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THE CARDINAL BUSINESS SINS OF DOMESTIC COMPANIES IN A TRANSITIONAL ECONOMY

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Istanbul, May 2016



- **Inspiration:**

1. The analysis is focused on the business practices of companies in a transitional economy (Republic of Macedonia) including: different ways of financing in early stage of development, alternative ways of financing, start-up investments, working capital financing, market research; market orientation; implementation of elements of marketing strategy.
2. The paper is developed on two general hypotheses: a proactive market approach is significantly beneficial for the financial performance of the companies and, appropriate ways of financing are crucial for survival and growth.



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INTRODUCTION

- Development of domestic companies in Macedonia, as a transitional economy, should be one of the key priorities at national, regional and local level, because they are one of the key factors for successful completion of the transition process.
- In companies in transition economies we can generally observe changes that occur under the influence of the change of the economic system and business environment in which they work, regardless of their size (Kotler, 1999).
- There are some important factors that influence the development of all companies, which can be of internal and external nature. One of the most important of business activities that contribute to companies' growth and development, besides innovation, is marketing (Drucker in Trout, 2006).
- The structure of the business sector in Macedonia is predominantly comprised of domestic enterprises in the category of small and medium enterprises, and the proportion of SMEs in the total number of enterprises is about 99.8%, with a predominance of micro and small enterprises (European Commission, 2012).
- The implementation of marketing activities is hugely influenced by the views about marketing of the central executive manager or owner. This poses a certain risk of underestimating the importance of marketing activities.

WHY CAN'T WE MAKE IT?

THE CARDINAL BUSINESS SINS OF DOMESTIC COMPANIES IN A TRANSITIONAL ECONOMY



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INTRODUCTION

Characteristics of a transitional economy (Zurawicki and Becker, 1994)

- Low economic development,
- Low income,
- First -generation managers,
- Developing strategies for the first time,
- Oriented to short-term financial results,
- Small capital and scarce finances,
- Limited number of business operations,
- Tendency for small investments.

Problems faced by Macedonian companies (current)

- Low quality vs. consumer demands,
- Lack of certification and standardization of production processes,
- Lack of information about market possibilities,
- Scarce marketing and managerial knowledge
- Slow change from competition based on price to competition based on quality.

WHY CAN'T WE MAKE IT?

THE CARDINAL BUSINESS SINS OF DOMESTIC COMPANIES IN A TRANSITIONAL ECONOMY



INTRODUCTION

Trends in marketing

- When top managers are surveyed, they often list their business priorities as (Trout, 2006): finance, sales, production, management, legal and people. It can be noted that marketing is missing from the list.
- Regardless of the indications and evidence that marketing is a key element for success in operations, the domestic companies in Macedonia have shown a negative tendency a propos application of marketing and embracing a culture of marketing concept of operations.
- Many of the managers or owners of the companies are so - called 1P managers, that don't like marketing, but think that it is important to promote their products and services, and see marketing mainly as promotion or sales (Jovanov Marjanova, 2013).



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LITERATURE REVIEW (Importance of MC)

- Many studies prove the connection of certain marketing activities like market research, level of market orientation and formal (written) creation of marketing strategy with better business performance, i.e. increased profitability and market share growth.
- Research studies provide evidence of not only short – term benefits, but long - term positive effects as well.
- Market research includes and analyses several different areas of interest to the company, and provides answers about (Hague, 2006): the market (size, growth potential, needed market activities, law regulations, technological and socio – economic trends); the competitors (direct and indirect competition, their size and number, their strategies, quantities of sales, distribution channels); the customers (demographics, geographic area, psychographics, size of the target group, profile of the competitors customers); the trends (changes in population, changes in preferences, changes in law regulations, changes in political or economic situation).



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LITERATURE REVIEW (Importance of MC)

- Research suggests that higher level of market orientation has direct and positive correlation and impact on profitability, increased customer satisfaction and retention (Krepapa et al, 2003).
- In today's turbulent business environments the companies should implement the marketing concept and strategy not merely at the level of a function, but as a guiding business philosophy, through changes in their activities, such as (Kotler and Caslione, 2009): organization of the company according to market segments instead of products; transformation of the strategy from mass marketing to micro marketing; changes in the way of thinking about customers in every employee, not only in the marketing sector; shift in focus from profit from sales to long term relationship with customers; changes in promotion from traditional to integrated marketing communication; shift in focus from financial results to marketing results as well.



METHODOLOGY

- This research is a part of an ongoing project, entitled ***“Strengthening the business capacity of women entrepreneurs in Republic of Macedonia, as a developing country”***.
- Quantitative and qualitative methods.
- Primary data: structured questionnaires about attitudes and current practices (parametric statistics - nominal and interval scale), and a follow-up, semi-structured interview;
- The analysis is based on parametric statistics and, the responses were measured on a nominal and interval (Likert) scale.
- Data was analyzed with IBM SPSS19.
- The conclusions are given on the base of descriptive and deductive statistics.
- Profitability was measured on a subjective scale.



HYPOTHESES

- Based on the literature review and the aim of the paper, we test two general, i.e. several hypothesis:
 1. A proactive market approach is beneficial for the business, i.e. financial performance of the companies (by rejecting the opposite H_0 hypothesis):
 - 1.a. Implementation of detailed market research before the start of the business has a direct positive effect on profitability.
 - 1.b. Continuous implementation of market research while operating the business has a direct positive effect on profitability.
 - 1.c. Higher level of market orientation has a direct positive effect on profitability.
 - 1.d. Usage of marketing strategy elements is positively correlated with profitability.
 2. Appropriate ways of financing are crucial for survival and growth.



RESULTS

- **Descriptive statistics**

1. The research was done in 25 domestic companies from the food production sector, and because the proactive market approach is not limited to large companies (Jovanov Marjanova, 2013), the sample included micro, small, medium – sized and large companies (Table 1), where size is determined primarily by number of employees (Company Law, 2004 OG 28/04, art 470).
2. The mean of the reported profitability is 5.28 (good), where 32% of the companies report moderately good profitability, by 24% report bad and moderately bad profitability, and only 12% - very good and 8% - extremely good profitability.



RESULTS

- **Descriptive statistics**

3. The descriptive statistics show that 40% (cumulative percent) of the managers disagree that they implement detailed market research before the start of the business, while other 40% (cumulative percent) agree that they implement detailed market research before the start of the business.
4. With regards to the continuous implementation of market research 44% (cumulative percent) disagree, while 36% (cumulative percent) agree that these activities are included in the strategic process



RESULTS

- **Descriptive statistics**

5. The study also included analysis of the level of market orientation (MO) in the companies, measured on a 5 – point Likert scale (1 – never / I totally disagree and 5 – always / I totally agree) about the attitudes of the managers / owners of the companies concerning several activities, i.e. components that define market orientation, such as (Narver and Slater, 1990): consumer analysis (CA), reaction to consumer demands (RCD), orientation towards competitors (OC) and inter – functional coordination (IFC). The results show that market orientation of the companies is on a medium level, with mean values of 3,31 – 3,68, which means that they implement these activities only occasionally.



RESULTS

- **Descriptive statistics**

6. The paper also includes the analysis of development of certain elements of marketing strategy, such as: how often do these companies develop business philosophy, values and vision and mission, as well as, the practice of situational analysis, SMART goal setting and market segmentation. The descriptive statistics have shown that most practiced element of marketing strategy is development of SMART goals, with mean value of 3.44, which means that this element is practiced only occasionally. The rest of the elements are rarely, or never developed by these companies.



RESULTS

- **Descriptive statistics**

7. The analysis shows flaws in the practice of different elements of marketing strategy. For example, from Table 13 it can be seen that 72% of the companies do not develop corporate philosophy; 68% of them never develop corporate values; corporate vision and mission are defined only by 4% always, while 32% never define these statements; the practice of situational analysis and SMART goal setting is somewhat better with 36% answering that they often implement these elements; market segmentation is never implemented by 20%, sometimes by 24% and often by 32% of the companies.



RESULTS

- **Descriptive statistics**

8. Macedonian companies are in similar position with companies from other emerging market countries concerning the financing, especially different ways of financing available for companies in early stage of development, possibilities for alternative ways of financing, start-up investments, cash flow projections, working capital financing. There are financial sources that a small and medium company needs in order to found the basic business functions and successfully function during the stages of development. There are different sources of financing such as: loans, leasing arrangements, securitization, risky capital etc., but this problem is still present among SMEs. And the reasons are multilateral. Some of them are unsatisfactory development of the financial system from the one hand, and the scarce information on the available financing sources, on the other hand.



RESULTS

- **Descriptive statistics**

9. One of the main sources of financing in external crediting, mainly from commercial banks. This in the same time is the most expensive way of external financing. The banks frequently avoid micro and small companies, especially newly-established ones, due to many different reasons. Some of them are: inadequate assets; poor technical, managerial and marketing skills of the small businesses owners; small percentage of returned credits by SMEs, due to high operational expenses; poor and non-appropriate financial statements, which do not show the key indicators for financial valuation of working etc.
10. Comparing the ways of financing that developed countries like USA, Australia, but also some Balkan countries like Slovenia have, Macedonian companies are missing the business angels financing, and initial developing phase by risky capital, or maybe the implementation of securitization process in the mature phases of the company development.



RESULTS

- **Deductive statistics**
- The deductive statistics examines the relationship between implementation of market research before and during business operations on one, and profitability on the other side, as well as, the direct impact on profitability.
- Pearson correlation shows strong relation between both of the activities (implementation of detailed market research before the start of the business and continuous implementation of market research during business operations) with profitability, and a strong correlation between the two activities, which could mean that the companies that implement market research before the start of the business are more likely to continuously implement market research after the business has started working.



RESULTS

- **Deductive statistics**
- When testing the relation of profitability with the four components CA, RCD, CO, IFC, and of MO, the results have shown that each of the components and MO have a direct positive correlation with profitability;
- The testing of the relation between the elements of marketing strategy and profitability shows positive correlation when companies practice development of corporate philosophy, development of corporate vision and mission, implementation of situational analysis and market segmentation.



CONCLUSION

- This study demonstrates that some marketing activities are of importance for the business development also in a developing economy, such as Republic of Macedonia.
- For instance, the research has shown a significant correlation and impact of market research activities before the start of the business, as well as during the operation of the business on profitability.
- Also, the level of market orientation is shown to have a direct positive impact on profitability.
- Even though the analysis confirms these connections, the level of their implementation in the companies practices is rare to occasional, especially in micro and small companies.



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CONCLUSION

- Additionally, the companies have shown weaknesses in the process of development of marketing strategy, particularly in the implementation of some of the elements of marketing strategy.
- These elements are known to add to the efficiency and effectiveness of the marketing strategy, and are of significant importance for the market position and competitiveness of the companies.
- The results presented a direct connection between several of these elements with profitability, such as: development of business philosophy, values, vision and mission, and implementation of situational analysis, SMART goal development and market segmentation.
- The research has found that most of the domestic companies in Macedonia never or rarely include these elements in the marketing strategy, while some of them occasionally or often use them as a way of improving business performances.



CONCLUSION

- Macedonian companies, meaning mainly SMEs, regularly acquire finances from their own sources, and also the banks' products. There is an immanent necessity of creating alternative sources such as: equity funds, credit funds and private credit bureaus which will provide loans under favorable terms and will decrease interest rates, construction of credit guarantee funds, shortening of financial transactions for creating financial support, etc.
- The results have confirmed the hypotheses, and on that basis the paper offers some practical and social implications: possibility to notice the present weaknesses in the business practices, and their elimination of future activities. Also, the study can be consulted by other researchers that analyze business practices in transitional economies.



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Thank you!

Istanbul, May 2016