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**THE PRIORITY DIRECTIONS
OF NATIONAL ECONOMY DEVELOPMENT**

**FINANCIAL IMPLICATIONS OF VALUE IMAGE OF COUNTRY
OF ORIGIN ON THE DEVELOPMENT OF THE NATIONAL
ECONOMY**

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***Abstract:** The study of the mutual influence of the image of the country of origin and brand or image of the company has so far in terms of research ended with the establishment of the existence of that connection primarily from the perspective of marketing. The effects of overflow have been also exhausted at the level of strengthening the brand products and consumer's perception about it. An analysis of the necessary policies aimed at strengthening the national brand that would make the basis for the effects on the wider economic base stayed behind. The subject of this paper is exactly to find an answer which are channels of influence of a positive image of the country in the economic structure that can activate a positive feedback between the national, corporate and even sectoral image. Using the positive experiences of transitional countries will show that the process of making a national brand of endogenous character that is not only dependent on isolated activities of individual companies.*

***Keywords:** brand, country of origin, goodwill, competitiveness, economic development.*

1. Introduction

The image of the state in modern international relations has an increasingly important role. It has been proved that the reputation of some country directly reflects on its

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status on the political and economic scene, primarily through the number of foreign tourists, the level of foreign investment, marketing of its products to foreign markets, the influence of the international forums and associations. In some cases, consumers do not know where a certain branded product was made. It is not important to them often. However, there are those brands whose label of country's origin and place of production can contribute to the bigger confidence of end consumers. The interdependence between the image of the country of origin and the image of brand exists when the essential characteristics of certain categories of products represent significant associations with the image of the country of origin. The value of the brand is the result of the consumptive perception that is conditioned by a number of factors. The value of the brand cannot be fully understood without a careful study of its sources, and that conduces to the contribution of factors that determine the value of the brand in the consumer's mind. Most of the research value of the brand focuses on the marketing mix variable such as advertising, distribution, price and product quality. However, not much attention was paid to non-marketing mix factors. Consumers do not only care about the quality and price of products but also about other factors such as the image of the country of origin in the process of purchasing. Many consumers use the image of the country of origin in order to evaluate such products e.g. the consideration of German car excellent, wonderful Italian pizza, Japanese reliable electronics etc.

2. The impact of the country of origin of the brand positioning

Many consumers believe that the "made in" label indicates the product is more superior or more inferior depending on what perception the consumers have of the country. The brand of the countries that have a favorable image generally finds their products more acceptable than those brands from countries with the less acceptable image. (Yasin, Noor, Mohamad 2012, 38)

The strategic implications of the image of the country of origin of the brand positioning can be the following: (Rakita, Mitrović 2007, 272)

1. **When there is a favorable interdependence** between the brand and the country of origin, the effect of the country of origin should be emphasized in branding and packaging of the product, because the consumers will react positively (e.g. a Japanese watch or German car), and it should be insisted on mutual promotion effect. At the same time, it is a good information and attractive area for direct investment and the opening of MNC production.

2. **When there is an unfavorable interdependence**, the information on the country of origin can be bad, so the branding is recommended, labeling and packaging of the product without emphasizing and highlighting the *made in* information. In this situation cooperation is recommended or joint investment with a partner who brings a favourable image of interdependence with himself (e.g. a cooperation of Serbian car manufacturer with a German partner). At the same time, it is a warning information that the company should work in cooperation with the state intensively and long-term on changing the existing stereotypes, prejudice or ideas about the country and its potential.

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3. **When there is a favorable neutrality** of the relation of the image, i.e. when the dimensions of a positive image of the country of origin are not essential features of a particular brand of production, the management can influence the change of the significance of certain image dimensions. It is generally recommended to promote those dimensions of a positive image of the country of origin which, at least indirectly, can be connected to the market position of a concrete brand because it is assumed that under other equal circumstances the information about *made in* that causes positive connotations can be significant.

4. **When there is an unfavorable neutrality** of the relation of the image, complete disregard is recommended, in business and marketing sense, information on the country of origin (*made in*). It is desirable that the manufacturer concentrates on his own image and the image of his product to the extent he believes in its market cogency and perspective, ignoring and concealing the label *made in*.

According to surveys of the 20 largest German exporters in 2015, the first position is occupied by the motor vehicle industry with a value of 156.2 billion US dollars. With respect to the well-known German brands *Audi*, *Mercedes-Benz*, *Porsche* and *Volkswagen*, it is not surprising that the cars are in the first position in terms of the value of export products of Germany. (www.worldstopexports.com) According to the Forbes list of the world's largest car manufacturers in 2015 *Volkswagen* occupies the second position with 9.930.600 produced units, while *Toyota* is in the first place with 10.08 million produced units. Although *Volkswagen* was the 14th on the list of the largest global companies, in 2016, it was in the 22nd position. (www.forbes.com) It is considered that fall of position was due to the scandal of the company because it was discovered in 2015 (*Volkswagen* confessed this) that a software was built in 11 million cars that were used to fraud tentative test, that now influences on the company's business. (www.nytimes.com) From the table No. 1 it is seen that Germany occupies the first position in the motor vehicle industry in the world. The second table shows that Germany in terms of value of national brand was in the third place in 2014 and in 2015, but there has been a decrease in value of 4%, which economists bring into correlation with the motor vehicle industry, concretely with *Volkswagen*, because its market capitalization was decreased from \$ 126 billion to \$ 73 billion. (www.forbes.com)

Table 1. The positioning of countries in the motor vehicle industry

Rank	Country
1	Germany
2	Japan
3	The USA
4	Italy
5	Great Britain

Source: www.consultist.eu

Table 2. Ranking of national brands in terms of value

Rank 2015	Rank 2014	Nation	National Brand Value 2015 (USDbn)	Change (%)	National Brand Value 2014 (USDbn)	Brand Strength 2015 (Rating)	Brand Strength 2014 (Rating)
1	1	US	19,703	2%	19,261	AAA-	AAA-
2	2	China	6,314	-1%	6,352	AA-	A+
3	3	Germany	4,166	-4%	4,357	AAA-	AAA-
4	4	UK	3,010	6%	2,833	AAA-	AAA-
5	5	Japan	2,541	3%	2,458	AAA-	AA+

Source: Nation Brands 2015, The annual report on the world's most valuable nation brands (www.brandfinance.com)

At the cognitive level, the image of the country of origin influences on the perception of product quality, functional attributes such as reliability, safety and performance. Emotional connotations associated with the corresponding image of the country of origin can give an appropriate personality, including psychological and social performance such as power, social status and lifestyle to the products. (Cristea, Capatina, Stoenescu 2014, 426)

The interaction of the brand and the country of origin is such that it can be said that the underestimation (depreciation), which is attributed to the origin from underdeveloped countries, less for those products of broad consumption that have a well-known brand, than for products that have a completely unknown brand name. If one accepts this hypothesis, then one can conclude that it is always worthwhile to invest in the creation and recognition of company name and product brand, regardless of where they come from. The question that remains, at the same time is following: can we count on the additional effect of a positive image of the country of origin or not? The relationship between the risk of production performance (quality of materials, design, production of knowledge and skills) and the image of the country of origin is especially actual for less developed countries, where it can be said that the degree of depreciation origin from developing countries increases with increasing the risk of production performances. (Rakita, Mitrović 2007, 274) The process of so-called decomposing national identity shows that the national image can change over time. They are not given once and for all. The process of changing and improving the national image in the world is a long and very expensive process. Thus, for example, Japanese products were experienced as cheap during the fifties, nowadays they are experienced as high-quality, high-tech and miniature ones. Before the special challenge of changing the image of national business, there are countries such as China, countries of Eastern and Central Europe, a group of Pacific countries and our country, of course. Generally, it can be said that companies from countries with the negative business image can have significant problems when competing on the world market, but it should not be a reason for their business, development and marketing passivation, but on the contrary. (Rakita, Mitrović 2007, 276)

3. Brands and market value of the companies

The goodwill in the finance and accounting means the difference between the value of the market capitalization of a company at a given time and its accounting established net assets. In business practice, it is the premium that the buyer pays above the net assets value of the company because of its reputation in the market.

The brand is the most valuable intangible assets and during the past decades managers in many companies included the development of the brand in the essential priorities. In particular, the question of branding is especially promoted and popularized in the eighties of the twentieth century. Without the brand product is functional but easily imitated (copied). The branding makes a new identity, which also promises to meet the needs of consumers. According to some data from 2010, Coca-Cola has the most valuable brand in the amount of \$ 70 billion, which represents approximately 47% of the market value (Hsu, Wang and Chen, 2013). Capraro and Srivastava (1997) calculated the ratio of market and bookkeeping value of 500 the richest companies and concluded that 70% of their market value is based on intangible assets. Several authors have indicated in their papers a significant positive relationship (relation) between brand value and ratio of the market and bookkeeping value of US companies engaged in the production and trade of broad consumption goods. It is noted that the value of the brand provides incremental information about the performances of the companies that can be helpful in making investment decisions. Nevertheless, it is difficult to determine the value of intangible assets and they are often undervalued. In the countries that are still in the process of transition and which have not managed to create a good business environment yet, where the purchasing power is small, generic production strategies are mainly present. This means that consumers are not willing to pay the cost of adding "emotional" value to products and therefore there is no major investment in making brand and creating additional value. Contrary to these markets in countries with sophisticated markets, companies decide to invest in making a brand. In this way, the value (priority) is made not only for brand owners and buyers, but also the value is „added“ for suppliers, investors and even the society (Denone, Saykiewicz, 2009). By creating a brand the buyer processes and identifies information more easily about the products and he can distinguish a single product in relation to the competition. The satisfied consumer usually repeats the purchase of the accepted brand which significantly shortens the necessary time for making purchasing decisions. Brands create benefits for employees because the work with well-known and recognized brand stimulates productivity, contributes to satisfaction and develops professional pride.

When we talk about the advantages that branding has within the company of the brand owner then we think that strong brands can lead to greater profitability and increased market share, that create an additional competitive advantage. The brand enables to establish a stronger position in dealing with intermediaries and reduces the risk of failure in distribution channels (Denone and Saykiewicz, 2009). A strong brand in a way extends the lifetime of a product by protecting enterprises from cyclical fluctuations. Achieving competitive advantage on the basis of branding, which is based on customer's loyalty helps companies to dominate the particular market category and to achieve profitability higher than the average. The competitive advantage that is made and rests on the brand is less sensitive to many crisis situations and there is a bigger possibility for such advantage to

survive hard times. Due to the existence of a strong brand that is conditioned by the loyalty of customers, the benefits are realized even in cases of decline in the quality of products or the introduction of a new product that does not have such success in the market. In terms of today's global companies and global markets in which the old image of the product is changed to the new brand image, it is particularly important to pay attention to the issue of consumer's brand loyalty and achieving and maintaining of competitive advantage. Intangible assets represent the most propulsive component of the asset. Investment in this type of assets is a basic indicator of the vitality of company and a key factor in its competitiveness (Matović, 2010). Valorization of the brand is important because it acts as a guideline for management to review the achieved results in addition to traditional business indicators such as market share and market position in relation to the competition. A good criterion of representation of intangible assets in companies is a high ratio of market and bookkeeping value that achieves a high value of current cash flows but also expresses big expectations from the effects that these assets will realize in the future. Nowadays, a relatively significant part of the assets of the companies are "intangible" assets, its share in the asset grows, but more attention should be paid to this issue (recognition and accounting records), bearing in mind that the recognition or non-recognition of intangible assets can influence on the property, the yield or financial position of the company (Popović, Gavrilović, 2012). The importance of the influence of the image of the country of origin on the ability to create a positive difference between the costs and the total realized revenue is recognized exactly in this segment. In other words, the added value is valorized by accounting through goodwill, that again, from the other side creates the basis for a competitive positioning and maintenance of the business subjects themselves. Financial and competitive implications of goodwill on a company's market position indicate the importance of making a national brand that would allow the overflow of positive effects on the micro level. The role of the state is recognized here as well, that should make a conducive environment for the composing production structure of a higher level of added value, that would provide a good reputation, financial - accounting objectified through goodwill at the level of the company. In the long run, this would result in the making a positive national image that would realize interaction with corporate one through the positive restoring connection.

4. Structural economic transformation to strengthen national brand

Causality between the national brand, on the one hand, and corporate image, on the other hand, shows a bidirectional character. Namely, the national image is created by companies doing business in a given country by creating its market and corporate identity on the international market and the perception of the country of origin. On the other hand, making a positive image, that gets the character of the brand depending on the development, through the effects of overflow encourages the creation of positive consumer's perception of companies that do business or they are parent located in the territory of the observed country. Hence, the relation between corporate image and the national brand has a form of interaction. Provided that we should have in mind that the effects of a positive image of the country strengthen the corporate brand and create the basis for a continual and sustainable form of competitiveness. Otherwise, when the country has a negative reputation, negative implications are perpetuated and they disable

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competitive transformation which is necessary for rapid development propulsion. Bad image influences so that each producer from such country starts the competition match in the international market an initial, and often insurmountable handicap. (Đerić, Balotić, Mlinarević, 2012, 1-19) From these reasons, the transformation of the image of the country from negative to a positive one is a complex and long process. In institutional term, it involves the construction of functional institute of a market economy that would generate the creation and development of competitive business subjects through which international market verification in the business sense would lead to a turn in the way of creating a positive value of national brand. The construction of these institutes should be followed by structural economic transformation so that change in perception of the country would be a final result. The success of the group of transitional countries: Poland, Czech Republic, Hungary and Slovakia gives us a very interesting and instructive experience. Namely, the mentioned group of countries began their process of transition with extremely negative perception about them, which was caused by the legacy of the socialist system in which they functioned prior without a little 50 years. Faced with such a situation the only way for the turn they saw was the change that would result in economic restructuring. Competitive fundamentally underdeveloped, these countries have spotted a chance in the change of fundamental economic structure. Competitive backwardness was reflected in inefficient and unproductive companies, of a low technological level and business sophistication. The changes embodied in the transitional algorithm are meant to create space for the development of companies that will strengthen the competitiveness with a tendency of its international verification in the market environment. Favorable circumstances as the proximity of industrially developed countries (such as Germany), could be developmentally valorized only with a successful transition. In this context, successfully implemented macroeconomic stabilization, as well as the processes of privatization and liberalization have constituted the healthy business environment that gave an impulse to the formation of companies of a higher level of competitiveness. Strengthening of the market competition, as well as an integration in the chain of making the value of industrially developed countries, channeled the corporate base in these countries towards sectors of higher added value and higher technological level. Making an image of a "transitional leaders" of this country has attracted a significant amount of foreign direct investment that has enabled further integration of their economic structures with industrially the most developed countries of Europe. Being part of supply chains has benefited Central Europe (CE) countries enormously. Over time, these countries have increased their domestic value added from exports in line with the increase in Germany and much more than in other European countries. While exports increased across all categories during 1995–2008 in CE countries, the increase in knowledge-intensive manufacturing sectors, namely machinery and transport equipment, was spectacular. Between 1995 and 2008, exports from these niche sectors multiplied many times over in these countries. (www.imf.org)

Transmission of these changes has the most influence on the expansion of exports. The four analyzed countries have become the countries with the most dynamic propulsion in the European frameworks.

Table 3. Foreign direct investment in transition countries

Country	Cumulative FDI in flows 1989-2008 (mln US dollars)	Cumulative FDI per capita in flows 1989-2008 (US dollars)
Poland	111,529	2,927
Czech Republic	75,226	7,287
Hungary	53,242	5,295
Slovakia	27,115	5,011

Source: Transition Report 2009, EBRD (www.ebrd.com)

Table 4. Exports of goods and services (% of GDP)

Country	Exports of goods and services (% of GDP)										
	Year										
	1990	2000	2006	2007	2008	2009	2010	2011	2012	2013	2014
Poland	26,31	27,21	38,20	38,82	38,32	37,58	40,03	42,54	44,42	46,30	47,45
Czech Republic	33,21	48,33	65,29	66,55	63,36	58,81	66,18	71,62	76,63	77,27	83,82
Hungary	...	66,81	74,31	78,33	79,69	74,82	82,30	87,23	86,82	87,96	89,25
Slovak Republic	25,03	54,07	81,27	83,50	80,24	67,83	76,55	85,27	91,79	93,84	91,85

Source: World Bank national accounts data, and OECD National Accounts data files (www.worldbank.org)

The contribution of export to the total economic development and competitive positioning is reflected in the best way through the growth of total industrial competitiveness of "transitional leaders".

In 1995, none of the four countries had a comparative advantage in knowledge-based manufacturing. By 2008, they all acquired such advantage in addition to retaining/improving their RCA in labor- and capital-intensive manufacturing. Strong and growing supply links with European hubs enabled these countries to move up the value ladder. (Rahman, Jesmin, and Tianli Zhao, 2013)

Table 5. Competitive industrial performance (CIP index), 1990-2012

Country	2012 Ranking	CIP Index 2012	2010	2005	2000	1995	1990
Poland	23	0.1806	24	28	33	37	51
Czech Republic	18	0.2215	19	22	24	28	25
Hungary	27	0.1578	26	24	27	36	36
Slovakia	25	0.1707	27	33	41	43	37

Source: Competitive Industrial Performance Report 2014, UNIDO (www.unido.org)

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Nowadays, these four countries are in the top 30 of the most developed industrial countries. Their industrial competitiveness manifests itself through products of the high technological level and added value. Data on the participation of export in GDP shows that they passed the test of the international market, and the competitiveness is a long-term and sustainable character. The success of "transitional leader" shows that the institutional development forms the basis for economic transformation, which can be a driving force to create a positive value of the national brand.

5. Conclusion

Previous studies have established the existence of an important connection between the image of the country and corporate image. One of the basic constructive components of the image of the country is the corporate reputation of companies from that country in the international market. In other words, it is not possible to have a good image of the country of origin without an internationally-established company with a positive reputation. However, it is necessary to effectuate the one at the micro level for the development valorisation of a positive image of the country of origin. The externality of the value of national brand must be transformed into some form of public good from which economy will have the most benefit. From this point of view, one of the key priorities of the state must be to create an environment that would allow such developments. It proved that market competition and the construction of other institutes of market economics provide within an economy, endogenization of the process of making more value-added speaking in financial or accounting vocabulary goodwill. The success of the countries in transition (Poland, Czech Republic, Hungary and Slovakia) speaks accurately in favour of the thesis that a proactive approach to institutional development leads to the creation of an economic structure that permanently changes the perception of the country. In this way, companies that come from these countries initially derive benefits for their own reputation and market positioning of the image of the country, in order to objectives this synergy later through a system of positive feedback. Although the process of making a positive image of the country is complex and demanding it has proved to be a key factor in creating a sustainable and long term both micro and macro competitiveness.

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FINANSIJSKE IMPLIKACIJE VREDNOSTI IMIDŽA ZEMLJE POREKLA NA RAZVOJ NACIONALNE EKONOMIJE

Apstrakt: Istraživanje međusobnog uticaja imidža zemlje porekla i brenda ili imidža kompanija do sada je u istraživačkom smislu završavalo sa ustanovljavanjem postojanja te veze pre svega iz ugla marketinga. Takođe efekti prelevanja su iscrpljivani na nivou jačanja brenda proizvoda i percepcije potrošača o njemu. Ono što je izostalo je analiza nužnih politika na planu jačanja nacionalnog brenda koji bi stvorio podlogu za efekte na širu privrednu bazu. Predmet ovog rada je upravo traganje za odgovorom koji su to kanali uticaja pozitivnog imidža zemlje na privrednu strukturu koji mogu aktivirati pozitivnu povratnu spregu između nacionalnog, korporativnog pa i sektorskog imidža. Koristeći pozitivna iskustva tranzicionih zemalja pokazaće se da je proces stvaranja nacionalnog brenda endogenog karaktera koji nije isključivo zavisano od izolovane aktivnosti pojedinačnih kompanija.

Ključne reči: brend, zemlja porekla, goodwill, konkurentnost, ekonomski razvoj.