

GÁBOR REKETTYE - ASHOK K. GUPTA

# Half-Way Towards Market Economy: Market Orientation of the Hungarian Manufacturing Companies

These question have inspired a research project that was planned with due consideration to the consequences of a similar survey conducted in the United States. Professors of the Marketing Department at the Janus Pannonius University, (Pécs, Hungary) have worked on conducting the survey based on usual questionnaires. After an initial test inquiry of twenty, the questionnaire was finalized with 57 questions and sent to 600 manufacturing companies in the summer of the year 1994. These firms had been randomly selected from the mailing list of the Hungarian Ministry of Industry consisting of 1992 companies, 117 completed questionnaires was received. The response rate of twenty percent is considered to be good, in an international environment.

This survey is supposed to be followed by other research activity, as part of a long and comprehensive investigation. At the initial stage we have only targeted manufacturing (mainly processing) companies. This fact reflects our opinion: "the development level of marketing" characterizing a country is defined primarily by the market orientation of the manufacturing branch. If production behavior is not oriented towards the market, then the service (and other) sectors are also restricted in their marketing efforts after a while. This is the reason for targeting at the manufacturing companies in the first phase.

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More than half a decade has gone by since the beginning of the transformation of the political system and the launch of an evolution process towards market economy. It is appropriate to ask the question: how developed are the companies operating in Hungary have learned and applied the marketing concept. Do abundance of goods, freedom of enterprise and clearly more and more intense competition help become market oriented? Or do traditional practices survive under the changing surface? Could our companies get rid of the "quasi" production orientation of socialism? How characteristic is customer orientation besides an emphasis on selling?

As a summary one can conclude that majority of manufacturing companies in Hungary still thinks first in production terms. This approach is more common in state owned companies, bigger organizations and producers of industrial goods. Only minority of the producers gives priority to the customer in its operation. Private firms appear to be more customer oriented: foreign owned ventures, smaller organizations and producers of consumer goods are the best in this respect.

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A piacgazdaság irányába való fejlődést megnyitó rendszerváltás kezdete óta már több mint öt év telt el. A jelen cikk anyagát adó kutatás arra a kérdésre keresett választ, hogy termelővállalataink hol tartanak a marketingszemlélet elsajátításában és alkalmazásában. Az értékesítés mindenki által érzékelhető előtérbe kerülése mellett mennyire jellemző ma már a vevőorientált gondolkodásmód?

A vizsgálat fő következtetése, hogy a magyarországi termelővállalatok jelentős részét még ma is termeléscentrikus szemléletmód jellemzi. Ennek a szemléletmódnak az aránya magasabb az állami vállalatoknál, a nagyobb méretű cégeknél és a termelési eszközök gyártóinál. A termelési orientáció mellett, és ahhoz már közelítő nagyságrendben van jelen a magyar termelők között az ún. értékesítési orientáció. A korszerű vevőcentrikus szemléletmódhoz ma még a termelővállalatoknak csak kisebb hányada jutott el. Ennek a nézőpontnak az érvényesítésében előbbre járnak a magántulajdonban lévők, a kisebb vállalatok, továbbá azok, amelyek fogyasztási cikkeket állítanak elő.

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Gábor Rekettye is Dean and Professor of Marketing, Faculty of Business and Economics, Janus Pannonius University, Pécs  
Ashok K. Gupta is a Professor of Marketing, College of Business Administration, Ohio University, Athens, OH. USA

## Sample Characteristics

Table 1. shows the branch distribution of the 117 responding firms. Random selecting and responding have resulted in the following outcome:

Table 1.

Branch distribution of the sample		
Branch	Co. #	%
Mining	3	2.6
Energy suppliers	1	0.8
Metallurgy	3	2.6
Engineering industry	29	24.8
Chemical industry	18	15.4
Building, construction	9	7.8
Light industry	36	30.8
Other ind. branches	10	8.5
Food industry	3	2.5
Agriculture	3	2.5
NA	2	1.7
TOTAL	117	100.0

The relatively small sample does not enable the examination of inter-branch differences, however, it guarantees proper basis to analyze market behavior in relation to *company size, form of ownership and the nature of the products* (consumer good, industrial good). As a consequence of experience in the last decades we hypothesize that:

- smaller companies are better in reacting to market changes;
- state owned companies have much smaller flexibility than private ones;
- there is a good chance, that foreign owners bring not only money, but a modern marketing view and know-how;
- manufacturers of consumer goods are more market oriented, because of a more intense competition in that sector.

The next tables describe the sample structure in other terms.

## Changes in the Economic Environment

The first set of questions identified respondents opinions about changes in the economic environment. Intensity of the shift was judged against a five-point scale as follows:

- (1) Nothing at all
- (2) To a slight extent
- (3) To a moderate extent
- (4) To a great extent
- (5) To an extreme extent

The first question asked about the difference between the economy today (1994) and that of the system transition (1989-1990). The 116 firms responding to this question have generally agreed on, that the current economic situation is *very different* (3.96) from the past. This opinion was no surprise, because changes of such scale had not occur in history of the Hungarian economy since the nationalization and the introduction of the planned economy after World War II. Nevertheless, the average being less than four also indicates that shift happened in a continuous manner. Answers reflect that the change is considered to be quicker by

- small companies (less than 20 employees) (4.3)
- and state owned companies (4.05).

It is also interesting, that *companies with foreign owners* feel a smaller change (3.44). It can be traced back to the young age of these companies: most of them was established after the beginning of changes, so the basis was not the previous socialist environment.

The next diagram shows those factors of the economic environment, where the biggest change appeared. The outcome took shape in eleven items as follows:

- 1 Customers became more price sensitive
- 2 Customers expect higher quality
- 3 Companies have more freedom in making decisions
- 4 A bigger demand exist for customer service
- 5 Company tax burdens have multiplied

Distribution of respondents by size

Number of employees	# of firms	%	Annual turnover (HUF)	# of firms	%
less than 20	7	6.0	under 10 million	10	8.5
21-50	8	6.8	10-50 million	8	6.8
51-300	42	35.9	50-100 million	7	6.0
301-1000	34	29.1	100-1000 million	47	40.2
more than 1000	18	15.4	more than 1000 million	36	30.8
NA	8	6.8	NA	9	7.7
TOTAL	117	100.0	TOTAL	117	100.0

Table 2.

Distribution of respondents by owner

Owner	# of firms	%
State	22	18.8
State and private	16	13.7
Private, Hungarian	19	16.2
Foreign and Hungarian - foreign minority	6	5.1
Foreign and Hungarian - equal participation	16	13.7
Foreign and Hungarian - foreign majority	32	27.4
NA	6	5.1
TOTAL	117	100.0

Table 3.

Distribution of respondents by product type

Product type of the respondents	# of firms	%
Consumer goods	7	6.0
Consumer and industrial goods	59	50.4
Industrial goods	37	31.6
NA	14	12.0
TOTAL	117	100.0

Table 4.

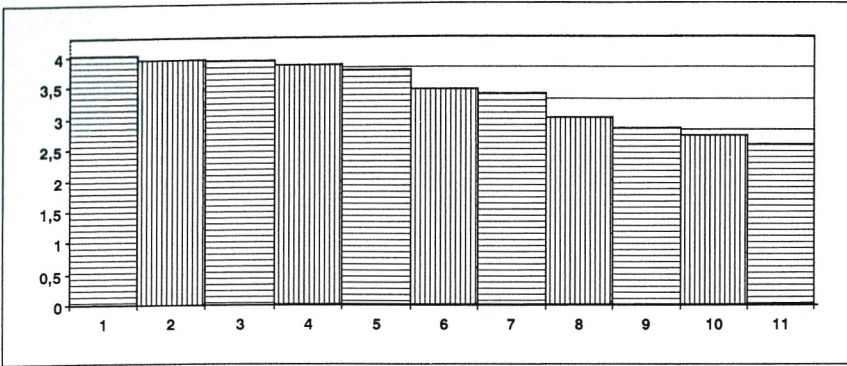


Figure 1. Perceived changes in environmental factors

- 6 There is an increase in the number of foreign competitors
- 7 State influence is smaller in business life
- 8 There is an increase in the number of domestic competitors
- 9 Technological changes speed up
- 10 More and more substituting goods are available
- 11 Domestic demand for products has lessened

Factors influencing company operations can be grouped into two:

- *regulation effect* (questions 3, 5 and 7) and
- *market conditions* (the rest of the questions).

A major factor of the transition is that *companies have greater freedom in making decisions* (3.83) and on at same token: *state influence is lesser on business life* (3.29). Doubtless is that this movement has accelerated the transformation into a market economy. On the other hand company profitability is restricted, because - according to the general view - *company tax burdens have multiplied enormously* (3.67).

One of the most representative environmental changes is the *strengthening of customers' position in the market* (more exacting customers). Many indices prove this shift, the most typical is the opinion that *customers became more price sensitive* (3.94). On the one hand this reveals diminishing solvent demand of people, on the other hand stagnating or decreasing company consumption and a need to increase efficiency. *Higher quality ex-*

*pectation* (3.87) and *more intense demand for customer service* (3.77) rank second and third after price sensitiveness.

A substantial component of the market situation is that companies suffer direct *consequences of a fiercer market competition*. This was not the case under the former regime. A most demonstrating element here is the multiplying number of *foreign competitors* (3.37), but growing *domestic competition* (2.93) is of high importance as well. As a common end, *more and more substituting goods are available for customers* (2.65).

There are some other phenomena comprising the current market situation: technological changes have gone through with a moderate speed (2.77), and domestic demand has declined (2.50), respectively.

As a summary it can be stated, that firms having become independent recently must pursue their goals under

conditions that are far different from the past. *Disparaging demand and expanding competition identified the new economic environment*. In such a situation only companies applying the most up-to-date marketing methods had a chance for success. Before evaluation of the marketing activity let us investigate how these unfavorable environmental conditions biased company performance.

### Impact on Company Performance

A five grade scale is employed to judge company performance, values are cited below:

- (1) Decreased significantly
- (2) Decreased slightly
- (3) Is the same
- (4) Increased slightly
- (5) Increased significantly

Eleven questions examined the impact on company performance on the questionnaire:

- 1. Profit rate
- 2. Turnover per capita
- 3. Volume of turnover
- 4. Domestic turnover
- 5. Export to Eastern Europe
- 6. Export to western countries
- 7. Number of employees
- 8. Market share
- 9. Market position
- 10. Financial stability
- 11. Basic capital

Figure 2. Impact of environmental changes on company performance

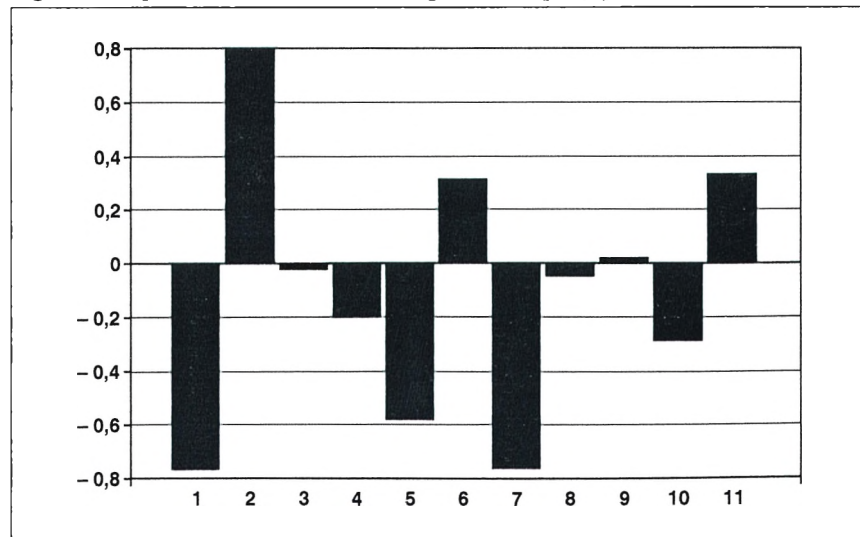


Figure 2 shows that

- Turnover is stagnating, *export to Eastern Europe has declined seriously*, Hungarian demand has decreased slightly, however, *export to western countries* was on increase, as a compensation.
- *Profit rate* (profit margin of the turnover) *got worse*.
- *Number of employees has decreased dramatically*.
- Financial stability was not as well founded as it had been.

- *Per capita turnover became higher*.

- Basic capital of the companies rose. Responding companies perceive no significant change in their market share and market position.

### Assessment of the Activities that Lead to Market Orientation

When establishing the questionnaire, which was based on self-estimation, we presumed that market orientation

can be measured on three fields. These are the next:

(1) activity of learning the market environment;

(2) organizational aspects within the company: ie. how often do independent units get marketing information and how do they cooperate in implementing the marketing work and

(3) the company's reactive ability; ie. capacity to react to changes and challenges of the market environment.

Tables 5, 6 and 7 embrace questions relevant to this topic and average

Table 5.

Assessment of market learning activity

Questionnaire options	Mean value	State owned firms	Firms with majority foreign owner
1. We interview our customers at least once annually about their future demand for goods and services	3.65	3.23	3.97
2. We undertake several market research projects	2.84	2.90	2.87
3. We are slow in revealing product preference changes of our customers	2.22–2.78	2.57	3.07
4. We interview our final customers and users about our product, service quality, at least annually	3.56	3.14	3.97
5. We are slow in revealing core transition trends in our industry branch (competition, technology, regulation)	2.34–2.66	2.57	2.80
6. We regularly examine the likely effects of changes in the business environment on our customers	3.30	3.10	3.65
<b>Average value of efforts toward learning the market environment</b>	<b>3.13</b>	<b>2.92</b>	<b>3.39</b>

Table 6.

Assessment of market information dissemination and internal coordination

Questionnaire options	Mean value	State owned firms	Firms with majority foreign owner
1. Our marketing people discuss potential future demand of customers with the experts of other departments	3.27	3.14	3.38
2. If a good customer demands something, this fact soon becomes known in the whole company	3.61	3.28	3.97
3. Customer satisfaction data are communicated to all company levels on a regular basis	3.03	2.81	3.40
4. If a department learns an important point about competitors, other units will be informed only slowly	2.26–2.74	2.67	2.63
5. Departments have regular meetings to plan and discuss reactive steps for the changes in business environment	3.09	3.00	3.27
6. Activities of different departments are well coordinated in our company	3.18	2.91	3.34
<b>Average value of market information dissemination</b>	<b>3.15</b>	<b>2.97</b>	<b>3.33</b>

Table 7.

## Assessment of reactive ability

Questionnaire options	Mean value	State owned firms	Firms with majority foreign owner
1. Reacting to competitor price changes takes us long	2.17-2.83	2.85	3.1
2. For some reason we tend to ignore customer expectation changes regarding our products and services	1.72-3.28	3.28	3.06
3. We often reevaluate our product development efforts in order to better meet customer expectations	3.65	3.27	4.00
4. If one of our significant competitors launch an intensive campaign, we react immediately	3.04	2.71	3.29
5. We do not listen to customer complaints	1.38-3.62	3.50	3.87
6. Even if we can come up with a brilliant marketing plan, we are likely to run out of time	2.23-2.77	2.59	3.22
7. If we find customers demand for product or service modification, affected departments make a concentrated effort to keep up with it	3.66	3.36	3.74
Average value of reactive ability	<b>3.26</b>	<b>3.08</b>	<b>3.48</b>

values of the answers. (Caution: Some questions should be considered the other way around as others because of oppositional values on the five grade scale: in such cases a lower value might indicate a higher level of the specific activity. In order to eliminate divergence we have calculated with '5-x' values instead of 'x', in such cases.)

Companies were requested to assess the validity of statements in their specific case. The scale ranges from 1 (not at all) to 5 (extremely valid, true). The medium value of three indicates that the statement is valid for the specific activity of the company to a certain extent (more or less characteristic). Considering the range of 1 to 5, decimal points show real differences as well.

The brief summary of the results is that Hungarian business entities pursue limited (medium level) marketing activity - according to their own view. Elaboration of the general result reveals a strongest reactive ability (3.26), information dissemination level at the second place (3.15) and market environment learning activity on the third place (3.13). Differences of these three area can probably be traced back to the subjective judgment of the respondents. Interdependence of these fields is certainly strong: a company

is only able to react to environmental challenges, if it had developed learning mechanisms and manages reactions in a well organized way.

Traditional practices are vivid on this area too. It appears, that Hungarian firms still devote less energy than necessary for market research, learning the needs of final customers and users, getting acquainted with the trends that modify these needs. Mostly they are happy with relying exclusively on the spontaneous feedback from customers regarding company products.

Concerning internal organization, a contrast of relatively good operating informational channels and less elaborated inter-department cooperation, coordination is remarkable.

If it is about reacting capacity, product development is the most developed according to the respondents. Reaction to price changes and carrying out marketing functions count as areas with space to improve.

Answers on behalf of state owned companies and joint ventures with foreign majority shareholders are cited separately in tables 5, 6 and 7. Data support the preconcept of the researchers: in relation to average values state owned companies practice their marketing work at a lower level, foreign owned firms at a higher level.

## Assessment of the Market Orientation

It is well known in the marketing literature, that market conception of the companies underwent significant changes during the twentieth century. In top industrial countries production orientation was gradually replaced with selling orientation from the fifties and sixties, afterwards modern, customer focused marketing orientation emerged from the eighties on. Of course these ideas did not change each other all at once, they have been existing parallelly for long. Consequently, even in the most developed economies we can identify companies with production focus or others with a strongest emphasis on selling. Still, a most distinctive characteristic of a national market is the dominant concept out of the three. Consequently the question can be formulated this way: where do our companies stand on the path of fields of orientation? Could more up-to-date concepts supersede the 'quasi' production orientation of the socialist system or could business enterprises operating in Hungary arrive at the marketing focused development phase?

It is not rather easy to measure market orientation. In the situation of

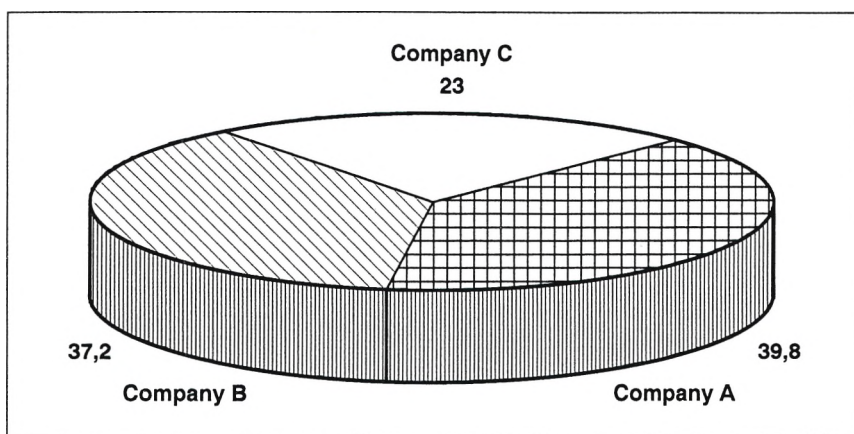


Figure 3. Occurrence of the three different concepts

are more apt to put production in the center, but as we move towards private ownership and especially foreign private ownership, selling and market orientation are on increase.

	Comp. A	Comp. B	Comp. C
Customer goods	24	38,9	37,1
CG + IG	36,3	35,4	28,3
Industrial goods	39	35,3	25,7

a single company, an approach analogous with a case study might work. If we want to analyze a number of companies though, using self assessment methodology, we are likely to run into difficult problems. In the case of direct inquiry subjectivity and differences in comprehension can cause difficulties. For this reason the method of comparison was used in this research, without referring to market orientation at all. We described three different companies according to the next paragraph. We also asked participants to share 100 points among the three, corresponding similarities with their own organization. The relevant part of the questionnaire is cited here:

*"Please indicate similarities of the companies in these instances and your own organization via sharing 100 points among the three. E.g. if your firm is much alike company A but shows only a little coincide with companies B and C, give 80 points to A, 10 to B and 10 to C.*

**Company A:** Production issues stand in the center of attention in this organization. Selling is important as well, but profit is realized in production anyway, so management is mainly concerned about manufacturing, expanding manufacturing and increasing productivity.

**Company B:** The organization is depending on the sales personnel to a great extent. They use a wide range of techniques in order to gain customers. Emphasis is on selling. Customer satisfaction is also a critical issue, although it ranks only second after sales.

**Company C:** The firm manages massive research activity in order to learn customer expectations and to fulfill them with new products and marketing programs. Emphasis is put on understanding feelings and motivation of the customer and taking advantage of this knowledge. Selling is important, but the focus is on offering products that can almost 'sell themselves'."

Company A supposed to present the production oriented concept, company B the selling oriented behavior, company C the marketing (customer) oriented response respectively. Results are summarized in the figure 3.

According to figure 3, 39.8% of the respondents admit similarities with company A, that is organizing operations in a production oriented way. 37.2% is more concerned about selling, another 23% believes to work with a modern, marketing oriented manner.

Ownership	Company A	Company B	Company C
State	51	29	20
Private	44	28	28
Foreign minority	38	42	20
Foreign majority	30	30	40

Another interesting question is the distribution of companies with different concepts in relation to the attributes already used.

One attribute can be the majority shareholder. Corresponding data of the table support that state owned firms

Dominating orientation also differs depending on products: customer or industrial goods. The information given shows that buyer orientation is much more typical if we look at the customer goods manufacturers. Producers of industrial goods do not care so much about clients. Another significant relationship can be seen between size and behavior. If we group respondents into two: small enterprises (with employees less than or equal to 300) and big ventures (over 300), conclusions are drawn in the following table.

Size	Comp. A	Comp. B	Comp. C
Small and medium	34.2	36.2	29.6
Big	38.8	39.8	21.4

The preconception is confirmed in this case as well: smaller companies are better than large ones in becoming customer oriented.

As a summary we can conclude that majority of manufacturing companies in Hungary still thinks first in production terms. This approach is more common in state owned companies, bigger organizations and industrial goods producers. Besides this approach, the selling principle commands almost as many firms as production. Only minority of the producers gives priority to the customer in its operation. Private firms appear to be more customer oriented, foreign owned ventures, smaller organizations and customer goods producers are the best in this respect.