

## **Competitiveness and marketing strategies of foreign companies in Eastern Europe: Empirical evidence from Finnish and Austrian companies\***

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*Research on marketing in Central and Eastern Europe (CEE) has been of rising interest since the transition started in 1989. In this paper two major areas relevant for marketing in CEE are being discussed: the competitive situation in the transition countries and the basic competitive marketing tools for penetrating these markets. This study reports findings of a survey including 139 Finnish and 97 Austrian companies active in CEE and confirms: Competition in CEE is intensifying but still weaker than in Western markets. The main competitors are other foreign companies. Western companies base their marketing strategies mainly on personal relationships, technical quality of their product, good company image, personal selling, and customer service.*

*Forschungen über das Marketing in Mittel- und Osteuropa (MOE) haben seit Beginn der Transformation 1989 zugenommen. In diesem Artikel werden zwei Bereiche, die für das Marketing in MOE relevant sind, diskutiert: die Wettbewerbssituation in den Transformationsländern und wettbewerbs-orientierte Marketinginstrumente zur Durchdringung dieser Märkte. Die Studie basiert auf einer Befragung von 139 finnischen und 97 österreichischen Unternehmen mit Aktivitäten in MOE und zeigt: Hauptkonkurrenten der befragten Unternehmen sind andere ausländische Unternehmen, der Wettbewerb verschärft sich ist aber noch schwächer als in westlichen Märkten. Westliche Unternehmen gründen ihre Marketingstrategien hauptsächlich auf gute persönliche Beziehungen, technische Qualität ihrer Produkte, Unternehmens-image, persönlichen Verkauf und Kundenservice.*

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## 1. Introduction

Companies going international have to relate to the marketing environment, i. e. the political, legal, economic, financial, and cultural conditions in the respective target markets. In the emerging markets of Eastern Europe (EE)<sup>1</sup> the present environmental differences when compared to Western markets are major. However, it can be expected that, over time, with continued transition, we will see convergence in the business environment and marketing infrastructure of the West and the East. Systemic differences of the past will eventually disappear. At present, there are differences in the focus, objectives and execution of marketing, making it imperative for companies entering the region to understand the existing disparities and to account for these in their marketing strategies (Springer & Czinkota 1999). The key question in this context is: What are the unique features of the marketing environment in Eastern Europe and what impact do these features have on the marketing strategies used in this region?

In the field of international business empirical studies related to EE are still relatively few, although growing. Most of the studies have a narrow focus on only one aspect of marketing strategies, usually specific marketing-mix instruments like advertising. Furthermore, previous studies have dealt with relatively small samples and mostly big multinational enterprises, thus being unable to generalize the results of firm behavior for a larger population. This study offers an overview of competition on marketing strategies in EE. In more detail, the aim of this study is to analyze the following research questions:

- What is the competitive situation in EE from the viewpoint of Western companies: What is the degree of competition compared with the competition in Western European markets and who are the main competitors of Western companies in EE?
- What is the degree of importance of various marketing parameters of Western companies active in EE?

The study reports results of a survey conducted among Finnish and Austrian companies active in EE. For research purposes, Finland and Austria are of special interest because of their exceptional geopolitical position between the East and the West. Being politically neutral, both countries have traditionally served as a gateway to EE for foreign companies – Austria already before the transition and Finland increasingly after the transition. In addition, in both countries the share of EE in total exports has been well above the OECD average from the 1970s until late 1990s.

The paper is structured in the following way. Section two builds up the study framework by analyzing relevant literature on international business in general and East-West business in particular dealing with marketing and marketing strategies. The discussion of the literature review will result in the formulation

of hypotheses. Section three introduces the study methodology along with the instruments used in the statistical data analysis. Section four reports the major findings of the survey and tests the hypotheses. The final section summarizes the main findings and sets avenues for future research.

## **2. Transition, Competition, and Competitive Marketing Strategies in Eastern Europe: Theoretical Consolidation and Generation of Hypotheses**

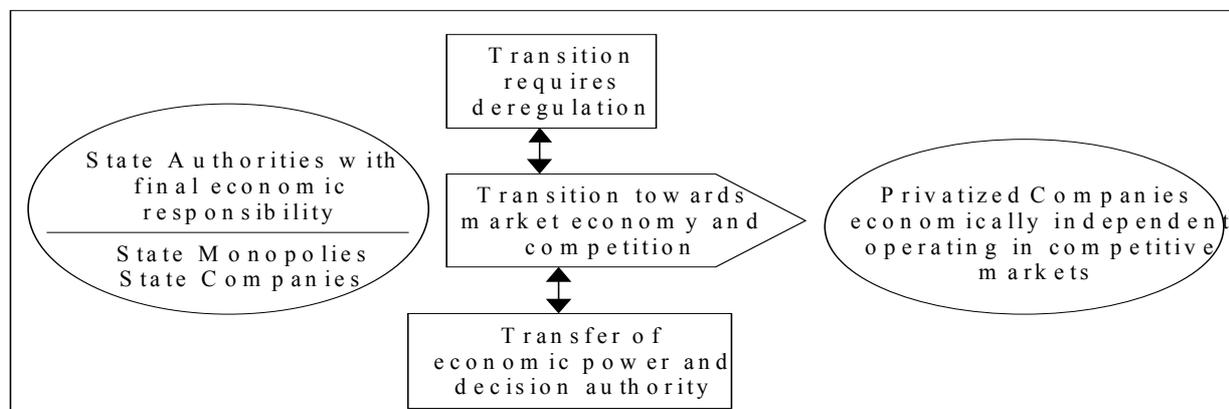
### **2.1. Dynamic Change in the competitive Setting in Eastern Europe**

With the ongoing transition towards a market economy competition is emerging and strengthening in EE (for a discussion of the economics and microeconomics of transition see Schipke & Taylor 1994; Brezinski, Franck & Fritsch 1998). Especially the abolishment of state monopolies like the foreign trade monopoly and the price monopoly, the privatization of state owned companies, the opening of the national economy towards the world economy, and the introduction of laws to permit and regulate fair competition are major prerequisites to bring about a competitive constellation becoming similar to the competitive situation in the markets of the advanced industrialized countries. A functioning widespread and fair competition is decentralizing the economic decision process: The State, especially the central planning commission and the economic ministries loose economic power, the privatized companies gain autonomy and economic independence. This shift in economic decision authority from the state to the companies is contributing to competition. For the countries in transition this process changing the competitive setting is described in figure 1.

Until 1998 the year in which this research was conducted the countries in transition have made progress in developing competition and implementing a competition policy as the evaluation by the European Bank for reconstruction and Development (EBRD) has reported. Evaluated on a scale between 1 (little progress) and 4+ (Standards and performance norms of advanced industrial economies) the average score for EE in regard to implementing a competition policy was 2 (competition policy legislation and institution set up; some reduction of entry restrictions or enforcement action on dominant firms). Hungary, Poland, Czech Republic, Slovak Republic Estonia, and Latvia did have the highest score with 3 (EBRD 1998, 26). On average, the scores for most other criteria to measure the progress in transition – like privatization, governance & restructuring, price liberalization, trade & foreign exchange system, and banking reform – have been higher than the score for competition policy. This means that the progress in implementing competition policies and developing fair and mature competition has been lagging behind the average progress in transition towards the market economy. Based on this we conclude

that competition does not develop in the short run, but needs time for unfolding. (Behrman & Rondinelli, 2000) An increase in competition is a step by step process which may also differ from country to country.

Figure 1. Transition and development of competition



With the framework for competition being in place companies in EE learn to operate in a competitive setting. In this context the successful privatization of state owned companies is an important prerequisite for the development of competition. In mid 1998 the share of private sector in GDP varied between 80 % for Hungary and 20 % for Belarus (EBRD 1999, 14). Such figures are an indicator for the change of the legal status of formerly state owned companies at best, they give no indication in regard to the restructuring of „socialist“ companies into market oriented and hence competitive companies. The key question in this context is whether privatization will lead to a turnaround of formerly state owned, hardly competitive and plan based managed companies into market oriented and competitive companies. (Lizal, Singer & Svejnar, 2001).

The majority of Eastern companies are far from being competitive, the labor productivity in industry is around 50 % or even lower compared to Western companies. In 1994 half of the companies was profitable (Czech Republic 81 %, Hungary 68 %, Bulgaria 34 %), 15 % of all companies or less (Poland 14 %, Bulgaria 9 %) did have a positive cash flow (data collected from EBRD 1996). Many companies lost their markets either to foreign competitors penetrating Eastern markets with Western products or because of the breakdown of the CMEA.

Domestic Eastern companies still base their competition mainly on cost advantages, they follow a short-term survival strategy and not a long-term customer oriented strategy. Such a strategic pattern is possible as long as competition is still underdeveloped and domestic Eastern companies maintain a reasonable market share in a more or less still protected domestic market. Domestic markets may be protected against foreign competition by various trade and investment barriers and strong ethnocentric buying behavior of

consumers. With the progress in transition competition will intensify and domestic Eastern companies have to adopt market orientation if they want to stay competitive in the market.

The competitive situation in EE is characterized by a high degree of diversity. Within the markets of the countries in transition we distinguish three sectors of competition. In the first sector domestic companies compete, in the second sector foreign companies compete and in the third sector foreign and domestic companies compete. Sectors one and two are basically separate markets since they represent different clusters of customers being targeted by a different positioning of products and services mainly in regard to price and quality. Sector three is still small but growing and most important for the competitiveness of the countries in transition since the domestic companies are challenged by foreign companies and by this domestic EE companies may eventually improve their own competitive position. With growing speed and extent foreign companies have been able to penetrate the market segments still controlled by domestic Eastern companies if foreign companies have started production in Eastern Europe and therefore may benefit from low production costs like domestic competitors and can compete on cost too.

On the whole, the penetration of the markets in EE by foreign companies as exporters and investors has fueled competition and is forcing domestic companies to adapt (see e.g. Richey et al. 1999). Especially the continuous inflow of FDI since 1989 combined with the constant transfer of management know-how has contributed to this development (for trends and impacts of FDI in EE see among others Meyer 1998). The cumulative FDI inflow for the period 1989 to 1998 was 80,605 million US\$ with Hungary taking the lead (16,706 mil US\$), followed by Poland (15,066 mil US\$), Czech Republic (9,973 mil US\$), Russia (8,801 US\$). The cumulative FDI inflow per capita during 1989 to 1998 is just 184 US\$. (EBRD 1999, 12). Rough estimates indicate that more than 200.000 foreign companies do exist in EE.

The results of the transition so far are indications that the marketing environment in EE is still different compared to the marketing environment in the industrialized West. This is illustrated by the fact that low purchasing power, import restrictions, low price stability, and insecure legal conditions are major barriers for market entry into EE. In the long run, it is obvious that the competitive setting in EE will intensify and become similar to the situation in the home markets. This statement is supported by results of a study among Austrian manufacturers of industrial products. Out of 37 manufacturers 55 % think the competitive situation right now is comparable with the situation in Western Europe, 11 % think competition is more intense, and 34 % think competition is less intense. (Borenich & Gruber 1999, 178).

Based on the foregoing discussion we can formulate the following hypothesis:

H1: With the progress in transition the competition in EE is intensifying but still weaker than in the markets of the advanced industrial economies. The intensity of competition differs by firm size, field of business, starting time of the business operations in EE and role of EE markets for the firm.

H2: Major competitors of foreign companies in the EE countries are other foreign companies. Local privatized companies are stronger competitors than local state owned companies.

### 3. Marketing Strategies in Eastern Europe

In the analysis of different marketing-mix elements the use of the 4P model - product, price, place, and promotion - is commonly used. In the late 1980s and in the 1990s the role of personal relationships and networking has received increasing attention and has therefore been added to our analysis.

What's the role of different marketing-mix elements when Western companies try to enter and penetrate the EE markets? The comprehensive literature reviews made by Schuh and Springer (1997) and more recently by Schuh and Pacolt (2000) indicate that there are surprisingly few studies analysing in more detail the role of various marketing-mix elements in the entry and penetration strategies of Western firms in EE markets. A majority of the studies is focusing either on a single EE market, single marketing mix element, and/or are case studies. Larger scale survey studies are extremely rare.

Two Finnish studies (Vientiprojekti 1981, n=73; Hirvensalo 1993, n=40) have investigated the importance of various marketing mix elements (the same 13 elements in both studies) used by Finnish companies in the Soviet Union, i.e., before transition started. According to the results in both studies the three most significant marketing mix elements were: 1. price and discounts, 2. reputation of the company, and 3. technical quality of the product. Customer visits to exporters' manufacturing plants, and customer calls and demonstrations were also considered important in both studies. By the end of the transition, good personal contacts and payment and credit terms had become more important. Low importance was given to channel of distribution, design and package of product, and especially to advertising in both studies.

Pues (1994) has analyzed the marketing strategies of German companies (n=180) operating mainly in the former Czechoslovakia, Hungary, and Poland. The results indicated a slight different order of significance of the marketing mix components: 1. high product quality, 2. Western brand name, 3. own distribution system, 4. promotion, 5. low prices, 6. price positioning, 7. personal selling, 8. explaining advertising, 9. product design, and 10. fairs/exhibitions. Because of a somewhat different structuring of the marketing-mix elements included in the studies, comparisons of the results reached by Pues and by the Finnish studies, are limited. However, there seems to be some difference

in the role of distribution and price and discounts. Distribution has been regarded as one problem in EE because of the weak distribution infrastructure and retail level problems (see e.g. Quelch, Joachimsthaler & Nueno, 1991, Batra 1997, and Arnold & Quelch, 1998). Therefore it could be expected that the role of distribution and delivery time has increased, but whether they are really among the most important marketing parameters may be questionable. Furthermore, taking into account the financial problems in most EE countries and the rather low purchasing power of – at least most of the local citizens – in EE, it could be expected that price would be rated among the most important marketing mix parameters (see *ibid*) although the results by Pues (1994) did not indicate great importance of those parameters.

A low level of advertising was typical in all EE countries before transition. Advertising also received very low importance ratings in all the three studies referred to above. In the 1990s local firms have greatly increased their spending in advertising (see e.g. Batra 1997). Thus together with increasing competition and growing local purchasing power the importance of advertising is increasing. However, it may be expected that the role of advertising is not as significant as e.g. the role of product quality, price, personal selling and relationships.

There are several other studies based on case studies which have also shown that the ability of companies to build up networks based on good personal relationships is a very important competitive advantage when doing business in EE (see Lehtinen 1996, Nieminen & Törnroos 1996, Hirvensalo, Kosonen & Salmi 1999, and Salmi 2000). All the three studies include companies from various industries. Unfortunately they do not include any information about possible differences between producers of goods, consumer goods and/or service companies. Nor do they include any information about possible differences based on timing of entry of the role of EE markets in the operation of the reviewed companies. There are two dimensions of relationships, inter-organizational and interpersonal relations. In Russia these relationships are called *blat* (comparable to *quanxi* in China). Because of the constant organizational changes taking place in EE, especially the establishment of new small and medium sized firms, but also the liquidation or break down of old companies the inter-organizational relations are fragile. Therefore interpersonal relations are even more important to have access to a network of decision-makers.

Related to the company and product image Western companies can try to use the country of origin effects (Keegan & Green 1997, 292) and try to benefit from the stereotyped attitudes of customers in EE according to which Western products and services are superior to Eastern products and services. However, Western marketers have to bear in mind that there is no monopoly on a favorable foreign reputation and that customers in EE increasingly implement

an ethnocentric buying behavior which is partially explained by the disappointments with Western foreign products (see e.g. Batra 1997).

Having discussed the general expectations about the role of various marketing parameters when entering and operating in EE markets it may be expected that there are no great differences in the role of the most important parameters. It may be expected that they are the same, perhaps in a different order depending on the field of business, timing of entry in EE markets, and role of EE markets for the company. However, some differences in the role of various marketing parameters can be assumed. It may be assumed that large companies, production good manufacturers and firms having entered the EE markets before transition base their marketing above all on company image, technical aspects of the product and price and discounts in line with the relevance of those aspects before transition and based on their larger resources. When exporting industrial products the role of price, discounts, credit arrangements and various types of countertrade arrangements are also expected to be more common than in consumer goods and service sector. Countertrade arrangements were rather common in trading with EE before transition mainly because of the lack of hard currency and the intention to organize access to modern technology, therefore it may be expected that countertrade still plays a major role since both prerequisites do prevail.

Companies which have entered the EE markets more recently are more or less latecomers in the markets and unless they are very large companies having big resources and possibilities to use penetration pricing, they are forced to compete by using differentiation – product design and adaptation – and other marketing mix elements like personal selling and quick delivery in order to compete with companies which have build their contact networks already much earlier. Finally, it seems reasonable to expect that companies operating in their major EE markets pay more attention to the use of various marketing parameters than companies operating in the region only occasionally. In general, companies entering EE do adapt their marketing strategies to the local institutions and conditions in order to reduce exposure to still highly imperfect markets. (Meyer 2001). Thus, the following hypotheses are presented related to the role of various marketing parameters for the empirical part of the study:

H3: Good company image, technical quality of the product, personal selling, good personal relationships, and price and discounts are the main marketing mix parameters of Western companies in EE, while design and package, trade fairs and exhibitions, advertising, credit and countertrade arrangements are rated as clearly less significant marketing mix elements.

H4: Large companies and production good manufacturers base their marketing strategy more on good company image, technological leadership and service, price and discounts, payment, credit and countertrade arrangements than SMEs, service and especially consumer goods companies.

H5: Consumer good manufacturers compete more on product design, distribution and advertising than production good and service companies.

H6: Companies having entered the EE markets before transition rely more on company image, price and discounts than companies having entered the markets during the 1990s which rely more on design, product adaptation, delivery time and personal selling.

H7: Companies operating continuously in EE markets generally use all marketing mix elements more intensively than companies operating only occasionally in EE markets.

## **4. Methodology**

### **4.1. The Sample**

A survey instrument was developed by using 40 (mainly multiple-choice) questions related to Finnish and Austrian firms' business activities in Central and Eastern Europe. The data was collected in June-November 1998. In Finland, the target firms were selected from the membership files of the Finnish-Russian Chamber of Commerce and the files of the authors. Because of the small number of Finnish companies that are active only in Eastern Europe, but do not operate in Russia, the Chamber of Commerce data was not considered to cause bias in the results. Own files of the authors complemented the Chamber of Commerce data. In Austria, the company directory of the Austrian Chamber of Commerce was used to identify firms active in EE.

In Finland, the questionnaire was sent in June 1998 to 835 prospective firms believed to be active in business in EE. In order to achieve a better response rate and more reliable results, the survey instrument was sent to managers in charge of East-West business operations of the firm. By the end of November 1998, 197 questionnaires were returned, resulting in a 23.6 % response rate. Of the returned questionnaires, 139 (16.6 %) were usable. 58 responses were rejected because of the following reasons: no commercial transactions in EE countries at present; incomplete responses; and because of the respondent's time limitations or because some of the questions were regarded as too confidential to be answered.

In Austria, 300 questionnaires were sent to target companies. The companies were called in advance to address the questionnaire to the manager in charge of business with EE. 121 questionnaires were returned in due time, resulting in a 40.3 % response rate. Of the returned questionnaires, 97 (32.3 %) were usable. Both subsamples resulted in a total sample of 236 companies. The size of the sample and the expertise of the company representatives questioned deliver a rather reliable and objective data set on the marketing profile of Finnish and

Austrian companies in EE. Descriptive statistics of the sample are presented in Table 1.

*Table 1. Key features of the sample firms*

	TOTAL		AUSTRIAN		FINNISH	
	SAMPLE		SAMPLE		SAMPLE	
<b>Company size</b> <b>(number of employees)</b>	N	%	n	%	n	%
• < 49	85	36.0	16	16.5	69	49.6
• 50 – 249	74	31.3	34	35.1	40	28.8
• 250 –	73	30.9	44	45.4	29	20.9
• Missing information	4	1.7	3	3.1	1	0.1
<b>Field of activity</b>						
• Consumer goods	62	26.3	25	25.8	37	26.6
• Industrial goods	132	55.9	65	67.0	67	48.2
• Trade & services	41	17.4	6	6.2	35	25.2
• Missing information	1	0.4	1	1.0	–	–
<b>Eastern Europe as % of foreign sales</b>						
• – 4.9	48	20.3	25	25.8	23	16.6
• 5 – 24.9	115	48.7	47	48.4	68	44.9
• 25 –	59	25.0	21	21.6	38	27.3
• Missing information	14	5.9	4	4.1	10	7.2
<b>Importance of East European markets</b>						
• Operating occasionally, not a major market	38	16.1	15	15.5	23	16.5
• Operating frequently, not a major market	142	60.2	67	69.1	75	54.0
• Operating frequently, a major market	55	23.3	15	15.5	40	28.8
• Missing information	1	0.4	0	0.0	1	0.7

Of the sample firms about 70 % were SMEs, although in the Austrian subsample the share of large firms was clearly higher than in the Finnish subsample. Of the companies over 55 % represented industrial sectors, the metal and electronics industry being clearly the most important sector. The degree of internationalization was high in the sample as in almost half of the companies the share of foreign sales was more than 50 % of the turnover. In the Austrian subsample the degree of internationalization was higher. For one fourth of the companies Eastern Europe generated more than 25 % of total sales, for the Finnish companies slightly more. More than half of the companies were operating in Eastern Europe frequently, but their major markets were elsewhere. For the Finnish companies the East European markets were slightly more important than for the Austrians (for almost 30% a major foreign market).

Russia and Estonia were the main EE markets for almost all Finnish companies whereas the Czech Republic, Poland and secondarily Hungary and Russia were the main EE markets for Austrian companies.

## **4.2. Operationalization of the Variables**

### *Competitive Situation and Main Competitors*

In order to determine the competitive situation in EE the respondents were first asked to evaluate the degree of competition in their major markets in EE. For the evaluation a five point Likert scale was used (1 = very insignificant; 5 = very significant). Secondly the respondents were asked to compare the level of competition in their own field of business of their main target markets in EE to their main markets in Western Europe. For the evaluation, a five point Likert scale was used (1 = clearly more insignificant in EE; 5 = clearly more significant in EE). The companies were also asked to identify their main competitors in the EE markets. The following alternatives were given: local state owned companies, local private new companies, local privatized big companies, foreign owned companies and other Austrian or Finnish companies.

### *Competitive Advantages and Marketing Strategies in Eastern Europe*

Marketing strategies have to be based on competitive advantages. Therefore the respondents were asked to determine in great detail the competitive advantages being pursued in EE markets. A list of 18 different competitive parameters was offered (see table 5 for the competitive parameters), these parameters were to be evaluated with a five point Likert scale (1 = not at all significant; 5 = very significant). The parameters relate to various aspects of the marketing-mix instruments by which competitive strategies are being implemented.

### *Independent Variables*

*Firm size.* In order to avoid any arbitrary classifications, company size categories used by the European Union were used (small firms less than 50 employees; medium-sized up to 249 employees and large firms more than 250 employees). The size categories small and medium were combined in one group. It should be noted that the majority of the large companies in this study were not multinationals.

*Field of Business.* For determining the field of business a distinction was made between three sectors: consumer goods sector, production goods sector, and service sector assuming that the basic competitive strategies as well as the use of specific competitive weapons may differ by sector.

*Timing of Market Entry in EE.* Since the marketing environment has changed substantially with the ongoing transition from planned economy to market economy, a different strategic behavior of the firms was to be expected depending on the timing of market entry to EE. Therefore two time periods were defined: companies that have entered the markets before 1990 and those that have entered the region in the 1990s.

*Role of EE markets.* Based on the assumption that the EE markets may be of different importance to the companies questioned it was expected that all the companies fall into one of the following categories: (1) the company operates in EE only occasionally and is not a major market for the company; (2) the company operates in EE frequently, but is not a major market for the company; and (3) the company operates in EE frequently and it is the major market for the company.

## **5. Results of the Survey**

### **5.1. Competitive Situation**

As seen in Table 2, the questioned companies regard competition in EE as significant. In total, the intensity of competition was evaluated on a 5-point scale as being 3.66. In the total sample, significant differences in the evaluation of the intensity of competition were identified according to the size of the companies, experience of operating in EE, and the role of EE markets. Consequently, in the total sample no significant differences in the perceived intensity of competition was identified only by the field of industry.

In the total and Finnish samples large firms considered competition to be stronger than SMEs. This indicates that larger firms operate in business areas / product categories where competition is harder. SMEs, on the other hand, may be more capable of utilizing market niches, and adapting quicker to the changes in competition. The degree of competition seemed no to depend significantly on the field of business.

Companies which had entered the markets before the year 1990 rated – perhaps surprisingly – competition as clearly more significant than companies which had entered the markets more recently. Companies with longer experience in EE are more often more committed to the market in terms of having a market presence, while companies with shorter experience in EE may not necessarily understand the competitive environment while running short term businesses in the region.

Table 2. Intensity of competition in EE (mean values and t-tests results)

	TO-TAL	FIRM SIZE		FIELD OF BUSINESS			START OF EE OPERATIONS		ROLE OF EE MARKETS		
		SMEs N=156	Large N=72	Con- sumer goods sector N=61	Produc- tion goods sector N=129	Service sector N=41	Before 1990 N=109	1990– 1997 N=120	Occasional operation N=36	Conti- nuous opera- tion, not main markets N=140	Main mar- kets N=55
Total N=231	3.66	3.56 <sup>a1</sup>	3.92	3.64	3.62	3.80	3.85 <sup>a3</sup>	3.52	3.17 <sup>b5</sup> / <sup>c6</sup>	3.67	3.96
Finland N=137	3.75	3.64 <sup>b2</sup>	4.14	3.68	3.73	3.86	3.98 <sup>a4</sup>	3.62	3.13 <sup>b7</sup> / <sup>c8</sup>	3.78	4.03
Austria N=94	3.54	3.40	3.77	3.58	3.51	3.50	3.68	3.31	3.23	3.55	3.80

Main markets in EE:	Russia	Estonia	Poland	Hungary	Czech Republic
	N=115	N=26	N=26	N=18	N=29
	3.77 <sup>a9</sup>	3.62	3.65	3.67	3.38

T-tests:

<sup>1</sup> =SMEs vs Large firms

<sup>2</sup> = SME vs Large firms

<sup>3</sup> = before 1990 vs. 1990-1997

<sup>4</sup> = before 1990 vs 1990-1997

<sup>5</sup> = Occasional vs continuous operation

statistical significance levels: a = 0.05; b = 0.01; c = 0.001

<sup>6</sup> = occasional vs. main markets

<sup>7</sup> = occasional vs. continuous operation

<sup>8</sup> = occasional vs main markets

<sup>9</sup> = Russia vs Czech Republic

This explanation may also be valid for the fact that competition was regarded strongest among companies that have their major markets in EE and weakest among companies that operate in the region only occasionally. In the Finnish sample statistically significant differences were found in the same situations as in the total sample. In the Austrian sample, however, no statistically significant differences were found between any subgroups (based on the role of EE markets the difference just out of statistical significance). The intensity of competition was evaluated highest in Russia and lowest in Czech Republic (a statistically meaningful difference). As discussed earlier, most Finnish companies had their main EE markets in Russia.

The companies were also asked to evaluate the competitive situation in EE compared to the markets in Western Europe. The evaluation was on a scale from one (clearly more insignificant in EE) to five (clearly more intensive in

EE), the score 3 then meaning equal strong in both markets. On average the competition in EE was evaluated somewhat weaker compared to the Western markets although close to the score 3 (see Table 3). In total Austrian companies recognized usually a little bit weaker competition in EE than Finnish companies. By firm size, timing of market entry, and role of EE markets no statistically meaningful differences were found between the companies. The only meaningful difference was found to be based on the field of industry where competition in the production goods sector was rated tighter than in the consumer goods sector both in the total and Austrian samples.

To sum up, Hypotheses 1 was confirmed only partly. The competitive situation in EE is significant and almost as strong as in the Western markets. There are differences in the evaluations of the intensity of competition EE and between degree of competition in EE vs. Western Europe by firm size, timing of entry, role of EE markets as expected and field of business.

In Hypotheses 2 we assumed that the competitors for foreign companies in the EE countries are mainly other foreign companies and that local private companies are more competitive than local state owned companies. This hypotheses was confirmed as can be seen from Table 4. The main competitors were in about 75 percent of cases foreign companies and in about 30 percent of cases local companies.

From the local companies private companies were about three times more often the main competitors than local state-owned companies. Austrian companies referred especially other foreign, but also local private companies relatively more often as their main competitors than Finnish firms. Noteworthy is that Austrian companies used multiple choice alternative clearly more often than Finnish companies. No statistically significant differences were found based on firm size, field of business, start of CE and EE operations, and role of CE and EE markets.

## 5.2. Marketing Strategies in Eastern Europe

The analysis of the importance of the various competitive parameters used by the Finnish and Austrian companies in EE reveals a ranking of these parameters basically in line with the assumption in Hypotheses 3 (see Table 5). In the total sample the most important competitive parameters are ranked as follows: 1. good personal relationships (4.22), 2. technical quality of the product (4.17), 3. personal selling and good image of the company (both 4.12), 5. customer service (4.08), 6. managerial competence (4.06), and 7. delivery time and readiness for delivery (3.94). These parameters were clearly more important than the rest of the studied parameters. Thus, of the expected most important marketing parameters only price and discounts did not receive as high rating as expected (mean 3.69).

What concerns the least important marketing-mix elements, the ability for countertrade received the lowest importance in all samples, followed by government sponsored export credits and guarantees, advertising, and fairs and exhibitions. All those parameters received mean values below 3.0 in the whole sample. Thus, the findings indicated support to the expectations made of the relatively low importance of those parameters. Hypotheses 3 received therefore support related to the other parameters except the role of price and discount.

*Table 3. Competition Western Europe vs. Eastern Europe (mean values)*

	TO-TAL	FIRM SIZE		FIELD OF BUSINESS			START OF CE&EE OPERATIONS		ROLE OF CE&EE MARKETS		
		SMEs N=145	Large N=69	Con- sumer goods sector N=57	Pro- duction goods sector N=124	Ser- vice sector N=36	Before 1990 N=104	1990- 1997 N=111	Occa- sional ope- ration N=35	Conti- ner., not main markets N=136	Main mar- kets N=46
Total N=217	2.79	2.81	2.74	2.58 a <sup>1</sup>	2.88	2.81	2.84	2.74	2.71	2.79	2.85
Finland N=124	2.85	2.94	2.54	2.79	2.90	2.83	2.92	2.82	2.87	2.81	2.97
Austria N=93	2.70	2.55	2.86	2.26 a <sup>2</sup>	2.86	2.67	2.77	2.57	2.42	2.77	2.60

Main markets in EE:	Russia N=102	Estonia N=26	Poland N=26	Hungary N=18	Czech Republic N=29
Total N=215	2.77	3.00	2.88	2.83	2.55

<sup>1</sup> Consumer goods sector vs. production goods sector

<sup>2</sup> Consumer goods sector vs production goods sector

Significance levels: a = 0.05; b = 0.01; c = 0.001

Based on the country of origin the results indicated some differences between the two samples. Of the most important marketing mix elements especially good personal relationships and good image of the company, but also technical quality received all statistically higher ratings in the Austrian than in the Finnish sample. The greater importance of those elements is apparently for a great part explained by the fact that the Austrian sample included mainly industrial goods companies whereas the Finnish sample included more consumer goods and service companies. This would explain also the clearly greater significance of price and discounts, technical service and training, payment and credit arrangements, government sponsored credits and guarantees, and countertrade in the Austrian sample. In the Finnish sample, personal selling, managerial competence, and delivery time and readiness and product adaptation received statistically higher ratings than in the Austrian sample. Also in these cases the differences are apparently mainly explained by the difference in the sample compositions, because especially service companies rated both elements very high and most of the service companies were in the Finnish sample.

What concerns the influence of company size on the ratings both SMEs and large firms the same six parameters received ratings over four, although in a somewhat different order. Also the other results indicated very limited statistically significant differences in the ratings of various marketing mix elements. Apparently because of the greater resources and better abilities of larger firms, price, discounts, credit, guarantees and countertrade arrangements and abilities were rated higher than in SMEs.

*Table 4. Main competitors of Finnish and Austrian firms in EE (frequencies, multiple choices were possible)*

Competitors:	Foreign owned companies		Local state-owned companies		Local private companies	
	N	%	N	%	N	%
<b>Total (N=236)</b>	184	78.0	20	8.5	66	28.0
<b>COUNTRY OF ORIGIN</b>						
Austria (N=97)	85	87.6 b <sup>1</sup>	11	11.3	34	35.1 a <sup>2</sup>
Finland (N=139)	99	71.2	9	6.6	32	23.0
<b>FIRM SIZE (N=232)</b>						
SMEs (N=159)	120	75.5	11	6.9	45	28.3
Large (N=73)	60	82.2	9	12.3	21	28.8
<b>FIELD OF BUSINESS (N=235)</b>						
Consumer goods sector (N=62)	47	75.8	5	8.1	21	33.9
Production goods sector (N=132)	108	78.3	11	8.3	36	27.3
Service sector (N=41)	28	68.3	4	9.8	9	22.0
<b>START OF CE&amp;EE OPERATIONS (N=232)</b>						
Before 1990 (N=101)	81	80.2	11	10.9	32	31.7
1990–1997 (N=131)	99	75.6	9	6.9	34	25.9
<b>ROLE OF CE&amp;EE MARKETS (N=235)</b>						
Occasional operation (N=38)	29	76.3	1	2.6	9	23.7
Continuous operation, not main markets (N=142)	117	82.4	13	9.1	42	29.6
Main markets (N=55)	38	69.1	6	10.9	14	25.4

<sup>1</sup> Role of foreign owned companies in Austrian vs Finnish firms

<sup>2</sup> Role of local private companies in Austrian vs Finnish firms

Statistical significance levels (Pearson chi-square tests): a = 0.05; b = 0.01; c = 0.001

Table 5. Importance of competitive parameters in Eastern Europe

Competitive parameter	Total	FIRM SIZE		FIELD OF BUSINESS			START OF CE&EE OPERATIONS		ROLE OF CE&EE MARKETS				
		Austria	Finland	Small and medium N=150	Large N=69	Consumer goods sector N=60	Production goods sector N=124	Service sector N=38	Before 1990 N=95	1990-1997 N=125	Occasional operation N=35	Cont. oper.-, not main markets N=133	Main markets N=53
Good pers. relationships	4.22	4.43c	4.06	4.22	4.20	4.03	4.26	4.33	4.23	4.19	4.03	4.23	4.32
Technical quality	4.17	4.31a	4.07	4.12	4.28	4.02	4.27	4.08	4.19	4.15	4.19	4.23	4.00
Good image of company	4.12	4.40c	3.92	4.04	4.27	3.87 a <sup>1</sup> /a <sup>2</sup>	4.18	4.27	4.29b	3.98	3.83	4.17	4.16
Personal selling	4.12	3.69c	4.39	4.11	4.07	3.75 a <sup>1</sup> /c <sup>2</sup>	4.18	4.44	4.02	4.17	3.61 a <sup>4</sup> /b <sup>5</sup>	4.15	4.37
Customer service	4.08	3.97	4.17	4.11	4.03	3.92	4.11	4.25	3.99	4.16	3.89 a <sup>5</sup>	4.07	4.26
Managerial competence	4.06	3.91a	4.17	4.05	4.09	3.85 c <sup>2</sup>	4.04 b <sup>3</sup>	4.45	4.06	4.06	3.92 a <sup>5</sup>	4.01	4.28
Delivery time and readiness	3.94	3.71b	4.11	3.97	3.93	3.93	3.88	4.18	3.80a	4.06	3.69 a <sup>5</sup>	3.93	4.13
Price, discounts	3.69	3.93b	3.52	3.57b	3.94	3.66	3.71	3.64	3.88a	3.55	3.28 a <sup>4</sup> /a <sup>5</sup>	3.74	3.83
Good image of Austrian / Finnish products	3.64	3.78	3.55	3.65	3.67	3.75	3.67	3.37	3.60	3.67	3.78	3.64	3.55
Technical service and training	3.60	3.89c	3.39	3.53	3.73	3.07 c <sup>1</sup> /a <sup>2</sup>	3.82	3.65	3.76a	3.46	3.34	3.69	3.54
Methods of payment and credits	3.50	3.77b	3.29	3.34a	3.77	3.59 a <sup>2</sup>	3.59 a <sup>3</sup>	2.97	3.56	3.42	3.21	3.51	3.68
Adaptation of the prod.	3.48	3.26a	3.64	3.54	3.43	3.48	3.42	3.70	3.36	3.56	3.54	3.38	3.70
Distribution channels	3.25	3.51a	3.08	3.16	3.50	3.64 a <sup>1</sup> /b <sup>2</sup>	3.25	2.74	3.27	3.28	3.38	3.35	2.92
Design and package	3.02	3.09	2.98	2.99	3.12	3.64 c <sup>1</sup> /c <sup>2</sup>	2.77	2.86	2.75b	3.21	3.12	3.07	2.83
Fairs and exhibitions	2.92	2.96	2.89	2.91	2.90	2.95	2.94	2.73	2.86	2.94	2.39 b <sup>4</sup>	3.11	2.83
Advertising	2.57	2.69	2.50	2.52	2.71	2.80	2.48	2.55	2.58	2.61	2.22 a <sup>4</sup>	2.66	2.60
Gov. sponsored export credits and guarantees	2.45	3.09c	1.98	2.24b	2.86	2.22	2.63	2.13	2.72b	2.20	2.58	2.46	2.33
Countertrade deals	2.08	2.28a	1.94	1.90b	2.46	1.96	2.19	1.87	2.23	1.96	1.80	2.09	2.25

Statistical significance level a = 0.05 b = 0.01 c = 0.001 <sup>1</sup> consumer goods vs. production goods sector, <sup>2</sup> consumer goods vs. service sector, <sup>3</sup> production goods vs. service sector, <sup>4</sup> occasional operation vs. continuous operation, <sup>5</sup> occasional operation vs. main markets

As may be expected, the field of industry had influenced the results more than the company size. Of the most significant marketing mix elements good image, personal selling and managerial competence received all statistically significantly lower ratings in consumer goods than in other sectors. Consumer goods need much more mass marketing which explains the lower rating of personal selling and from the other factors the lower rating of technical service and training and higher ratings for especially product design and package but also for distribution channels. Also advertising received higher rating in consumer goods than in other sectors, but the difference was not statistically significant. The ratings were much more equal between industrial goods and service sectors, only managerial competence received in the former sector a more significantly lower rating. Furthermore, the very high ratings of managerial competence and personal selling in service sector can be explained with the need of direct links to the customers. Thus, based on field of industry hypothesis 4 and 5 received only partial support.

The timing of entry had a rather limited influence on the results. Of the more important parameters companies having longer experience rated good image and price and discounts, and of the other parameters technical service and training and government sponsored export credits higher than companies which had entered the markets during the 1990s. Furthermore, delivery time and readiness for delivery both design and package of the product received higher ratings among companies having entered EE markets during the 1990s. Thus, also H6 received only partial support.

As expected, companies which operated continuously in EE markets weighted almost all main marketing mix elements more than companies operating only occasionally in EE markets. The difference was especially clear (statistically significant) in the use of personal selling, customer service, managerial competence, delivery time and readiness, and price and discounts. Of the other factors use of fairs and exhibitions and use of advertising both received clearly lower ratings in the occasional exporters subgroup. The difference in the weighting of those marketing mix elements may also largely explain why occasional exporters have not gained greater market shares and started to operate more continuously on EE markets. In total the results gave, however, only partial support for H7.

The results indicated also – perhaps even surprisingly – clear differences in the ratings of various marketing mix elements between various EE markets (see Table 6). In Russia and Estonia highest ratings were given to personal selling whereas especially in Hungary and Czech Republic good personal relationships, good image of the company, and technical quality of the product received clearly higher ratings than personal selling. Noteworthy is that the rating of technical quality exceeded the value 4.50 in Hungary.

Table 6. Importance of competitive parameters in major markets in Eastern Europe

Competitive weapon	TARGET COUNTRIES				
	RUSSIA N=110	ESTONI A N=26	HUNGAR Y N=17	POLAN D N=25	CZECH REPUBLIC N=28
Personal selling	4.27 a <sup>1</sup> /b <sup>2</sup>	4.26 a <sup>3</sup> /a <sup>4</sup>	3.38 a <sup>5</sup>	4.19	3.68
Good personal relationships	4.16	4.12	4.44	4.28	4.38
Managerial competence	4.12	4.19	4.13	3.76	4.00
Technical quality of the product	4.12 a <sup>1</sup>	4.08 a <sup>3</sup>	4.53	4.27	4.28
Delivery time and readiness for delivery	4.10 a <sup>2</sup>	4.08	4.00	3.72	3.57
Customer service	4.07	4.15	3.88	4.28	4.14
Good image of the company.	4.07 a <sup>2</sup> /a <sup>6</sup> /a <sup>7</sup>	3.56 b <sup>3</sup> /b <sup>4</sup> /c <sup>8</sup>	4.39	4.46	4.38
Good image of Austrian/Finnish products	3.64	3.63	4.07	3.56	3.59
Adaptation of the product to the market	3.64	3.54	3.47	3.31	3.21
Price, discounts	3.62 b <sup>2</sup>	3.46 b <sup>4</sup>	3.56 a <sup>9</sup>	3.72	4.17
Technical service and training	3.47 b <sup>7</sup>	3.23 a <sup>4</sup> /b <sup>8</sup>	3.71	4.16	3.79
Methods of payment and credits	3.45	3.24	3.61	3.44	3.72
Distribution channels	3.07	3.30	3.59	3.52	3.50
Design and package of the product	3.03	3.08	3.24	2.72	3.21
Fairs and exhibitions	2.92 a <sup>1</sup>	2.63 a <sup>3</sup>	3.31 a <sup>9</sup>	3.04	2.68
Advertising	2.61	2.44	2.63	2.56	2.61
Government sponsored export credits and guarantees	2.37 a <sup>2</sup>	1.88 c <sup>4</sup> /a <sup>8</sup>	2.59	2.60	3.11
Ability for countertrade deals	2.21 a <sup>1</sup>	1.73	1.88	1.92	2.07

Statistical significance level

<sup>1</sup> Russia vs. Hungary<sup>2</sup> Russia vs. Czech Republic<sup>3</sup> Estonia vs. Hungary

a = 0.05

b = 0.01

<sup>4</sup> Estonia vs. Czech Republic<sup>5</sup> Hungary vs. Poland<sup>6</sup> Russia vs. Estonia

c = 0.001

<sup>7</sup> Russia vs. Poland<sup>8</sup> Estonia vs. Poland<sup>9</sup> Hungary vs. Czech Republic

A somewhat surprising finding was the clearly lower rating of good company image in Estonia and higher rating of price and discounts in Czech Republic than in the other EE countries. Bigger target country specific samples would be needed especially from Czech Republic and Poland to analyze the country specific differences and the reasons for them.

## 6. Summary and Discussion

Research interests focusing on operations by Western companies in EE markets has been growing. However, so far there are very few studies analyzing in more detail the competitive situation and use of various marketing mix elements by Western companies in EE markets. In this study both of those important questions have been analyzed using a sample of Austrian and Finnish companies operating in those markets.

In summarizing the results of the study we can conclude the following:

- The competition in EE is intense, but still somewhat weaker compared to Western markets. However, the gap is not as wide as expected. With improvements in the market economy system, ongoing institutional and legal reforms, an increase in purchasing power, further progress in privatization, and the emergence of new players on the markets competition will strengthen and the competitive gap will apparently continue to decrease in future.
- Western companies are mainly competing with other foreign companies in EE markets. Local private and privatized firms were clearly more often main competitors than local state owned companies. Along with the development of the privatization process the role of local state owned companies as the main competitors may be expected to be even less significant in future.
- Foreign companies operating in EE use basically the same competitive strategies as in Western markets. The main marketing mix elements used were good personal relationships, technical quality of the product, company image, personal selling, customer service, and managerial competence. The role of price and discounts was lower than expected. As expected design and package, trade fairs and exhibitions, advertising, credit and countertrade arrangements were rated as clearly less significant marketing-mix elements by Western companies in EE markets.
- Although the same marketing mix parameters usually were used by the firms in various subgroups reviewed, some important differences could also be found. As expected, large firms and consumer goods manufacturers base their competitive strategies more often than SMEs, service, and consumer goods companies on good company image, technological leadership and service, price and discounts, payment, credit and countertrade arrangements. Consumer goods manufacturers compete more on product design, distribution, and advertising than production goods and service companies.
- Good company image and price and discounts were used more often by firms which had entered the EE markets already before transition, on the other hand delivery time and readiness for delivery by companies which had entered EE markets more recently. As expected, companies which operated continuously in EE markets evaluated almost all main marketing mix

elements higher than companies operating only occasionally in EE markets. The difference was especially clear in the use of personal selling, customer service, managerial competence, delivery time and readiness, and price and discounts.

- The difference in the weighting of those marketing mix elements may also explain as a large extent why occasional exporters have not gained greater market shares and started to operate more continuously on EE markets.

This study did not analyze the standardization vs. differentiation questions related to various marketing mix elements nor possible market segmentation or other customer related issues. Secondly, this study did not analyze how well the Western companies had performed in EE markets (some evidence is presented in Larimo, Nieminen & Springer, 1999). In future it would be interesting to analyze whether there exist differences in the evaluations of competitive situations and especially use of various marketing mix elements between Western companies which have performed well in those markets compared to average and poor performers. One conclusion that can be drawn based on Larimo et al. (1999) is that companies whose main markets are in EE have performed clearly better than companies operating only occasionally in EE markets. As discussed above, there was a clear difference in the use of various marketing mix elements between those groups of firms according to results of this study. Furthermore, this study did not analyze in more detail the strategies used by companies related to various possible competitive strategies (cost leadership, technical leadership, differentiation) or standardization vs. adaptation of product and advertising strategies. More detailed analysis of those aspects would also increase the level of knowledge and understanding of the competitive environment and operation of Western companies in EE markets.

The results of the study confirm the repeatedly proven interdependence between developments in the marketing environment of the target market and the marketing strategies implemented by firms having entered this environment (Varadarjan & Clark & Pride, 1992). As far as the design and implementation of marketing strategies in EE is concerned the Western companies do adapt their marketing concepts to the conditions in the transition countries rather than managing and controlling the marketing environment. This can be explained with the high volatility of the marketing environment in EE which requests reactive than active marketing strategies. The continuing progress of transition will change market constellations, and acceleration in the shift from buyer's to seller's markets can be expected. In the end, we will see a convergence in the business environments of Central and Eastern Europe and the industrialized West. Speed and scope of the adjustment will vary from country to country. From this perspective, companies in the region are being forced to use marketing as a management concept and, by doing so, are improving their

competitive position. This will gradually enhance competition and reduce the marketing lead Western companies still enjoy in Central and Eastern Europe.

With these anticipated developments environmental determinism will gradually weaken and the marketing activities of Western companies shape and change actively the marketing environment in EE. Based on the results of the study we can also conclude that ongoing adjustment in the marketing environment between West and East offers increasingly better conditions to implement standardized marketing concepts.

The entry, and the presence, of Western companies have a positive impact on the marketing systems in Central and Eastern Europe. It remains to be seen to which extent, and in which form and at what speed, marketing strategies used by Western companies will contribute to a change in the marketing systems in this region. Apparently, we will see gradually the convergence of marketing strategies and management styles throughout all of Europe - Western, Central and Eastern.

<sup>1</sup> We use the term East European countries to cover all the ex-socialist planned economies in Europe. Central Eastern Europe (CEE) covers here Poland, Hungary, Czech Republic, Slovak Republic, Slovenia, Romania, Bulgaria and countries of the former-Yugoslavia. Baltic countries cover Estonia, Latvia and Lithuania. CIS covers all the countries of the former Soviet Union except the Baltic countries.

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*Table 7. Summary of the statistical tests and verification of the hypothesis made in the study*

H #		Statistical test	Empirical Results
H1	The competition in EE is weaker than in the markets of the advanced industrial economies.	T-tests	Not supported
	The intensity of competition differs by firm size, field of business, starting time of the EE operations and role of EE markets for the firm.	T-tests	Partially supported. (Not supported in case of field of business)
H2	Main competitors other foreign firms.	Chi-square	Supported.

H3	Good company image, technical quality of the product, personal selling, good personal relationships, and price and discounts are the main marketing mix parameters of Western companies in EE.	T-tests	Partially supported. (Not supported in case of price and discount.)
H4	Large companies and production good manufacturers base their marketing strategy more on good company image, technological leadership and service, price and discounts, payment, credit and countertrade arrangements than SMEs, service and especially consumer goods companies.	T-tests	Partially supported. (Variation in the results – not supported in the case of technological leadership.)
H5	Consumer good manufacturers compete more on product design, distribution and advertising than production good and service companies.	T-tests	Partially supported. (Not supported in case of advertising.)
H6	Companies having entered the EE markets before transition rely more on company image, price and discounts than companies having entered the markets during the 1990s which rely more on design, product adaptation, delivery time and personal selling.	T-tests	Partially supported. (Not supported in case of product adaptation and personal selling.)
H7	Companies operating continuously in EE markets use in general all marketing mix elements more intensively than companies operating only occasionally in EE markets.	T-tests	Partially supported. (Not support in case of customer service, managerial competence and good personal relationships.)

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