

## INTERNATIONAL MARKETING STRATEGIES OF CROATIAN GROUPS OF COMPANIES

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**Abstract:** Groups of companies represent business systems consisting of a larger or a smaller number of affiliated companies (subsidiaries) which share a common objective, namely, to operate successfully as a whole group. Most groups of companies find their domestic market insufficient for growth and development; venturing into the international market becomes the only way for them to expand business. This applies in particular to the groups of companies which originate from the countries with a small market potential (whether due to a small population – potential buyers, or limited purchasing power of the population), such as Croatia.

The fact that business internationalization of domestic groups of companies, unlike in recent foreign literature, has been poorly researched in Croatian scientific literature served as the basic motive to the authors for writing this paper. The authors wanted to examine the opinions of marketing managers employed at Croatian groups of companies about the factors that have the greatest impact on the selection of the foreign country as a destination in which to establish a subsidiary. In addition, they wanted to find out which marketing strategies, according to the respondents, are the most suitable for business internationalization of Croatian groups of companies.

**Key words:** business internationalization, internationalization marketing strategies, factors of selection of foreign country, groups of companies, Republic of Croatia

### MEDNARODNE TRŽENJSKE STRATEGIJE SKUPIN PODJETIJ IZ HRVAŠKE

**Razširjeni povzetek:** Skupine podjetij poslovni sistemi, ki sestojijo iz večjega ali manjšega števila pridruženih podjetij (hčerinskih družb) s skupnim ciljem poslovati uspešno kot skupina podjetij. Za večino skupin podjetij domači trg ni dovolj velik za rast in razvoj, zato vstop na mednarodni trg postane edini način za razširitev poslovanja. To velja predvsem za skupine podjetij, ki izhajajo iz držav z majhnim tržnim potencialom (bodisi zaradi majhnega števila prebivalcev – morebitnih kupcev – ali omejene kupne moči prebivalstva), kot je Hrvaška.

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Najpomembnejša trenda danes sta internacionalizacija in globalizacija poslovnih aktivnosti. Močna poslovna

internacionalizacija se je začela sredi dvajsetega stoletja, globalizacija pa je postala pomembna proti koncu dvajsetega stoletja, predvsem zaradi razvoja interneta in komunikacijskih tehnologij. Prav ta dva trenda sta omogočila razvoj in rast skupin podjetij.

Dejstvo, da je poslovna internacionalizacija domačih skupin podjetij slabo raziskana v hrvaški znanstveni literaturi (kar po drugi strani ne velja za tujo literaturo), je osnovni motiv avtorjev za nastanek tega članka. Avtorja sta želela proučiti mnenja marketinških direktorjev, ki so zaposleni v skupinah podjetij na Hrvaškem, o dejavniki, ki imajo največji vpliv na izbor tuje države, v kateri bo skupina podjetij ustanovila hčerinsko podjetje. Poleg tega sta avtorja želela ugotoviti, katere marketinške strategije, glede na odgovore respondentov, so najprimernejše za poslovno internacionalizacijo hrvaških skupin podjetij.

Avtorja sta v članku testirala štiri hipoteze ( $H_1$  – Najpomembnejši dejavnik pri izboru tuje države, v kateri bo ustanovljeno hčerinsko podjetje, so možnosti te države za prodajo proizvodov/storitev;  $H_2$  – Poceni delovna sila je drugi najpomembnejši dejavnik pri izboru tuje države, v kateri bo skupina podjetij ustanovila hčerinsko družbo;  $H_3$  – Strategija neposredne tuje naložbe je najprimernejša poslovna strategija internacionalizacije za hrvaške skupine podjetij;  $H_4$  – Izvozna strategija je druga najprimernejša poslovna strategija internacionalizacije za hrvaške skupine podjetij). Da bi lahko testirali predlagane hipoteze, je bila izvedena raziskava. Kot instrument je bil uporabljen popolnoma strukturiran vprašalnik. Raziskava je bila opravljena po elektronski pošti (kar je glavna omejitev raziskave) na izbranem vzorcu strokovnjakov, ki je bil sestavljen iz 127 marketinških direktorjev, zaposlenih v hrvaških skupinah podjetij. Respondenti so bili zaposleni tako v matičnem podjetju kot v hčerinskih podjetjih ter so bili vključeni v pripravo strategije za vstop skupine na tuji trg.

Rezultati raziskave so dokazali pravilnost hipotez  $H_1$ ,  $H_3$  in  $H_4$ , medtem ko je bila hipoteza  $H_2$  zavržena. Raziskava je pokazala, da je tržni potencial za prodajo proizvodov, ki se bodo proizvajali v hčerinskem podjetju, najpomembnejši dejavnik za izbor države, v kateri se bo ustanovilo hčerinsko podjetje. Temu dejavniku sledita pričakovana ekonomska rast države in usposobljena delovna sila. Poleg tega je raziskava pokazala, da je strategija neposrednih tujih naložb najprimernejša marketinška strategija za poslovno internacionalizacijo hrvaških skupin podjetij – prav sledenje tej strategiji lahko pripelje skupine podjetij do popolne uresničitve svojih prednosti. Hrvaško gospodarstvo je v tranziciji, kar pomeni, da podjetja nimajo velikih finančnih virov, ki bi jih lahko investirala v internacionalizacijo in po tradiciji se njihove mednarodne poslovne operacije so osredinjene predvsem na ozemlja sosednjih držav. Zato rezultati raziskave, po katerih marketinški direktorji menijo, da je izvoz druga najprimernejša strategija za poslovno internacionalizacijo hrvaških skupin podjetij, niso presenečenje.

Rezultati raziskave so uporabni za menedžerje, ki so zaposleni v hrvaških skupinah podjetij v procesu poslovne internacionalizacije, predvsem pri oblikovanju marketinških strategij za vstop na tuje trge. Prav tako so uporabni za menedžerje, ki želijo najti dejavnike, ki zahtevajo posebno pozornost pri izbiranju države, v kateri bodo ustanovili hčerinsko podjetje. Tovrstne odločitve so izjemno pomembne, saj je od njih odvisno ne le poslovanje podjetja, temveč tudi uspešnost pri spopadanju s konkurenco tujih in globalnih skupin podjetij. Članek je lahko spodbuda znanstvenikom na področju mednarodnega marketinga za nadaljnje proučevanje tega doslej slabo raziskanega področja.

**Ključne besede:** poslovna internacionalizacija, internacionalizacija marketinških strategij, dejavniki pri izboru tuje države, skupine podjetij, Republika Hrvaška

## 1. INTRODUCTION

A number of scientists in the field of international marketing and international business focused their research efforts on examining and researching two dominant current trends in companies' business operations, namely, internationalization and globalization (Arnold, 2004; Belli, 1991; Douglas and Wind, 1987; Gillespie et al., 2004; Gottesman, 2006; Levitt, 1983; Lindholm, 2000).

Internationalization may be defined as an expansion of company business from the domestic to the international market (Cateora and Graham, 2005) through sales, production, research and development, as well as other business activities. Big companies nowadays mostly do their business on a large number of foreign markets while, for a number of smaller companies, business internationalization represents an important strategic decision to take. The decision which, if all the activities related to the company's entry in a foreign market are not conducted appropriately, may mean financial losses and that may in turn result in winding up of the company's business. Globalization is a phenomenon characterized by economic, political, legislative and cultural changes caused by the development of technology, population mobility, capital flows, international exchange of products and services, development of international legal institutions and political decisions to eliminate national borders (Douglas and Wind, 1987; Belli, 1991; Gottesman, 2006; Levitt, 1983; Samiee and Roth, 1992).

Market structure and environment are not static categories; on the contrary, they are very dynamic by nature (Galán and González-Benito, 2001). This is especially evident if one observes the last two decades, which have been dominated by a rapid development of communication and information technology,

liberalization of the world market, opening of national economies and narrowing of differences in consumer tastes throughout the world (Bhaumik and Geld, 2005; Weber and Devaney, 2002; Novičević and Harvey, 2004; Hoffman and Preble, 2004). These factors have stimulated an internationalization of business activities and, through global integrations, resulted in larger groups of companies.

Croatian groups of companies stem from a transition economy and their development began in mid-1990s. Major Croatian groups (according to the following criteria: number of employees, income, number of countries and markets in which they operate), such as Agrokor, Podravka, Atlantic Group, Pliva and Nexe Group, according to the 2003 National Classification of Activities (OG, 52/2003), were classified in the processing industry sector. Although these companies have no major impact on a global scale, they have grown and enlarged in the last ten years so the market of the Republic of Croatia became too small for most of them. Consequently, they decided to internationalize their business by entering, above all, the markets of Central and South-Eastern European countries.

The field of business internationalization of groups of companies is still insufficiently researched in Croatian scientific and professional literature so this represented the main motive for setting primary objectives and conducting the research presented in this paper. The research aimed at finding out which factors, in the opinion of the marketing managers employed at Croatian groups of companies, have the largest impact on the selection of a foreign country for a group to enter its market. In addition, the research aimed at establishing which international marketing strategy managers find the most suitable for expanding the business operations of Croatian groups of companies in the international market.

## 2. GROUPS OF COMPANIES

Groups of companies represent business systems consisting of several companies, most often those which have a well-developed network of subsidiaries throughout the world, thus creating their own international market of a kind (so-called internal market) that is comparatively closed to other companies (Previšić and Ozretić Došen, 1999). The companies within such system are under direct or indirect, greater or lesser, administrative and financial control of their parent company (Chang and Hong, 2000; Kester, 1992; Granovetter, 1994; Duysters and Hagedoorn, 1995).

Even though subsidiaries are separate legal entities (registered with the commercial court of the country in which they are situated), the first and primary objective of each subsidiary most frequently is not profitability on a micro, that is, on the subsidiary level, but successful performance of the group as a whole (Weber and Devaney, 2002; Chang and Hong, 2000; Chang, 2003). It means that there are situations in which individual subsidiaries take certain actions, which do not contribute to their business result directly, but indirectly or directly benefit some other subsidiary and, therefore, the group as whole.

In an examination of groups of companies, attention should be paid to the relationship between the ownership and the management functions as well. This relationship will determine the degree of autonomy of the managers in subsidiaries, what role a subsidiary will have within the group, which business internationalization strategy of the group it will use, etc. (Lindholm, 2000; Chung et al., 2000). In groups in which these two functions are integrated, centralized approach to group management prevails and this is characteristic of Japanese groups of companies, so-called *kereitsu*, and South-Korean group of companies called *cheabol*. In these groups, the subsidiaries have a low level of autonomy and are under exclusive control of the parent company (Anchoroguy, 1990; Jeon and Ahn, 2001; Kranais, 2000; Kustin and Jones, 1995). As opposed to these, groups originating from the U.S. and Western Europe have separate management and ownership functions, leading to significantly greater autonomy of subsidiaries (Gomes-Casseres, 1994; Hamilton and Mqasqas, 1997).

Groups of companies are frequently drivers of the entire economy in certain countries as they have substantial financial resources, invest considerable amounts into research and development, employ educated labor force, etc. (Gomes-Casseres, 1994; Ma and Lu, 2005). All this leads to competitive advantage of affiliated companies over other companies which are not part of a group (Turner et al., 2002; Muller-Camen et al., 2001; Marangoni et al., 2004). In addition, the group's internal market contributes to increasing competitiveness of affiliated companies because it enables the exchange of products, services, information and know-how at transfer prices as well as funding under more favorable terms (Novičević and Harvey, 2004; Carruth and Crain, 1993; Schäfer and Spengel, 2003; Chang and Hong, 2000; Schjelderup and Weichenrieder, 1999; Stewart, 1977). Another advantage lies in paying taxes at lower rates, if

subsidiaries are situated in foreign countries enjoying lower taxes (Fraedrich and Bateman, 1996; Jacobs et al., 2004; Pendlebury, 1980). The logic underlying the establishment of subsidiaries in foreign countries in order to use all the advantages offered by the system is derived precisely from these factors.

When deciding on business internationalization, according to Galan and Gonzalez-Benito (2001), managers must answer three basic questions:

1. What are the reasons that led to the decision to internationalize?
2. Which country's market to enter?
3. Which internationalization strategy to apply?

The answer to the first question defines the factors that led to the decision to internationalize business in the first place. Those are the factors such as a reduction of business risk, cost efficiency, international exchange liberalization, organization factors, etc. Analyzing the factors relevant to the selection of the foreign country in which a company will start its business activities, such as cheap labor force, availability and price of resources and market potential, provides the answer to the second question. Finally, the choice of the actual international marketing strategy to be applied and used depends on the reasons that led to internationalization and on the chosen potential markets, and thus gives the answer to the third question.

### **3. FACTORS RELEVANT TO THE SELECTION OF THE FOREIGN COUNTRY**

Any company whose management board decides to internationalize its business has its own motives, whether, for instance, cheaper labor force or favorable legislative framework on the foreign market, or domestic market saturation with products and services. In order to choose the optimum international marketing strategy, it is important to analyze the factors that make a foreign country more or less attractive.

A number of authors emphasize the potential of a foreign market for the sale of products to be manufactured by the subsidiary as the most important factor when choosing the foreign country in which to establish that subsidiary (Arnold, 2004; Bradley, 2005; Gillespie et al., 2004). If a foreign country, or at least its neighbors, does not have the necessary potential to sell the products which will be produced locally, such a country is not considered to be attractive for opening a subsidiary. Depending on

the type of products, the sales potential of the country is to be assessed. There are products, such as food stuffs for example, for which the size of the population is relevant as the basic indicator of the country's sales potential. However, apart from the population, the level of GDP per capita also affects the sales potential, especially of products which require substantial funding and a higher level of consumer inclusion in decision-making on the purchase, such as cars, computers, etc.

Besides the foreign market sales potential, one of the most frequent motives for choosing a particular country in which to open a subsidiary is cheap labor force. (Pull, 2002; Muller-Camen et al., 2001; Bhaumik and Gelb, 2005). The price of labor in the markets of highly developed countries such as the U.S., Switzerland and Sweden is extremely high so groups from these countries move their production to developing and undeveloped countries. Originally, only the operations that did not require high-skilled labor force were moved to developing and undeveloped countries. However, nowadays, an increasing number of international companies move their entire research and development centers to developing countries, such as China and India, because of increasingly more educated labor force in these countries while still being cheaper than in developed countries (UNCTAD, [www.unctad.org](http://www.unctad.org), October 20<sup>th</sup>, 2007). Croatian groups of companies are also establishing subsidiaries in the countries that have a lower price of labor than Croatia, and are also attractive due to other factors. For Croatian groups of companies this means primarily countries of Eastern and South-Eastern Europe, such as Poland, Bosnia and Herzegovina, Serbia, Slovakia and others ([www.agrokor.hr](http://www.agrokor.hr), [www.podravka.hr](http://www.podravka.hr), [www.pliva.hr](http://www.pliva.hr), October 25<sup>th</sup>, 2007).

Numerous authors mention previous experience in business dealings with corporate entities from the destination country and a similarity of cultures of the destination and home country as extremely important when choosing a foreign country in which to establish a subsidiary (Tüselmann et al., 2002; Yu, 2005; Muller-Camen et al., 2001; Goerzen, 2005). It is much easier to operate in a country that has a similar business culture to the parent country. It is easier to manage human resources, thereby reducing the level of not only employee animosity but also animosity of the general public towards the foreign company, which eventually leads to better financial results and stronger competitiveness of the subsidiary. A number of countries, especially developing and



undeveloped countries, point out tax breaks and the possibility of repatriation of capital (Babić et al., 2001; Emmanuel, 1995) as their competitive advantage in attracting foreign investment. Thus, such countries also represent attractive locations in which to open subsidiaries. Apart from these factors, factors such as favorable legislative framework, proximity of the destination to the home country (especially if the export strategy is also applied) as well as the availability and price of resources required (Wint and Williams, 2000; Bhaumik and Gelb, 2005) also influence the selection of the country in which to establish a subsidiary.

Hence, two hypotheses that this paper aims to test:

*H<sub>1</sub>: The most significant factor in the selection of the foreign country in which to establish a subsidiary is the potential of that country for sale of products/services.*

*H<sub>2</sub>: Cheap labor is the second most significant factor, after the country's potential for sale of products/services, in the selection of the foreign country in which to establish a subsidiary.*

#### **4. BUSINESS INTERNATIONALIZATION STRATEGIES**

Having analyzed the factors which contribute to making a particular country more or less attractive, managers must choose the most suitable international marketing strategy for their operations in the selected market(s). Managers in groups of companies may choose among the strategies such as export, contract manufacturing, franchising, long-term production co-operation and foreign direct investment (Galan and Gonzalez-Benito, 2001; Lowengart and Menipaz, 2001; Preble and Hoffman, 1998; Quinn, 1999; Sashi and Karuppur, 2002; Wint and Williams, 2002; Bhaumik and Gelb, 2005). The final decision will depend, ultimately, on the objectives that the company wishes to achieve as well as on the specifics of the particular foreign market environment (economic, legislative, political and cultural) and the strategic goals of the group of companies (Galán and González-Benito, 2001).

A number of authors consider foreign direct investment strategy to be the most suitable business internationalization strategy for groups of companies (Galan and Gonzalez-Benito, 2001; Wint and Williams, 2002). As the main reason they outline the fact that groups of companies may reap the largest benefits on the international market by applying that particular strategy.

Foreign direct investment is the most complex international marketing strategy, which requires substantial financial investments for the establishment and/or acquisition of a company on the foreign market. On the other hand, this strategy can lead to maximum benefits in group operations, such as tax payment abroad at lower rates, use of transfer prices, etc. Some authors, including Wint and Williams (2002), support that strategy for the precise reason that a number of countries offer various »breaks« to foreign investors to attract foreign capital, and this is beneficial for groups of companies.

However, there are other authors who believe other strategies, such as franchising for instance, to be more advantageous (Preble and Hoffman, 1998; Quinn, 1999; Sashi and Karuppur, 2002). The use of franchising presupposes, as a basic prerequisite, that the company has a familiar (product, service and/or corporate) brand which will be franchised out. The majority of companies that resort to franchising as their business internationalization strategy are service sector companies. As already mentioned, the largest Croatian groups of companies belong to the processing industry sector and their primary activity is not service provision. Furthermore, their brands are not yet sufficiently recognizable in wider international circles, so it is justified to put forward the following hypothesis:

*H<sub>3</sub>: Foreign direct investment strategy is the most suitable business internationalization strategy for Croatian groups of companies.*

As opposed to the foreign direct investment strategy, one may mention indirect export as the most simple international marketing and business internationalization strategy (Bradley, 2005). This strategy is used largely by small and medium-sized enterprises, or by the companies which are only now venturing into foreign markets. As compared to the more complex strategies, export does not require vast financial resources, considerable time or experience in doing business on international markets (Novičević and Harvey, 2004; Bradley, 2005; Hollensen, 2004). Since Croatia is a transition economy and a number of Croatian companies have a long export tradition (Ozretić Došen et al., 2000), the fourth and final hypothesis to be tested is formulated as follows:

*H<sub>4</sub>: Export strategy is the second most suitable business internationalization strategy for Croatian group of companies, after foreign direct investments.*

## 5. RESEARCH

### 5.1 RESEARCH METHODOLOGY

A highly structured questionnaire was constructed for the purpose of testing the veracity of these four hypotheses. After pre-testing the questionnaire, one question was reformulated as it seemed likely to be misinterpreted by respondents, and that would have jeopardized the validity of the results. The survey was conducted on a sample of marketing managers employed at the largest Croatian groups of companies (the group size was determined by each group's income and profit, number of subsidiaries, number of employees and the number of countries in which it has subsidiaries). The questionnaire was sent to the respondents by mail. Out of a total of 260 questionnaires that were sent, 137 were returned, of which 10 proved invalid so they were eliminated from further processing. The response rate was 52.69%, which is above what literature recognizes as

minimum threshold of 15% for mail surveys (Marušić and Vranešević, 2001). Out of 127 respondents, approximately the same number was employed at parent companies (61 or 48%) as at subsidiaries (66 or 52%). The collected data were analyzed by SPSS statistics pack.

### 5.2 RESEARCH RESULTS AND ANALYSIS

To test hypotheses  $H_1$  and  $H_2$ , a question was used in which respondents were to rate the influence of several factors (listed in Table 1) on the selection of foreign country in which to establish a subsidiary. Their possible response was provided on a five-point Likert scale (1 – Extremely weak influence, 5 – Extremely strong influence), where 3 represented the respondents' neutral position.

Table 1 shows that the »Potential market for the sale of products to be manufactured and/or imported by the subsidiary« factor was graded highest of all the factors influencing the selection of the foreign country in which to establish

**Table 1:** Managers' position on the factors relevant to the selection of foreign country as a potential destination for subsidiary establishment

Factors	N	Mean	Std. Deviation	St. error
(A) Cheap labor	127	3.43	1.095	.097
(B) Potential market for the sale of products to be manufactured and/or imported by the subsidiary	127	4.45	.663	.059
(C) Tax breaks	127	3.46	.974	.086
(D) Physical proximity to home country	127	2.49	1.053	.093
(E) Cultural similarities between destination and home country	127	2.61	1.189	.105
(F) Availability in the foreign market of resources necessary for subsidiary's production/operations	127	3.25	1.148	.102
(G) Price of resources necessary for subsidiary's production/operations	127	3.42	1.250	.111
(H) Flexible legislative system in destination country	127	3.13	1.127	.100
(I) Skilled labor force	127	3.57	.964	.086
(J) Degree of technological development in the branch of industry to be entered	127	3.43	.939	.083
(K) Prior experience in doing business with corporate entities from destination country	127	3.31	.957	.085
(L) Destination country's expected economic growth	127	4.00	1.008	.089

Note: Factors are marked A to L to facilitate interpretation of Table 2.

subsidiaries (average grade 4.45), with »Destination country's expected economic growth« factor (average grade 4.00) following. »Skilled labor force« ranked third (average grade 3.57), »Tax breaks« ranked fourth (average grade 3.46) while »Cheap labor« came up only the fifth (average grade 3.43).

On the basis of these results, the  $H_1$  hypothesis claiming that »The most significant factor in the selection of the foreign country in which to establish a subsidiary is that country's potential for sale of products/services« can be accepted. The potential of a foreign market for the sale of products to be manufactured by the subsidiary established in that market was graded as the most important factor. It is interesting that the second most important factor is the foreign country's expected economic growth. Since the country's expected economic growth affects its GDP, or its per capita GDP, it also affects its inhabitants' purchasing power. It is therefore possible to conclude that this factor also contributes to confirming the first hypothesis, as the country's economic growth corresponds

to a higher potential for the sale of products/ services.

If the first two highest-rated factors are united (given that the first is implied in the second), good-quality labor force becomes the second most important factor, followed by cheap labor and tax breaks. This points to the fact that companies no longer predominantly look for a labor force that is just cheap but also need it to be educated. In this manner the company ensures solid work, which in turn automatically improves the image of the company or of the entire group of companies. Based on these results, hypothesis  $H_2$  was not accepted, i.e. cheap labor is not the second most important factor in selecting the foreign country in which to establish a subsidiary. Taking Pliva as an example, as its core business requires a highly educated labor force, these results are not surprising.

Table 2 shows intercorrelation of the factors which are relevant to the selection of the foreign country in which a subsidiary is to be established, and on

**Table 2:** Intercorrelation of factors relevant to the selection of foreign country

	A	B	C	D	E	F	G	H	I	J	K	L
A	-	-.188*	.409**	.032	-.044	-.035	.130	.098	.063	-.092	.167	-.352**
B		-	.006	.127	.272**	.111	.031	.083	.095	.175*	.188*	.356**
C			-	.025	-.008	.164	.224*	.279**	.267**	.138	-.056	-.226*
D				-	.576**	.199*	.158	.336**	.147	-.043	.208*	-.037
E					-	.136	.141	.291**	.137	.084	.373**	.066
F						-	.762**	.429**	.150	.062	-.058	-.007
G							-	.543**	.237**	.030	-.005	-.050
H								-	.306**	-.006	.125	-.091
I									-	.275**	.312**	.090
J										-	.150	.260**
K											-	.091
L												-

\* Correlation is significant at a 0.05 level (2-tailed).

\*\* Correlation is significant at a 0.01 level (2-tailed).

the basis of which it is possible to assume certain links. In addition to the already mentioned comparison, the most interesting data have a positive correlation (Pears. coef. = 0.356;  $p=0.000$ ) between factors B and L, since economic growth implies the population's higher purchasing power,

and thus also the foreign country's higher potential for the sale of products/services on its market (i.e.  $H_1$  confirmed). Furthermore, a positive correlation (Pears. coef. = 0.260,  $p=0.001$ ) was found between the »Degree of technological development in the branch of industry to be

entered« factor and the »Destination country's expected economic growth«, which is logical since developed technology is one of the prerequisites of the country's economic growth and development, and vice versa. Moreover, »Physical proximity to home country« and »Prior experience in doing business with corporate entities from destination country« factors are also positively correlated (Pears. coef. = 0.208;  $p=0.019$ ), as are factors »Skilled labor force« and »Degree of technological development in the branch of industry to be entered« (Pears. coef. = 0.275;  $p=0.002$ ).

A negative correlation (Pears. coef. = -0.352;  $p=0.000$ ) between the »Cheap labor« factor and the »Destination country's expected economic growth« is interesting. This may be interpreted by a low probability that cheap labor may generate large incomes to be spent on products/services or invested into capital goods, in turn fuelling economic growth. In addition, cheap labor is usually associated with uneducated labor force both in developing and undeveloped countries; this prompted respondents to assume that such countries would not be able to achieve considerable economic growth in the near future. Consequently, it is not surprising that there is a negative correlation between »Cheap labor« and the »Potential market for the sale of the products to be produced and/or imported by the subsidiary« (Pears. coef. = -.188;  $p=0.034$ ). However, it should not be forgotten that the labor in undeveloped countries as well as in developing countries, while still cheap, is growing increasingly educated so it is reasonable to expect that these countries would soon achieve

economic development and growth (China and India in the past 15 years serve as good examples).

Two questions were used to test the third hypothesis. First, the following statement that »*The establishment of new and/or takeover of existing companies abroad is the most suitable business internationalization strategy for a group of companies*« and the respondents were asked to express the degree to which they agree or disagree with it on a five-point Likert scale (1 – I strongly disagree; 5 – I strongly agree). The hypothesis was examined by means of the t-test, taking into account that the average value on the scale (i.e. 3) represents neutral attitude. However, the mean value of 4.15 ( $t=16.044$ ,  $df=126$ ,  $p=0.000$ ) shows a significant move in the positive direction, based on which it is possible to conclude that the marketing managers employed at Croatian groups of companies have a positive attitude to the establishment and/or takeover of companies abroad as the most suitable business internationalization strategy for Croatian groups of companies. The third hypothesis is therefore accepted.

In the second question, which was used to test the third hypothesis, respondents were asked to rate the proposed strategies according to their suitability for business internationalization by a group of companies (ranking 1 – the most suitable strategy, ranking 10 – the least suitable strategy). Ten strategies were proposed, representing possible options for business internationalization, according to the international marketing theory.

**Table 3:** Ranking of business internationalization strategies of groups of companies

	N	Ranking	Minimum	Maximum	Mean	Std. deviation
Foreign direct investments	127	1	1	10	2.40	2.124
Export	127	2	1	10	3.24	2.655
Strategic alliances	127	3	1	10	4.02	2.319
Long-term product cooperation	127	4	1	10	5.39	2.572
License	127	5	1	10	5.97	2.380
Contract-based management	127	6	2	10	6.32	2.037
Contract manufacturing	127	7	2	10	6.50	2.410
Franchising	127	8	2	10	6.65	2.401
Assembly production	127	9	1	10	6.72	2.830
Leasing	127	10	1	10	7.18	2.486



As Table 3 shows, the strategy ranked highest is that of foreign direct investment with a mean rate of 2.4. Export ranks second with a mean rate of 3.24 and is followed by strategic alliances at 4.02 and long-term product cooperation at 5.39 in the third and fourth place, respectively, etc. Out of 127 respondents, 74.8% ranked the foreign direct investment strategy either first or second. Based on the results stemming from the answers to this question, the third hypothesis was also accepted.

It is important to note that there is a statistically significant inverse correlation between these two questions, i.e. between the statement that «*The establishment of new and/or takeover of existing companies abroad is the most suitable business internationalization strategy for a group of companies*» and foreign direct investment (coef=-0.179, p=0.044 – 2-tailed) and assembly production (coef=-0.192, p=0.042 – 2-tailed) strategies. This means that the more positive the respondent's attitude to the first question, the higher the ranking that he/she assigned to these two strategies. As to foreign direct investment, the correlation with the first question is not surprising and only serves to confirm the consistency of respondents' answers. On the other hand, by applying the assembly production strategy, the final production stage moves to a foreign country where the final product is then assembled. With time, this strategy may evolve into a foreign direct investment strategy - a fact which may demonstrate a connection or correlation between these two questions. In addition, research results also show a statistically significant difference (p=0.018) in the average ranking of the foreign direct investment strategy, depending on whether the respondents are employed at a parent company (2.85) or at a subsidiary (1.97).

As the  $H_4$  hypothesis postulated and research confirmed (Table 3), export ranks as the second most suitable business internationalization strategy for Croatian groups of companies, with a ranking value of 3.24. Based on these results, the  $H_4$  is accepted. This is not unusual in view of the fact that export is the most basic international marketing strategy. Export is most commonly used as the initial strategy but it may subsequently evolve into one of the more complex strategies, such as strategic alliances, or even the most complex one – foreign direct investment. Croatian groups of companies do not have sufficient funding available to finance an expansion of their network of subsidiaries in a great number of foreign markets, and the largest

part of their foreign market is in the neighboring countries; this makes export the optimum strategy of foreign market entry for most groups of companies. Export was ranked as the first or the second most suitable business internationalization strategy by 55.6% of the respondents.

Results of the ANOVA test showed that there is no ( $p>0.05$ ) statistically significant difference in the respondents' answers concerning the most suitable business internationalization strategy which might be related to their status as the employees of parent companies or subsidiaries, if the ten proposed international marketing strategies are considered. As explained in the theoretical discussion, the relationship between the ownership and the management function has a major influence on the business operations of groups of companies. This research aimed at finding whether there is a statistically significant difference in the answers to these two questions by the respondents employed at the companies in which these two functions are completely separated, partly separated and joined. The ANOVA test again showed that there is no statistically significant difference in the answers by different groups of respondents to the first question (p=0.163) or to the second one, that is to the ranking of strategies (p=0.423).

### 5.3 RESEARCH LIMITATIONS

This paper has two fundamental limitations. The first one concerns the use of the mail survey. Since a deliberate sample of experts was used in the research, it is extremely important that the managers fill out the questionnaire themselves instead of having it filled out by someone else. This very uncertainty, i.e. the impossibility of the researcher to know who actually filled out the questionnaire, is the first limitation of this research. The second limitation lies in the fact that no questionnaire was filled out by a management board member, which makes the research results lacking in their opinions and attitudes.

## 6. CONCLUSION

Globalization is an unstoppable process, which, directly or indirectly, affects all market participants – consumers and companies alike. Consumers are becoming more homogenous, and cultural differences among them are beginning to fade away. Thus, globalization suits corporate entities from the countries such as the U.S., Japan and Germany, which have ample financial resources, strong political impact and

cutting-edge technology available. For the countries with a transition economy, such as Croatia, and for the companies from those countries, globalization poses a challenge and a relentless fight for consumers and market share against incomparably more powerful competition from more developed countries.

As a result of growing globalization, European integrations and the use of information and communication technology, both the number and the size of groups of companies have increased. At the same time, increased use of information and communication technology enabled the implementation of completely new organization structures and distribution of labor, leading to a situation in which unaffiliated companies are no longer competitive in the market on their own so they forge alliances with other companies or systems, such as groups of companies. A considerable number of groups, at one point of their existence, outgrows their home country markets and embarks on a process of business internationalization. Only the management board and possibly division or some other organizational unit in charge of the group's marketing strategy will remain in the parent country. All other activities will be located in foreign countries.

The most suitable strategy of business internationalization of groups of companies, as confirmed by the research presented in this paper, is the foreign direct investment strategy. This is so thanks to the fact that all the advantages of the systems such as groups of companies may be realized fully through the foreign direct investment strategy. One of the most important advantages is, without doubt, the possibility to use transfer prices. Even though the use of transfer prices is also possible when groups do business on a single (domestic) market, its real impact is realized through operations on the international market. Various privileges granted by national governments and institutions with a view to attracting foreign capital also encourage business internationalization through this particular strategy. Nowadays, especially on some markets where the impact of ethnocentrism can be felt, it has become almost imperative that the overall local public (consumers, suppliers, local administrative bodies and general public) perceives the subsidiary to be a local rather than a foreign company.

The second most suitable strategy, in the opinion of the marketing managers employed at Croatian

groups of companies, is export. Croatian groups of companies are comparatively small on a global scale so they are oriented toward a regional market, which is geographically close. Therefore, export to some of these countries seems the optimum solution.

Since most Croatian groups of companies are expanding business to the markets of neighboring countries and countries in its region, it would be interesting to explore in which way culture, or a cultural environment (tradition of doing business with these countries, historical connections, similar language and other cultural elements), affect the choice of the country in which to open a subsidiary. Influence of the autonomy of foreign subsidiaries on the business performance of the group as a whole may certainly be outlined as a subject of future research. In other words, it is necessary and would be interesting to examine what advantages and what disadvantages might stem from a high and what from a low level of autonomy of subsidiaries, and what impact these might have on the profitability of the group. It would also be useful to examine which factors attracted foreign groups of companies to establish subsidiaries in Croatia, and compare those results with the data for Croatian groups of companies.

Finally, it is important to emphasize that there is no unique formula for success in an international market. Each company has its specific needs and possibilities of business internationalization, which should not be attempted without a carefully developed strategic program of international marketing and appropriate plan(s) for the operationalization of activities. Inadequate financial resources and experience are the main drawbacks plaguing Croatian groups of companies. A steady and systematic government assistance and education of employees, especially the managers in the position of strategic decision-making, is imperative. However, by applying differentiation, specialization and localization strategies, companies from »small« countries may resist global companies.

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