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## Marketing Approaches and Organization for Marketing in Ukraine\*

Irina Akimova\*\*

*The paper reports and analyzes findings about how Ukrainian companies of different types of ownership adopt marketing concepts and organize their marketing activity during the transition from a command society to a market economy. Constraints to the adoption of marketing concepts are identified and the correlation between company performance and the degree of the adoption is investigated. The study is based on the information collected through a survey of Ukrainian enterprises and used for a cluster analysis.*

*Der vorliegende Artikel referiert und analysiert Ergebnisse einer Umfrage unter ukrainischen Unternehmen. Er befaßt sich mit der Frage, wie Unternehmen verschiedener Eigentumsverhältnisse in der Zeit des Überganges von einer Kommandowirtschaft zur Marktwirtschaft Marketingkonzepte aufnahmen und wie sie ihre Marketingaktivitäten organisierten. Es werden Zwänge zur Übernahme eines Marketings identifiziert und der Zusammenhang zwischen dem Erfolg eines Unternehmens und dem Grad der Übernahme von Marketingkonzepten untersucht. Die gesammelten Daten wurden weiterhin für eine Clusteranalyse verwendet.*

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## 1. Introduction<sup>\*</sup>

Several years ago the Ukraine started its moving to a market-led economy. The process of transition requires fundamental economic, political and organizational restructuring of the society. It pushes the managers to change their traditional priorities from increasing production volume to identifying the appropriate target markets and developing products and services that meet the consumers' needs. It means the strong necessity for the business units to adopt and practise effective marketing.

However, the acceptance of marketing values and concepts is a gradual and contradictional process. The barriers to the adoption of marketing have been identified and widely discussed in the economic literature. On the macro level general constraints on the business development such as technology and capital gap, uncompetitive market structures, legislative gap, institutional and infrastructural constraints and political barriers, exist apart from the more specific barriers that influence the adoption of marketing (Thomas 1991). These specific constraints include the ineffective demand eroded by inflation, consumer attitudes developed in the conditions of chronic shortages and monopolistic structure of the economy (Ennew et al 1993; Shipley/ Fonfara 1993). On the micro level, the legacy of attitudinal and behavioral rigidities from the previous system, lack of marketing knowledge and skills and limited financial resources are referred as the main factors that slow the acceptance of marketing concept (Marinov et al. 1993; Akimova 1995).

The adoption of marketing goes through several stages that were analyzed by the academic writers both in Western societies and East European transitional economies (e.g. Hooley et al 1993; Kotler/ Levy 1969). Hooley et al (1990) identified four marketing typologies practiced by the firms in UK, as following: sales support, departmental marketing, a guiding philosophy for the whole organization and unres. They showed that these approaches demonstrated the stages of marketing adoption with the sales supporters being in the preliminary stages of this process and the marketing philosophers as having fully integrated marketing approach. Marinov et al (1993) used Hooley's methodology to investigate Bulgarian sample and identified four groups of firms including agnostics, companies with product orientation, sales/promotion orientation, and marketing orientation. They showed that in the countries with high degree of central control (like Bulgaria) a lot of companies are at the early production orientation stage and there is a movement towards the sales orientation stage. The acceptance of marketing values in Poland was investigated by Shipley and

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Fonfara (1993), the same process in Romania and Russia was analyzed by Naor (1986, 1990) and Hooley (1993).

A great deal of marketing literature was devoted to finding the correlation between the degree of marketing adoption and companies' performance (e.g. Lusch/ Laczniak 1987, Brooksbank 1991). Performance was defined relative to the companies' major competitors and took into account both financial and marketing performance. It was demonstrated that to remain successful in the long-term companies needed to adopt a higher degree of market orientation (Shaw 1995).

The adoption of marketing in the countries with transitional economies is connected with the pace of economic reforms and especially with the success of privatization (Shama 1993). The contradiction nature of the privatization process in the former Soviet Union was examined in economic literature (Sutela 1994; Rutland 1994; Kuznetsov 1994). It was pointed out that the positive effects of privatization are not automatic and that it does not convert a company to a genuine market orientation immediately (McDonald 1993). However, the adoption of marketing values in state and non-state sectors of the transitional economy was not investigated.

The research aims to:

- (1) analyze marketing functions and approaches to marketing used by Ukrainian firms in state and non-state sectors of the economy and the stage of marketing development in Ukraine;
- (2) identify the constraints to the adoption of marketing in Ukraine;
- (3) analyze the dimensions of marketing organization design at the Ukrainian firms;
- (4) examine status of marketing departments at Ukrainian companies and their integration with other functions;
- (5) investigate the correlation between company performance and the degree of marketing adoption in Ukraine.

The study of the adoption of marketing is based on the methodology proposed by Hooley et al (1993) and Marinov et al (1993) and used for the identification of marketing typologies in Hungary, Poland and Bulgaria.

## **2. Marketing environment in the Ukraine**

The process of economic transition to a market economy and adoption of marketing in the Ukraine takes place under high and variable inflation and under much economic and political uncertainty. Industrial production in the Ukraine has continued to decline until recently (1990= 100%, 1994= 39.4%, 1995= 34.4%). The Consumer Price Index has increased enormously since 1990

(1990=1, 1992=31, 1993=1696, 1994=16809, 1995=80038). During 1996 Ukrainian economy generally performed better than in 1995 but was still contracting. Gross Domestic Product decreased by 10% and industrial output by 4,3%. Financial stabilization remained a bright spot as inflation totaled 34.8% for the period and enabled the Ukrainian government to introduce its new currency, the hryvnya, in September 1996. Though official unemployment in the Ukraine is not high (0.5%), latent unemployment is said to 20%. During the phase of extremely sharp industrial decline the structural change measured by sector shares was rather insignificant.

The movement toward a free market economy is connected with the privatization. In the Ukraine it started in early 1993 with the issue of personal privatization certificates. Then small and medium scale privatization was initiated. The legal and regulatory environment of privatization continues to be characterized by ad hoc and often conflicting administrative directives of central and local authorities. These unpredictable elements in the business environment and enhanced by frequent changes in tax, customs, trade and other policies. Though the number of privatized industrial enterprises increased from 30.8% in 1993 to 54.1% in 1995 and in share of privatized companies in the total industrial output rose from 25.1% in 1993 to 45.2% in 1995, its progress fell short of expectations. Thus, the privatization program for 1994 was only fulfilled to 30%. In 1995 the record improved but privatization plan again was fulfilled only to 39% for large and medium size enterprises and to 59% for small-scale entities. About 66% of the total number of entities were privatized by employees and 34% were sold by more competitive means.

The most widespread method of privatization for large - and medium-scale enterprises was the sale of shares of privatized enterprises for 83% of the entities. However, this process was conducted superficially as only 30% of these enterprises sold more than 70% of their shares. The state had a controlling interest in every third privatized enterprise that obliges it to be responsible for the results of management

Currently, Ukrainian privatization is mostly of the insider kind. It creates insider control of the enterprise, not corporate governance by strong outside owners. At the same time the non-state sector of the economy continues to grow because of the increasing number of newly emerged private enterprises. The majority of managers both in state and non-state sectors understand the importance of marketing in a competitive environment but have little practical knowledge.

*Table 1: Sample Characteristics*

	Total sample (N=221)
	(%)

<i>Type of ownership</i>	
State-owned enterprises	36.7
Joint-stock companies	29.4
Private firms	23.4
Joint ventures	3.7
Co-operatives	6.9
<i>Number of employees</i>	
Less than 100	38.8
100-1000	32.4
More than 1000	28.8
<i>Product classification</i>	
Capital equipment	36.6
Construction	20.8
Materials and components	10.2
Fast moving consumables	9.3
Consumer services	18.5
Industrial services	4.2
Other	0.5

### 3. Method

The data was collected as part of a broader study of marketing environment, adjustments, attitudes, organization and marketing strategies in the Ukraine. The research was carried through in October-November 1995 and included two sequential stages. At the qualitative stage 15 in-depth interviews were conducted by the specially trained graduate students of Economic Department from Kharkov State Polytechnic University with the marketing managers of the enterprises. The in-depth interviews explored four main areas. First, the role of marketing in the Ukrainian firms was considered. Second, the stages of the development of marketing concept in the Ukraine and the constraints to its adoption were investigated. Third, the impact of the present economic environment on marketing management was considered. Fourth, the organization for marketing in the companies was investigated.

The in-depth interviews helped to determine the format and details of the questionnaire used at the quantitative stage. The items in the questionnaire were rated on a five-point Likert scale. Then a survey of 255 firms from the eastern part of Ukraine (the most industrialized region) was conducted using personal interviews. In all, 221 usable responses were obtained. The sample was structured to provide data from manufacturing companies and services in small, medium and large categories. It was not designed to be representative by firm's size. It was divided nearly across the small, medium and large companies to facilitate meaningful subsequent comparative analysis. The sample included state-owned, joint-stock and private companies, so-operatives and joint ventures from the different sectors of the Ukrainian economy. Profile of the sample is presented in Table 1.

## **4. Findings and discussion**

### **4.1. Marketing approaches**

Respondents were asked how well each of 14 statements described the role of marketing in their company. Around one-third of the enterprises attacked a high degree of marketing importance in sales support, promoting products and services and establishing relationships with customers (34.5%, 31.5% and 35.2% respectively). Only 3.7% of the enterprises reported the absence of marketing and 6.1% of the firms pointed out that the meaning of marketing is, for them, unclear. More than one-fourth of respondents reported engaging such marketing functions as analyzing the market (27.5%), adaptation to the market (25.4%) and identifying and meeting customer needs (27.5%).

Table 2 presents the results of the survey of the Ukrainian managers concerning role of marketing at their enterprises by different types of ownership.

As can be seen from the Table 2, private firms and joint ventures responded they took steps to identify customer needs and establish contacts with the customers, gather competitive information and analyze the market more often than state-owned enterprises and joint-stock companies. The proportion of private firms reported no marketing activity was one half low in that of the state-owned firms and joint-stock companies. None of joint ventures reported the absence of marketing. At the same time, private firms and joint ventures reported marketing as a guiding philosophy more often than the other types of the enterprises.

*Table 2: Role of Marketing in the Ukrainian Companies of Different Types of Ownership*

Attitudes	Percentage of the enterprises reported “Strongly Agree” and “Agree”				
	State-owned enterprises (n=29)	Joint-stock companies (n=28)	Private firms (n=21)	Joint ventures (n=6)	Co-operatives (n=4)
Primarily a sales support function	75	82.2	81.5	100	90.9
Promoting products and services	72.4	81.3	84.3	80	90.9
Identifying and meeting customer needs	75.5	75	86.3	81.7	81.7
Image and positioning of products	66	67.2	76.4	100	90
Planning and managing	71.2	67.2	88	60	100
Decide on quality and quantity of production	70.4	70.3	78	75	72.8
Gathering competitive information	71	68.8	90.2	100	75
Analyzing the market	68.3	64.5	85.3	90	60
Adopting to the market	67.5	69.3	88.1	100	72.8
Relationships with customers	78.6	79.4	93.5	100	90
Guiding philosophy for the company	32.5	46.2	51	66	30
What sales/marketing departments do	56	41.2	26.4	20	60
Unclear in our company	27.3	22.2	19.6	0	20
Non-existent in our company	12.8	11.2	6	0	10

Responses of Ukrainian managers about marketing attitudes and approaches were used for factor analysis to identify a consistent set of dimensions underlying these approaches and ensure that the factors were orthogonal. Factors were constructed by the method of principal components and the loadings was rotated using the VARIMAX principle. Kaiser's test gave four-factor solution (eigenvalue>0.80). Factors were easily interpreted explaining 70.9% of the variance in the original 14 variables. The factors indicate four approaches to the adoption of marketing from agnostics (factor1), through production orientation (factor 4), sales/promotion orientation (factor 3) to



marketing orientation (factor 2). Results of factor analysis are presented in Table 3.

*Table 3: Factor Analysis of Ukrainian Sample*

Factor name (% of variance explained)	Variables loading on factor	Loading
Agnostic (43.7%)	Non-existent in the company	0.87
	Unclear in the company	0.85
Marketing orientation (11.3%)	Gathering competitive information	0.86
	Relationships with customers	0.66
	Adaptation to the market	0.64
	Guiding philosophy	0.58
	Image and positioning of the products	0.53
	Identifying and meeting customer needs	0.43
	Analysis of market	0.57
	Sales function	0.85
Sales orientation (8.7%)	Promoting products and services	0.81
Production orientation (8%)	Planning production	0.90
	Decide on quality/quantity of production	0.61

Then a cluster analysis was used to identify groups of enterprises practicing different approaches to marketing. The factor scores were used as the input data to a quick cluster routing on SPSSPC+. The cluster analysis was validated by relating cluster membership to the original statements using one-way ANOVAs. The validation was very positive with the cluster means being significantly different at the 0.000 level. Clusters were interpreted with Duncan multiple range tests. Results are presented in Table 4 where high values are indicated with round brackets and low values are underlined.

*Cluster 1:* This cluster includes 4.5% of enterprises identified by a production orientation. The main emphasis is on planning and managing production and deciding on quality and quantity of production. Organization tends to be oriented towards production. Companies from this cluster use some sales and promotional aspects of marketing and demonstrate little emphasis on adaptation to the market and relationships with customers. Marketing is not considered as a

guiding philosophy for the company as a whole and is confined to the special departments (usually, sales or planning ones). Some attention paid by the firms from this cluster to building customer relationships and sales support and promotion activity shows the movement from a production orientation to a sales one.

*Cluster 2:* Only 1.5% of Ukrainian firms cluster into an agnostic group. They respond that marketing concept is unclear and non-existent in their companies. In large part, they do not participate in any of the normal marketing activities. Even promotional aspects of marketing are absent in their performance.

*Cluster 3:* The largest cluster is identified by a sales orientation and is associated with 60% of the respondents. The main emphasis is on promoting products and services, sales support and creating image and positioning products. A great attention is paid to building customer relationships, gathering competitive information for the market analysis and adaptation. Marketing is not seen as a guiding philosophy of the organization and is confined to the sales or marketing departments. Companies from this cluster make efforts to analyze market and identify and meet customer needs, but the emphasis is primarily reactive and limited to the sales support function.

*Cluster 4:* About one-fourth of the companies fall into a cluster with marketing orientation. They emphasize on identifying and meeting needs of the customers. To reach this aim, the companies gather competitive information and build relationships with the customers. Market analysis helps them to adapt to the unstable environment and to decide on quality and quantity of production. Companies from this cluster responded using marketing as a guiding philosophy for the whole organization. At the same time, strong emphases on the sales support and promotional aspect shows that Ukrainian enterprises have made only a few steps towards full marketing orientation, and elements of sales orientation are present even in this cluster.

## **4.2. Barriers to the adoption of marketing in Ukraine**

Table 5 presents the main barriers to the adoption of marketing reported by Ukrainian companies. As can be seen, the main constraints are connected with the limited financial resources (66.7% of the companies responded “Strongly agree” and “Agree” concerning this barrier), difficulties in changing former relations of the company (48.4%) and lack of marketing skills (46.2%). Another significant barrier reported by the Ukrainian firms was a lack of co-operation between marketing and other functional departments under the conditions when all individual departments were preoccupied with their own priorities (45.3%). It shows the compartmentalized approach to business with the marketing activity restricted to the sales/ marketing departments where they exist.

Table 4: Cluster Analysis of Ukrainian Sample

Attitude variable	Cluster 1 Produc- tion ori- entation (4.5%)	Cluster 2 Agnostic (1.5%)	Cluster 3 Sales ori- entation (60%)	Cluster 4 Market ing orien- tation (24%)	F	sig
Primarily a sales support function	2.22	(3.33)	<u>1.83</u>	<u>1.98</u>	3.47	0.000
Promotion products and services	3.44	(4.33)	<u>1.83</u>	<u>1.87</u>	22.50	0.000
Identifying and meeting customer needs	2.66	(5.0)	2.21	<u>1.87</u>	17.67	0.000
What sales/marketing departments do	<u>2.22</u>	(5.0)	2.80	3.00	5.46	0.000
Guiding philosophy for the organization	3.77	(5.0)	3.38	<u>2.36</u>	33.90	0.000
Image and positioning of products	2.88	(5.0)	<u>2.02</u>	2.43	18.29	0.000
To plan and manage production	<u>1.44</u>	(4.33)	2.03	2.14	8.64	0.000
Decide on quantity and quality of production	<u>1.98</u>	(4.66)	2.22	2.14	13.51	0.000
Relationships with customers	2.33	(4.33)	<u>1.77</u>	2.43	12.06	0.000
Gathering competitive information	(3.55)	(3.0)	<u>1.88</u>	<u>1.85</u>	13.84	0.000
Unclear in the company	2.88	<u>1.66</u>	3.99	3.30	68.38	0.000
Non-existent in the company	3.66	<u>1.66</u>	2.94	(4.28)	54.91	0.000
Analysis of the market	2.88	(4.33)	2.14	<u>1.65</u>	13.67	0.000
Adaptation to the market	2.33	(4.33)	<u>2.03</u>	<u>1.88</u>	15.43	0.000

About 27% of Ukrainian firms reported that the environment was changing too rapidly for marketing to help, and 19% of respondents expressed the lack of understanding of marketing concepts and values.

*Table 5: Barriers to the Adoption of Marketing in the Ukrainian Firms of Different Types of Ownership*

Barriers to marketing	Percentage of the enterprises reported "Strongly Agree" and "Agree"					
	Total sample	State-owned firms	Joint-stock companies	Private firms	Joint ventures	Co-operatives
Rapidly changing environment	26.1	33.8	38.2	17.7	12.5	22.5
Limited financial resources	66.7	73.8	75	49	50	54.5
Lack of understanding of marketing concept	19.7	22.5	21.9	11.7	0	20.0
Lack of marketing skills	56.2	59.5	56.9	33.3	25.0	50.0
Lack of co-operation between marketing and other functional departments	41.6	56.3	48.5	29.4	37.5	40.0
The company is bound in its former relations which are difficult to change	48.2	58.8	56.3	27.4	25.0	45.5
Individual departments/functions are preoccupied with their own priorities	45.6	45.6	45.3	32.2	37.5	50.0

The large influence of limited financial resources on the process of marketing adoption in the Ukrainian firms was connected with the extremely difficult economic situation experienced in Ukraine during last three years. In spite of the unstable economic environment, Ukrainian firms demonstrated an increasing understanding of nature and role of marketing which was investigated along with the great difficulties in changing former relations inside and outside the enterprises. This kind of barrier was connected with the slow

rates of economic reforms and remaining old system of relationships between the state and the enterprises. The retention of “soft” budget constraints (in 1993, for example, the share of direct subsidies to industry amount to 25% of budget expenses and the share of subsidies to agricultural sector varied from 4 to 20%) softened the impact of the environment on the enterprises and reduced the necessity of marketing orientation. Lack of efficiency motivation for the managers caused by high latent unemployment in Ukraine and by the limited control of marketing managers over marketing mix decisions, also slowed down the changes inside the enterprise.

The importance of barriers to the adoption of marketing differs in the firms of different types of ownership. As can be seen from Table 5, these barriers are lower for private firms and joint ventures than for state-owned enterprises and joint-stock companies. For example, private firms and joint ventures reported “Strongly agree” and “Agree”(33.3% and 25% respectively) concerning the lack of marketing skills twice as more seldom than state-owned enterprises and joint-stock companies (59.5% and 56.9% respectively). The same tendency was investigated concerning the lack of understanding marketing values. Only 11.7% of private firms responded “Agree” and “Strongly agree” in this case, while amount of state-owned enterprises and joint-stock companies responded the same was twice as smaller (22.5% and 21.9% respectively). Similar differences are investigated between these two groups of the enterprises concerning the rapid changes in macro environment and difficulties in changing the old structure of relations inside the organizations.

Analyzing these data, we can make two conclusions. First, barriers to the adoption of marketing in state-owned enterprises are very close to those in joint-stock companies in Ukraine (Akimova/ Konovalov 1996). This kind of similarity can be explained by the fact that the majority of joint-stock companies in the production sector were organized on the basis of the state-owned enterprises by distributing shares only among the personnel of these enterprises. Insider privatization did not change management system of newly privatized companies and convert them to a market orientation. Lack of efficiency motivation under the conditions of “soft” budget constraints and lack of marketing skills and experience was experienced by the managers of joint-stock companies as well as by those at the state-owned enterprises.

The similarity between private firms and joint ventures concerning the barriers to the adoption of marketing was also investigated. It was based on the relative freedom in decision making experiences by their managers. Managers of private firms and joint ventures are more flexible and consumer oriented than those of the state enterprises. They are risk-takers, and they try to identify and meet the needs of their target markets with the help of marketing adoption .

Second, as far as private businesses and joint ventures have demonstrated lower barriers for marketing than the state sector, it can be concluded that the pace of

adoption of marketing in Ukraine is connected with the pace of economic reforms, and especially with the success of the privatization program. However, privatization is a necessary but not sufficient condition for marketing adoption.

### **4.3. Organization for marketing in the Ukrainian companies**

Formal organization for marketing is connected with the presence of marketing a department. However, the presence of a separate marketing does not automatically mean that a company understands marketing and uses it effectively. Shipley and Fonfara (1993) pointed out that this department can be staffed by insufficiently knowledgeable or committed personnel, or it may be overpowered by other departments with conflicting orientation or its intentions may be thwarted by other constraints.

From the other hand, formal absence of a separate marketing department does not mean that the company is unable to practise marketing and has no idea of what marketing is about. Firms can organize for marketing employing marketers in other departments buying in marketing help from consultancies and agencies, or they can organize for company-wide marketing participation. At the same time, the presence of a separate marketing department indicates that company understands the role of marketing and somehow practises it.

In Ukrainian sample 44.4% of the firms responded the presence of a separate marketing department. Such a high percentage of firms with a marketing department reflects the increasing level of understanding of marketing importance for the successful activity in an unstable competitive environment. About 55% of Ukrainian respondents had no separate marketing department. But at the same time, when Ukrainian respondents were asked about the role played by marketing in their companies only 4.5% of them reported no role at all, while 57% of the firms expressed a limited role of marketing in supporting the achievement of the main business goals, 28.1% reported an important role, and 10.5% - a leading role of marketing in the activity of the firm. It shows that marketing activity is not connected only with the formal presence of a special department. Ukrainian firms that had no separate marketing department used other departments to carry out marketing functions (88%) or concentrate all marketing activity in the hand of top-managers. The list of departments used as marketing centers included sales (63%), advertising (2%), planning (11%), production (5%), exports (2%) and other departments (5%). As can be seen, around two-third of the firms used sales departments to carry out marketing activity. It reflects sales orientation of Ukrainian firms and correlates with the results of cluster analysis.

Concentration of all marketing activity in the hands of top-managers of the firm (usually, director or vice-director) was typical for the small businesses that had a very small number of personnel and limited financial resources and where top-managers were at the same time the owners of the enterprises. Very often they

felt the lack of marketing skills and tried to improve the performance of their enterprises through buying marketing services in special agencies. At the same time, concentration of marketing activity in the hands of top-managers was also investigated at the large and middle-size firms. This fact could be considered an indicator of the low level of adoption of marketing in the company.

In Ukraine, separate marketing departments first had appeared in the large companies. It was connected with their monopolistic position and the higher level of availability of financial resources. The survey found out that 48% of the enterprises with separate marketing department was large firms with the personnel more than 1000 people. Other 52% were represented by the middle-size (36%) and small firms (16%). So, today in Ukraine organizing by separate marketing department is not exclusively a function of the firms' size.

Another interesting phenomenon which was found out in the survey and in-depth interviews, is that marketing departments have been first established in the enterprises producing industrial goods, and now the proportion of the suppliers of industrial goods and services in Ukraine with a separate marketing department exceeds that of the firms producing consumer goods and services. In Ukrainian sample, 57% of industrial suppliers and only 38% of the suppliers of consumer products and services reported the presence of a separate marketing department. This corresponds to findings of the research carried by Shipley and Fonfara (1993) in Poland. They pointed out that while adoption of marketing departments and principles in the West was led by consumer goods' producers, in Poland this process was pioneered by industrial suppliers. In Ukraine, this phenomenon can be explained in several ways. First, according to the role of former Soviet Union as a great industrial supplier in the system of international division of labor inside COMECON countries, importance of the East European market for the Soviet (including Ukrainian ) producers of industrial goods and services was much more than for the suppliers of consumer goods. So, after the crash of traditional markets industrial suppliers were more strongly affected by the economic environment than producers of consumer goods that continued to sell their products in the domestic market. Industrial suppliers tried to adjust to the changing situation by adoption of marketing including formal organization of a separate marketing department.

Second, the majority of consumer goods produced by Ukrainian enterprises is not competitive in the international markets, while some industrial goods (and especially, components and materials) can be successfully sold. This means that today the export orientation of Ukrainian industrial supplier is higher than that of producer of consumer goods. But the export orientation requires an appropriate marketing activity that can be more successful under the presence of a separate marketing department. However, both explanations of the leading role of industrial suppliers in the adoption of a separate marketing department are not sufficient. This problem needs some additional research.

The majority of marketing departments in Ukrainian enterprises are rather “young”: three thirds of them are not more than three years “old” including one fourth that were established only last year. About 17% of respondents reported that their marketing departments started their activity 4-5 years ago and only 9.6% of the firms established these departments more than 5 years ago. It shows that the movement towards market economy (started 5 years ago) pushed Ukrainian enterprises to adopt marketing concept and organize the formal structure for managing this kind of activity.

The size of marketing department at the Ukrainian firms is not very large. About 56% of respondents with a separate marketing department reported that it included 1-3 persons, and only 11.9% of the firms had marketing staff more than 10 people. Small size of marketing department agrees with the absence of definite form of marketing organization inside it. Only one sixth of the respondents that had marketing departments reported some specific principles of their organization. About 45% of them used product organization of marketing department, and 43% reported a market management organization. Geographical dimension was used by 8% of respondents, and functional organization was practiced by 4% of the companies.

#### **4.4. Marketing Adoption and Corporate Performance**

The relationship between marketing adoption and corporate performance was analyzed on the basis of methodology used by Hooley et al(1993). Performance was measured relative to original objectives of the company, results of last financial year and major competitors. Five measures were used- two financial (ROI and profit), two market based (sales volume and market share) and one survival based (cash flow).Results are presented in Table 6.

As can be seen, very small percentage of respondents reported better performance in any measuring dimension. It can be connected with the extremely difficult and unstable macroeconomic situation practiced in Ukraine last three years. Agnostics (cluster 2) reported no better performance. Ukrainian firms from the cluster of production orientation demonstrated better profit and sales performance (11.1% and 11.1% respectively) relative to their original objectives. In this case management of the enterprise sets its own goals based on the knowledge of the market and capabilities of the company, and better performance can reflect poor planning.



Table 6: Performance Indicators

Performance indicators	Total sample	Cluster 1 Production orientation (4.5%)	Cluster 2 Agnostics (1.5%)	Cluster 3 Sales orientation (60%)	Cluster 4 Marketing orientation (24%)
<i>Performance relative to original objectives</i>					
Better profit	5.0	11.1	0	3.8	6.0
Better sales volume	2.7	11.1	0	1.9	3.0
Better market share	1.4	0	0	0	2.3
Better return on investment	0.5	0	0	0	1.9
Better cash flow	3.6	0	0	0	5.3
<i>Performance relative to last financial year</i>					
Better profit	6.3	0	0	3.8	8.3
Better sales volume	4.5	0	0	3.8	5.2
Better market share	5.0	0	0	5.3	5.3
Better return on investment	3.6	0	0	3.1	3.8
Better cash flow	3.2	0	0	0	4.5
<i>Performance relative to major competitors</i>					
Better profit	3.6	0	0	3.1	3.8
Better sales volume	2.7	0	0	0	3.8
Better market share	3.6	0	0	3.8	3.9
Better return on investment	1.4	0	0	1.6	0
Better cash flow	0.5	0	0	0	0.8

A more objective measure of performance is to look at performance change over the previous financial year or relative to major competitors. These comparators

reflected better performance of the enterprises from clusters with sales and marketing orientation, while enterprises from other clusters did not show any improvement. It was connected with the better knowledge of the market investigated in clusters with sales and marketing orientation. It helped enterprises to adapt to the unstable economic environment and improve their performance even under conditions of stagflation. As can be seen from Table 6, respondents with marketing orientation reported better performance more often than those with sales orientation. It shows that successful performance of the enterprise is also connected with the level of marketing adoption.

#### **4.5. Status of Marketing Department and its Integration with Other Functions**

In the marketing-oriented company marketing function should have sufficient status at least to match that of other departments (Aaker 1992; Brown 1993). It helps to establish an efficient cooperation between marketing department and other functional departments of the firm. The 44,4% of the respondents with a separate marketing department were asked to evaluate its status in their companies and integration with other departments. The results, presented in Table 7, demonstrate that the status of marketing department at the Ukrainian companies is quite high.

*Table 7: Relative Status of the Marketing Department*

Status relative to	Higher (%)	Equal (%)	Lower (%)
Sales	38	48	14
Production/operation	43	47	10
Finance/accounting	24	58	18
Personnel	62	28	10
R & D	42	44	14

More than 80% of the firms considered it at least equal or even higher than that of other major departments. Relatively small part of respondents (10%) reported that the status of marketing department was less than that of the production department. It reflects that Ukrainian firms are moving from product orientation, with the dominance of production departments as the main feature, towards sales and marketing orientation. Domination of sales orientation in the business activity of Ukrainian companies at least partially explains why 48% of respondents consider status of marketing department equal to that of sales department and 14% of respondents find it even lower.

*Table 8: Integration of Marketing with Other Functions*

Integration with	Very close (%)	Quite close (%)	Not at all (%)
Sales	80	18	2
Product/operation	58	31	11
Finance/accounting	21	61	18
Personnel	4	31	65
R & D	55	31	14

Table 8 shows the findings concerning integration of marketing with other functions at the Ukrainian firms. More than 80% of respondents replied that their marketing departments worked very closely or quite closely with other functional departments. It was a surprising fact taking into account that about 40% respondents of the main sample pointed out the lack of co-operation between different functional departments as an internal barrier to marketing adoption. It can be partially explained by the increasing contradictions between other functional departments of the enterprises, especially between production, R & D and finance/accounting units, facing lack of financial resources and difficulties in their distribution within the enterprise under pressure of hardening budget constraints.

The most substantial integration was observed between marketing and sales departments. It could be easily predicted taking into account closeness of their main activities and the fact that the majority of marketing departments existed as parts of sales departments in the past before re-organizing as separate units. At the same time 65% of respondents indicated the absence of integration with the personnel function. The risk of this is that it could prejudice recruitment, training and motivation of marketing personnel (Shipley/ Fonfara 1993).

## **5. Perspectives of Marketing in the Ukraine**

An important role of marketing in the economic development was widely discussed in the economic literature (e.g. Rostow 1965; Mabogunje 1980). It was pointed out that marketing could act not only as a response to economic development but also as a catalyst for it (Kinsey 1982). Marketing helps in identifying opportunities (in terms of location, resources, skills, etc.) while choosing the way for structural transformation of the national economy given the resources and cultural conditions of the country under consideration. It promotes economic development and facilitates the transformation of an economic and social system by helping to control changes in production and demand (Kinsey 1982).

This developmental function is especially important for the application in transitional economies like Ukraine where substantial structural transformation takes place in economic and social life. Ukrainian enterprises face turbulent environment characterized by economic recession, collapse of traditional markets, increasing competition and more demanding consumers. However, turbulence is associated with a stronger marketing orientation creating both threats and opportunities for organizations and changing the way they have to compete (Davis et al 1991; Morris/ Lewis 1995). Experiencing economic "independence" in terms of hardening budget constraints after privatization enterprises need marketing not only for a survival in a short-run but for formulating successful business strategies in a long-run.

Notwithstanding the substantial progress made by many of Ukrainian firms, a lot of others have not yet overcome the barriers to adopting and organizing marketing in accordance with the Western conventional wisdom.

Adoption of marketing at the Ukrainian firms can be presently described as a movement from a selling-oriented stage to a customer satisfaction-oriented one.

The insight on marketing functions used by the Ukrainian enterprises shows that sales support and promotion is seen as the most important aspects of marketing activity while considerably less attention is paid to understanding customer's needs.

Customer satisfaction focus requires deep understanding of market based on marketing research. About 25% of respondents reported using marketing research for better adaptation to the changing environment. However, presently marketing research activity at Ukrainian enterprises can be defined as simple fact finding that usually includes gathering information and some functional monitoring (Zariskie/ Huellmantel 1994). Only exceptional enterprises try to use marketing research for contributing inputs into operational planning and problem solving. However, marketing orientation requires marketing research of a strategic nature that could provide the inputs of information and analysis for corporate-level strategic planning and decision making. This means futures research, based on environmental monitoring, scenario projections, market impact studies and other types of research needed to make growth decisions (Zariskie/ Huellmantel 1994).

Strategic marketing is recognized as an important sub-system of strategic planning. However, this relationship seems to be very weak at the Ukrainian enterprises. Being asked about the role of marketing in strategic planning of their business activity, almost 68% of respondents reported "very limited" or "no role" at all and only 10% of respondents replied "very significant" role. It reflects the fact that strategic planning at Ukrainian enterprises has lacked a marketing aspect while marketing has been relegated to a short-sighted emphasis on achieving current objectives.

From the organizational point of view, marketing development in Ukraine is connected with the continuing establishment of some form of special marketing departments at large and middle-size enterprises. It will reduce the risk of unqualified

decision-making and execution concerning marketing-related tasks. This specialization has to come along with increasing integration of marketing with other functions that is necessary for the business success. It will also help to overcome "departmental" approach reported by 47% of Ukrainian firms that saw marketing's primarily functions in sales and promotional support and restricted them only to the marketing department. Obviously, firm's competitiveness in a turbulent environment becomes more and more dependent on adopting marketing as the guiding philosophy for the strategy and culture of the whole organization.

The small firms that have no significant departmental specialization across the range of functions feel an urgent need for marketing-led managers. Presently, majority of them use tinkering marketing reflected in spontaneous and spasmodic attempts to increase sales through occasional advertising (Fuller 1994) or entrepreneurial marketing. The last one was defined by Carson as instinctive marketing carried out as the manager learns about marketing and recognizes its value in generating extra sales (Carson 1990). It accords to the sales orientation recognized by almost two thirds of Ukrainian enterprises of different size. But the movement to the adoption of proactive marketing professionally carried out by a marketing expert in a co-ordinated and integrated manner both for small and large and middle size businesses highly depends on professional qualities of their managers. It means an urgent need for the marketing education of Ukrainian managers, personnel and administrators.

## **6. Conclusions**

The study demonstrates that Ukrainian firms practiced a broad variety of marketing approaches from production orientation through sales/promotion orientation to marketing orientation. Cluster of sales orientation included about two-thirds of Ukrainian firms. Adoption of marketing in Ukraine faces a lot of constraints. The most important of them are limited financial resources, difficulties in changing former relations of the company and lack of marketing skills. In Ukraine, private businesses and joint ventures demonstrated lower barriers for marketing than the state sector. This shows that the pace of adoption of marketing in Ukraine is connected with the pace of economic reforms and especially with the success of privatization. Ukrainian companies that practiced marketing orientation demonstrated the most significant improvement in their performance comparing with the other companies.

Ukrainian managers showed an understanding of marketing as a sales support activity and they organize for marketing by establishing a separate marketing department or employing marketers in the other departments.

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