

Marketing Capabilities and Market Performance Monitoring of Global, Regional and Local Companies Operating in Serbia

Mirjana Gligorijević (Corresponding author)¹

Saša Veljković²

Đorđe Kaličanin³

Abstract

A large number of global, regional and local companies operate in the Serbian market. By means of a survey conducted on the sample of 253 businesses, the authors investigate differences in marketing capabilities (marketing mix capabilities), market performance and the monitoring practice of global, regional and local companies operating in Serbia. The research reveals that the best market performance is achieved by the global companies, followed by the regional and local ones. Although the global companies are found to have the highest level of all marketing mix capabilities, followed by the regional ones, a statistically significant difference is found in only two from the mix: integrated marketing communications and sales. A number of significant differences are observed in defining marketing objectives and the frequency of market performance monitoring. The global companies, i.e. their subsidiaries in Serbia, set a larger number of marketing goals and monitor performance more often than the regional or local businesses. The authors offer suggestions to the companies of all three types on how to improve their market position and performance in a developing market such as Serbia.

Keywords: Global companies, regional companies, local companies, marketing mix, marketing capabilities, market performance, Serbia

JEL Classification: M31, M10, F23

1. Introduction

Strategic management and marketing authors and researchers claim that a market orientation and marketing capabilities provide firms with a source of competitive advantage. There is a positive and significant link between marketing capabilities and firm performance (Kirca, Jayachandran, and Bearden, 2005; Morgan, Vorhies, and Mason, 2009; Kamboj and Rahman, 2015...). However, while there is much evidence that market orientation and marketing capabilities strongly and positively influence a company's performance, few papers have studied the impact of market-based assets and marketing capabilities on achieving competitive advantage. Therefore, the authors started with the resource-based theory and dynamic capabilities theory extensions to determine whether marketing capabilities and which types (dimensions) of capabilities statistically significantly affect the market performance of companies. In particular, they examined market capabilities as a key market asset and the

¹ Full Professor, University of Belgrade, Faculty of Economics, Department of Business Economics and Management, Belgrade – the Republic of Serbia, mirjana.gligorijevic@ekof.bg.ac.rs

² Full Professor, University of Belgrade, Faculty of Economics, Department of Business Economics and Management, Belgrade – the Republic of Serbia, sasa.veljkovic@ekof.bg.ac.rs

³ Associate Professor, University of Belgrade, Faculty of Economics, Department of Business Economics and Management, Belgrade – the Republic of Serbia, djordje.kalicanin@ekof.bg.ac.rs

mechanism of creating value for consumers, which is the basis for achieving market performance.

The authors investigated differences in marketing capabilities (presented through company’s marketing mix), market performance and the practice of measuring and monitoring marketing goals and performance of global, regional and local companies operating in the Serbian market. For the purpose of this paper, the authors conducted an original survey on a sample of 253 companies (strategic business units) from various industries – production and service, business and consumer products, both domestic and foreign, and obtained interesting results. The best market performance is achieved by the global companies, followed by the regional and local ones. Although the global companies are found to have the highest level of all marketing mix capabilities, followed by the regional ones, a statistically significant difference is found in only two from the mix: integrated marketing communications and sales. A number of significant differences are observed in defining marketing objectives and the frequency of market performance monitoring. The global companies, i.e. their subsidiaries in Serbia, set a larger number of marketing goals and monitor performance more often than the regional or local businesses.

The study makes two major contributions. It reviews the literature and identifies marketing capabilities, and then empirically explores certain marketing capabilities that enable firms to respond effectively to market opportunities. Secondly, its findings provide insight into the differences that arise between global, regional, and local companies in terms of defining marketing goals and frequency of market performance monitoring, as well as they show the impact of marketing capabilities on the market performance of these companies. At the end authors offer suggestions to companies of all three types on how to improve their market position and performance in a developing market such as Serbia.

2. Literature Review

With increasing globalization and growing competition, companies have a huge interest in achieving superior performance. Resource-based theory views the heterogeneity among firms in resource-assets that allow its managers to create and implement value-creation strategies — as a basis for explaining a firm’s performance (Barney, 1991). However, this theory does not explain how resources are developed and allocated to bring a competitive advantage and does not consider the impact of dynamic market environments. Addressing these limitations in traditional resource-based theory (Newbert, 2007; Zott, 2003) has created a theory of dynamic capabilities.

According to the dynamic capabilities theory, since market is dynamic, the capabilities allowing companies to acquire and allocate resources in ways that match the companies’ market environment, explain differences in performance among the companies over time (Eisenhardt and Martin, 2000; Makadok, 2001; Morgan, Vorhies and Mason, 2009). Capabilities are dynamic when they allow companies to implement new strategies that reflect changing market conditions by combining and transforming available resources in new ways. While owning valuable and scarce resources is beneficial, firms also require complementary capabilities to be able to exploit resources in ways that match the market conditions they face to drive firm performance (Teece, 2007; Morgan, Vorhies and Mason, 2009).

The focus on marketing capabilities is based on literature evidence that they have been identified as one of the primary ways for firm to achieve a competitive advantage (Day and Wensley, 1988; Quin and Suosa, 2015) and superior market performance (Krasnikov and Jayachandran, 2008; Nath, Nachiappan, and Ramanathan, 2010; Agan, 2011). Marketing capabilities are defined as “complex bundles of skills and accumulated knowledge, exercised through organizational processes that enable firms to coordinate activities and make use of their

assets”, they are deeply embedded in organizations and have a high level of value, scarcity, inimitability and non-substitutability (Day, 1994). This is likely to increase customers’ willingness to purchase and therefore leads to superior performance.

Performance refers to the economic value that is captured from the commercialization of firms’ capabilities (Newbert, 2007). Market performance is a kind of company performance that indicates a company’s success on targeted market. It shows market effectiveness – market share growth, sales revenue growth, sales to existing customers as well as sales to new customers. Those measures together with profitability are considered as a firm performance (Morgan, Vorhies and Mason, 2009). Another type of performance is financial performance but there is strong connection between those performance types. Well established and achieved market performance should lead to superior financial performance according to Balanced Scorecard (Kaplan and Norton, 2001; 2004). A comprehensive approach to performance was also considered in several studies (Hunt and Morgan, 1996; Chari, Katsikeas, Balabanis and Robson, 2014, Homburg, Artz and Wieseke, 2012). That is the main reason why we comprehend both types of performance although accenting relationship between marketing capabilities and marketing performance monitoring.

At first, little attention was paid to empirical measurement and analysis of marketing capabilities and their impact on firm performance, but now it has become a significant area for researchers. The marketing capabilities of a company are an ambiguous and complex phenomenon governed by various factors. Due to this complexity, it has been used in a variety of variables to measure marketing capabilities. Marketing capabilities are usually associated with the marketing function. Most authors identify two interrelated areas of marketing capabilities: capabilities related to individual processes of the “marketing mix”, such as product development and management, pricing, sales, marketing communications and channel management; and capabilities related to the process of developing and implementing a marketing strategy. These capabilities may be rare, valuable, irreplaceable, and unrepeatable sources of advantage that can lead to superior organizational performance and can be difficult for competitors to imitate (Morgan, Vorhies, and Mason, 2009).

3. Methodology and sample

The main objective of this paper is to determine the difference in marketing capabilities, market performance and monitoring of global, regional and local companies operating in Serbia. Primary data were collected via the web-based questionnaire. The stratified sample consisted of 800 SBUs located in Serbia. The research was conducted between October and December 2018. A total of 253 managers completed the online survey, with the response rate amounting to 31.6%. This result is in practice the level of the response rate obtained in similar studies (Morgan, N. et al., 2009; Kaleka & Morgan, N., 2019).

Each respondent entered in the questionnaire a minimum of two and a maximum of four main competitors, and then assessed their position on a seven-point Likert-type scale (from 1 – much worse than competitors, to 7 – much better than competitors scale anchors). For the purpose of research conducted in Serbia, the original scales of Morgan, Vorhies, and Mason (2009) were adapted. Exploratory factor analysis was conducted, and the results showed that the scales were adequate for measuring latent variables. Scale reliability was assessed by using Cronbach’s alpha coefficients and all values were found greater than 0.85. The types of observed marketing capabilities, the items within each of them, and the level of Cronbach’s alpha coefficients are listed in Table 1.

Table 1: Marketing capabilities – scale construction and their reliability

Type of capability	Items	Cronbach's alpha
Pricing capabilities	Using pricing skills and systems to respond quickly to market changes	.865
	Knowledge of competitors' pricing tactics	
	Doing an effective job of pricing products/services	
	Monitoring competitors' prices and price changes	
Product capabilities	Ability to develop new products/services	.911
	Developing new products/services to exploit R&D investment	
	Successfully launching new products/services	
	Ensuring that product/service development efforts are responsive to customer needs	
Distribution capabilities	Strength of relationships with distributors	.922
	Attracting and retaining the best distributors	
	Adding value to our distributors' businesses	
	Providing high levels of service support to distributors	
Marketing communication capabilities	Developing and executing advertising programs	.886
	Managing promotion activities through modern communication channels (internet, social networks, mobile devices)	
	Public relations skills	
	Brand image management skills and processes	
Selling capabilities	Giving salespeople the training they need to be effective	.885
	Sales management planning and control systems (processes, rules, procedure, documentation)	
	Selling skills of salespeople	
	Sales management skills	
	Providing effective sales support to the salesforce	

Performance could be measured by subjective and objective measures. In the case of subjective performance measures, respondents assessed the achievement of their company (or SBU) relative to their main competitor(s). In the case of objective performance measures, analyst gathered and analyzed data from official company’s report or some other official reports. There is a high correlation between objective and subjective measures in the case of well-informed respondents (Robinson and Pearce, 1988). In this study, the authors chose the subjective measures used in the Morgan et al (2009) scale, those being market effectiveness measures (market share growth relative to competition, acquiring new customers, increasing sales to current customers, growth in sales revenue) and profitability. Profitability was also measured in subjective way – respondent evaluated the performance over the past year relative to the major competitors. In giving response to this question, the respondent could consider any of the most used profitability measures. Usually, on that management level, those were margin measures. The scale anchors were the same as in the case assessment of the market effectiveness and in the assessment of the marketing capabilities – level 1 (much worse than competitors) to level 7 (much better than competitors).

Also, the respondents answered how often they monitor achievement expressed in the chosen performance measures. Those responses revealed the practice of the market performance measurement. They could choose from one of the following responses: minimum quarterly, twice a year, once a year, rarely (less than once a year), and never. As expected, those companies with higher level of marketing capabilities monitor their market performance more frequently.

Consistently with the main research goals, authors analyzed the companies grouped according to the level of internationalization (global, regional, and local companies). The structure of the companies in the sample is shown in Figure 1.

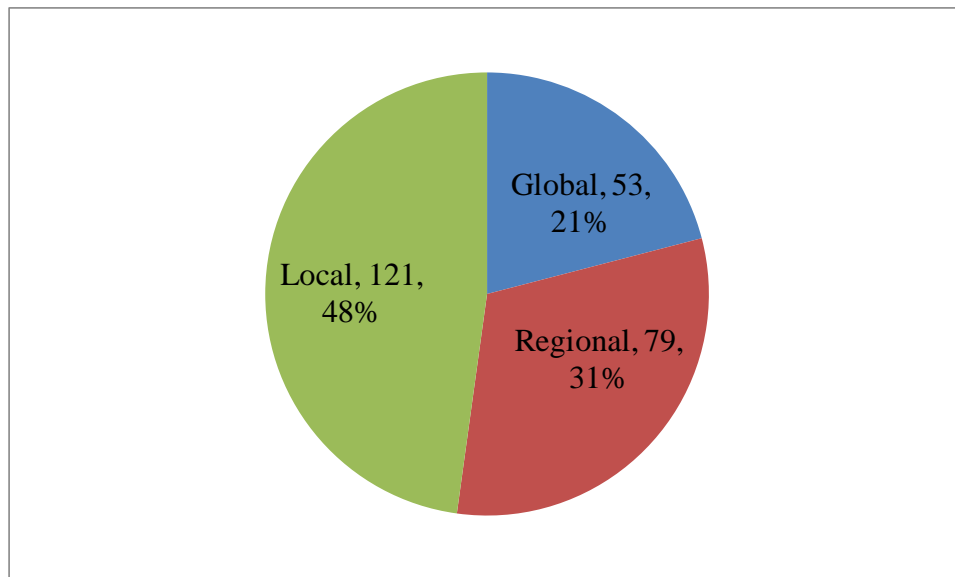


Figure: 1. Sample segmented by the level of companies' internationalization (source: own research)

The sample consisted of 31% of manufacturing companies, 64% of companies mainly or exclusively operating in the services sector, and 5% of companies equally engaged in manufacturing and service sectors. It should also be noted that 64% of the companies in the sample primarily operated in the B-to-C market and 36% in the B-to-B market.

4. Empirical Analysis

Analysis of variance (ANOVA) was used to determine whether the group means (global, regional and local companies) differ significantly. It proves that global companies have the highest level of all marketing mix capabilities and the best market performance (profitability), but a statistically significant difference is found in only two of the observed marketing capabilities: integrated marketing communications and sales (Table 2).

Table: 2. Marketing capabilities by the level of companies' internationalization (source: own research)

Company type		Pricing capabilities	Product capabilities	Distribution capabilities	Marketing communication capabilities	Selling capabilities	Profitability
Global	Mean	4.8538	5.1085	5.1761	5.0660	5.5849	5.3774
	N	53	53	44	53	53	53

Company type		Pricing capabilities	Product capabilities	Distribution capabilities	Marketing communication capabilities	Selling capabilities	Profitability
	Std. Deviation	1.12386	1.38111	1.20871	1.41943	.88392	1.16399
Regional	Mean	5.0696	5.0380	5.1595	4.8829	5.1190	4.7089
	N	79	79	58	79	79	79
	Std. Deviation	1.06212	1.22349	1.33007	1.33424	1.12888	1.52039
Local	Mean	5.0971	4.7893	5.0459	4.4174	4.7653	4.6116
	N	121	121	80	121	121	121
	Std. Deviation	1.12517	1.48078	1.42334	1.45000	1.19769	1.46840
Total	Mean	5.0375	4.9338	5.1136	4.6986	5.0474	4.8024
	N	253	253	182	253	253	253
	Std. Deviation	1.10535	1.38598	1.33869	1.43002	1.15729	1.45313

The existence of business objectives and monitoring of market performance in global, regional and local companies was analyzed via a chi-square test. A statistically significant difference was found when it comes to:

- defining profitability goals,
- the existence of market share growth targets,
- the existence of sales revenue growth targets.

When it comes to the frequency of market performance monitoring, statistically significant differences exist in the following areas:

- profitability,
- market share growth,
- sales revenue growth,
- sales to existing customers,
- sales to new customers.

In all these analysis, the order of companies in terms of the existence of certain goals (measures of market performance) and the frequency of their monitoring is identical: global companies are in the lead by all indicators, followed by regional companies, and local companies that lag behind (see Figure 2).

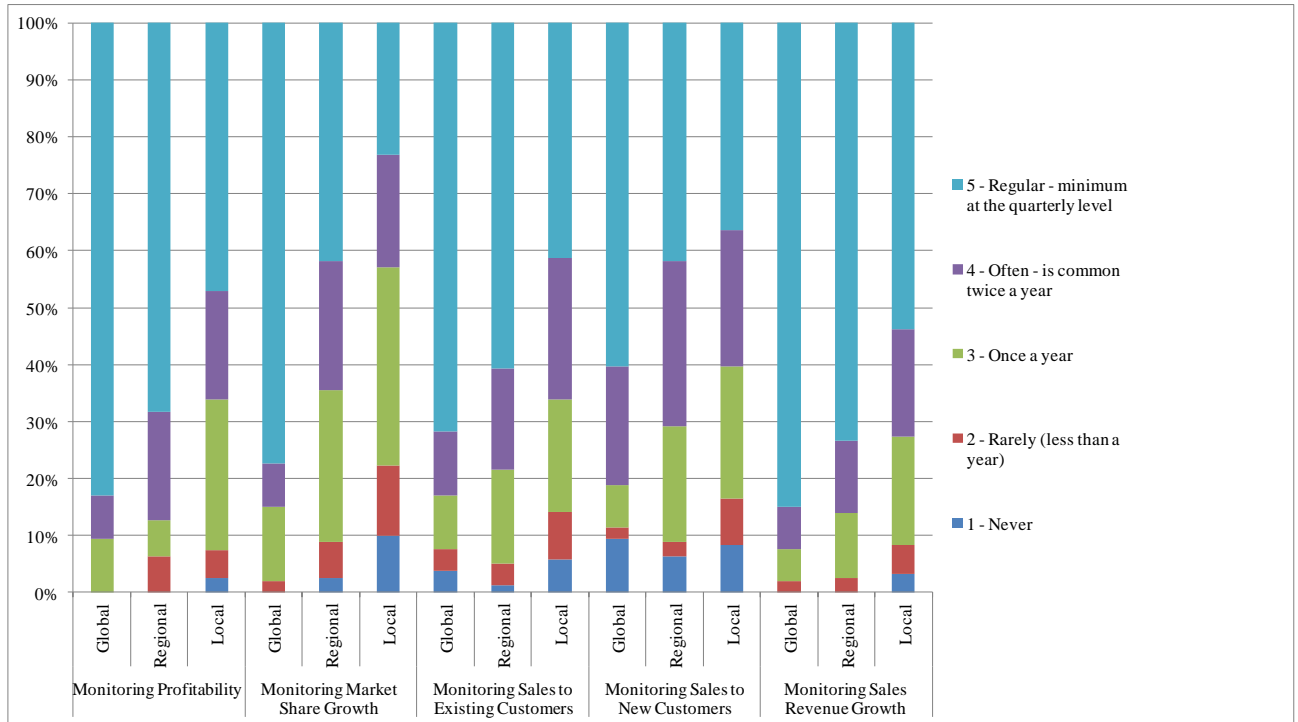


Figure 2: Frequency of market performance monitoring by the level of companies' internationalization (source: own research)

5. Conclusion

The initial goals of this research were to explore the difference in marketing capabilities between global, regional and local companies operating in Serbia. Five basic elements of a company's marketing programme (marketing mix) were tested, and statistically significant difference found in only two of them: marketing communications capabilities and sales capabilities. The findings reveal that global companies have the highest level of profitability, followed by the regional ones, while the local businesses lag behind both. The observed capabilities are not the only factor influencing profitability, but certainly the differential advantage of global companies and their better market performance, especially compared to the local ones, lie in marketing communications and sales. As regional, and especially local, companies often have limited budgets, which is reflected in both sales and marketing communications capabilities, they must contend with the stronger competition by stimulating creativity and the use of modern media and means of communication (such as online and mobile marketing). Also, other marketing capabilities must be exploited to the maximum, such as using the familiarity with the local market and the habits of local consumers, and creating a superior offer.

In addition, the authors investigated differences in terms of marketing goals and market performance measures, and the frequency of their monitoring. Differences between global, regional and local companies operating in Serbia exist when it comes to setting marketing goals, but they are especially visible in the manner and frequency of their monitoring. The global companies, i.e. their subsidiaries in Serbia, define a larger number of marketing goals, which means that local companies have to define and monitor a much larger number of market performance criteria. Differences in the frequency of monitoring market performance measures are especially noticeable. Therefore, it is necessary for the regional, and especially local companies, to adopt a different culture of observing and monitoring the criteria of market performance. In this way, these companies will be focused on key measures of market

performance, and thus better select and target segments with their marketing offer. In addition, more frequent and detailed monitoring of market performance measures will allow them to react in a timely manner and to know their position against the competition at any time.

The limitations of the conducted research, which can also be used as possible directions for future research, are primarily in the following: a relatively small sample; researching the impact of only five selected marketing capabilities; taking into account only subjective and not objective measures of market performance; observing the business practices of companies that operate in Serbia only.

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