

# Organization of Marketing in the New Economic Conditions: Case of the Republic of Croatia

*The situation (social and economic) in the countries of the so called real existing socialism results in total collapse. It is beyond any doubt that this collapse was to a great extent caused by the inefficient management, that is, by the economic system based and established on the state or public ownership. In such a "relation without an owner" no room was left for the demonstration of the abilities of an individual – initiative, creativity, readiness to take risks, and everything else that characterizes the free market economy of the western world.*

The development of democratic processes and the establishing of democratic government in the Republic of Croatia provided the basic prerequisites for a general social transformation, for the return to the natural system of freedom of life and management based on private ownership and free private entrepreneurship.

The term privatization most frequently denotes the transfer of the entire ownership or of its major part from state or public sector to private persons. Privatization can be defined as a general process of introducing private sector into the ownership structure or management of state owned enterprises, including the purchase of the entire state (or publicly owned) firms, or parts of them, by private capital.

The purpose of the transformation is to restructure the firms and to include them into economic flows on market basis, and to revitalize and start the development of the entire society.

The concept of transformation rests upon three crucial elements:

1) The goal of the process of transformation as the skeleton of the entire transition of the society is to improve economic efficiency, and this can not be achieved without a previous transformation of social capital as a form of "non-ownership" into private ownership.

2) The new Croatian State is the legal successor of the former "Society" and, accordingly, manages and disposes of the inherited socially owned capital in its own name and on its own account; in other words Croatian State is the initial legal owner.

3) Privatization of former social and now state capital does not mean that it is being "given away as a present"; a private owner can acquire such capital only by buying it. In this process, one has to respect partly the contribution of the workers to the creation of socially owned capital and partly the legitimate interests of the owners of nationalized property, as well as moral rights of particular structures in the present society (which are compensated through transferring of ownership over a part of state owned capital).

## Models of Privatization in Croatia

The conception of the Law on Transformation is that an enterprise can be transformed into two basic company forms, those of a joint stock company and a company with limited liability, and this can be performed in the following four ways:

a) through the sale of the enterprise or of its indivisible part

b) through investment of capital into the enterprise

c) through the transformation of investment into the enterprise on contractual basis and of receivables from the company into deposit

d) by transferring all shares and stocks into funds and to the Croatian Fund for Development, without compensation.

In addition to these, there are several other forms – and their varieties – of transformation of enterprises. This should, in practice, allow for the process of transformation to be carried out in a number of truly different ways. At any rate, the process of transformation requires thorough preparations in which it is necessary to examine the situation in the enterprise and set goals that it could objectively achieve.

Since the restructuring of the economy can not be attended to without previously establishing the ownership structure, it is necessary to set up such models of transformation that will be widely applicable, simple, and, most important of all, models that will

be carried out relatively quickly. If the intention is to improve the efficiency of the enterprise and to secure ownership control over the management of the business operations, then it is necessary to perform a gradual but firm privatization that implies the transformation of ownership over the firm.

The Law on Transformation lists *expressis verbis* the persons that can acquire ownership over an enterprise, i.e., become its owners.

Ownership over an enterprise can be acquired by:

1. present and former employees of the enterprise with the basic discount of 20 % and additional discount of 1 % for each year of employment
2. employees of corporate bodies who work with socially owned assets, and employees in organs of state administration and the like; these employees can acquire ownership over enterprises on the same conditions as the employees of the enterprises
3. persons who buy the whole enterprise or its indivisible part without a right to a discount
4. investors whose previous investments are turned into shares or joint stocks of the enterprise
5. creditors whose claims are turned into shares or joint stocks of the enterprise
6. funds and the Republic Pension and Disability Insurance Fund of the Workers and Individual Agriculturists of Croatia
7. Croatian Fund for Development, etc.

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## Organizational Dilemmas

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Although the difficulties, connected with the models of transformation used in the last few years, have been more or less successfully overcome, there is a new problem: how to successfully organize particular activities in the enterprises, so that they comply with the new type of proprietary, managing and executive tasks.

The form of proprietary structure that existed in Croatia so far (the so called public ownership) and the way in which the market operated (the so called market-planning economy) have also dictated the modes of organization and functioning of particular activities in the enterprises.

Recent changes in the economic conditions in the Republic of Croatia have made it necessary to organize business activities on new foundations. In order to do this successfully, the following four possible approaches to the organization of business operations must be reconciled:

1. Demonstrational organization – one that is visible on the “organizational chart” and that is formally presented
2. Presumed organization – one that the individual perceives as an organization (where he expresses his phenomenological opinion of the way in which things function)

3. Existing organization – one that is manifested through systematic examination of the situation

4. Necessary organization – one that would exist if it were congruent with the actual characteristics of the field in which it exists.

The situation would be ideal if the demonstrational, presumed, existing and necessary organization came as close together as possible.

The basic goal of setting, that is of projecting of the organization of work in enterprises is to achieve an optimal organizational model that will have the function of defining medium-term and long-term plans and goals of the enterprise, as well as of defining its position on the market. Market conditions of management require a much greater realization of the responsibility for the risks that undoubtedly, in a higher or lesser degree, accompany these conditions. As a rule, this responsibility should be strongly individualized, that is, transferred to those who make decisions, in other words, generally, to the executives at various levels of the hierarchical structure of the enterprise.

It must be emphasized that organizational structuring of the enterprise, and, within this process, the organizational forming of marketing as a business function that should continually direct the enterprise towards the market, should be understood as a result of a dynamic appreciation of the already existing and of anticipation of future needs of a concrete enterprise on the market. There are many different internal and external determining factors of the organization of marketing and on their basis it is possible to set up both the external and internal organization of the business function of marketing, the former representing the organization of marketing at different levels of the organizational structure, and the latter representing the organization of particular marketing activities of the enterprise.

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## Centralized vs. Decentralized Organizations

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Organization of marketing should follow two, apparently conflicting and divergent directions: first, towards the centralization of particular marketing activities at the enterprise level and second, towards the internal decentralization of particular marketing activities into autonomous and flexible organizational units, a decentralization based on the specialities of the experts in those organizational units. This, at the same time, implies the lessening of hierarchic top levels, particularly of hierarchical levels of decision making, as well as the motivation of immediate marketing executives to view their ambitions through their own perfecting and through undisturbed emancipation of their creative and innovative potential and not through climbing hierarchical steps towards some, in most cases, quasi-directorial top. Thus the modern marketing organization must aim at optimization of the levels of

decision making, primarily in order to reduce the number of these levels. This, however, does not apply to production or service enterprises for which, as a rule, it is characteristic that they decentralize and divide their organizational structure and by doing so, they simultaneously decentralize the management as well. The latter characteristic is based on the necessity to establish complete control over the realization of a part of the profit of particular segments of the organizational structure which are, accordingly, called responsibility centers and which can assume the forms of profit, outlay, income and investment centers. A logical consequence of such decentralization of the organizational structure is the establishment of specific exchange relations between individual profit centers within the enterprise, leading also towards the creation of the process of the so called internal economy. This allows, among other things, for establishing of an organizational system of individualization of risk in particular centers of responsibility instead of an internal socialization of losses.

On the other hand, the fundamentals of all modern organizational models of marketing should, in fact, rest on the existence of two organizational substructures within the enterprise: the strategic substructure that is, dynamically regarded, fairly stable, and the operative substructure that is, from the dynamic point of view, necessarily as flexible as possible. This organizational principle, however, should by no means be taken as the dominant one and at the same time as one that would be acceptable for all enterprises.

Modern development in the world goes in the direction of decentralization of decision making from relatively rigid and inflexible, hierarchically vertically organized structures towards team decision making (by permanent or "ad hoc" teams), or towards decision making by immediate executives of various ranks and at different levels of execution of certain business functions. Decision making positions are today, in modern market oriented economies, transferred to product managers and project managers and towards centers of responsibility.

Since the business, and thus also the marketing behaviour of an enterprise is to a great extent deferred from the organizational structure of the concrete enterprise, this organizational structure must be optimally set. The theory on this issue recognizes three possible organizational forms. The first is the functional form (the so called U-form) based on a specific unitariness of the production, i.e., work process. It is a form of organization characteristic for nondiversified production programs, an organization in which the communication flows are very short and, as a result, management is relatively rather efficient. However, in the case of a diversified production program, communication flows are significantly connected in a network and thus they are long, which makes management much more difficult and the control of the profit inefficient. Therefore, in such cases, multidimensional organizational system (the so called M-form) proves to be the most appropriate. It is characterized by

internal organizational restructuring of the enterprise into a number of quasi-independent operative divisional units ("strategic business units"), by the separation of the strategic from the operative business decision making, and by the establishment of the internal market of capital. Internally, these units can indeed, depending on their size, be organized according to the principles of the U-form, i.e., according to the principles of the functional organization. Holding organization is a specific transitional form between functional and multidimensional organizational system. In a holding organization operative units, which are in fact present in the form of smaller enterprises ("daughters"), are fully independent, except for the fact that the management of the holding controls the profit they make and decides about the reinvestment of this profit.

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### Effects of Diversification

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The process of diversification is inevitably followed by the process of division of the organizational structure, while the functional organizational system is characteristic for the internal organization of the established centers of responsibility. On the other hand, divisional organizational structure allows the establishment of separate results of parts of the enterprise, the forming of internal prices and exchange on the internal market. Here the divisional organizational structure is most frequently based on the object principle (product, line of products or group of products) or on the location principle (location of production, market), although it is also possible to apply the consumer (according to the buyer) or mixed (conglomeratic) approach. In the latter case two or more criteria are used simultaneously, which basically results in a multilevel (multidimensional) organization.

It should be presumed that the organization of diversified enterprises will in the future develop in following directions:

1. Majority of the diversified enterprises will aim at a divisional organizational structure on the model of profit centers.
2. Control of strategic decisions and of a part of operative decisions relating to the establishment of internal economic relations between profit centers will remain with the principal management of the enterprise.
3. Operative decision making (except for the part relating to the regulation of internal economic relations) will aim at decentralization, together with the responsibility on the level of the centers of responsibility.
4. Making decisions on investments will still remain decentralized on the level of the principal management of the enterprise, with this that various forms of competition between managers of centers of responsibility for obtaining investment capital will continue to develop, regardless whether the capital will be supplied from internal or external sources.

Modern trends in the field of organization consequently go towards the transferring of the operative decision making to lower hierarchical levels. Of course, this aspect of decentralization of decision making has its limits. They are primarily determined by the stage of development of the informational basis for decision making. If this informational basis is itself supported by an equally developed information system founded on the use of computers, then the space for a possible decentralization becomes significantly reduced. However, the creation of responsibility centers presumes the existence of a top manager who personifies the responsibility for the realization of the goals set for the center of responsibility. In that respect, there are some conditions that have to be satisfied to provide for a complete working of all five functions of management: planning, organizing, management of personnel, managing and controlling. Outlay and income centers exist in the functional organizational structure, whereas profit centers and investment centers will be formed in the divisional organizational structure. Functional organizational units such as: production, purchasing department, sale, accountancy, personnel department, etc., are organizational units the managers of which can control the expenses, i.e., outlays. In divisional organizational units such as various productions, technologically independent from each other, manager of the divisional unit can control profit as well. This, in other words, means that the outlay and income centers will hold particular business functions (subfunctions) of the enterprise, while profit and investment centers will hold business, sale, or service providing organizational units of the enterprise.

Outlay centers of enterprises comprise mostly auxiliary, service providing, administrative, and all other non-productive business functions, such as accounting, personnel managing and perhaps development function, that have to be realized within the limits of the set budgets and which expenses are covered from the income of profit centers.

Income centers of an enterprise are its sale divisions or sales outlets. Here the profit centers are expected not only to produce the goods or services with minimum expenses, but also to sell these goods or services with the realization of maximum profit. It is, of course, also possible that an organizational unit of marketing functions as income center.

A profit center holds its own, more or less, complete business functions, including marketing. This means that strategic marketing is organized on the level of the head management of the enterprise, whereas operative marketing should be organized on the level of profit centers. Business results of a profit center, measured by the realized profit, depend on adequately organized strategic marketing, but even more so on the execution of the profit center's operative marketing. It must be kept in mind here that the fundamental purpose of the

creation of responsibility centers in enterprises are contained in the commitment to the realization of internal financial economy and development of entrepreneurship on the level of profit or income centers.

Organizational limitations of profit centers are determined by technical, technological and economic criteria. In the latter group of criteria, the most important are the criteria of marketability and profitability of the products or services that are placed on the market by the profit center. Controllability of expenses and of profit within the profit center is inevitably set as an additional criterion relating to the management.

## Marketing as a Profit Center

Marketing as a business function can also be organized as an independent income center, or as a non-productive outlay center. In like manner, marketing can be organized as a joint function for all profit centers, especially in that part which relates to strategic marketing, and, as an incomplete function within each individual profit center in the part relating to operative marketing.

Marketing, like some other business functions (for example research and development, financial, legal, personnel, purchase functions) can, according to the organization of the respective organizational structure, be centralized even on the highest organizational level of the enterprise, in form of a staff service. In such organization, other business functions (production, accountancy, sale, plan and analysis) are present in organizationally developed forms within separate divisions on the head of which there is one director (manager).

At any rate, in the course of marketing, i.e., market oriented, reorganization of an enterprise, it is possible to put the equation sign as follows: diversification of the sale of products = division of the organizational structure = decentralization of decision making, of authorizations and responsibilities.

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