Understanding marketing development in the Czech Republic

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Abstract The development of market oriented strategies and marketing programs in the Czech Republic has been hampered by a lack of understanding by managers of what these concepts mean. A study of “old state enterprises” clearly suggests that until dramatic changes are made in transforming organizations, it will be some time before these firms will develop appropriate marketing practices. One of the most critical roadblocks to change is the current managerial cadre. Their experiences under the socialist system form the way they approach marketing. Even those at the top level of organizations have a limited understanding about marketing. Given their age and position, we should not expect to see dramatic changes in the near future. Also, the slow movement toward economic transformation and the general turbulence in the Czech economy thwart movement toward marketing practices.

Introduction
Economic transformation in the Czech Republic has been successful in moving the vast majority of the 1,400 “old state enterprises” into the private sector. Also, transformation brings hope that the new private firms will be adopting modern management practices, especially in marketing. This article reports on continuing research in the Czech Republic, whose purpose is to understand how far marketing development has evolved in the past ten years.

Because Czech firms were required to include specific proposals for developing and introducing “commercial” programs in their privatization plans, it appeared that marketing might be enshrined in their new behaviours. Although the list of these “commercial” practices was not inclusive as the Western definition of marketing, it did include key elements such as new product development, market-based pricing and improvements to distribution systems (Matesova, 1994, 1997)[1].

This article begins by reporting the results of a study of Czech managers responsible for the introduction of marketing into their organizations. The research focuses on what they know about market orientation and marketing as well as the factors that affect their knowledge. The discussion then proceeds to examine three issues concerning what is needed to confront the future. The overall finding is that while these managers have some ideas about market orientation and marketing, it may not be sufficient to allow their firms to compete in the evolving market economy.

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Methodology

Research design

The study was based on personal in-depth interviews with 82 “top managers” currently responsible for marketing drawn from the approximately 1,200 “old state enterprises” that had gone through restructuring and privatization between 1991 and 1997. The questionnaire was based on market-oriented studies conducted in Western market economies as well as a series of in-depth case studies from four Czech firms (Kohli and Jaworski, 1990; Narver and Stater, 1990; Slater and Narver, 1995; Savitt, 1998). The sampling frame as well as the field research was provided by Stemmark, a Prague research firm. A convenience sample of 82 firms was drawn from the population; individual firms were included based on a number of factors. It had to be either a joint stock company or a limited liability company; there could be no foreign ownership or significant foreign participation in management. The firm had to compete with foreign firms either in the domestic market or in foreign markets. The minimum size was 250 employees. The firms could not be in the distributive trades, wholesaling or retailing. Further, the sample proportionately represented consumer and industrial goods, as well as the three economic regions of Bohemia, Moravia and Prague. The sample characteristics were selected to provide the broadest representation of firms so as to maximize the opportunities to learn about marketing.

Of the 82 firms participating in the study, only 76 were used in data analysis. The six that were eliminated met all of the criteria; however, they sold their output exclusively to one client, in all cases the firm, which they had been a part of prior to restructuring. It was felt that although private, they were not significantly different than they had been before restructuring.

A trained researcher interviewed one person from each firm. The questionnaire asked for responses to a series of Likert scales, the ranking of a variety of practices, demographic information about the individual and firm, and a series of open-end questions. Each of the questions went through a three-phase process of translation and then back translation as a means of making certain that the English concepts were clearly understandable in Czech.

The respondents were from what is known as “top management” in Czech firms. They had responsibility for the development of marketing at that level as well for implementing and managing marketing activities in the organization. As a group they served with people with similar responsibilities in the other business functions of their respective firms. They had a variety of titles, ranging from marketing director to marketing manager to sales manager to manager of strategy. Over 90 per cent reported directly to the firm’s managing director. Although the scope of their authority was difficult to define, they were the individuals responsible for developing marketing in their firms.

Adaptation of concepts

One of the challenges of this research was to minimize the effect of imposing foreign concepts on respondents and at the same time understanding what they
knew about market-oriented practices. This approach differs dramatically from the methodologies used in other studies of market orientation in transforming economies (Norburn et al., 1990; Cox et al., 1998). Market orientation in the western literature has a common core of elements that were established in the earliest research. The set includes “three behavioral components – customer orientation, competitor orientation, and interfunctional coordination – and two decision criteria – long term focus and profitability” (Narver and Slater, 1990). The level of market orientation is measured by:

...the degree to which the business unit (1) obtains and uses information from customers; (2) develops a strategy which will meet customer needs; and (3) implements that strategy being responsive to customer needs and wants (Ruekert, 1992).

To discover what Czech managers understood about market orientation, exploratory research was conducted with 17 marketing managers from four different firms. Among these were two major petrochemical firms in the midst of privatization, Kaucuk and Spolchemie, a new entrepreneurial venture, Joran CS, and the Czech branch of Hewlett Packard (Savitt, 1998). Among the 17 there was almost universal agreement, 15 out of 17 (88.2 per cent) about three components. These were “prompt response to consumer needs and wants”, “collection and use of market information”, and “cooperation of all departments in product adoption and development decisions”. Although not exact, they are similar to those found in western concepts. Of the remaining ten responses the three most frequent were “full-cost pricing”, “product decisions managed by Research and Development”, and “short run planning” respectively five, four and three. They were included in the study to ensure that as wide a set of elements as possible would be evaluated in the larger study.

**The findings**

Respondents were asked to define market orientation in two different ways. First, they were asked to formulate a definition based on the six components that had been identified in preliminary research and then they were asked to provide their own definition. The first question was: “Which of the following three items, when combined, represents your understanding of the most appropriate business strategy for a market economy?” Their responses were compared to those developed in the exploratory stage. The underlying hypothesis was that the two sets would be similar. Because of differences in the two research methods, statistical evaluation is not appropriate. The responses to they survey questions and from the preliminary research are found in Table I.

Respondents were generally unable to agree as to what a common core element of market orientation might be. Only two, “collection of market information” and “prompt response to consumer needs and wants” form a single statistically significant combination. Responses to other elements were scattered. This strongly supports the hypothesis that these Czech managers are uncertain about market orientation. What is important about the finding is that
it clearly shows that these managers have formed some ideas of what it is to be market oriented. As limited as it may be, it is suggestive of a change in thinking. This may well be the precursor of a managerial innovation. Findings elsewhere in the study help to confirm this. These respondents were asked to evaluate the importance of various marketing goals and objectives. Out of a set of five, only two were statistically significant, namely, “their major goal is to retain customers” and “the main objectives of the firm are driven by customer satisfaction”. In the former, 75 per cent strongly agreed with the statement; in the latter 56.6 per cent strongly agreed with statement. How prevalent these findings may be is difficult to estimate. What is important is that they have begun to deal with the correct issues.

An open-end question then asked these managers to provide a definition of market orientation: “How do you define market orientation?” Extensive content analysis of the written responses provided seven categories. “Customer satisfaction” was the most frequent response from 33 of the 63 who answered the question. Other categories are: “adjusting products to markets” (seven), “better selling practices” (six), “selling directly to consumers” (five), and “competitive pricing” and “maximizing profitability” (each three). Two responded, “don’t know”. What is interesting here is that in spite of sufficient space and time, the respondents could not or would not define market orientation. This leads to the conclusion that they were uncertain about what principles they should use to refocus their firms. The finding is also the source of concern about future progress; recall these are the managers responsible for developing and implementing marketing programs in their organizations! On the other hand that whatever the cause, these managers do identify consumer

<table>
<thead>
<tr>
<th>Items</th>
<th>76 respondents percent responding</th>
<th>17 exploratory interviews percent responding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection and use of market information</td>
<td>86.8&lt;sup&gt;a&lt;/sup&gt;</td>
<td>88.2</td>
</tr>
<tr>
<td>Prompt response to consumer needs and wants</td>
<td>80.3&lt;sup&gt;a&lt;/sup&gt;</td>
<td>88.2</td>
</tr>
<tr>
<td>Cooperation of all departments in product adaptation and development</td>
<td>39.5</td>
<td>88.2</td>
</tr>
<tr>
<td>Full cost pricing</td>
<td>38.2</td>
<td>29.4</td>
</tr>
<tr>
<td>Product development decisions managed by Research and Development</td>
<td>30.3</td>
<td>23.5</td>
</tr>
<tr>
<td>Short run planning</td>
<td>21.1</td>
<td>23.5</td>
</tr>
</tbody>
</table>

Notes: <sup>a</sup> T-test of means, significant at 95 per cent level; <sup>b</sup> Statistical comparison between the two data sets is not warranted because of dramatically different methods

Table I. What it is to be market oriented
issues. In itself this is a very hopeful sign. Time will tell if the concept is the basis of policy and marketing programs.

What is marketing?
The study also developed information about what these managers knew about marketing. While there is no presumption that marketing is a precursor of market orientation or vice versa, it was hypothesized that those firms that had established a marketing department would better understand marketing. Of the 76 firms, 75 per cent or 57 had marketing departments; of that group 86 per cent were created since 1991. Analysis of firms with marketing departments and firms without showed no significant differences with regard to the respondents’ understanding of market orientation or marketing. Nor were there any significant differences when the responses were examined in terms of the number of years that they had had a marketing department.

As with market orientation two separate questions were used to gather information about their knowledge of marketing. For those 57 firms with marketing departments, respondents were asked to list the functions that were included in marketing. The question asked: “For which of the following functions is the marketing department responsible? The results are shown in Table II. Of the eight functions, only two were mentioned more than 90 per cent of the time – advertising and marketing research. Here advertising does not connote "promotion" in the western sense but rather the narrow concept as reklam or advertising. Marketing research is second with 92.3 per cent; customer service is third with only 72.3 per cent of the firms.

Interesting insights come from the content analysis of the open-end question, “What is marketing?”. “Customer service” is conceived basically in terms of delivery confirmation rather than an entire set of factors linked to customer satisfaction. Of interest, note the relative low incidence of “physical distribution and logistics” among the responses. These are still seen as part of production department. Only 38.5 per cent of the respondents reported that “Sales” was part of their marketing department. This does not mean that sales activities do not take place, but that the function is located elsewhere. It reflects the ways in which functions had been assigned in Czech firms in the past (Pearce and

<table>
<thead>
<tr>
<th>Function</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>95.4</td>
</tr>
<tr>
<td>Marketing research</td>
<td>92.3</td>
</tr>
<tr>
<td>Customer service (delivery confirmation) and response</td>
<td>72.3</td>
</tr>
<tr>
<td>Pricing</td>
<td>59.4</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>54.7</td>
</tr>
<tr>
<td>Sales</td>
<td>38.5</td>
</tr>
<tr>
<td>New product development</td>
<td>35.4</td>
</tr>
<tr>
<td>Physical distribution and logistics</td>
<td>13.8</td>
</tr>
</tbody>
</table>

Table II.
The role of marketing in those firms with a marketing department.
Čahr, 1994). Once again the findings show some reflection of more traditional organizations but they also point to the work required to move most of these forms in that direction. The challenge must be seen in the goal of achieving interfunctional coordination. If marketing is disjointed, it will be much more difficult to achieve this type of coordination throughout the firm.

All respondents replied to the open-ended question asking them to define marketing. Of the 76, 69 answered the question, once again without great detail in spite of the opportunity to do so. Content analysis created four categories: market research surveys (39), customer satisfaction and sales promotion and selling (13 each) and management of the firm (one). The prominence of marketing research can be understood because it is the first step required for developing marketing. For example, when Nestlé entered into a joint venture with the Czech confectioner Cokoladovny, its first step was to establish a marketing department to “provide market research into new products, changes and improvements in packaging” (Hitchens et al., 1995). The two petrochemical companies studied as part of the exploratory research began their marketing programme by developing market research. While their activities are less sophisticated than what is found in comparable western firms, they are nevertheless major steps towards understanding the market. Their efforts have been stimulated by practices of foreign firms and are supported by a wide array of both domestic and international marketing research firms located in Prague. The willingness to engage in marketing research is a major step forward.

**Limits to market development**

There are a number of factors that affect the development of market orientation and marketing, among these are time and the restructuring process, managerial characteristics and market turbulence. Each is examined in turn. While it is difficult to determine which have had the greatest impact, it appears that managerial characteristics are the most important.

*time and the restructuring process*

How quickly marketing practices will diffuse is difficult to estimate. Evidence from other transforming economies suggest that it takes a long time. Even in the best circumstances, where there were clear directives and appropriate resources, the most rudimentary program takes two to three years to establish and more time to begin operations (Edwards and Lawrence, 1994; Johnson et al., 1995; Young, 1993).

Introducing marketing into an organization is not simple; it requires the replacement of long-held attitudes and behaviors. Changing, let alone removing the past conditions will take a long time and great effort. These relationships were based on political and social factors as well as economic and have been generally impervious to change (Elster et al., 1998). Dissolving them will take time; building new ones in a turbulent environment will be difficult. There are no instructions and no maps. Except for new ventures and for those cases...
where foreign participation is present, it is probably all too early to even expect major marketing developments, perhaps the most radical of all the required changes.

The privatization process itself, in spite of a professed goal of implementing appropriate commercial policies, has not gone very far. What we are seeing is “shallow restructuring”, that has not gone beyond changes in ownership and some financial restructuring. Further, many “old state enterprises” are still controlled by the state banking system. As a result “complex patterns of cross-ownership have emerged within the enterprise sector, as many private or privatized enterprises are partly owned by state-owned enterprises . . . seven of the nine largest funds which now own the bulk of shares in privatized enterprises were established by the large state-controlled banks” (Elster et al., 1998). Since the banks are only in the initial stages of their own privatization, it is in their best interests to keep the assets of these enterprises as robust as possible. Investing in marketing as important as that may be for the individual firms is not in their best interest of the banks because it reduces the firm’s market value. Although the firms in this study have private owners, they do not have full control over critical decision that is part and parcel of operating the business. How soon they will have greater discretion to change fully their ways of doing business it not clear. Also, many of the “new owners” are the previous managers who are not capable of moving their firms towards the market with great skill (Clark and Soulsby, 1999).

Managerial characteristics
Changing managerial practices require direction from the top, from people who have an understanding of what is required. The findings show that the responsibilities for creating marketing initiatives remain in the hands of those of the past. There is little reason to expect that they will be replaced over the next three to five years. Even if knowledgeable marketing managers were to appear soon, it is doubtful that the investment policies will soon change. Introduction of market orientation requires leadership from the top of the organization (Jaworski and Kohli, 1993). While the managers in this study are at the appropriate level in their organizations to implement change, they have neither the knowledge of marketing nor the financial resources to undertake such action.

The demographic characteristics of current managers also work against major changes in the short run. Hence we should expect a continuation of the post-communist senior management practices. They will continue “to invoke managerial practices developed before 1989 – it is not simply that such practices continue to work but that is all they know” (Clark and Soulsby, 1996). As a result they maintain their inherited reputation for low-level innovativeness (Myant et al., 1996). They shy away from dramatic shifts. “Instead of undertaking substantial organizational and behavioral changes, they have confined themselves to labor shedding and real wage cuts” which
been partially successful in lowering costs but have had no effect on increasing much needed revenues (Elster et al., 1998).

What do they look like? Over 86 per cent are 35 years or older with over one-third over 50 years old. All have had common experiences with the economic and political system of the past. They grew up with central planning, that process shaped behaviors and management skills. Over 90 per cent completed their formal education before 1990. They have a limited formal exposure to the basic management skills, although they are skilled engineers most know little about accounting, finance or human resource management let alone marketing. Finally, 77 per cent have worked for their present enterprises for more than four years and more than 40 per cent have worked for the present firm for more than 16 years. Simply, they are more closely linked with the past rather than the present. In no way is this meant to suggest they are incompetent or ineffective in what they know or do rather it is meant to suggest that there is a low probability that they will shift toward market-oriented management. This is not to suggest that they will not ignore the development of marketing, rather it is to temper the expectations of how soon their efforts will begin and how successful they will be.

The responsibility for change and the introduction of new management programmes remains with the old management. These individuals, often from engineering and technical backgrounds, are good at operating facilities but have no understanding of marketing. Their previous experiences did not require them to worry about demand; it was a given. Their main responsibility was meeting production quotas. These firms are often unable to hire new managers. This stems from the absence of a management cadre in the Czech Republic with either the education or market experience in marketing. Perhaps most important is the belief that the current managers could easily adapt to the new conditions by observing how others practiced marketing. Basically, marketing was not thought to be difficult. It was argued that they had experience from previous changes, they had the legitimacy to see changes through to the end. Czech managers feel that they are better at “making do” than their cohorts elsewhere in the region and that they can easily adapt to the new circumstances (Newman and Nollen, 1997). This is true in a limited sense. Evidence suggests they are “well-qualified to make short-run adjustments to the production process, for example, by closing particular product lines, changing the product mix toward more saleable goods and reorganizing the quality as a result of using cheaper or more expensive inputs” (Estrin et al., 1995). As important as these may be they do not represent an integrated marketing plan. The challenges of thinking in a market-oriented context appear to be beyond their grasp even when they recognize that that is where they must go.

**Market turbulence**

Czech managers, at all levels, face extreme market turbulence as a result of transformation. Turbulence affects the steady progress of an organization and includes both environmental and external components and organizational or internal components (Davis et al., 1991). External and internal turbulence can be independent of one another. There may be turbulence in an organization that
operates in a relatively tranquil environment and a tranquil organization may operate in a turbulent setting. Neither represents the case in the Czech Republic; both external and internal turbulence feed on one another. External pressures to change directly impact the internal environment and changes made internally affect the external environment. Managers are faced with trying to manage in the new economy and with new and changing resources within their firms. External conditions include fluctuating currency, abrupt changes in supply and demand, the unseen entry of foreign competitors, and uncertainty in the political and social environments. They are more dramatic than those faced by similar Western managers. Not only are Czech managers challenged by the need to learn new concepts, they have had to learn how to cope with constant change, a totally new condition (Harris, 1997). As a result “there are reasons to believe that the highly turbulent conditions characteristic of the east European economies in transition may not be conducive to successful learning process” (Vilinger, 1996). What managers may learn are short-run skills rather than those needed to manage in the long run. Conceptually their experiences may have value if they are able to put them in the appropriate context. Experience from developed market economies shows that “organizations that operate in the more turbulent markets are likely to have to modify their products and services continually in order to cater to customers’ changing preferences” (Lusch and Lacznki, 1987).

The preliminary research suggested that that the effects of turbulence on the development of marketing must be understood. Interviews with the 17 marketing managers shaped this section of the larger study. Four external and four internal turbulence factors were mentioned by all of the 17 respondents. Respondents were asked to rank the importance of each of the factors using a four-point Likert scale, ranging from “not important” to “very important”. The results are shown in Table III.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Not important</th>
<th>Slightly important</th>
<th>Important</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing unemployment</td>
<td>11</td>
<td>22</td>
<td>27</td>
<td>16</td>
</tr>
<tr>
<td>Increasing competition</td>
<td>2</td>
<td>14</td>
<td>29</td>
<td>31*</td>
</tr>
<tr>
<td>Increasing costs of imports</td>
<td>0</td>
<td>7</td>
<td>25</td>
<td>44*</td>
</tr>
<tr>
<td>Decline of purchasing power</td>
<td>4</td>
<td>23</td>
<td>33</td>
<td>16</td>
</tr>
<tr>
<td>Restructuring of the firm</td>
<td>13</td>
<td>16</td>
<td>23</td>
<td>24**</td>
</tr>
<tr>
<td>Change in orientation from production to profit</td>
<td>10</td>
<td>18</td>
<td>28</td>
<td>20</td>
</tr>
<tr>
<td>Market-based reward system for managers</td>
<td>4</td>
<td>18</td>
<td>37</td>
<td>15</td>
</tr>
<tr>
<td>Introduction of a marketing department</td>
<td>6</td>
<td>13</td>
<td>33</td>
<td>24</td>
</tr>
</tbody>
</table>

**Table III.** Turbulence affecting market-oriented development in the past three years

**Notes:** Measured on a four-point Likert scale

* T test of means
* Significant at $p > 0.01$
** Significant at $p > 0.001$
Two external factors “increasing competition” and “increasing costs of imports” are statistically significant. Only “restructuring the firm” as an internal factor is statistically significant although not at the same level. The latter gives credence to the role of internal turbulence with regard to development of marketing programmes. Of course, the source of restructuring stems from external forces associated with transformation. Both of the external factors come from forces outside of the Czech Republic. The increase in competition is attributable to the influx of foreign firms creating the need to consider development of response methods. Marketing plays a key role in that process. Increasing costs of imported materials, on the other hand, limits the resources to engage in more competitive practices. How these firms will respond takes many forms. Some obviously will go out of business while others will attempt to respond. The most important aspect of turbulence is that managers are facing challenges that they have not previously had to deal with.

Transformation has brought new conditions to Czech firms. The “costs of doing business” increased because of the loss of familiar suppliers as a result of going out of business, the need to import items that had been previously purchased at home, and the increase in the costs of utilities and services, and taxes. Competition was introduced and the new foreign competitors offered new goods and services often at lower prices with increased services. For many, this represented the first time that they had to compete. Most had enjoyed monopoly positions. Both represented new challenges to managers. In the first case, they had to develop methods to secure new suppliers. In the second, they had to contemplate how to thwart the marketing activities that the competitors were using. The global goal was to introduce marketing, the starting point was to formulate ideas about what marketing is and the action that was taken was to engage in marketing research.

**About the future**

There is much to be learned from further research both in the Czech Republic and across other transforming nations in Central Europe. While the present findings represent the first milestone others are needed. Replication of this research over the next few years is important if any conclusions about progress are to be made. Further, the scope of the research must be expanded to go beyond firms in the industrial sector to the service sector and more attention must be given to the effects of foreign firms, both as competitors and investors. There is a strong view that foreign firms will speed up Czech practices but there is all too little evidence to draw conclusions about procedures and results. Similar research in other countries needs to be undertaken. While there are similarities among these countries, there are also important differences in managerial skills and attitudes towards change.

How far these findings can be extrapolated to other transforming firms in the other countries in the region is difficult to estimate. The limited knowledge about market orientation and marketing is probably very common in the “old state enterprises” in the region as well as state enterprises elsewhere. It is unfair
to suggest that all of the managers are the same, but is reasonable to believe that there will be similarities in many circumstances. Hungary, Poland and Slovakia enterprises are probably more similar to the Czech Republic than are the Baltics (Estonia, Latvia, and Lithuania), Bulgaria, Romania and the Slovak Republic. Managers in the former have probably moved further towards marketing practices than those in the latter.

The central challenge is how to advance marketing in Czech firms in particular and all firms in general. There will be no quick fixes. Several factors will accelerate the process. Foreign competition may have the greatest impact because it will directly confront national firms at home and in foreign markets. The explicit practices will be easily seen though the tacit knowledge that makes them work may be more difficult to observe and implement. Foreign firms will certainly train Czech managers who may bring marketing practices to local firms. Management education will be important in developing an understanding of marketing though this is a longer-term process than direct work. Management consultants will support the educational process but once again their influence will take a long time and will not be systemic across all firms.

As with the introduction of many management practices, one of the most important forces will be unique individuals who understand the rewards, create the opportunities, and take the risks involved. Czech, Hungarian, and Polish examples give credence to this view (Hewer, 1997; Savitt, 1997; Johnson et al., 1995). All of this must be considered in the larger context of whether post-communist management can be improved by replacing them with Western managerial approaches (Dickenson et al., 2000). Clearly, there is more to learn.

Note
1. Matesova worked at the World Bank. The comments do not necessarily represent World Bank policies.

References


