment where consumers buy either the cheapest product or due to shortages whatever is available at the time it is difficult for Ukrainian managers to convey value or quality messages about their products through price.
- Marketing managers in Ukraine must therefore proceed with caution when using price as a competitive variable. It seems inevitable that consumers will begin to understand more fully the implications of price. As and when this happens the ability to devise and implement effective pricing strategies will become a more important skill for marketing managers in transitional economies.

7.3 Limitations of research and future research directions

During the course of this research a number of issues have arisen which have to be accepted as limitations and which indicate future research directions.

- The chosen form of this research has been that of an exploratory, qualitative study. Regardless of the fact that a quantitative study would not have been a practical possibility in a country without a functioning postal service, in-depth study has revealed insights that would not have been possible in a broader, more general study. It is necessary to acknowledge however that there is a trade off between depth and generalisability.
- The context of this research has been an environment of rapid change and unpredictable turbulence. The virtual collapse of the Ukraine economy in the mid 1990's and the rapid changes that were taking place during the research period provided a richer understanding of the effect that an uncertain environment has on the development of marketing. This crisis environment did however have some negative effects on the research. With conditions changing so rapidly, the constraints of the PhD research process mean that any research in such an environment can only show a moment in time. There is a need for longitudinal study that allows for the continued observation of environmental changes upon the development of marketing.
- This research was also challenged by the need to overcome bias caused by the worsening conditions in Ukraine. Potentially biases may have arisen due to the negative mood at the time of data collection caused by economic crisis. In such an environment it could be suspected that there would be a reluctance to talk to researchers at all let alone to discuss such subjects as business strategy. It is the researcher's view that this bias was limited as far as possible by the use of a case study methodology which allowed cases to be studied in their context rather than in isolation. To actually interview the Director of an enterprise on the dimly lit floor of their business as the daily events of that

business take place around you must provide deeper insight, in such an environment, than comparing one returned questionnaire with another.

- This study was focused upon the retail sector and was restricted to the Kiev area although it did encompass both smaller entrepreneurial firms as well as the co-ops and monolithic department stores that operated in the Soviet era. This research was not able to cover the Kiosk sector of Ukraine retailing. This was due partly to pragmatic problems of access, but also because these small, largely entrepreneurial business were largely operating on the edge of legality at the time of the study. The dynamics of this sector of Ukraine retailing would repay further research.
- The study could be broadened to include other sectors of industry and to cover a wider geographical area. The findings of this study could also be generalised by further quantitative research and enhanced by additional analysis of the nature of exchange in Ukraine.

In summary it is recommended that further longitudinal work is conducted and it would be of particular interest to study how the three organisations profiled as Transitional Strategic Adaptors develop. There is also a need for more representative surveys to see if the three Transitional Strategic Adaptor organisations are typical or atypical of Ukrainian business. Finally it would be of value to establish whether or not these findings are replicated in similar environments such as Belarus.

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Appendix 1. Copy of questionnaire

The design of this research was intended to provide a structure for data collection that ensured the reliability of the case studies and which did not exclude relevant variables. Research issues and propositions were derived from the initial review of the literature and from pilot research and were developed into a interview format which, although structured allowed scope for probing. Yin, (1994) maintains that the structured interview is a legitimate element of case study design particularly when utilised as one component of an overall assessment based on multiple sources of evidence.

All interviews are potentially subject to bias, poor recall and poor articulation. It is important therefore that interview data is corroborated by other data wherever possible. This research was additionally supported by the direct observations of the researcher and local collaborators during field visits to the case study sites. A distinct advantage, in terms of accuracy, which in addition to environmental difficulties mitigated against the use of a more general postal survey approach.

Initial questioning aimed to collect demographic data about the firm and it's operating environment. Questioning was then structured around three areas, attitudes to marketing, organisation for marketing and marketing strategies. Multiple questions were used to probe each area. These questions had been refined during the pilot study phase in line with Yin's, (1983) assertion that, for case study research the data collection process is not parallel but sequential. Unlike a postal survey, where data is collected at one particular point in time, case study research is a cumulative process with each case built from a series of interviews and written with the knowledge of the findings of previous cases.

During the pilot study phase data was analysed to check whether additional areas were consistently referred to. This suggested significant questions which needed to be included. This checking mechanism continued during the case interviews as respondents were allowed to place their own emphasis on the questions in order to provide insights into their own specific situation and the issues which

they believed to be of importance. Verbatim notes were taken to record these. Each case interview therefore was structured around a series of questions designed to provide insights into the research propositions which had been derived from the literature review and developed in line with the principal of theory generation during the pilot phase and case research.

SECTION 1. THE COMPANY AND IT'S ENVIRONMENT

1. What types of products does your company predominantly sell?

- 1 Fast moving consumer goods
- 2 Consumer durables
- 3 A consumer service
- 4 A business service
- 5 Materials and components
- 6 Capital industrial equipment
- 7

Other _____

2. Approximately how many people does your company employee?

- 1 Less than 10
- 2 10 - 100
- 4 More than 100

3. What is the ownership position of your company?

- 1 Ukraine privately owned company
- 2 Ukraine state owned company
- 3 Ukraine state-private partnership
- 4 Foreign owned private company
- 5 Ukraine state joint venture with a foreign partner
- 6 Ukraine private joint venture with a foreign partner
- 7 Co-operative
- 8

Other _____

4. If you have a foreign joint-venture partner or parent company what is their nationality?

5. If your company is moving from state to part or full private ownership at what stage is the process?

- 1 Early stages with little real progress
- 2 Middle stages with some substantial progress made
- 3 Late stages with the privatisation process almost complete
- 4 Privatised but with the state still a major shareholder
- 5 Completely privatised

6. Thinking about the changes that have occurred in Ukraine in the past five years, how far do you agree or disagree that the following have had a significant influence on your company's marketing activities?

Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree	
1	2	3	4	5	Competition from Ukraine companies has increased
1	2	3	4	5	Competition from foreign companies has increased
1	2	3	4	5	Customers demand better quality products
1	2	3	4	5	Customers now have more choice
1	2	3	4	5	Customers needs are more varied
1	2	3	4	5	There is more variety of products available
1	2	3	4	5	Costs have gone up
1	2	3	4	5	Products are in short supply
1	2	3	4	5	Our customers do not have money to spend
1	2	3	4	5	The market demands more technological products
1	2	3	4	5	We now need to know our customers better
1	2	3	4	5	The relationship with our suppliers is now more important

7. Over the last five years which three changes have had the most significant impact on your organisation?

1

2

3

8. How would you define the main market in which your company operates?

9. To what extent would you agree or disagree with the following comments about your main market?

Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree	
1	2	3	4	5	The market is a new one
1	2	3	4	5	The market is established
1	2	3	4	5	The market is growing
1	2	3	4	5	The market is stagnant
1	2	3	4	5	The market is tubulent
1	2	3	4	5	The market is in decline
1	2	3	4	5	Competition is increasing
1	2	3	4	5	Our competitors are well established
1	2	3	4	5	There is little competition
1	2	3	4	5	The market is difficult for competitors to enter
1	2	3	4	5	The market is expensive to enter
1	2	3	4	5	It is difficult to exit the market
1	2	3	4	5	We have many customers who all demand different products
1	2	3	4	5	All our customers buy the same product
1	2	3	4	5	We have distinct groups of customers who want different products
1	2	3	4	5	The rate of technological change in the market has increased

SECTION 2. ATTITUDES TO MARKETING

10. How would you define marketing?

11. When you think about marketing in your company what types of activity come to mind?

12. To what extent do you agree or disagree with these comments that have been made about marketing?

Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree	Marketing is:
1	2	3	4	5	A way of increasing sales
1	2	3	4	5	How we build a relationship with our suppliers
1	2	3	4	5	About creating better contacts with our customers
1	2	3	4	5	How we find out what our competition are doing
1	2	3	4	5	The way we promote the company
1	2	3	4	5	About analysing the market
1	2	3	4	5	The way we identify the needs of our customers
1	2	3	4	5	To do with the company's image
1	2	3	4	5	Something that guides everything we do
1	2	3	4	5	A way of improving quality

13. Are there any factors restricting the implementation of marketing in your company? If so please explain.

Yes	No	Comments
1	2	

14. To what extent do you agree or disagree with the following statements?

Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree
-------------------	-------	---------------	----------	----------------------

1	2	3	4	5	Training in marketing skills is of great importance to this company
1	2	3	4	5	This company currently lacks the skills to carry out effective marketing
1	2	3	4	5	Most people in this company do not understand what marketing is
1	2	3	4	5	Marketing has become more important to this company over the past two years
1	2	3	4	5	Marketing will become more important to this company over the next two years
1	2	3	4	5	Marketing will become less important to this company in the future
1	2	3	4	5	Marketing is of limited use in a rapidly changing environment like Ukraine
1	2	3	4	5	Marketing in this company is limited by financial constraints

SECTION 3. ORGANISATION OF MARKETING

15. Does your company have a separate marketing department?

Yes No What is it called? _____

16. Are marketing activities part of the sales/ trade/commercial departments?

Yes No

17. What other functions are organised into individual departments in your company?

1 Sales/Trade/Commercial

2 Purchasing

3 Personnel

4 Finance

5 Operations

6

Other _____

18. Which of the following operations are carried out in your organisation and which department has responsibility for them? Tick as many as are carried out.

FUNCTION	DEPARTMENT
Selling	_____
Advertising	_____
Promotions	_____
Public relations	_____
Setting prices	_____
Market research	_____
Competition research	_____
Developing new products	_____
Sales Forecasting	_____
Product quality	_____
Planning	_____
Customer service	_____

19. To what extent do you agree or disagree with the following statements?

Strongly Agree	2	No Opinion	4	Strongly Disagree	
1	2	3	4	5	Marketing in this company has a lower status than sales/trade
1	2	3	4	5	Marketing and sales work closely together
1	2	3	4	5	It is difficult in this company for marketing and sales to work together
1	2	3	4	5	Marketing has higher status than other functional departments
1	2	3	4	5	Which _____ Marketing has lower status than other functional departments
1	2	3	4	5	Which _____ Marketing works closely with other functional departments
1	2	3	4	5	Which _____ Marketing does <u>not</u> work closely enough with other functional departments
					Which _____

SECTION 4. MARKETING OPERATIONS AND PLANNING

20. What do you understand by the term "marketing research"?

21. Do you conduct marketing research?

- | | |
|---|--------------------------|
| 1 | Not at all |
| 2 | Occasionally as required |
| 3 | Continuously |

22. Do you use any of the following external marketing services? Tick as many as apply

- | | |
|-------------|----------------------------|
| 1 | Advertising agency |
| 2 | Public relations company |
| 3 | Marketing research company |
| 4 | Marketing consultants |
| 5 | |
| Other _____ | |

23. How do you decide what price you will charge for the products you sell?
Interviewer to rank importance of unprompted responses

- | | |
|---|----------------------------------|
| — | How much the customer will pay |
| — | What the competition is charging |
| — | Our cost plus a set margin |
| — | Other _____ |

24. When you set prices for the products that you sell what objectives do you have in mind? Interviewer to rank importance of unprompted responses

- | | |
|---|---------------------------------------|
| — | To make the maximum profit |
| — | To sell as much as possible |
| — | To increase sales by a planned amount |
| — | To survive in a competitive market |
| — | Other _____ |

25. What methods do you use to advertise and promote your products/services?

- 1 Telephone selling
- 2 Television advertising
- 3 Poster advertising
- 4 Radio advertising
- 5 Newspaper advertising
- 6 Magazine advertising
- 7 On public transport
- 8 Direct mail
- 9 By catalogue
- 10 Leaflets and brochures
- 11 In-store promotions
- 12
- Other _____

26. How do you decide what products you are going to sell?

- 1 We continue to sell what we always have
- 2 We ask our customers
- 3 We look at what the competition are selling
- 4 We see what types of product our suppliers are offering
- 5 We develop our own new product ideas

27. Do you have a business plan for the next two years?

- 1 Yes
- 2 No

28. If Yes, Is marketing a part of the plan?

- 1 Yes
- 2 No

29. If Yes, What role does marketing have in the development and execution of the business plan?

- | <u>Development</u> | | <u>Execution</u> | |
|--------------------|----------------------------|------------------|----------------------------|
| 1 | No role | 1 | No role |
| 2 | A limited role | 2 | A limited role |
| 3 | A major element | 3 | A major element |
| 4 | Marketing directs the plan | 4 | Marketing directs the plan |

30. If you have a marketing plan which elements do you include?

(Interviewer to first circle any of the following which are mentioned without prompting)

<u>Un-prompted</u>		<u>Prompted</u>
1	The company's strengths and weaknesses	1
2	Opportunities and threats	2
3	Environmental analysis	3
4	New product development	4
5	Pricing policy	5
6	Advertising and promotions plans	6
7	Distribution policy	7
8	Target rates of sales, market share or financial return	8
9	Ways of marketing existing products	9
10	Management of marketing	10
11	Sales management	11
12	Other _____	12

SECTION 5. MARKETING STRATEGIES

31. When you think about the next two years what best describes your strategic aims?

- 1 Survive in a difficult market
- 2 Maximise your short-term profits
- 3 Build your long-term market position

32. In terms of market share, what is your company's present position?

- 1 The largest share (market leader)
- 2 The second or third largest share (market challenger)
- 3 A smaller share (market follower)
- 4 A niche player

33. Which of the following best describes your present market objectives?

- 1 To achieve steady sales growth
- 2 To achieve rapid sales growth
- 3 To defend current position and survive in the market
- 4 To leave the market
- 5 Other _____

34. What best describes the means you are using in trying to achieve this objective?

- 1 By reducing costs
- 2 By improving the performance of our employees
- 3 By taking business from our competitors
- 4 By exploiting emerging markets (or market segments)
- 5 Other _____

35. On the whole are your prices higher, lower or the same as your main competitors?

36. On the whole is the quality of the products you sell higher, lower or the same as your main competitors?

37. Which of the following best describes the market that you target?

- 1 The whole market
- 2 Individual market segments
- 3 Individual customers

38. What do you think are the most important elements in gaining more business in your market?

39. Thinking about the last question and the nature of your competition how important, on a scale of one (high importance) to five (low importance), would you say that the following are in gaining more business?

- ___ Having lower costs
- ___ Having better designed and performing products to sell
- ___ Offering a wide range of products
- ___ Having lower prices
- ___ Our company's reputation
- ___ Researching the market
- ___ Good relations with important suppliers
- ___ Good relations with key customers
- ___ Advertising and promotions
- ___ Offering credit terms
- ___ Personal selling skills
- ___ Other _____

40. Which three of the above factors would you say are the most important in gaining more business?

- 1 _____
- 2 _____
- 3 _____

41. In which areas do you believe that you currently have an advantage over your major competitors? Tick all mentioned without prompt.

- ☐ Having lower costs
- ☐ Having better designed and performing products to sell
- ☐ Offering a wide range of products
- ☐ Having lower prices
- ☐ Our company's reputation
- ☐ Researching the market
- ☐ Good relations with important suppliers
- ☐ Good relations with key customers
- ☐ Advertising and promotions
- ☐ Offering credit terms
- ☐ Personal selling skills
- ☐ Other _____

42. In what areas do you believe that your competitors currently have an advantage over you? Tick all mentioned without prompt.

- ☐ Having lower costs
- ☐ Having better designed and performing products to sell
- ☐ Offering a wide range of products
- ☐ Having lower prices
- ☐ Our company's reputation
- ☐ Researching the market
- ☐ Good relations with important suppliers
- ☐ Good relations with key customers
- ☐ Advertising and promotions
- ☐ Offering credit terms
- ☐ Personal selling skills
- ☐ Other _____

SECTION 6. ORGANISATIONAL CHARACTERISTICS

I would like now to ask you some questions about your company's performance that will enable me to better understand your organisations marketing characteristics.

43. What was the turnover of your company in the last financial year?

44. What was the profit or loss of your company in the last financial year?

45. What was the return on investment of your company in the last financial year?

46. What was your market share in the last financial year?

47. What was the market share of your largest competitor in the last financial year?

50. For each of the following measurements did your company perform better, worse or on target compared with the objectives set in the last financial year?

	BETTER	ON TARGET	WORSE	DON'T
KNOW				
Profit	1	2	3	4
Sales	1	2	3	4
Cash Flow	1	2	3	4
Market Share	1	2	3	4
R.O.I	1	2	3	4

51. In the last financial year, for each of these measures, how did your company perform relative to your major competitors?

	BETTER	SAME	WORSE	DON'T
KNOW				
Profit	1	2	3	4
Sales	1	2	3	4
Cash Flow	1	2	3	4
Market Share	1	2	3	4
R.O.I.	1	2	3	4

Appendix 2. Photographs of cases, sales literature, examples of advertising and local journalism.



EXHIBIT 1 - Case A: Kiev Central Department Store



EXHIBIT 2 - Case D: Nika



EXHIBIT 3 - Case B: The House of Gifts



EXHIBIT 4 – Case C: Kashtan



EXHIBIT 5 – Case E: Budynok Odiahu



EXHIBIT 6 - Case G: Ukraina Department Store



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EXHIBIT 7 – Sales Literature, Case C: Kashtan



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EXHIBIT 8 – Sales Literature, Case B: The House of Gifts



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Aston University

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EXHIBIT 13 – Product Availability



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EXHIBIT 15 – Product Availability, Cases A and G