

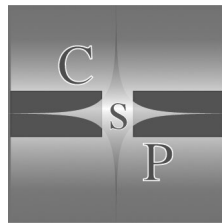
# Business Strategies for Economies in Transition



# Business Strategies for Economies in Transition: Book of Readings on CEE Countries

Edited by

Petr G. Chadraba and Reiner Springer



Cambridge Scholars Publishing

Business Strategies for Economies in Transition: Book of Readings on CEE Countries,  
Edited by Petr G. Chadraha and Reiner Springer

This book first published 2008

Cambridge Scholars Publishing

12 Back Chapman Street, Newcastle upon Tyne, NE6 2XX, UK

British Library Cataloguing in Publication Data  
A catalogue record for this book is available from the British Library

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ISBN (10): 1-4438-0049-X, ISBN (13): 978-1-4438-0049-5

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## FOREWORD

This book contains a collection of papers from the Conference on Business and Marketing Strategies for CEE Countries organized jointly by the Institute of International Business of Wirtschaftsuniversität Wien and the College of Commerce of DePaul University, Chicago and held annually in Vienna, Austria. Because of rapidly changing economic environments in Central and Eastern European countries, we chose papers from the last 3 conferences. Our goal is to offer educational material to academics whose interest is focused on issues related to economies in transition.

The book is divided into four sections – Finance and Banking, Human Resource Management, Marketing and Advertising. It also includes a case study. We chose these four areas since they seem to be most impacted by the transformation. Unlike accounting, these disciplines reflect more the subjectivity of human behavior. The economic transition, which took place in Central and Eastern Europe starting in 1990, was as much about changing human behavior as it was about changing the economic systems. Many of the articles in this book illustrate the slow change in people's attitudes toward the new economic system and the new business practices. While the markets in CEE countries may carry the same products as the western markets do, the consumers' views toward market driven economies and western style business concepts still differ, even after 17+ years of change. The case study illustrates some of the problems companies may expect when entering markets that are in transition. Additionally, the case shows the danger of making assumptions about similarities among markets and/or countries, based on limited and superficial variables.

The articles in this book cover a variety of business topics. Due to the past economic structure in these countries, western style business concepts had to be adjusted and tailored to the local conditions. Even today, the environment is in transition. Distribution channels differ; consumer's brand preferences change and in many cases the demand is shifting back to domestic, cheaper, brands. We also see differences in the perception of what is unethical, or illegal. In general the attitudes toward these issues

seem more liberal. Consumers also appear more cynical about businesses' role in the economy and the society.

We can safely say that the economic transformation has taken hold on the macro level. Ten formerly communist countries in CEE are now members of the European Union. The macro economic indicators of these countries are mostly within the EU guidelines and some of them have already adopted the Euro. However, as the research indicates, the micro economic indicators are still in the transitional stage. It is taking somewhat longer than expected for the changes to be fully adopted on the micro level.

The four sections of the book are arranged according to business disciplines typically dividing the various departments within business universities. This arrangement allows professors from the different departments to select specific articles relevant to their topic. These articles show the process that business institutions, as well as consumers, go through in transitional economies. The articles give us a real picture of the transitional process, which we never before have had. We are now able to use real business examples; we can point to these articles when teaching new business concepts in countries, which may still be in transition. There are still a number of formerly communist countries that are only beginning to transfer their economies. This book can serve as a valuable guide to teachers in those countries by giving them factual evidence relevant to theoretical concepts.

All of the articles and the case study within this book describe business issues, which arose while countries were transforming their economic systems from a centralized to a market driven economy. However, we feel that this book can be used as a teaching tool in countries moving from undeveloped to a developed economic state. Any progress, which brings significant change to the status quo, will impact the citizens of these countries. The response of these people will directly impact their chance of a successful economic development. A number of the articles in this book can be used to determine what type of a consumer response we can expect. Issues such as foreign direct investment, foreign made products taking market share from local manufacturers and competition from foreign enterprises, are all global concepts. These issues are common to transforming economies and are also relevant to economies which are in the developmental stage.

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**SECTION I:**  
**MARKETING MANAGEMENT**

# CURRENT TRENDS IN THE MARKETING STRATEGIES OF AUSTRIAN FIRMS IN CENTRAL AND EASTERN EUROPE

ARNOLD SCHUH

## **Abstract**

In this paper the findings of an online survey on trends in the marketing strategies of Austrian companies in Central and Eastern Europe for the 2006-09 period are presented. Austrian companies are very optimistic about the future market developments in CEE. Their interest is shifting from Central Europe to South-Eastern Europe and more to the East. By increasing the marketing budget and moving to more direct forms of local presence the competitive position shall be improved. Regional integration is growing as it is documented by the broad adoption of extended home market concepts. International marketing program standardization is already high and further on the rise. Flexibility in local marketing seems to be secured by granting the local management a high degree of autonomy in decision-making.

## **Introduction**

Most of business and management research on Central and Eastern Europe (CEE) had been focused on the entry and expansion activities of Western firms in the 1990s. The fundamental changes in the institutional framework and the economic transition process offered ample opportunity for interesting research on how firms behave in transition economies (Springer & Schuh, 1999; Schuh & Pacolt, 2000). Now that most of the countries have gone through the major phases of the transition process or even completed them the interest among researchers seems to be waning – the CEE countries have become “normal” market economies that have lost their exceptional status. But from an evolutionary perspective of corporate development, it is still interesting to learn how the Western MNCs have

been responding to the fundamental changes of the markets and how they deal with the new constellations in the markets today.

In the first decade, after the fall of the Iron Curtain, the early entrants were confronted with a lot of uncertainty concerning the institutional framework, the progress in the transition process and the future development of the markets in this region (Schuh, Klausegger & Schreiber, 1994). At the beginning, the management was preoccupied with finding the right country markets, entry method and marketing strategy for each individual market. However, the constellation has changed over the past years: The business infrastructure has improved constantly, the institutional environment has stabilized, especially in those eight CEE countries which became member of the EU in 2004, and the risk that the reforms will stall and the countries will return to their former planned economy and socialist system has diminished (EBRD, 2002 and 2005). At the same time, some of the early entrants have become regional players by building a remarkable presence in many countries of the region. It is fair to assume that the priorities in the business and marketing strategies of these regional players changed in the meantime and that they are probably more interested now in optimizing their presence in the region rather than in further expansion into new countries. Given the broad presence in the region companies have started to think about better coordinating and integrating their operations (Kozminski & Yip, 2000; Ferencikova & Schuh, 2003).

## **Objective of Study and Research Design**

The purpose of this paper is to identify current trends in the marketing strategies of Austrian firms in CEE for the 2006-2009 period. Research questions center around three areas: (a) perceived attractiveness of country markets in CEE, (b) thrust, objectives and priorities in marketing strategies, and (c) degree of regional integration and organizational issues. The definition of CEE for this study includes all countries of the region except the Baltic states and the CIS states – however, Russia and Ukraine are included given their importance for the Austrian economy. The following sub-regions were used throughout the questionnaire:

- Central Europe: Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia.
- South-Eastern Europe: Bulgaria, Croatia, and Romania.
- West Balkan: Albania, Bosnia-Herzegovina, Macedonia, and Serbia-Montenegro.

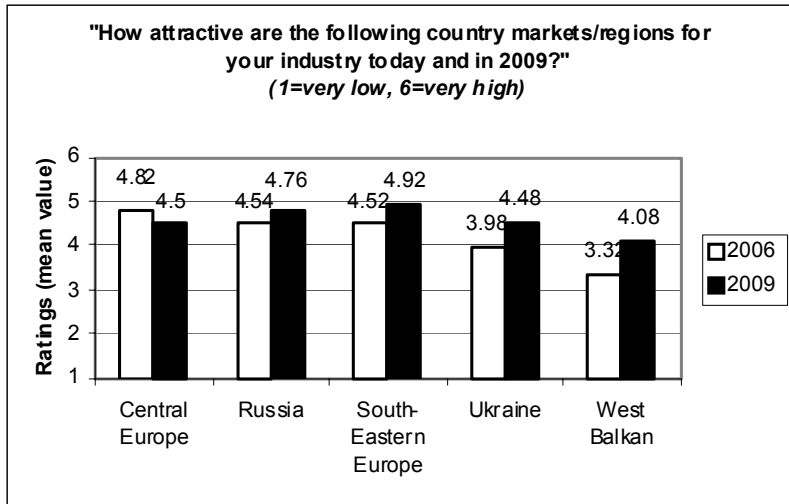
The research questions were addressed in an online survey. The design and implementation of the survey was subject of a project seminar at the Institute for Marketing Management in the Summer Term 2006. Target persons were managers in charge of marketing activities in CEE at Austrian companies. The names of Austrian firms operating in CEE were partly provided by the foreign trade organization of the Austrian Chamber of Commerce (WKÖ) and partly the outcome of our own research. Target companies were contacted by phone or email in order to identify the manager responsible for the CEE operations. A personal invitation to participate was then sent out in two waves in May and July 2006. Reminder emails followed 7-10 days in the case of non-response. A total of 317 Austrian firms were contacted. 78 persons participated in the survey and 50 of them completed all questions. This represents a participation rate of 15.8%.

## **Findings**

### **Market Attractiveness and Country Risk**

All business planning starts with an assessment of the current market situation and an outlook on future market developments. In this study this step is captured by measuring the attractiveness of country markets today and in 2009. Interviewees were asked to rate CEE markets in terms of their market attractiveness, i.e. to rate to what degree a CEE market offers promising sales opportunities for companies of their industry. The results for the year 2006 show (Figure 1) that Central Europe is leading the rating (4.82 on a six-point scale) followed by Russia (4.54) and South-Eastern Europe (4.52). Ranked next to this leading group are the Ukraine (3.98) and the West Balkan (3.32). The future of the region is seen even brighter: all countries/sub-regions can improve their ratings for 2009 except of Central Europe, which slides from 4.82 to a still attractive 4.50. From the perspective of the Austrian firms South-Eastern Europe (4.92) is moving to the top of the rating with Russia (4.76) close behind. Strong improvements are anticipated for Ukraine and the West Balkan (Figure 1).



**Figure 1: Market attractiveness ratings by country/sub-region**

When analyzing the results by economic sector, marked differences show up: Service companies rate the market attractiveness of Central Europe (service firms 5.08 vs. manufacturing industry 4.41), South-Eastern Europe (4.96 vs. 3.88) and the West Balkans (3.83 vs. 2.76) significantly higher than the respondents of the manufacturing industry (Table 4). This could be due to a time lag in the general market development, which is normally led by an up-swing of the manufacturing industry before the (business) services sector begins to expand. Another explanation is that the results mirror the “follow your customer” principle describing the phenomenon in the internationalization process that (business) service providers often follow their (manufacturing industry) clients into foreign market. Thus, markets for services take off later what is reflected in a postponed attractiveness rating.

Large companies (>500 employees) judge Russia and Ukraine significantly higher than smaller companies (<500 employees). Larger companies appear to be stronger attracted by larger markets and are better prepared to cope with the higher resource requirements and risks involved. Moreover, we found that companies which are present with their products in the geographically and culturally more distant markets of Russia and Ukraine show a significant better assessment of the market attractiveness

than those which are not present there (Table 1). This result is in accordance with internationalization theory as described by the “Uppsala School” (Johanson & Wiedersheim-Paul, 1975). A firm that is active in a foreign market knows the market better, so it is easier for this firm to spot market opportunities and to cope with risks typical for this market.

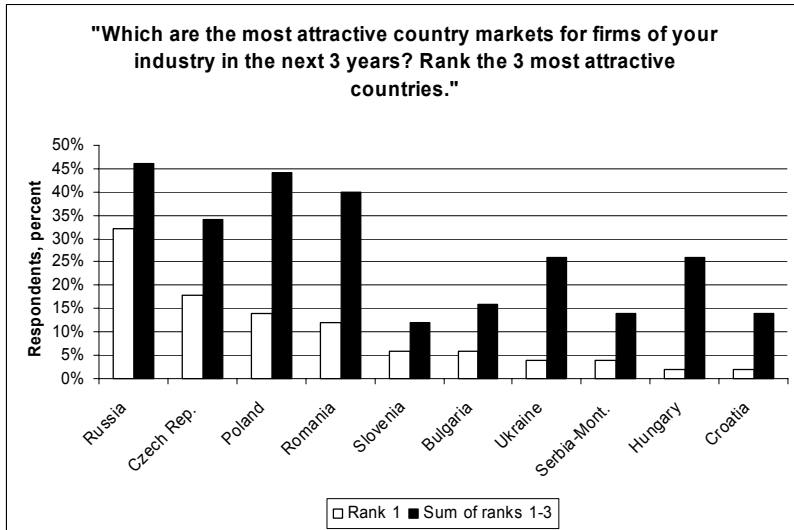
**Table 1: Market attractiveness ratings split by presence in Russia and Ukraine**

Differences in the assessment of market attractiveness (six-item scale)*	2006		2009	
	Company present	Company not present	Company present	Company not present
Russia	5.18	3.73	5.25	4.14
Ukraine	4.60	3.36	5.00	3.96

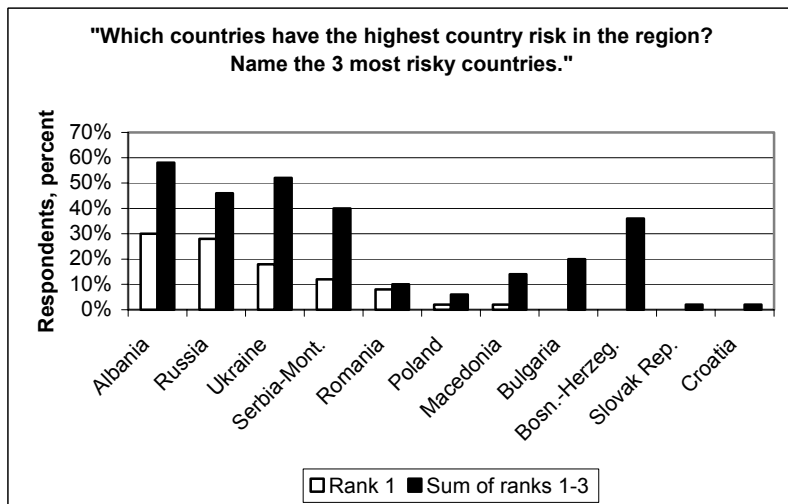
*\* All differences are significant on a  $p < 0.05$  level (Table 5)*

The Figures 2 and 3 give a more detailed overview of the most attractive and risky CEE markets in the next three years. Interviewees were asked to name the three most attractive and risky markets. Country risk relates to the likelihood that unstable political, economic, and social conditions in a foreign market will have a negative impact on the business operations of an international company active in this market. The results are fairly consistent with regard to the leading group irrespective if you just take the first ranked countries or the accumulated responses for a country in all top-3 ranks: Russia, Czech Republic, Poland, and Romania are regarded as the most attractive country markets of the region (Figure 2). Ukraine and Hungary are forming the runner ups followed by Bulgaria, Serbia-Montenegro, and Croatia (when counting the combined top 3 responses). The most risky markets of the region are Albania, Russia, Ukraine, Serbia-Montenegro, and Bosnia-Herzegovina based on the responses for the three most risky markets (Figure 3).

**Figure 2: Ranking of the most attractive country markets in the next 3 years**



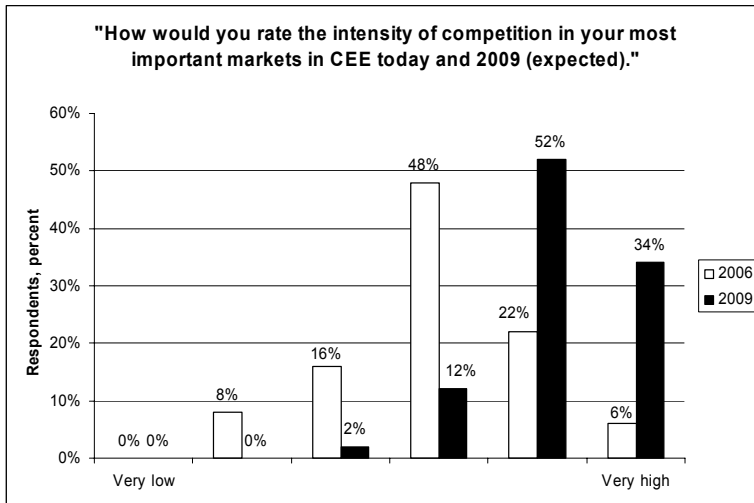
**Figure 3: Ranking of the most risky country markets in CEE**



Market attractiveness seems to correlate strongly with the size of the market in terms of population. With Russia, Poland, Romania, and fifth ranked Ukraine the most populous countries are on top of the list. This shift of interest is insofar noteworthy as Austrian companies were strongly focused on Central European countries in the 1990s. We still find the highest degree of presence there. While Poland and Romania are barely mentioned among the most risky countries, companies have to be very careful when planning to enter Russia or Ukraine. These countries, especially Russia, rank high on the market attractiveness scale but at the same time are among the most risky countries. 28% of respondents view Russia as the most risky country in CEE, 18% say the same about Ukraine. Companies that already are or want to become active there have to pay special attention to the management of business risks in those two countries.

Austrian companies also expect an increasing level of intensity of competition in the next three years (Figure 4). The mean value will rise from 4.02 in 2006 to 5.18 on a six-item scale by 2009. Today only 28% of respondents regard the intensity of competition as 'high' or 'very high'. Until 2009 this proportion will nearly triple to 86% of respondents. Thus, it is not surprising that 44% of respondents expect to see more consolidation in their industry in CEE.

**Figure 4: Intensity of competition in the most important CEE markets in 2006 and 2009**

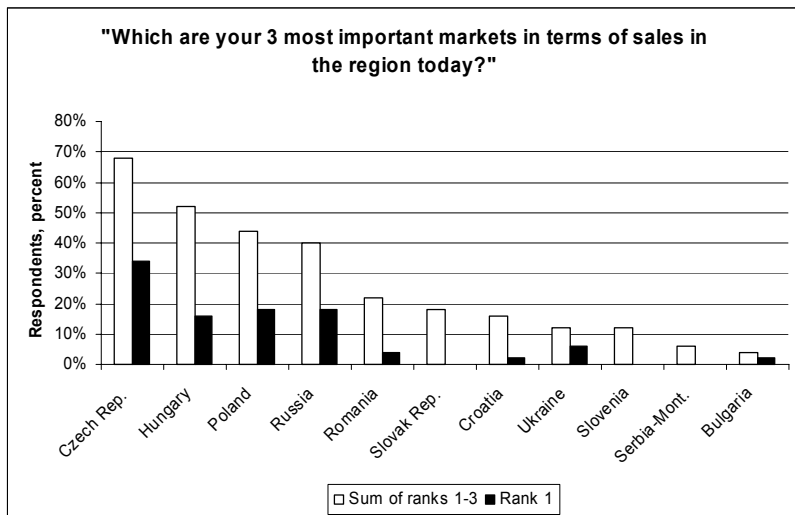


## Thrust, Objectives and Priorities in Marketing Strategy

The central section of the questionnaire deals with the thrust, objectives, and priorities in marketing planning for the 2006-2009 business period. The questions covered issues such as the direction of the growth strategy, the trade-off between market share growth and profitability, trends in the form of presence, and in the level of standardization of the international marketing-mix. Before presenting the findings, a few key facts are given which characterize the presence of the respondents in the region:

- The respondents are present with their products and services in 9 countries in CEE on average.
- The strongest presence can be found in the four neighboring countries of Austria where more than 82% of the respondents are active. About three quarters are already present in Poland and South-Eastern Europe, more than half are present in Russia and Ukraine today.
- The most important markets in terms of sales are the Czech Republic, Hungary, Poland, Russia and Romania (Figure 5)

**Figure 5: Most important country markets of the respondents in 2006**



Despite the broad presence in the region the Austrian companies plan to continue with their expansion. This includes the expansion into new country markets, the broadening of the range of goods offered as well as

the targeting of new customer segments (Table 2). 76% of the respondents intend to enter new country markets in CEE, 80% plan to broaden the range of products offered and 72% plan to address new customer groups. Only about a quarter of the respondents is satisfied with the current market coverage and does not plan any expansion in new markets until 2009. Virtually none of the companies wants to withdraw from any of the countries.

**Table 2: Direction of development in the marketing planning for CEE until 2009**

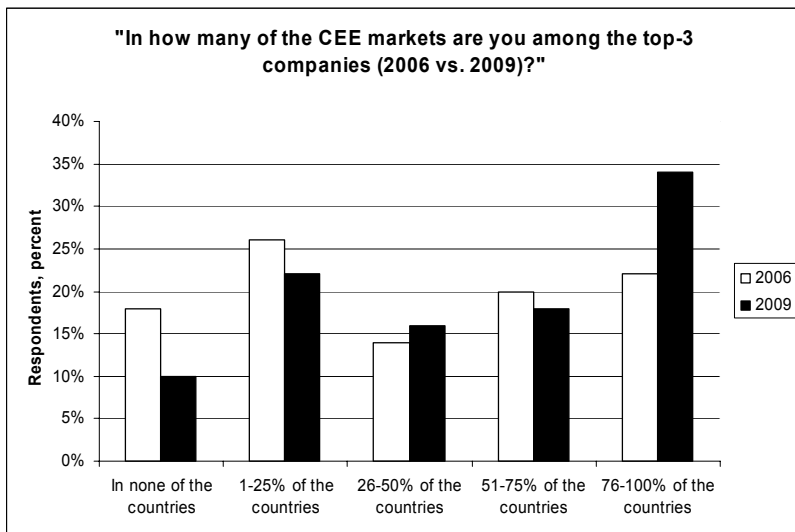
<i>Direction of development until 2009</i>	Increase	Hold	Reduce
<i>Decision area</i>			
Number of countries in CEE	76%	24%	0%
Range of products offered	80%	18%	2%
Number of customer segments targeted	72%	28%	0%

The overview of the competitive positions provides a mixed picture. The companies are nearly evenly distributed across the available categories ranging from weak to very strong competitive positions. However, a clear trend is visible to improve the competitive position by 2009. While only 42% of respondents are among the top-3 players in their industry in more than 50% of the countries today, this number shall increase to 52% until 2009.

The results on thrust and priorities in the marketing planning are quite revealing (Figure 7). After more than a decade of expansion into CEE the question arises if the companies want to grow now by building the existing business or by expanding into new countries. The findings show that the emphasis is now placed on the local market expansion (54%) rather than on the expansion into new countries of the region (22%). Despite all the predominant growth orientation the companies do not forget profitability. Only 16% approve of the statement that increasing the market share is more important than improving profitability (all 'strongly agree' and 'agree' responses together), whereas 50% disagree. Furthermore, the

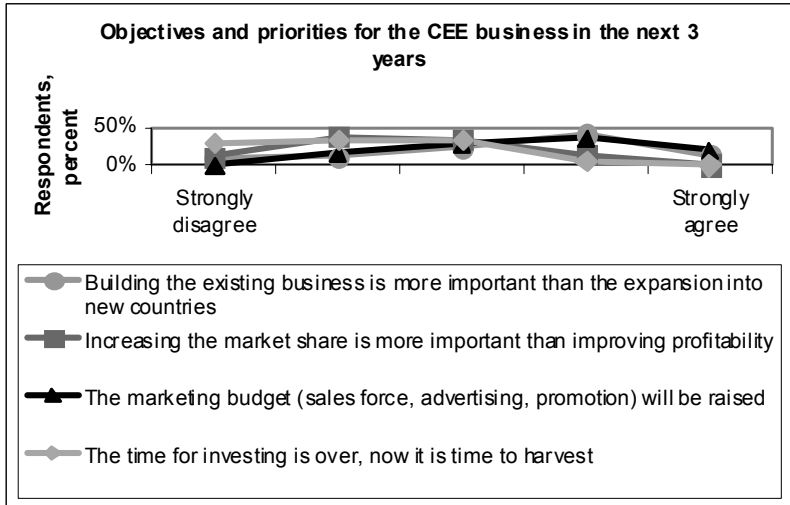
majority of respondents are still in an investment mood: 60% reject the notion that the time for investing is over and that it is now time to harvest. The continued expansion is supported by an increase in the marketing budget (sales force, advertising, promotion). In particular, the manufacturing industry shows a significantly higher willingness to expand marketing expenditures (4.12 on a five-item scale) than the services sector (3.42) and the trade sector (3.11).

**Figure 6: Overview of the current and intended competitive position**

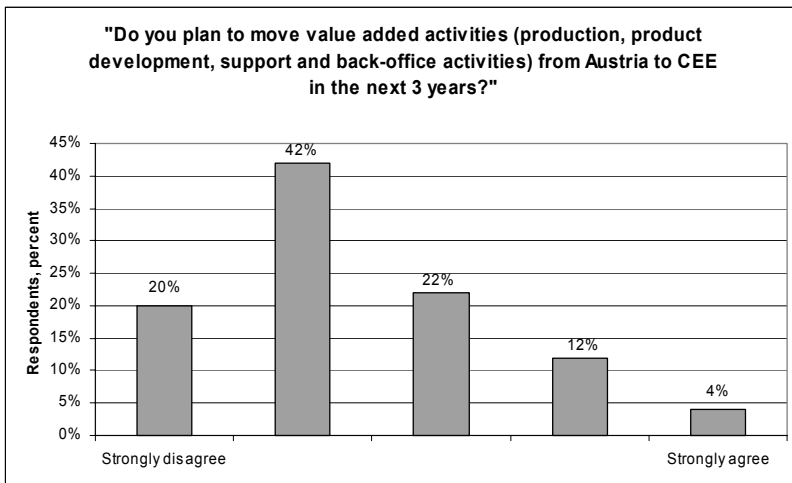


As far as the possible shift of value added activities from Austria to CEE is concerned, no marked interest can be found; only 16% of respondents plan to do it. This reserved attitude is quite a surprise given the ongoing public discussion about shifting production from Western to Eastern European locations ("nearsourcing"). It is possible that the broad range of quoted value added activities (production, product development, support and back-office activities) led to this response. By offering a broader definition of value added activities we wanted to address the situation of the service sector where the outsourcing of back-office activities (e.g. financial services) has become quite common. But the analysis by industry sector did not reveal any differences.

**Figure 7: Objectives and priorities in the marketing planning for CEE**



**Figure 8: No major shift of value added activities from Austria to CEE within the next three years**

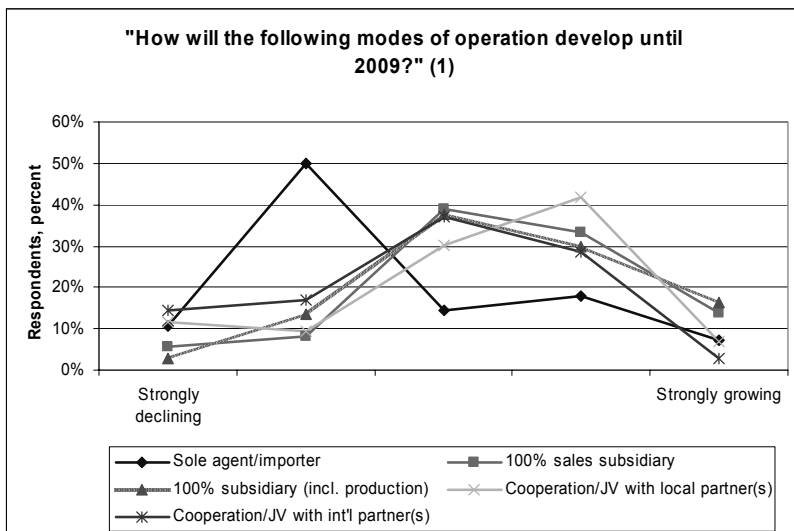


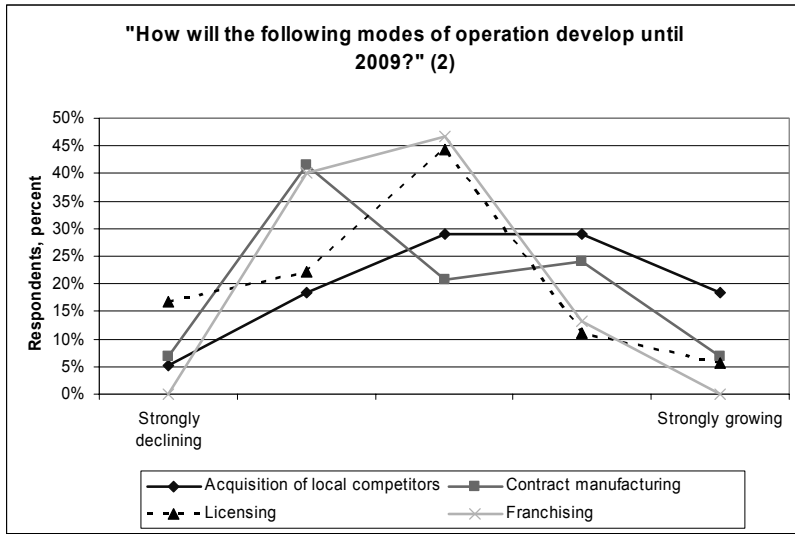


With regard to the mode of entry/operation a trend towards a more direct presence in the CEE market and, mainly limited to the service sector, towards cooperation/joint venture with local partners can be spotted (Figure 9 and 10). The results only include those modes of operation that are relevant for a company. The highest ratings can be found for fully owned subsidiaries with production (3.43 on a five-item scale), sales subsidiaries (3.42), and the acquisition of local competitors (3.37). There is also a tendency towards cooperating with local partners (3.23), while the cooperation with international partners is rather declining. The use of sole agents/importers is declining as well as the use of licensing, franchising, and contract manufacturing. In general, the patterns are not very pronounced. This may be attributed to an already high degree of direct presence in the markets through fully owned subsidiaries and the gradual character of internationalization in general, i.e. radical changes in the mode of operation are rather seldom.

A detailed analysis reveals that the trends vary by industry sector (Table 4). The cooperation/joint venture with local partners is significantly higher rated by service providers (3.86) than by manufacturers (2.79) and by the trade (2.38). Contract manufacturing is more important for smaller companies (3.18) than for bigger ones (2.33).

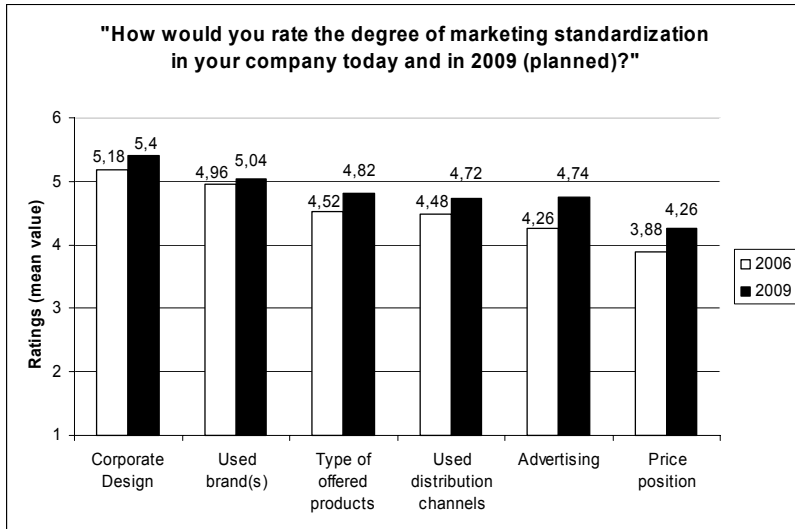
**Figure 9: Trends in the mode of operations (1)**



**Figure 9: Trends in the mode of operations (2)**

The question of standardization vs. localization of the international marketing program is a central aspect of all international marketing planning. The results show already a high level of standardization of most of the elements studied in 2006 (Figure 10). Corporate design (5.18 on a six-item scale) and brands (4.96) are ranked highest, followed by type of products offered (4.52) and type of distribution channel used (4.48). The lowest values can be found for advertising (4.26) and price positioning (3.88) – but they are still leaning towards the standardization end. These results correspond with existing empirical evidence of a high level of marketing standardization in CEE (Schuh, 2000). A comparison of the means of 2006 with 2009 indicates an even further increasing level of standardization over the next years. This high level of marketing standardization matches well the picture of a growing regional integration as manifested in the high adoption rates of the “extended home market” concept and the high proportion of companies that describe themselves as a “regional player”.

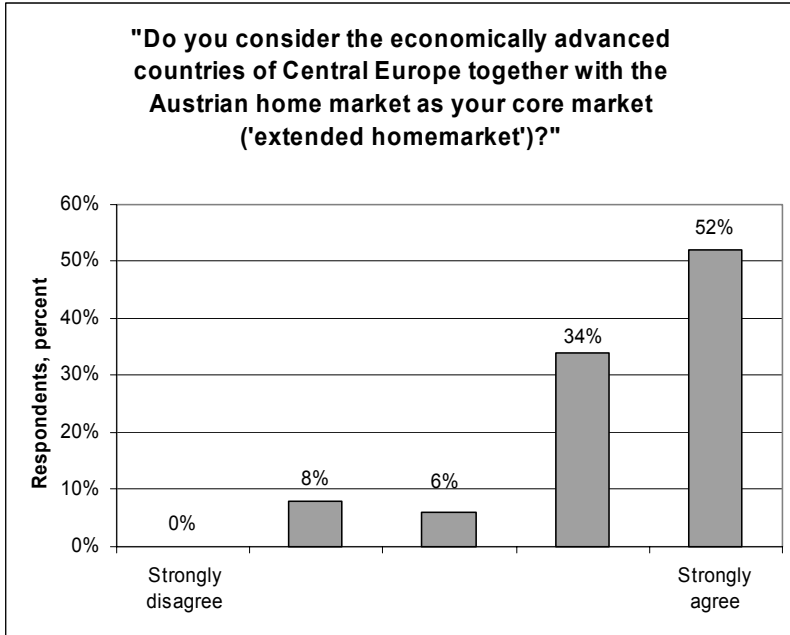
**Figure 10: Level of marketing program standardization in 2006 and 2009**



### **Regional Integration and Control of Cee Activities**

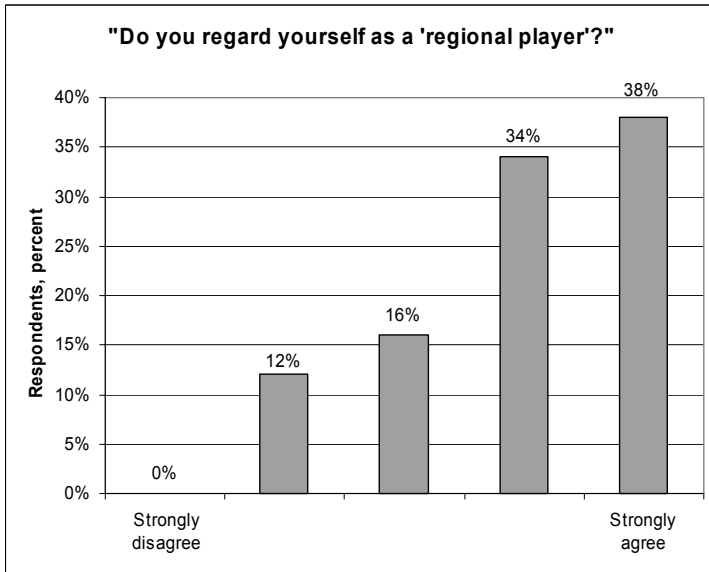
There exists the notion in the international business literature that after a phase of expansion companies start to think about a stronger regional coordination and integration of their operations (Heenan & Perlmutter, 1979; Morrison & Roth, 1992). In particular, the CEE region seems to be an ideal candidate for regionalization (Ferencikova & Schuh, 2003; Kozminski & Yip, 2000; Schuh, 2007). Starting point for the forming of a regional cluster normally is a group of neighboring countries with a lot of similarities in terms of market development, marketing infrastructure and consumer behavior and strong inter-regional trade. Asked if they regard the activities in the Central European countries together with the Austrian home market activities as core market and the Central European region as "extended home market", 86% of respondents agreed (percentages for 'strongly agree' and 'agree'; Figure 11). Especially, retailers & wholesalers show a strong tendency towards regional integration (4.67 on a five-item scale) compared to services (4.33) and manufacturing industry (4.06).

**Figure 11: The activities in Central Europe are already part of the “extended home market”**



In addition, 72% of the respondents regard themselves as a “regional player” (Figure 12). Regional player was defined as a company with a broad market presence and a leading market position in CEE. The self-description as “regional player” is significantly higher for the group with a strong competitive position and for larger companies (Tables 3 and 4).

**Figure 12: A majority of respondents describes itself as a “regional player”**

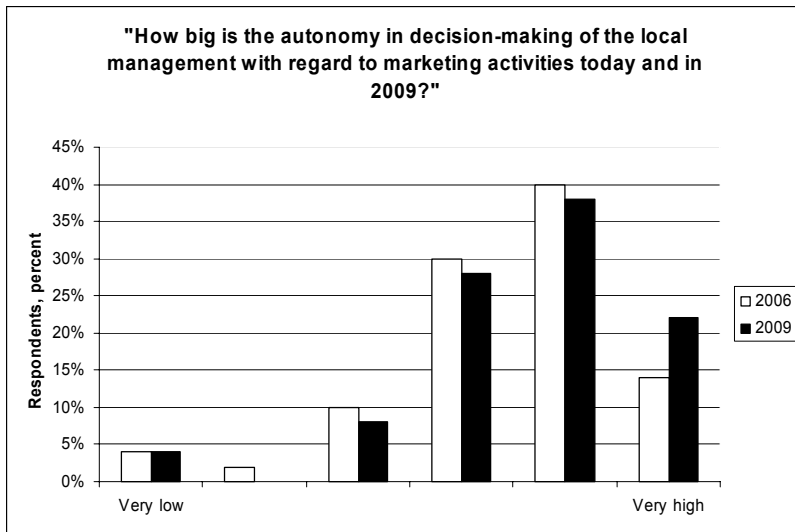


Given the high level of international marketing program standardization and the strong tendency towards regional integration the question arises how Austrian companies adapt to local market conditions. One option that is often used by (consumer good) companies operating in CEE is the multi-tier product/brand strategy (Dahm, 1995; Schuh & Holz Müller, 2003). In order to reach the price-sensitive segments of the markets, often an additional product line is offered under a separate brand (Batra, 1997). However, this type of marketing strategy is not very common among Austrian companies. Only 32% of respondents are using it already today, until 2009 this proportion will rise to 44%. The parallel offering of an additional regional product line can be found more often in retailing & wholesaling (3.11 on a five-item scale) and in the services sector (3.00) than among manufacturers (2.06; Table 3).

The last section of the questionnaire covered aspects of control of CEE marketing activities. In particular, the influence of the parent company or centre on local marketing decisions was of interest. The results show a slight decrease in central control of the CEE business for the coming three

years. 40% disagree with the statement that the centre will get more strongly involved in the steering of the CEE business, while 26% agree. Asked to rate the autonomy of local management in marketing decision-making today and in 2009, 84% of respondents view it as 'high' and 'very high' today and expect an even higher degree of autonomy (88%) in 2009.

**Figure 13: The already high autonomy of local management in marketing decision-making will still slightly grow until 2009**



## Conclusions

The findings show a very optimistic outlook of Austrian companies for the CEE business in the next three years. The companies express a pronounced growth orientation along all planning dimensions: they intend to enter new countries, introduce new products and tap new customer groups. The biggest markets in CEE, namely Russia, Poland and Romania, draw the greatest interest. While in the 1990s most attention was given to Central Europe, now the new growth markets can be found in South-Eastern Europe and more in the East (Russia and to a certain degree Ukraine). In terms of presence and sales the Central European markets Czech Republic, Hungary, and Poland are still the most important for the Austrian companies and are viewed by a majority as part of the extended home