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EXTERNAL RELATIONSHIPS AND MARKETING PRACTICES IN SERBIAN FIRMS: THE INTANGIBLE CAPITAL PERSPECTIVE

ABSTRACT: *This paper presents selected results of research on intangible capital in Serbian firms. The results are part of a broader research project, based on a survey of a sample of Serbian firms**. The focus of the project is the various forms of intangible capital, and in this paper we analyse whether and to what degree firms build up their brand capital and increase marketing competencies, and what kind of external relationships they experience. The results provide the first insight into the development of the marketing resources of Serbian firms and show that this element of intangibles is gradually improving but still is at a low level. We find significant differences in the use of marketing resources between firms in regard to their size, international market experience, and ownership type. A more significant development of brand capital, external relationships, and marketing innovations and competencies is found in larger firms, firms with considerable international business experience compared to firms primarily oriented to the domestic market, and in foreign-owned firms. After identifying the strengths and weaknesses of marketing practices in Serbian enterprises we suggest some measures for overcoming the analysed constraints in order to improve firms' market positioning, especially in foreign markets.*

KEY WORDS: *external relations, brand capital, intangible capital, marketing innovations*

JEL CLASSIFICATION: M31, O34

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1. INTRODUCTION

Intangible capital is an essential factor of competitive advantage in the contemporary business environment. High rates of growth at national, industry, or firm level are connected with high investment in the development of intangible resources. Various marketing resource elements, intangible by nature, have been examined in literature for many years, although there is no relevant study on Serbia in this area. In order to fill this space, we conduct an analysis of the development of various elements of marketing resources in a sample of Serbian firms. Several major aspects are examined: brand capital, external relationships, marketing competencies, and innovation. As is shown in the literature, all these elements are intangible aspects of marketing that have a significant influence on a firm's performance and growth. Continuous investment in marketing resources can give companies sustainable competitive advantage and assure superior performance. The development of intangible assets is especially important for small, open economies like that of Serbia, in order to achieve a degree of international recognition and sustainable growth.

This paper is organized in eight parts: the next section reviews the literature regarding intangible capital and marketing resources. Then the methodology of the research is presented, followed by the main research findings on the development of brand capital, external relationships, and marketing innovations and competencies. To conclude we recommend some policy measures that could improve the marketing knowledge of managers and entrepreneurs.

2. INTANGIBLE CAPITAL AND MARKETING RESOURCES: LITERATURE REVIEW

Developments in communication technology, business networks and alliances, and continuous innovation, as well as rapid internationalisation have brought important changes to global businesses. Nowadays firms find the main sources of competitive advantage in intangible resources such as brands, knowledge, innovation, and reputation, and in intangible resources created in cooperation with other stakeholders, especially knowledge and relationships developed in business networks. Organisations are aware that technology-based competitive advantage is just temporary, whereas sustainable competitive advantage is determined by the intangible resources they possess (Johanson et al. 2001). We are witnessing a new phase in economic development, characterised by soft, intangible, non-financial factors (Lev and Zambon 2003).

Intangible assets can be defined as identifiable non-monetary assets without physical substance, that is, a non-financial asset that is a source of future economic benefit, without physical embodiment (Lev 2001). In comparison to tangible assets like financial or physical resources, intangibles are less flexible, hard to accumulate, and not easily transferred, so they are rarely imitable by competitors (Perrini and Vurro 2010). Due to these characteristics, and based on the resource-based view of firms, it is evident that intangibles have the potential to provide long-term differentiation and become an important source of firms' sustained competitive advantage.

There has been a remarkable interest in intangibles in academic literature since the 1990s. One of the main problems in understanding and assessing the importance of intangibles is the lack of empirical data due to difficulties in measuring intangible assets and the absence of a generally accepted theoretical framework. Intangible asset literature is predominantly conceptual, aiming to establish an adequate theoretical background. Empirical studies are rare, with great differences in methodology and even in the definition of intangible assets.

Studies that analyse intangible assets at the firm level can be divided into two main groups: i) studies that address the value of firms' intangibles together with the accounting practices and methodologies of intangible assets measurement and reporting; ii) studies that emphasise the relationship between intangible assets and firms' performance.

In most of the studies from the second group there is strong empirical evidence of the positive impact of intangibles on competitive advantage and company performance in both developed and emerging countries. Thus, for example, empirical evidence in emerging economies can be tracked through the cases of Indonesia (Hidayati et al. 2012), Taiwan (Tseng and Goo 2005), Albania (Prasnikar et al. 2012), Slovenia (Prašnikar ed. 2010), and Brazil (Dutz 2012).

Most firm-level studies for developed countries have been conducted in the USA. The main findings are that intangible resources are the drivers of value creation, especially in R&D organisations (Pike et al. 2005). A positive relationship was also found between investment in intangible capital and the market value of firms (Brynjolfsson et al. 2002). Some analyses address specific types of intangible resources, providing a firm empirical support for the hypotheses that human, social, and organisational capital, as components of intellectual capital, are related to organisational performance and play a significant role in determining firm performance (Youndt and Snell 2004).

Marketing strategy and market-related assets, as firms' intangible assets, represent crucial determinants of the competitive position of firms in contemporary businesses. They are the main indicators of the strategic direction of a company's future (Varadarajan and Jayachandran 1999) and important factors of value-creating for consumers and firms. Although literature on marketing is extensive analysis of intangible capital and the resource-based view of marketing is lacking. There are studies that address the competitive importance of various marketing practices, pricing, market research, market innovation, branding, customer relationship marketing, business-to-business relations, new product development, etc. However, there are a limited number of studies that refer to the resource-based view (Srivastava, Fahey and Christensen 2001; Srivastava, Shervani, Fahey 1998; Morgan, Vorhies, Mason 2009; Vorhies et al. 2009) and intangible resources, and the majority of those studies are predominantly conceptual.

A few authors have tried to fill this space. Srivastava, Fahey, and Christensen (2001) defined some research directions for establishing a theoretical framework for integration of the resource-based view and marketing. They identify marketing resources that are rare, difficult to imitate, hard to substitute, and can create value, defined by three core elements: market-based assets, marketing process, and capabilities (Table 1).

Table 1. Types of marketing resource

Market-based assets		
Type	Description	Main factors
Relational	Relationships with and perception of consumers, channels, partners, suppliers, etc. External to a firm, not owned by firm, intangible, rare, hard to imitate	Thrust and reputation
Intellectual	Knowledge that a firm has about its competitive environment; knowing what knowledge is entrenched in individuals and processes, internal to a firm, and how it can be converted into a form that is material (database, research study, etc.) but intangible in nature	Acquiring, disseminating, and using market information

Marketing processes		
Def.	Types	Description
Conversion of assets into stakeholder value (convert inputs into products or customer solutions), collection of interrelated routines and tasks	Market-facing process	Creation and delivery of products/services (product development management, supply chain management, and customer relationship management)
	Non-consumer-centric process	Acquisition, development, and deployment of human resources
Marketing capabilities		
Def.	Types	
Outcome of processes; reflect effectiveness of marketing processes execution	Firm performance in market-facing processes	
	Firm performance in designing and managing sub-processes in customer relationship management	

Based on classification in Srivastava, R.K., Fahey, L. and Christensen, H.K. (2001)

Srivastava et al. (2001) emphasize that relationships and knowledge (market-based assets) are strongly interconnected and play a crucial role as an input in the design and employment of market-facing processes.

In the literature special attention is given to marketing capabilities. Marketing literature attributes greater importance to resource employment capabilities than to resources per se (Merrilees et al. 2011, Srivastava, et al. 1998, 1999, Varadarajan & Jayachandran 1999). Day (1994) defines capabilities as complex bundles of skills and accumulated knowledge that facilitate coordination of activities and utilization of assets. Defined in this way, capabilities are key factors that enable development and implementation of activities in different business processes. In general, capabilities can be sorted according to to their orientation concerning the way of exploitation: inside-out, outside-in, and spanning capabilities that integrate the inside-out and outside-in capabilities (Day 1994). There are a variety of approaches to marketing capabilities. Merrilees et al. (2011) classify marketing capabilities as mid-level (advertising, distribution) and higher-level (innovation and branding); Srivastava et al. (1998, 1999) highlight three categories: new product development, customer management, and supply chain management market-based capabilities; and Vorhies et al. (2009) propose two categories of marketing capability: specialized (pricing, marketing communication, product development, and distribution) and architectural (that facilitate coordination of specialized capabilities).

There are a number of empirical studies. Several provide evidence of the positive impact of marketing capabilities on firm performance (Day 1994, Theodosiou et al. 2012, Morgan et al. 2009a, Morgan et al. 2009b). Wong and Merrilees (2007), investigating the role of the marketing contribution to firm performance, point out the importance of brand orientation, marketing strategy, and innovation. Branding and innovation are found to be the strongest determinants of the performance of small and medium companies in Australia (Merrilees et al. 2011), while marketing orientation and innovation are positively related to the performance of small and medium firms in emerging countries (Sok et al. 2013, Naidoo 2010). In general, branding, innovation, and relational capabilities have been researchers' focus in empirical studies. These marketing capabilities are most frequently examined as the main marketing contribution to firms' performance.

Relying on research propositions from the literature, we have tried to analyse the development of key marketing resources in a sample of Serbian enterprises. We investigated the level of development of brand capital, firms' external relations and marketing capabilities, and, finally, their innovation practices. We have also tried to identify differences that exist between various types of firm and industry, paying special attention to export firms.

3. RESEARCH METHODOLOGY

For this research we conducted a survey in a sample of 71 firms in Serbia. As part of a broader research project we used a questionnaire previously developed by Prašnikar et al. (2012) on intangible capital that was partly dedicated to marketing issues. The survey was conducted during 2012 and 2013 and the questionnaire was answered by marketing managers or general managers and/or firm owners (in the case of small firms). In some cases we have complemented the received answers with data from the Serbian Business Registers Agency and Intellectual Property Office.

Due to limited resources we were obliged to form our sample using the snowball method. Basic characteristics and the structure of the sample are presented in Table 2.

Table 2. Characteristics of sample

	Number of firms	% of firms
Total	71	100%
Manufacturing (and similar)	46	65%
Services	25	35%
Foreign-owned firms (FOF)	17	24%
Domestic-owned firms (DOF)	54	76%
Small (< 50 employees)	26	37%
Medium (50<employees<200)	22	31%
Large (>200 employees)	23	32%
Exporters (ExFs)	52	73%
Non-exporters (NExFs)	19	27%

The sample consists of 46 manufacturing firms (65%) and 25 service industry firms (35%). There are 17 companies owned by foreign capital (FOF), while the major part of the sample (76%) is domestically owned companies (DOF). Regarding the size of firms (defined by number of employees), 37% of the sample is small firms, 31% medium, and 32% large. Exporting firms appear to form a majority in the sample. We also analyzed this group by dividing it into two classes: (i) more active exporters (earning 33% or more of sales revenues in foreign markets), and (ii) non-exporters and less active exporters (earning less than 33% of sales revenues in foreign markets). In this sample there are 23 firms (32.4%) in the first group and 48 firms (67.6%) in the second group.

The analysis is structured in three sections: brand capital, external relations, and marketing innovation and capabilities. Brand capital was examined by analysing brand-related marketing activities from three standpoints: (a) brand development activities, (b) brand value activities, and (c) brand prospects. Although the relational capital includes firm's relations with all its stakeholders, we have primarily explored relationships with external stakeholders. The analysis of relational capital includes three sub-sections: (a) relationships with customers (buyers and consumers), (b) relationships with competitors, and (c) relationships with suppliers. Finally, the third part is dedicated to marketing capabilities and marketing innovation (marketing-mix innovation and new product development).

4. BRAND CAPITAL

4.1. Elements of brand capital

In the present competitive environment, branding is recognised as one of the most important drivers of added value. Once it was recognised that brands are one of the most valuable intangible assets that firms can have (Keller and Lehmann 2006) branding became a top priority of management and an important issue for all stakeholders. Brands are frequently seen as a vital element of all companies' intangible assets, regardless of industry, company size, business strategy, or companies' country of origin. Brands represent a means of legally protecting the unique features of a company, a means of endowing products with unique associations, a signal of quality level to customers, and a source of competitive advantage and financial returns (Keller 2003).

Thomas (1996) defines brand capital as a firm's stock of well-established brands that can be exploited in the market place. Brand capital as a firm-specific asset is a valuable resource that has a positive influence on shareholder value and firm performance (Morrow 2001, Kerin & Sethuraman 1998, Simon & Sullivan 1993). Firms' orientation towards brand development and brand capital as a market-based asset plays a critical role in pursuing competitive advantage (Wong, Merriless 2007; Hooley et al. 2005).

As mentioned above, brand capital will be examined by analysing brand-related marketing activities in three relevant forms: (a) brand development activities, (b) brand value, and (c) brand prospects. In order to understand brand development, in our questionnaire we track several aspects of brand development activity by asking whether a company possesses and/or is developing 1) its own brand of products/services, 2) a corporate brand, and 3) a brand architecture.

The brand value section explains how companies build brand value, and is based on three questions: 1) whether companies have legally protected their brands, 2) how much they invest in brand development activities aimed at increasing brand value (investment as a share of sales revenues), and 3) whether companies measure brand value.

In the last section we consider firm activities regarding the future development of brands, based on three questions regarding: 1) strategy for future development of company brands, 2) possibilities for future development of brands in new markets, and 3) possibilities for future leading market positions for company brands.

4.2. Brand capital: results

The main results regarding brand capital are shown in Table 3. In the section exploring brand development activities in our sample, 64.79% of enterprises develop their own brand of products/services, while 73.2% of companies develop corporate brands. On the other hand, only 26.76% of companies have developed brand architecture. The architecture should define how the company's brands are interrelated, support each other, and how they are differentiated from one another. Low percentages suggest a certain degree of unawareness concerning brand development activities as an important method of market differentiation and of achieving competitive advantage.

Some differences are evident between the various groups of companies (Table 3). The FOFs claim better results in every segment of brand development activity compared to DOFs. In our sample 76% of FOFs report development of own product/service brand, 88% report development of the corporate brand, and 59% have brand architecture, while 61% of DOFs report development of own product/service brand, 70% development of the corporate brand, and only 20% confirm having brand architecture.

Differences are found between manufacturing and service companies. A higher number of manufacturing firms develop product/service brands compared to service firms (Table 3). This is understandable, since service firms usually operate behind the name and brand of an international company. Consequently, a smaller number of service companies have developed brand architecture (statistically significant differences). On the other hand, service firms outperform manufacturing firms in terms of corporate brand development.

Table 3. Brand development activities

Brand development activities						
	existence of product/ service brands		corporate brand development		brand architecture	
All firms	64.79%		73.20%		26.76%	
DOFs	61.11%		70.37%		20.37%	
FOFs	76.47%		88.24%		58.82%	
ExFs	75% (86.36%)[2]	t=−2.436 p=0.017	75% (63.64%)[2]	-	28.85% (50%)[2]	(t=−4.082 p=0.000)
NExFs	42.11% (57.14%)[3]		73.68% (79.59%)[3]		21.05% (16.33%)[3]	
Manufacturing	71.74%	t=1.878 p=0.065	67.39%	t=−2.106 p=0.039	32.61%	-
Services	52%		88%		16%	
Brand value activities						
	brand protection		investment in brands	investment in brands (% of sales 2011)	brand value measurement	
All firms	77.46% (53.52%)[1]		54.29%	2.60%	18.57%	
DOFs	74.07% (48.15%)[1]	(t=−2.848 p=0.006)[1]	50.9%	2.55%	9.43%	t=−3.760 p=0.000
FOFs	88.24% (82.35%)[1]		64.7%	2.74%	47.06	
ExFs	76.92% (72.73%)[2]	(t=−2.291 p=0.025)[1]	55.77% (50%)	2.63%	19.23% (22.73%)[2]	-
NExFs	78.79% (79.59%)[3]		47.37% (55.1%)	2.29%	15.79% (16.33%)[3]	
Brand prospects						
	existence of brand strategy for further brand development		possibility of introducing brands to new markets		possibility of establishing brand leadership	
All firms	65.22%		82.35%		61.76%	
DOFs	63.46%	-	80.39%	-	54.9%	t=−2.049 p=0.044
FOFs	70.59%		88.24%		82.35%	
Manufacturing	67.39%	-	91.11%	t=2.757 p=0.008	66.67%	-
Services	58.33%		65.22%		52.17%	
ExFs	68% (81.82%)[2]	(t=−2.188 p=0.032)	87.76% (86.36%)[2]	t=−1.899 p=0.062	69.39% (68.18%)[2]	t=−2.115 p=0.038
NExFs	57.89% (57.45%)[3]		68.42% (80.43%)[3]		42.11% (58.7%)[3]	

[1] (results from national Intellectual Property Office evidence about legally protected brand names)
[2] (results for more active exporters, exporters that have more than 33% of sales revenues in foreign markets)
[3] (results for non-exporters and exporters that have less than 33% of sales revenues in foreign markets)

The relatively low results for the first set of questions regarding brand development are in accordance with the results for the next set, regarding brand value. In the sample 77.5% of firms report that they have legally protected company brands and 54% of firms state that they have made some investments in marketing activities to increase brand value in the last five years. However, only 18% of firms confirm that they have applied some methodology of brand value measurement. As in the previous section, an evident collapse in the number of positive answers appears as the questions become more detailed and specific. One may conclude that answers to the third question in both segments of our questionnaire represent the real situation regarding brand activities in Serbian firms. In support of such a conclusion is the fact that despite the statement of almost 78% of firms that they have legally protected the company brand, an examination of the National Intellectual Property Office database shows that only 53.52% of firms from the sample have indeed registered their trade names. Since the protection of brands through their registration is a basic step in developing brand strategy the identified disparity indicates some negligence and misperception of managers concerning the importance of branding as a strategic marketing tool for competitive positioning.

Differences between FOFs and DOFs remain clearly visible: 88% of FOFs and 74% of DOFs state that they have legally protected their brands. After checking the databases of the National Intellectual Property Office we found that actually only 48% of DOFs have legally protected theirs brand names vs. 82% of FOFs (a statistically significant difference, see Table 3). Also, 79% of FOFs have made some marketing investments to increase brand value versus 51% of DOFs. However, the largest gap was found in the section of brand value measurement: 47% of FOFs report practices of brand value measurement in contrast to 9% of DOFs (a statistically significant difference).

In the section concerning brand prospects, 65% of all companies report that they have a strategy for further brand development; 82% of companies perceive possibilities for expanding their brands to new markets, and 62% even envisage acquiring the leading market position for their brands in future. Once again, we can identify remarkable differences between manufacturing and service firms, between FOFs and DOFs, and between exporters and non-exporters: developed brand strategies are more frequently found among FOFs, manufacturers, and more active exporters. These firms are also more confident of opportunities for advancement in markets, defined as the possibility of establishing brand leadership. Manufacturing firms see more possibility of introducing brands into new markets, which could be expected, as services usually need higher investment when entering new markets. Finally, exporters, especially more active ones, are more confident regarding the possibility of introducing their brands into new markets, which is in to some extent already confirmed by the fact that they are already exporting.

In general, export orientation seems to be connected with better results in all segments of brand capital development that we have investigated. Exporters develop brand strategies more often than non-exporters, they invest more in brand development and in marketing activities and report better results regarding brands prospects. It emerges that internationalisation has an important impact on brand capital development, with statistically significant differences in the segments concerning development of product/service brands, development of brand architecture, and brand protection, as well as in all three segments concerning future brand development activities (Table 3). We understand this to be the consequence of a special form of spillover of international business practices: doing business in foreign markets, facing international competitors, and cooperating with international buyers and distributors can all positively affect international business strategies, marketing activities, and the branding competences of exporting companies.

The inferior results of DOFs in marketing and branding compared to FOFs could be the result of the higher share of small and medium companies among DOFs. Due to their size, small and medium enterprises do not have the potential to attract highly qualified specialists and often do not find them necessary. This is often due to the high involvement of owners in decision-making and the absence of a clear line between strategic and operative decisions at the various levels of decision-making (this is a characteristic of small firms in the sample; see Cerovic et al. 2014). FOFs, meanwhile, are more attractive employers for local specialists, and introduce marketing practices and processes that they have already established in their domestic markets, especially in the case of firms from developed countries. It is also reasonable to assume that a lower level of positive marketing practices in domestic firms is the outcome of insufficient knowledge in the field and inadequate engagement of educational institutions in providing educational management and marketing programmes.

Finally, there are important differences in regard to firm size. We find statistically significant differences in brand development activity in favour of larger firms in existence of product brands ($F = 6.158$; $p = 0.003$), corporate brand development ($F = 10.256$; $p = 0.000$), and brand architecture ($F = 6.432$; $p = 0.003$). A similar situation is found in brand value activities: brand protection ($F = 13.364$; $p =$

0.000), investment in brands ($F = 3.605$; $p = 0.033$), and brand value measurement ($F = 8.565$; $p = 0.000$) are less present in smaller firms. Regarding brand prospects, large firms perform better in all three segments, with statistically significant differences regarding the possibility of establishing brand leadership ($F = 3.028$; $p = 0.055$). It is obvious that small and medium firms (but especially small firms) lag behind large firms. Therefore it is necessary for smaller firms to improve their marketing and branding skills and knowledge, and in so doing to integrate some advanced branding practices into their corporate strategies.

Some of the presented results can be better and more precisely checked by means of probit analysis. In probit model 1, we take as a dependent variable positive answers regarding the ability of a firm to introduce its brands into new markets. This variable should represent the competitive strength of firms' brands, and eventually it expresses the quality of other elements of brand capital. As independent variables we use (i) firm size as measured by the number of employees, (ii) sales revenue in the local market (in %) as an indicator of export orientation, (iii) type of ownership, domestic or foreign, and (iv) investment in skills upgrading represented by the existence of organized training for employees. The results obtained suggest that firm size is the only significant factor that can explain the results regarding the possibility of introducing brands to new markets (Table 4; probability in brackets).

Table 4. PROBIT model 1

Independent Variables	Model 1
Const.	1.9057 (0.0245)
Number of employees	0.0006 (0.0385)
% of sales in domestic market	-0.0075 (0.4260)
Type of ownership	0.1753 (0.7340)
Organized training for employees	-0.7601 (0.1855)
Log likelihood	-25.3752
Avg. log likelihood	-0.4375
McFadden R^2	0.10
No. of observations (0/1)	47/58

The results presented in Table 4 imply that only large firms express an ability to introduce brands into new markets and, moreover, that firm size is the most important factor in the ability to enter new market, and surpasses all other factors explored. On the other hand, this could also be because small and medium firms are not capable of creating strong brands and effectively diversifying their market portfolio if they act individually and alone. In other words, to encourage smaller firms to appear in new markets and to enter foreign markets, they should be grouped in clusters, networking with larger firms should be encouraged; since in that way they could improve their brand development skills.

5. RELATIONAL CAPITAL: EXTERNAL RELATIONSHIPS

Relational capital includes a firm's relations with its stakeholders, consumers, buyers, competitors, suppliers, government institutions, employees, etc. In this paper we address relationships with external stakeholders only. The analysis covers relationships with: (a) customers (buyers and consumers), (b) competitors, and (c) suppliers.

We have analysed separately firms' relationships with business buyers and consumers. Regarding business buyers, a total of 78% of firms state that employees from different functional areas meet regularly to exchange views and observations about business customers, 88% of companies claim that they have regular meetings with business customers to determine their needs, while 65% of firms state that business customers are engaged in the process of developing new products and services (Table 5). There are many studies that show how customer integration during new product development can bring success to a company (von Hippel 2001; Pedrosa 2012; Laursen & Salter 2006) and enhance companies' innovation performance, especially in service companies (Matthing, Bodil, & Edvardsson 2004; Bogers, Afuah, and Bastian 2010; Vargo and Lusch 2004). In contrast to these studies, service companies in Serbia report lower involvement of business customers in the development of new products/services (50%) in comparison to manufacturing firms (73.33%) and slightly lower results regarding regular meetings with business customers (83.33% as against 91.11% for manufacturing firms). On the other hand, service firms pay more attention than manufacturing firms to internal meetings regarding customers' needs (83.33% and 75% respectively). Larger firms report better results than small and medium-sized firms in all segments (especially in regard to internal meetings and meetings with business customers). There is a statistically significant difference between more active exporters and the group of less active exporters and non-exporting firms regarding involvement of business customers in the development of new products/services (t=–2.610; p=0.011).[1] Involvement of buyers in the development of new products represents the highest level of partnership marketing, and is a good indicator of the quality of the relationship. Also, more active exporters involve their buyers in the development of new products to a greater extent than non-exporting firms and less active exporters. It is known that relationships with distributors, as key international buyers, represent an important factor of success in international business. They can help to overcome the psychic distance, which is the major barrier to internationalisation of firms and a factor that explains variations in expansion patterns and firm performance.

Table 5. Business-to-business relationship

	employees from different functional areas meet regularly to exchange views and observations about customers	regular meetings with business customers to determine their needs	business customers are engaged in the process of developing new products and services	
All firms	77.94%	88.41%	65.22%	
DOFs	75.4%	88.68%	64.15%	-
FOFs	86.7%	87.5%	68.75%	
Manufacturing	75%	91.11%	73.33%	t=1.964; p=0.054
Service	83.33%	83.33%	50%	
ExFs[1]	76.1%	95.24%	85.7%	t=–2.610; p=0.011
NExFs[2]	78.7%	85.4%	56.2%	

[1] (results for more active exporters, exporters that earn more than 33% of sales revenues in foreign markets)
[2] (results for non-exporters and exporters that earn less than 33% of sales revenues in foreign markets)

To study relations with final consumers we posed three questions: (a) is there a regular and detailed analysis of consumer needs? (b) how much does a firm spend annually on market research? and (c) does the company employ customer relationship marketing (CRM)?

Learning about consumers' needs and market characteristics is a prerequisite for developing and maintaining a long-term relationship with consumers. A formal

1 Statistically significant differences appear between exporters that earn 33% or more of their revenues in foreign markets and the group of non-exporters and those with a foreign sales share smaller than 33% of revenues.

market research process is a basic marketing tool for acquiring information and developing knowledge about the market. Analysing responses to the first two questions listed above, we found a yawning gap between companies' claims to have a detailed market analysis of their consumers' behaviour (82.61%) and the result that only 28% of firms had a defined budget for market research. There is no need to discuss the importance of market research, especially a formally organized research process, for understanding consumer needs, adjustment of marketing strategy, and development of new products. Its importance is obvious for both large and small (or medium) enterprises and for all firms coming from either developed or emerging countries (for small firms and emerging markets see e.g., Song et al. 2004). In general, identifying customers' needs by means of market research processes improves firms' innovation performance and competitiveness. According to our results, this is only a declarative orientation of firms in Serbia, with no serious commitment to market research, although it should be the first step in the development of marketing programmes and sincere relationship-building with consumers.

The relationship with consumers we track through implementation of customer relationship management. CRM is an important system that enhances a company's ability to track individual consumer behaviour and to integrate this information and knowledge into marketing strategies and development of long-term relationships with principal consumers. CRM and the ability of companies to use consumer information are crucial in sustaining a competitive advantage in many industries (Rollins and Bellenger 2012). However, in the sample only 21.5% of firms report implementation of some elements of CRM, with a higher share for service companies (28% v. 15% of manufacturing firms), primarily due to the increase of loyalty programmes in the retailing sector. We found statistically significant differences in applying CRM between domestic and foreign-owned firms, and between small, medium, and large firms. FOFs implement CRM to a greater extent (35%) than DOFs (14.8%) ($t=-2.014$; $p=0.048$), which also confirms the generally better marketing practice of FOFs. In this segment large firms outperform small and medium firms ($F = 4.052$; $p = 0.022$): 35% of large enterprises, 23% of medium firms, and just 3.85% of small firms implement CRM practice.

Relationships with competitors represent the third component of external relations that we examined. We analysed companies' relationship with competitors from the perspective of defensive and/or offensive competitive orientation. 54.3% of firms in the sample report defensive competitive orientation. They choose to follow market leaders rather than to take aggressive business action in response to activities of major competitors. FOFs report better results regarding offensive marketing strategy (68.75% compared to 38.9% of DOFs, t=–2.145; p=0.036), which can be attributed to better performance in marketing in general. Similar results were found for large firms (50%) compared to small firms (34.6%) and for exporters (50%) compared to non-exporters (33%). Exporters also have a more aggressive marketing strategy, endeavouring to establish a better market position in foreign countries (note that a good number of exporters have already established a leading position in the domestic market, and are eager to aggressively work on competitive positioning in foreign markets).

Finally, we explored the origin of suppliers. It appears that imported inputs have positive effects on productivity. This is probably because they allow and even push firms to adapt to advanced technologies from abroad and to benefit from foreign R&D. This suppliers' effect seems to be crucially connected with the level of development of the country of origin. Thus, in our sample 42% of companies report that more than 50% of suppliers are from foreign markets and 38.8% state that the majority of their suppliers comes from developed countries, which is substantially less than in the case of Slovenian firms (73%), which exhibit better overall results (see Prasnikar 2010). However, we found a statistically significant difference between exporting and non-exporting firms in our sample (t=–2.309; p = 0.024): 47% of exporters have suppliers from developed countries (even 59% among more active exporters), compared to 16.7% of non-exporting firms. Also, 52.4% of large firms have suppliers from developed countries, a somewhat higher figure than for medium firms (50%) and remarkably higher in relation to small firms (27%), implying a significant difference in regard to firm size (F=3.662; p=0.031). These results are in full accordance with the suggested conclusion, since exporters and large firms are found to perform better in general and here also in development of relational capital.

6. MARKETING INNOVATION AND CAPABILITIES

Innovation, brand capital, and relation marketing are important competitive factors and stimulate growth and prosperity (Gehani 2011) in contemporary economies. Various studies have shown that a firm's ability to innovate and develop new products represents an important success factor and a major determinant of competitive advantage and superior performance (Menguc and Auh 2006; Pauwels et al. 2004; O'Cass, Sok 2013, Naidoo 2010). In this section we analyse two groups of questions on marketing innovation.

We shall first analyse some forms of innovation regarding marketing mix by exploring four variables for marketing innovation: 1) the introduction of new media and/or techniques for promotion, 2) essential changes in design and/or packaging of products/services, 3) new methods of product placement or marketing channels, and 4) new forms of pricing. The second part of the section will be dedicated to the issue of new products: 1) the performance of new products in comparison to competitors and 2) the introduction of various types of new product that represent a different level of novelty.

Among the firms observed, 61% confirmed some innovation in marketing communications, 67% in product design/packaging, 66% in marketing channels, and 75% in new forms of pricing. There are some differences between manufacturing and service firms, as well as between firms with domestic and foreign ownership (Table 6). Manufacturing firms report more innovation in promotion and product design and packaging, while service firms innovate more in pricing and distribution, which is in accordance with the specific characteristics of these industries. There is a systematic difference between exporting and non-exporting firms that is always in favour of exporters (for innovation in distribution there is a statistically significant difference: $t=-2.002$; $p=0.049$). In the segment of marketing innovation large firms are evidently superior concerning promotion (a statistically significant difference in regard to firm size: $F=3.432$; $p=0.038$). This result can be explained by the larger promotional budget of large firms, which allows them to incorporate new promotional techniques or to use new media. In the other segment, except for product design, large firms perform slightly better than small and medium firms.

Table 6. Marketing mix and innovation

	Promotion	Product/ service design	Distribution	Price
All firms	61.4%	67.1%	65.7%	75%
DOFs	60.38%	66.04%	62.26%	76.4%
FOFs	64.7%	70.59%	76.47%	70.59%
Manufacturing	65.22%	69.57%	63.04%	70.45%
Services	54.17%	62.5%	70.83%	83.33%
ExFs	64.7% (68.18%)[1]	70.59% (68.18%)[1]	72.55% (81.8%)[1]	77.55% (85.71%)[1]
NExFs	52.63% (58.33%)[2]	57.89% (66.7%)[2]	47.37% (58.33%)[2]	68.42% (70.21%)[2]

[1] (results for more active exporters, exporters that earn more than 33% of sales revenues in foreign markets)

[2] (results for non-exporters and exporters that earn less than 33% of sales revenues in foreign markets)

The next issue is the introduction of new products in comparison to competitors. Three levels of performance regarding the success of new product introduction were proposed: in the last five years, in introducing new products the company was (a) as successful as its main competitors, (b) more successful than its main competitors, or (c) became a leading competitor in the market.

Product innovation is vital for effective marketing (Varadarajan 1992). We shall define it as "the process of identifying innovative, unmet customer needs and embedding new technologies in unique new product features" (Johne 1999), while the extent of the uniqueness may vary. Therefore different levels of improvement can be considered as innovation (Gersick 1991): small enhancements like the repositioning of and/or small improvements in existing products, as well as radical innovation like creating new products for global markets - as is shown in the classification of new products used in Figure 1.

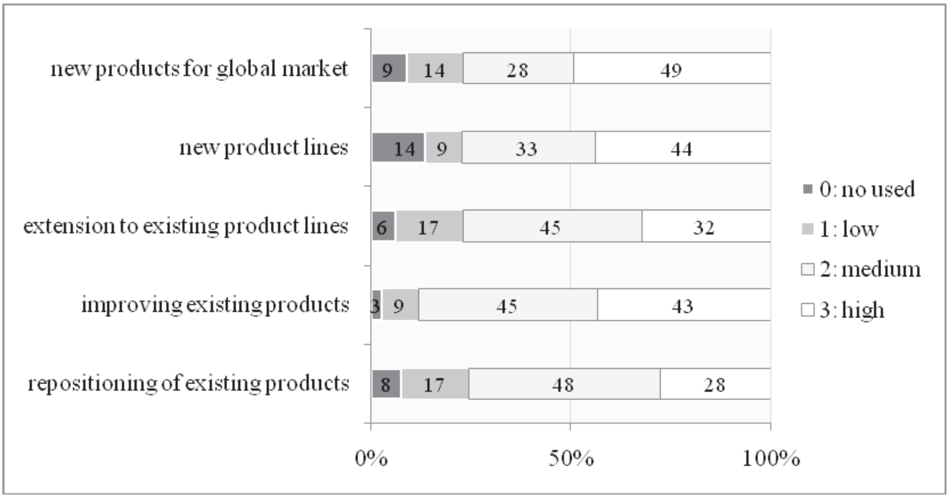
Around 43% of firms state that they are among the leading firms in their industry concerning the introduction of new products (Table 7). The main difference is evident between domestic (37%) and foreign-owned companies (62.5%), which is in accordance with previous results. However, a deeper analysis reveals some interesting insights. Among the firms claiming to be leaders in their markets, only four are big exporters (exporters that earn more than 50% of sales revenue in foreign markets), and all of them are domestically owned. Foreign-owned firms claiming a leading position in the market usually are not remarkable exporters. This implies that FDI is more often directed towards domestic markets rather than opening new markets for local products and – under the present circumstances – cannot be seen as a driving force of the export-led growth model. On the other hand, foreign-owned companies establish leadership in the domestic market as the outcome of better marketing capabilities. FDI brings marketing knowledge and modern marketing practices to Serbia, which are the main deficiencies in the market positioning of domestically owned firms. However, apart from marketing knowledge there is no transfer of technology, R&D, or the other technological spillovers usually expected from FDI (this issue has been examined in Cerović, et al. 2014). Hence, market leadership sometimes can be the outcome of monopolistic power within local boundaries, rather than of a distinctive competitive advantage in international markets.

Table 7. Introduction of new products in comparison to competitors

<table>
<tr><th></th><th colspan="2">successful as main competitors</th><th>more successful than main competitors</th><th colspan="2">leading competitor in the market</th></tr>
<tr><td>All firms</td><td colspan="2">84.29%</td><td>52.86%</td><td colspan="2">42.86%</td></tr>
<tr><td>DOFs</td><td>76.63%</td><td rowspan="2">t=–1.994; p=0.050</td><td>51.85%</td><td>37.04%</td><td rowspan="2">t=–1.825; p=0.072</td></tr>
<tr><td>FOFs</td><td>100%</td><td>56.25%</td><td>62.5%</td></tr>
<tr><td>Manufacturing</td><td colspan="2">88.89%</td><td>51.11%</td><td colspan="2">40%</td></tr>
<tr><td>Service firms</td><td colspan="2">76%</td><td>56%</td><td colspan="2">48%</td></tr>
<tr><td>ExFs</td><td colspan="2">82.35%</td><td>54.9%</td><td colspan="2">41.18%</td></tr>
<tr><td>NExFs</td><td colspan="2">89.47%</td><td>47.37%</td><td colspan="2">47.37%</td></tr>
</table>

A deeper analysis of new product development shows that the majority of companies evaluate their competencies and practice in introducing various forms of new product very highly. As the level of innovativeness grows there are a growing number of positive answers regarding the relevance of the new product type (Figure 1). These responses are not in accordance with the actual introduction of new products in Serbian firms (the assessments are much higher than in other countries where similar research has been conducted, see Prasnikar & Knezevic Cvelbar 2012; Prasnikar et al. 2012). Therefore there is evidence of an over-optimistic self-evaluation, but also confusion and ignorance about the correct meaning of new product types (for example, 48% of non-exporters and less active exporters state that they developed new products for global markets, which demonstrates both excessive self-confidence in their competencies and a lack of knowledge).

Figure 1. Types of new product



Bearing in mind the previous observation, it comes as no surprise that there are few statistically significant differences between firms: between FOFs and DOFs in the extension of existing product lines ($t=1.895$; $p=0.063$) or between exporters and non-exporters in the same category ($t=-2.226$; $p=0.003$), or between manufactures and services regarding the introduction of new products/services ($t=-1.917$; $p=0.060$). It seems that exporters are having to adjust domestic products to specific international markets because of different regulatory, economic, and cultural environments and extend existing product lines in order to be competitive.

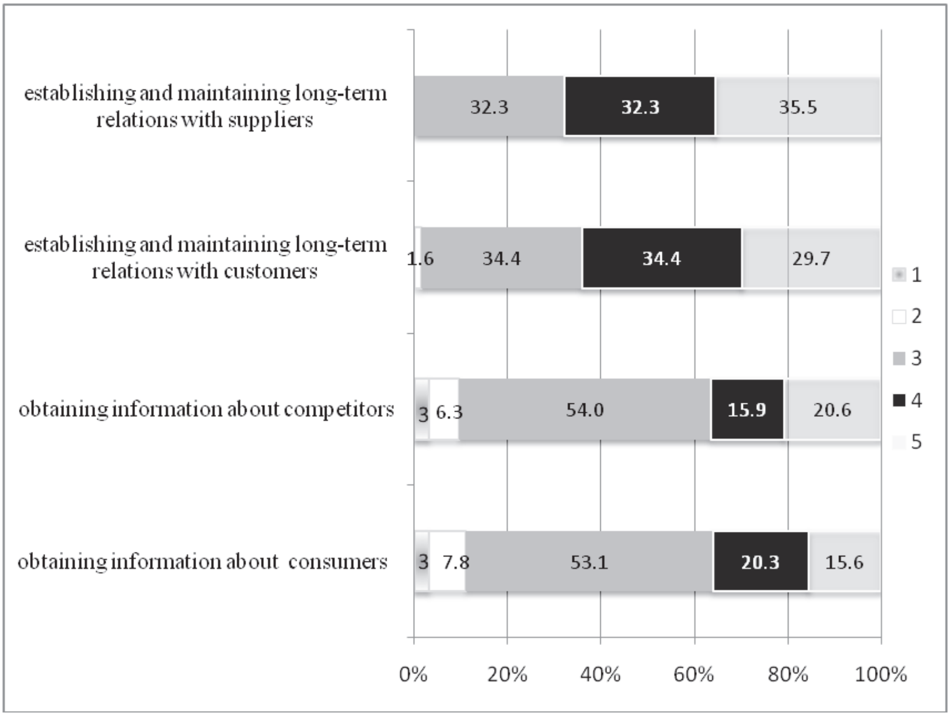
Table 8. Types of new product (average importance assessments) by the various groups of firms

	repositioning of existing products	improving existing products	extension to existing product lines	new product lines	new products for global market
NExF	1.88	2.18	1.63	1.75	1.73
ExF	1.98	2.32	2.16	2.18	2.30
DOF	1.95	2.27	2.07	2.09	2.05
FOF	1.64	2.07	1.67	2.07	2.36
Manufacturing	1.84	2.27	1.98	1.91	2.09
Services	2.20	2.33	2.16	2.45	2.35

Respondents evaluate the importance of different types of new product: 0=not used; 1=low importance; 2=medium; 3=high importance

In the final section we examine the marketing competencies of firms in relation to their competitors. Four types of marketing competency were evaluated: establishing and maintaining long-term relations with suppliers (a) and customers (b), and the ability to obtain information about competitors (c) and consumers (d). Respondents evaluated marketing competency in comparison to the competition on a 1 to 5 scale, (1- considerably worse than main competitors; 2 - worse than main competitors; 3 – same as main competitors; 4 - better than the main competitors; 5 – considerably better than main competitors). The highest confidence was in the section on the relationship with suppliers, and the lowest confidence was regarding consumer research (Figure 2), which is in accordance with the fact that only 28% of firms have a defined market research budget.

Figure 2. Marketing competencies: frequencies



Although firms gave themselves relatively low marks for competency in obtaining information about competitors and consumers, they gave themselves high marks for each segment, with average marks above 3 (Table 9). Here again we assume overconfidence, which has been noticed as characteristic of local managers before, especially managers and owners of small firms (Cerović & Petković 2003).

Table 9. Marketing competencies (average marks)

	obtaining information about consumers	obtaining information about competitors	establishing and maintaining long-term customer relations	establishing and maintaining long-term relations with suppliers
All firms	3.38	3.44	3.92	4.03
NExF	3.12	3.19	3.71	3.94
ExF	3.47	3.53	4.00	4.07
Small firms	3.39	3.39	3.74	3.96
Medium firms	3.23	3.41	4.00	4.10
Large firms	3.53	3.56	4.05	4.06
Manufacturing	3.44	3.42	3.95	3.97
Services	3.13	3.35	3.78	4.04
DOF	3.32	3.36	3.82	3.98
FOF	3.29	3.54	3.93	3.92

In this section there are no statistically significant differences, but despite some overestimates it is evident that exporters assess their competencies higher than non-exporters. We suggest that this could indicate that exporters are more realistic in their assessment of complementary competencies and are in fact more successful, as they face advanced competition.

7. SOME ADDITIONAL FINDINGS

Relying on the analysis of the forms and development level of various marketing-capital elements, we now explore their role in firms' international competitiveness. It should be noted that a certain feedback appears: higher development level of marketing capital appears as a spillover effect from international business practice that improves firms' intangible and especially marketing assets. Thus we may expect exporters to innovate more and have better developed brand and relational capital. Internationalisation processes foster learning in organisations, and these effects are most visible in marketing and branding.

On the other hand better exporting intensity can be explained as the outcome of a higher level of marketing-capital development. Companies willing to export usually possess well-developed brands, products, and marketing competencies. In order to explore how marketing capital influences the internationalisation of businesses we estimated Probit Model 2. We take export status of firms as the dependent variable (exporters vs. non-exporters) while the independent variables include segments on marketing capital, plus two additional and possibly important elements. Thus the independent variables are: positive answers to the questions on the possibility of establishing brand leadership (i) and introducing new product lines (ii), followed by assessments of marketing competency in obtaining information about consumers (iii) and establishing and maintaining long-term relationships with buyers (iv). Additional variables are number of employees (v) (to represent firm size), and assessed level of importance of institutional sources of information (vi) (which usually refers to cooperation with universities and research institutes, as institutions that can provide valuable information and knowledge for companies). The obtained results are presented in Table 10.

Table 10. Probit Model 2

Independent Variables	Model 2
Const.	-3.2784
	(0.0181)
Number of employees	0.001239
	(0.0236)
Brand leadership	0.720494
	(0.1690)
Introduction of new product line	0.249633
	(0.2215)
Obtaining market information	0.032168
	(0.8927)
Relationship with buyers	0.532723
	0.0791
Using institutional sources of information	0.698476
	0.0155
Log likelihood	-20.47442
Avg. log likelihood	-0.365615
McFadden R^2	0.325251
No. of observations (0/1)	43/56

Analysing the results, we can see that the size of the firm has a significant impact on the firm's ability to export (in favour of larger firms – which is in accordance with test results in Probit Model 1). Regarding marketing capital, we find that better marketing competencies in establishing and maintaining a relationship with buyers significantly influence and foster an enterprise's export capabilities. It also appears that exporters rely much more than others on institutional information resources such as universities and research institutes, since this kind of cooperation is significantly connected to the exporting capabilities of the observed firms. Bearing in mind that the market research competencies of Serbian firms are mostly underdeveloped, especially in the case of formal market research, it comes as no surprise that firms with better links to universities and institutes can substantially improve their knowledge and competencies and in that way overcome barriers related to international business. Finally, some parts of marketing capital, like the ability of companies to establish brand leadership in the market and introduce new product lines, do not significantly support exports (but results might be different if we had a larger sample).

Taken together, these results point to the necessity of continuous improvement in vital elements of marketing capital in order to increase the number of firms that can effectively export, be competitive in foreign markets, and increase the amount of export revenue in the national economy. This can also be taken as policy advice: incentives are necessary to foster export orientation and should be accompanied by quality business education and entrepreneurial training, and the establishment of long-term cooperation between the corporate sector and educational and research institutions.

8. CONCLUSION AND POLICY RECOMMENDATIONS

Starting with the fact that intangible capital and marketing resources are becoming key determinants of firms' competitiveness, the objective of this study is to determine the development of a range of marketing resources in Serbian firms. In general we found that Serbian firms' use of all segments of marketing resources needs to be improved. This conclusion is based on our finding that the development of marketing resources and their exploitation is still at a low level, especially in some specific types of firm.

Regarding brand capital and marketing practices, the results show that this intangibles element is gradually improving but is still at a rudimentary level. We found some differences between firms regarding their size, international market experience, and ownership type: large firms, exporters, and firms with foreign ownership implement branding strategy to a greater extent and have more developed brand capital compared to smaller firms, non-exporters, and especially domestically owned firms. Moreover, in the firms that have considerable international business experience we found an advanced development of brand capital as well as better external relationships and more marketing innovation, as compared to firms primarily oriented to the domestic market. We understand this fact to be the consequence of a special form of spillover of international business practices.

Many firms claim innovative marketing practices, but they are still at a basic level. Exporting firms, manufacturing industries, and foreign firms show better results. We cannot draw any conclusions regarding marketing competencies, due to unrealistic results and the over-confidence of research participants. In general, it appears that the market research competencies that are vital for acquiring information about consumers and competitors are the weakest part of Serbian firms' marketing competencies. Only firms with some international market experience performed at all well in this activity.

Considering our results, we can highlight several issues as having important implications for Serbian managers. Despite some general knowledge, our analysis shows that they still do not fully understand the strategic function of branding and marketing. The general level of branding and marketing knowledge should and could be improved by additional training programmes in marketing and business administration in formal education programmes for future managers. There are several universities in Serbia that have university courses in marketing but they have a relatively small number of students, probably because of weak demand, which is resulting in the poor marketing practices of domestically owned firms. Foreign firms bring developed marketing practices and established marketing processes and brands from their home markets and demonstrate deeper marketing knowledge and competencies, which is ultimately expressed in their leadership position in the Serbian market.

Several policies may be proposed. First, regarding export promotion policy, financial and other traditional support programmes for exporters are insufficient for improving export competitiveness. Our results show that the most important programmes should be oriented to improving the innovation skills, marketing knowledge, and competencies of active exporters and in particular of small and medium enterprises, where they were found to be deficient.

Second, in order to create and implement a new support programme, government agencies must possess knowledge and competencies in the field, which are currently insufficient. In order to overcome the problem of the inadequate employment structure in government promotion agencies there are two options: (a) improve training and educational export programmes through closer cooperation with universities, as an important source of new knowledge and information; and (b) change employment policy to select the people best qualified in marketing who have high export competencies.

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