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Marketing program standardization: A cross-country exploration

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Abstract

This study explores the antecedents and consequences of marketing program standardization in subsidiaries of multinational corporations by contrasting the case of a lead market (Japan) and of an emerging market (Turkey). The findings show that: (1) *marketing program standardization* is positively related to *performance* in Japan and Turkey; (2) *centralization of nonproduct decision* is negatively related to *performance* in both markets; (3) *customer similarity* is positively related to *marketing program standardization* in both Japan and Turkey. Whereas, in Japan, marketing program standardization has a direct, positive relationship to performance, in Turkey, in addition to such a direct effect, there is also an indirect effect at work, through centralization of nonproduct decision.

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1. Introduction

The globalization of the marketplace is forcing multinational companies to integrate their worldwide strategies. Some researchers have even suggested that being able to develop and implement an effective global strategy is the acid test of a well-managed multinational company (e.g., Yip, 1995). Because of its external focus on customers and competitors (Slater & Narver, 1995; Zou & Cavusgil, 2002),

marketing is well positioned to appreciate and exploit the benefits of globalization. As markets are quickly becoming “borderless,” marketing strategies that fail to recognize the similarities among markets can be at a competitive disadvantage (Levitt, 1983; Yip, 1995).

Marketing program standardization (MPS) is an important dimension of a global marketing strategy (see Zou & Cavusgil, 2002).¹ MPS is defined as the pursuit of similar marketing programs across different

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¹ A broad conceptualization of a global marketing strategy includes standardization of marketing programs, configuration and coordination of value-chain activities, and integration of competitive moves across markets as the three dimensions of a global marketing strategy (see Zou & Cavusgil, 2002).

countries or regions with regard to product offering, promotional mix, and price and distribution structure (Jain, 1989; Levitt, 1983; Szymanski, Bharadwaj, & Varadarajan, 1993). The standardization of marketing programs is viewed as a continuum with complete standardization and complete localization as the two extremes (Cavusgil & Zou, 1994; Özsomer, Bodur, & Cavusgil, 1991).

The pursuit of a standardized program is considered appropriate only to the extent that it has a positive relationship to performance (Levitt, 1983; Jain, 1989). Proponents of standardization believe that world markets are being homogenized by advances in communication and technology (Levitt, 1983). Preferences of customers in distant parts of the world are becoming similar and, in turn, these customers are demanding the same products (Jain, 1989). The convergence of cultures, similarity of demand, low trade barriers, and technological advances are enabling firms to sell standardized products using standardized marketing programs (Zou & Cavusgil, 2002). Depending on market conditions, the benefits of standardization in terms of performance include cost saving through scale economies in production, marketing, and R&D (Levitt, 1983; Porter, 1980; Yip, 1995); ability to exploit good products, ideas, and executions in multiple markets (Maljers, 1992; Özsomer & Prussia, 2000; Yip, 1995); enhanced customer preference through global recognition (Levitt, 1983); and consistency in dealing with customers (Zou & Cavusgil, 2002). However, some studies have cautioned that pressures for global integration are often misinterpreted and that subsidiaries frequently adopt programs that are either too standardized or too localized (Birkinshaw, Morrison, & Hulland, 1995; Douglas & Wind, 1987; Yip, 1995).

The relationship between *marketing program standardization* and *performance* is of interest to both practitioners and academics because it goes to the heart of what often does, and does not, work well in subsidiary markets. Should Starbucks enforce its nonsmoking store policy internationally? Can Swatch sustain the same pricing policy worldwide? While much has been written on the promises and pitfalls of *marketing program standardization*, the majority of published work is conceptual, or based on anecdotal evidence. Surprisingly, few empirical research works that document the relationship between a standardized

marketing program and performance exist. The bulk of empirical research has examined standardization with respect to *individual* marketing mix elements (e.g., advertising content, brand name, distribution channel, and pricing), with advertising receiving the greatest coverage (Jain, 1989). Among the few studies that have investigated environmental and organizational contingencies empirically (e.g., Cavusgil & Zou, 1994; Özsomer & Prussia, 2000), there is limited and often conflicting evidence regarding performance outcomes of standardized marketing programs. For example, Kotabe and Omura (1989) find that businesses with standardized products perform better in terms of market share and profit performance than businesses that adapt products to different market conditions. Likewise, Szymanski et al. (1993) find that businesses are better off standardizing their strategic resource mix across Western markets. In contrast, in the export marketing context, Cavusgil and Zou (1994) uncover a positive relationship between product adaptation and performance. Finally, Samiee and Roth (1992) find no significant relationship between standardization and a firm's performance. Despite continued interest in the topic, the issue remains unresolved.

Standardization cannot occur without centralization of marketing decisions (Daniels, 1987). Centralized marketing decision making is necessary to implement a standardized marketing program (Özsomer & Prussia, 2000). In one of the earlier studies, Aydin and Terpstra (1981) report that multinational corporations (MNCs) with the standardization–centralization approach tend to do more marketing know-how transfers than those with a decentralized adaptation approach. In another study, Özsomer et al. (1991) found the level of marketing standardization to be highest when the head office provided strong directions for marketing decisions.

We aim at making a contribution to this literature by considering both marketing program standardization and centralization of marketing decision simultaneously. By primarily focusing on the standardization of marketing while ignoring centralization of marketing decision, past research fails to capture the underlying complexities between marketing programs and marketing decision making: how they are related to internal and external forces and how they are related to performance. In contrast, this study not only

recognizes the pertinence of centralization of decision making, but it also refines the concept into two distinct classes of operations: product and nonproduct decisions. We believe that the omission of marketing decision centralization and the lack of distinction between product and nonproduct decision centralization are, indeed, two main sources of inconsistent findings in previous research works. To the best of our knowledge, this research is the first designed to analyze the relationship between *marketing program standardization* and *centralization of product and nonproduct decisions* separately. By teasing out the effects of these distinct relationships, we hope to contribute to a better understanding of marketing standardization in the subsidiary context.

Beyond reconciling the effects of centralization of decision making and standardization of marketing programs on performance, this study also accounts for the role of *customer similarity* and *market infrastructure similarity* as key antecedents of standardization. Thus, we focus on the decision to standardize or localize in a host country market by investigating performance implications in a single subsidiary market. We then empirically determine whether the pattern of these relationships is similar in a different subsidiary market. This focus on individual subsidiary markets, rather than looking at all subsidiaries simultaneously, enables us to cross-validate our model in a multicountry context. It also enables us to understand if and how the host country environment matters.

To address these issues, the current study is centered on the case of the subsidiaries of American and European multinational companies operating in both a lead market (Japan) and an emerging market (Turkey). The selection of these two relatively under-researched, yet diverse, subsidiary markets (Japan and Turkey) offers a pertinent contrast for this initial study of a programmatic stream of research directed at better understanding external market conditions and internal firm resources as drivers of superior performance in subsidiaries of MNCs.

2. Theoretical background and hypotheses

As stated previously, this initial study focuses on only one dimension of global marketing strategy—

standardization of the marketing program. The study of the other two dimensions, configuration and coordination of value-chain activities and integration, goes beyond the scope of this research; it would necessitate a different research design, including an additional data collection at head office level. Nevertheless, the theoretical foundations of global marketing strategy can be used for a better understanding of the antecedents and consequences of marketing program standardization.

With few exceptions, most of the earlier studies on marketing standardization lacked a clear theoretical basis. Fortunately, a review of more recent works on the topic reveals the influence of the industrial organization (IO) theory in explaining the relationship between marketing standardization and performance (e.g., Cavusgil & Zou, 1994; Zou & Cavusgil, 2002). The IO theory focuses on the external market environment to identify drivers of a firm's strategy. A firm's performance, then, is determined by its strategy (Hout, Porter, & Rudden, 1982; Porter, 1980). The basic organizing paradigm of IO is the structure–conduct–performance (SCP) framework (e.g., Lipczynski & Wilson, 2001; Scherer & Ross, 1990). Such a model examines competitive conditions in industries by focusing on how the structure of industry/market relates to the behavior and performance of firms.

Under IO theory, the principle of strategy–environment coalignment states that the “fit” between a firm's strategy (conduct) and its environment (structure) has significant positive implications for firm performance (Venkatraman & Prescott, 1990). Strategy is conceived as a firm's deliberate response to the external market environment. The external market poses selective pressures to which a firm must respond by designing a suitable strategy (Conner, 1991). If the strategy designed by the firm fits the requirements of the market, the firm will be rewarded with survival and enhanced performance. In the IO framework, the primary antecedent of performance is a firm's strategy and the primary driver of the firm's strategy are external industry/market forces.

In the standardization literature, emphasis on the external industry environment has emerged at the expense of analyzing other internal conduct variables as determinants of the firm's strategy and

performance. For instance, Cavusgil and Zou (1994) and Collis (1991) acknowledge that organizational structure and processes should be derived from, and aligned with, a standardized marketing strategy. On the one hand, standardization is driven by external market forces (Yip, 1995); on the other hand, a firm’s conduct enhances or constrains a firm’s ability to implement the chosen strategy (Barney, 1989; Barney, 1991; Porter, 1980). Thus, both external market drivers and other conduct variables, such as centralization of marketing decisions, need to be integrated into models aimed at explaining the role and influence of marketing standardization.

Such a conceptual model of marketing program standardization based on the IO’s SCP framework is presented in Fig. 1. The proposed framework postulates that the pursuit of *marketing program standardization* is driven by external market characteristics capturing the structure of industry (*customer and market infrastructure similarity* in the model). The *performance* of a subsidiary, in turn, is driven by conduct, captured by both the *standardization of marketing strategy* and the *centralization of marketing decision making*. In contrast to previous studies on marketing standardization, which postulate only direct relationships between marketing strategy and performance most

of the time, the present study posits that in addition to this direct effect, there are also indirect effects through other conduct variables, namely, *centralization of product and nonproduct decisions*. More generally, our model highlights the process by which superior performance arises from the fit and interplay among the market environment, marketing program standardization, and the centralization of marketing decision in subsidiaries. While the individual importance of each of these variables has long been recognized, their simultaneous effects have yet to be examined and assessed empirically. The following sections expand on each of these constructs and their expected interrelationships.

2.1. Customer similarity, marketing infrastructure similarity, and MPS

A subsidiary must be responsive to the demands imposed by market forces such as customers and market infrastructure in each country location (Roth & Morrison, 1992). When the markets are similar in terms of customers (Levitt, 1983; Yip, 1995) and infrastructure (Jain, 1989), it is feasible and advisable for a firm to standardize its marketing program. We define customer similarity as the level of similarity in customers with regard to the target markets, product/

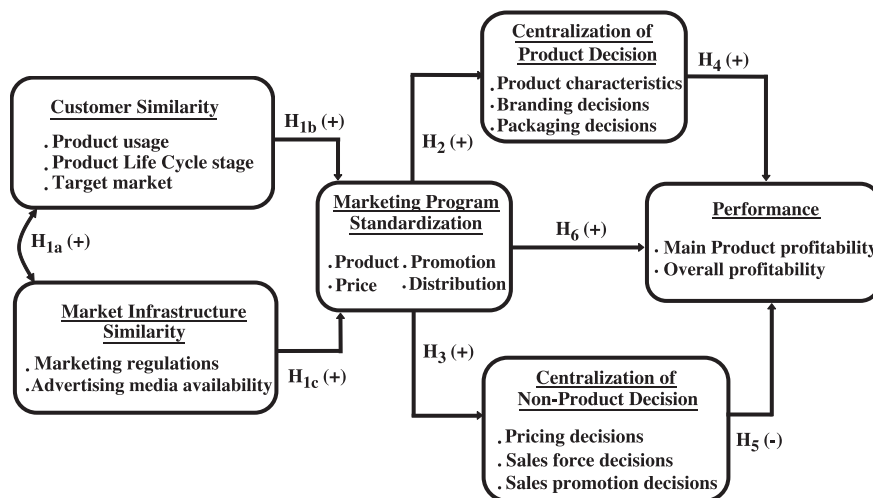


Fig. 1. Conceptual Model of the Impact of Marketing Program Standardization on Subsidiary Performance.

service usage, and stage of product life cycle between the market of the subsidiary and the head office or the market that influences standardization and centralization in the subsidiary (Jain, 1989; Levitt, 1983; Özsoyer & Prussia, 2000).² Customer similarity implicitly captures the identification and selection of an intermarket segment between the host and the reference market (Jain, 1989). When a subsidiary has similar customers, it is acting on, or exploiting, this homogeneous demand (Levitt, 1983). Market infrastructure similarity is defined as the similarity in marketing regulations and advertising media availability again between the host market and the reference market.

The feasibility of standardizing the marketing program is situation-specific, requiring reference to a particular target market for a particular product (Jain, 1989). According to Jain, researchers have examined the standardization issue, either explicitly or implicitly, with reference to advanced countries, especially Western Europe and the United States. Increasing similarity of consumers in these markets made standardization feasible. Since marketing mixes are developed to fit the needs of targeted customers, in this case, customers who are becoming more similar, a positive relationship is expected between *customer similarity* and *marketing program standardization*. Longitudinal empirical evidence is provided by Özsoyer and Prussia (2000), who found a significant positive relationship between target market similarity and marketing standardization; the relationship was robust and stable over time.

The importance of the external subsidiary market can be also explained with Porter's (1985, 1990) approach to competitive advantage. Porter suggests that exposure to demanding customers generates changes in the market infrastructure of the subsidiary market. For example, the emergence of an affluent middle class was associated with significant changes in the retail structures (more supermarkets, hypermarkets, discount retailers, and convenience stores), in countries ranging from Mexico to Brazil, and Turkey.

Pressures from similar customers and similar infrastructure, in turn, force firms to upgrade their capabilities. In the case of subsidiaries, similarities in the external environment in terms of customer trends and preferences, and regulatory shifts in the local environment compel subsidiaries to upgrade their marketing programs, making them more similar to each other. For example, the concept of "satisfaction guaranteed, or your money back" emerged in Turkey in the early 1990s after customers started demanding the same "rights" that they observed in other markets. Thus, if customers and the market infrastructure do not vary so much between the markets of interest, standardizing the marketing program may be worthwhile. Therefore, we expect the following relationships:

H_{1A}. There is a positive correlation between customer similarity and marketing infrastructure similarity.

H_{1B}. There is a positive relationship between customer similarity and marketing program standardization.

H_{1C}. There is a positive relationship between marketing infrastructure similarity and marketing program standardization.

2.2. MPS, centralization of product decisions (CPDs), and centralization of nonproduct decisions (CNPDs)

Under IO theory, centralization of marketing decisions is regarded as a conduct variable, and, as such, is related to the performance of subsidiaries. Degree of centralization refers to the amount of responsibility and authority retained by the head office (Flippo, 1966). Sundaram and Black (1992) define centralization as the control of the parent over the subsidiary by concentrating crucial decisions at the head office. In this paper, we define centralization as the degree to which the head office or reference office retains marketing-related decision-making authority. When centralization is low, the extent of participation of subsidiary members in marketing decision making is greater than when centralization is high. Greater centralization produces uniformity of policy and action, lessens risk of errors by subsidiary personnel who may lack either specialized information or skills, and enables closer control of subsidiary operations.

² The informants were asked to identify the market or region that affects decisions regarding MPS in the subsidiary market: we called this the reference market/office.

In the Chandlerian (1962) tradition, firms first formulate the appropriate strategy (i.e., marketing standardization) and then develop capabilities (i.e., centralization) to enable implementation. In the literature, a modest but growing body of empirical evidence supports the view that standardization is accomplished *through* a tight linkage of decision making (centralization) between the subsidiary and the head office. In their empirical research on global strategies of MNCs, Johansson and Yip (1994) compared alternative model specifications and found the strategy–management capabilities sequence to have a slightly better fit than the management capabilities–strategy sequence. In a more recent article, Özsomer and Prussia (2000) investigate the causal ordering between marketing standardization and marketing centralization as determinants of performance in subsidiaries using longitudinal data. These authors find support for the “marketing centralization follows marketing standardization” causal sequence.

Hence, centralization of marketing decisions has been linked to marketing program standardization for a long time (e.g., Doz, 1980; Jain, 1989). A key rationale is that the implementation of a standardized strategy necessitates strong control and coordination between head office and subsidiaries. When MNCs standardize marketing programs, they also want to control all related decisions such as those pertaining to the brand and product itself, pricing, and possibly sales promotions in the subsidiary market. This is a “global strategy” argument.³ MNCs that implement standardized marketing programs want to protect and defend their product formulations, brand names, packaging, pricing, and other marketing mix elements by tightly centralizing decision making to control the positioning in the local market. Thus, marketing program standardization is expected to be associated with higher levels of centralization of product decisions and centralization of nonproduct decisions.

In terms of separating product decisions from nonproduct decisions, in an earlier study, Aylmer (1970) found that while local managers were responsible for 86% of advertising decisions, 74% of the pricing decisions, and 61% of the channel decisions, product-related decisions were made primarily at the

head office. Brandt and Hulbert (1977) replicated Aylmer’s results. Thus, we separate product decisions from nonproduct decisions to identify and capture potential different processes at work:

H₂. There is a positive relationship between marketing program standardization and centralization of product decisions.

H₃. There is a positive relationship between marketing program standardization and centralization of non-product decisions.

2.3. Centralization of product decisions and performance

There is some empirical evidence that centralization of marketing decision making mediates the influence of marketing standardization on subsidiary performance (Özsomer & Prussia, 2000). However, the influence is expected to be different for product-related decisions. We expect a positive relationship between *centralization of product decision and performance*. Products are the most important assets of MNCs that can be exploited in multiple markets; in particular, one can think of the role of brands and brand equity that can be leveraged and need protection across countries. As noted by Kochan (1996, xii), “the brands most admired... are global brands.” When head office management gets involved in product decisions in the subsidiary market, there is a positive payoff. For example, Yip (1995) argues that product (marketing) standardization reduces costs and may lead to better quality. Both reduced costs and enhanced quality improve performance. More recently, Steenkamp, Batra, and Alden (2003) show that global (as opposed to local) brands are associated with higher purchase intentions due to associations with quality, prestige, and globalness per se. Thus, consumer demand for global products (brands) is higher, which should also positively impact performance. It is of fundamental importance for MNCs to tightly control these product-related matters by centralizing decision making in the head or regional office, and this centralization should contribute to enhanced performance at the subsidiary level. Product management in subsidiaries requires a close central-

³ We thank a reviewer for this helpful comment.

ization at the head office, particularly when the marketing program is standardized. Accordingly:

H₄. There is a positive relationship between centralization of product decisions and subsidiary performance.

2.4. Centralization of nonproduct decisions and performance

Even with a standardized marketing program, decisions regarding pricing, promotion, sales force, and distribution are decisions that need to be updated more frequently. Hall and Saias (1980) predict that when important decisions are made by top management (i.e., head office managers), those who have the best knowledge of the market (i.e., subsidiary managers) cannot decide or act. Inevitably, many errors are made and centralizing such decisions is expected to lead to a decline of performance in the subsidiary market (Hill & Pickering, 1986). Indeed, with centralized decision making, there are extensive information flows to the head or regional office managers, which may limit these managers' time and objectivity, making it more likely for them to overlook opportunities in the subsidiary's market (Williamson, 1975). Furthermore, head office managers may not fully understand differences and complexities in subsidiary markets (Pralahad & Doz, 1981), particularly in the case of nonproduct decisions, which involve local collaborators beyond the subsidiary and, a priori, need more decentralization.⁴ For example, pricing decisions may need frequent updating in response to local competitor actions. Sales force management decisions should reflect local labor, payroll, and human resource management practices. Sales promotion decisions require collaboration with local retailers and distributors. When nonproduct decisions are taken by head office management, there is little room for maneuvering left to subsidiary management. Thus, when head office managers get involved in nonproduct decisions, a negative impact on performance can be expected.

Moreover, research in marketing suggests that greater centralization increases levels of alienation, lowers the degree of participation in decision

making, and inhibits the healthy exchange of ideas and constructive criticism within the organization (Barclay, 1991; Ruckert & Walker, 1987). Similarly, in the information use literature, centralization is found to inhibit information utilization (Deshpandé & Zaltman, 1982) and to be a barrier to market intelligence generation and dissemination (Jaworski & Kohli, 1993). Increased nonproduct centralization can also lead to a decline in strategic awareness and understanding in the subsidiary where strategies are implemented. Thus, we propose the following hypothesis:

H₅. There is a negative relationship between centralization of nonproduct decisions and subsidiary performance.

2.5. Marketing program standardization and performance

Marketing program standardization is posited in our model as a key determinant of subsidiary performance. As stated previously, the standardization decision is situation-specific, requiring reference to a particular market for a particular product. Therefore, for our model, performance is captured at the local subsidiary level.

In a comprehensive review of the marketing and international business literature on the standardization–localization debate, Shoham (1995) reports the presence of inconsistent empirical findings at all levels: for the overall effect of standardized marketing on performance as well as for the impact of the individual elements of the marketing mix on performance. In light of the scarcity of empirical work, however, one must recognize that the pursuit of a standardized marketing program by itself is generally considered to have a direct positive influence on performance (Jain, 1989; Samiee & Roth, 1992), independent of any effects via centralization. Several reasons are offered for this association. First, marketing program standardization can yield economies of scale and scope in R&D, manufacturing, and marketing (Yip, 1995). Second, standardization speeds up a product's (brand's) time to market by reducing time-consuming local modifications (Neff, 1999). Thus, we expect marketing program standardization to positively influence performance through the deployment

⁴ We thank a reviewer for this helpful comment.

of superior marketing programs and proven ideas, and to exploit enhanced customer preference at a fraction of the cost of developing them independently.

There is also some indirect support for the performance benefits of standardization from the global strategy research stream. Johansson and Yip (1994) find a consistently significant and positive linkage between global strategy and performance, although at the general MNC level. More recently, Zou and Cavusgil (2002) find a significant positive relationship between the broader concept of global marketing strategy and global financial performance, again at the MNC level. Furthermore, where the level of standardization is properly aligned to fit the external market environment in terms of customer and market infrastructure similarity, on the basis of the principle of fit, under IO theory, we expect a payoff in better performance:

H₆. There is a positive relationship between marketing program standardization and subsidiary performance.

3. Method

3.1. Setting

An externally valid model of marketing program standardization requires that the validity of conceptual models developed in one environment be examined in other environments as well. The call by MSI/IJRM reflects the need to develop and test models outside the United States and Europe (Dekimpe, 2002). Thus, our study includes respondents from subsidiaries operating in two very different markets: Japan as a lead, industrialized market, and Turkey as one of the 10 major emerging markets as identified by the US Department of Commerce (see Garten, 1997). The importance of studying Japan as a host market is obvious, with its ranking as the second largest market in the world and the long history of American and European foreign direct investment (FDI) in Japan. In the context of MNC subsidiaries, Turkey is also a fertile and representative country with a long history of FDI. Unlike Eastern European countries that have only recently opened to FDI from the United States and Western Europe, major MNCs including Asea Brown Boveri, Bayer, Coca Cola, Colgate Palmolive, Henkel,

Goodyear, Novartis, Roche, Pepsi, and Unilever have been operating in Turkey since the late 1950s and early 1960s. The large size of the local market, ease of repatriating profits, growth rate of the economy, and government policy toward FDI have been identified as the most important location-specific factors for Western MNCs engaging in FDI in Turkey (Tatoğlu & Glaister, 1998). These subsidiaries have accumulated a rich repertoire of experiences and successful strategies in the Turkish market. The long history of MNC subsidiaries in Turkey is reflected in examples of academic works that focus on these subsidiaries (e.g., Aydin & Terpstra, 1981; Tatoğlu & Glaister, 1998).

Japan and Turkey vary significantly in terms of religious and cultural background, as well as GDP per capita (US\$24,900 vs. US\$6800 respectively), population size (127 vs. 66 million), industrial development (e.g., percentage of labor force in agriculture: 5% vs. 38%), inflation rate (−0.7% vs. 39%), imports from the United States (US\$67 billion vs. US\$4 billion, or 19% vs. 7.2% of total imports), imports from the European Union (about US\$30 billion for Japan and Turkey, but representing, respectively, 14% vs. 53% of total imports), and communication infrastructure (e.g., televisions: 86 vs. 21 million; radios: 120 vs. 11 million; Internet users: 27 vs. 2 million).⁵

3.2. Measure development

Measures for most of the constructs we are examining are available in the literature. Customer similarity and marketing infrastructure similarity were measured by subsets of Sorenson and Wiechmann's (1975) scale, while marketing program standardization was measured with a 12-item scale based on the scales of Szymanski et al. (1993) and Özsomer et al. (1991). The scales for centralization of product and nonproduct decisions were adapted from Brandt and Hulbert's (1977) and Özsomer and Prussia's (2000) studies. Most of the items in the questionnaire followed seven-point Likert-type statements (reverse-coded where appropriate). In an effort to enhance face validity, the initial pool of items intended to measure the separate constructs in the study was qualitatively evaluated by separate panels of four executives from three subsidiaries in

⁵ Statistics representing actual figures and estimates for 2000 from *The World Factbook*, CIA.

Japan and two in Turkey (20 executives in total). Finally, an advanced version of the questionnaire was pretested via face-to-face interviews that lasted approximately 75 minutes each, using a convenience sample of 26 foreign subsidiaries in Turkey. As a result, and similar to Hewett and Bearden (2001), some final modifications mostly pertaining to clarity and format of the instructions were performed.

We used questionnaires in English that were virtually identical for the Japanese and Turkish business units (BUs). The questionnaire design, implementation, and conduct of the overall survey followed the total design method (TDM) approach (Dillman, 1978). No translation was attempted because the executives who participated in the panels conducted in Japan and Turkey assured us that top-level foreign or local managers were used to conducting business in English and that, for some of the marketing terminology used in the questionnaire, terminology did not exist in the local languages. Furthermore, more than half of the respondents in both countries were expatriate managers (managers coming mainly from the United States and Western Europe). The remaining managers, although local, had significant experience in other subsidiaries of the MNC (such rotation among country locations was a prerequisite for promotion to top-level management in subsidiaries).

3.3. Samples and data collection

For this study, the population consisted of large and medium-size US and Western European multinationals operating in Japan and Turkey. The BU, as opposed to the subsidiary as a whole, was selected for analysis because most subsidiaries are so diversified that their various BUs may face a different market environment, have different internal resources, and pursue different levels of marketing standardization. A focus on the subsidiary broadly defined would introduce measurement errors and possibly invalidate the research results.

The questionnaire also prompted respondents to name the BU's main product or product line, and to focus their attention on it when answering questions pertaining to constructs in our model (customer and infrastructure similarity, marketing standardization, centralization, and performance). Since this study is concerned with the *actual level* of marketing program

standardization and *practiced* level of centralization rather than with ideal levels of these constructs, respondents were given instructions reminding them to consider the current state of their operation and encouraging them to answer factually. That is, the data collected are representative of managers' perceptions of actual use and practice.

3.3.1. The Japanese sample

In Japan, the directory published by the American Chamber of Commerce was used as the sampling frame. The American Chamber of Commerce in Japan counts over 2400 members (representing over 750 domestic and foreign companies) identified by their full name, title, company, responsibilities, and corporate contact numbers and address. From this directory, 223 distinct BUs from US and Western European multinationals involved in the manufacture of tangible products and delivery of services in Japan were identified with a list of potentially qualified respondents. As mentioned before, these targeted respondents were the foreign subsidiary's top-level managers and executives (identified as presidents, general managers, vice president of marketing, or marketing directors in the directory). When possible, multiple respondents were considered and targeted for a given BU. As a result, 515 executives (representing 223 BUs) were contacted by mail with a copy of the questionnaire and a personalized cover letter outlining the nature of the study and its confidential nature. Several executives personally called and faxed back early on with some favorable comments and leads to other decision makers in the organization, some even stating "...this (research) captures the reality of our business."

The initial and follow-up mailings yielded a total of 173 completed questionnaires representing 123 distinct BUs or 55% of the originally targeted BUs.⁶ For about one third of these BUs, we obtained questionnaires from multiple respondents. Two anony-

⁶ Consistent with Hewett and Bearden's (2001) adaptation of TDM to account for lengthier response cycles due to international mailings, we delayed sending the reminder text as well as the second and third wave follow-up mailings with replacement questionnaires by 2 weeks with respect to Dillman's (1978) recommended schedule. We also replaced the traditional reminder postcards with personalized reminder letter faxed directly to the key informants, capitalizing on the speed, pervasiveness, and directness of this communication channel.

mous questionnaires were discarded, leading to a total of 171 usable responses and an effective response rate of 33%. This level of participation is consistent with past research using similar data collection (e.g., Hewett & Bearden, 2001; Zou & Cavusgil, 2002). The majority of the respondents were top decision makers in a key subsidiary of some of America's and Europe's largest multinationals: 41% were presidents and general managers, 26% were marketing directors and VPs, 10% were senior product and category managers, while the remaining were sales, new business development, and strategic planning managers. These respondents averaged over 12 years of experience with the company and 6 years of experience in the Japanese subsidiary. Half of the subsidiaries had been established in Japan for more than 22 years. The median number of employees at the subsidiary was 200, while the median number of expatriates was 2. Nineteen broadly defined industries were represented, with chemicals and pharmaceuticals (23%), medical and measuring equipment (20%), and general consumer products (8%) as leading categories.

3.3.2. The Turkish sample

The proprietary list of the Association for Foreign Capital Coordination (YASED), which covers all foreign firms operating under the law of Foreign Capital Encouragement, provided the sampling frame used for selecting the relevant subsidiaries of American and European multinationals operating in Turkey. Two hundred BUs located in Istanbul, the commercial capital, were identified using the same selection criteria as in Japan. In conducting cross-cultural research, it is important to assess the appropriateness of the data collection methodology before data collection begins. Prior experience of the researchers showed that, in Turkey, in comparison to Japan, it was very difficult to secure the participation of top executives via mail surveys. Consequently, as suggested by Craig and Douglas (2000), the survey administration technique was adapted to the cultural context to establish comparability. That is, in line with Hewett and Bearden's (2001) approach, participation of the targeted respondents and identification of other proper contacts were secured via an initial round of personal phone calls before sending the first wave of questionnaires. This process resulted

in the identification of 253 qualified respondents representing 120 distinct BUs for the mail survey.

The mail survey was conducted in a similar fashion to the one in Japan. It resulted in a total of 180 completed questionnaires, for a 71% response rate. This response rate is unusually high, reflecting the amount of effort invested into eliciting response. These responses covered 99 identifiable BUs, or 82% of the BUs that had agreed to participate in the study after our initial phone call. We obtained questionnaires from multiple respondents of a same subsidiary for about half of these BUs. Again, respondents were top-level decision makers: 20% were presidents and general managers, 33% were marketing directors and VPs, and 18% were senior product and category managers, while the remaining were sales, new business development, and planning directors or managers. These respondents averaged about 8 years of experience with the company and 5 years of experience in the Turkish subsidiary. Half of the subsidiaries had been established in Turkey for more than 10 years (vs. 22 years in Japan). This difference between the two country samples reflects the more recent opening of Turkey to FDI relative to Japan, and the existence of international product life cycles (see Terpstra & Sarathy, 2000); it is consistent with structural differences expected between a lead market and an emerging market. The median number of employees at the subsidiary was 400 while the median number of expatriates (2) was the same as in Japan. Chemicals and pharmaceuticals (18%), general consumer products (18%), and food and drinks (16%) were the most represented industries.

In both samples, we assessed potential nonresponse bias by comparing the characteristics of the responding and nonresponding BUs, as well as the early and late respondents (Armstrong & Overton, 1977). The calculated *t* test for number of employees, sales volume, and age of the company revealed no statistically significant differences between responding and nonresponding firms. Likewise, wave analysis suggested no significant differences on the study variables.

3.4. Instrument and measures

For each construct, the list of measurement items and their wording in the questionnaire are given in

Appendix A. Likewise, the scale reliabilities and means are reported for both the Japanese and Turkish samples, including related *t* tests capturing possible differences of means across the two samples. Appendix B presents the corresponding correlation matrix for the main analysis.

3.4.1. Customer similarity and market infrastructure similarity

As seen in Appendix A, customer similarity was measured with three items (product usage, PLC stage, and target market), and infrastructure similarity with two items (marketing regulations and advertising media availability). The original items were adapted from Sorenson and Wiechmann's (1975) and Jain's (1989) studies. These authors use the dimensions of target markets, and marketing rules and regulations to evaluate the degree of similarity between markets. Respondents evaluated how similar these various conditions were in their respective countries in comparison to the parent company's home market or the reference market.

3.4.2. Marketing Program Standardization

Three multiple-item first-order scales designated as Product (three items), Promotion (five items), and Distribution (three items) and one single-item measure for Price were used. Marketing program standardization was measured with respect to the key product (product line) selected by the informant for this survey. At first, a total of 12 indicators was used to assess the extent of standardization of the marketing program (Özsomer et al., 1991; Sorenson & Wiechmann, 1975; Szymanski et al., 1993). Given the product (product line) under scrutiny, respondents were asked to evaluate how similar the elements of the marketing mix were in their own market (i.e., Japan or Turkey) in comparison to the home or reference market. Greater perceived similarity indicates that a more standardized marketing program was implemented.

3.4.3. Centralization of product decisions and centralization of nonproduct decisions

The items used to measure centralization of product and nonproduct decisions were adapted from Brandt and Hulbert's (1977) study. Centralization of product decisions was captured by three items: product

characteristics, branding, and packaging. Likewise, nonproduct centralization was measured by three items: pricing, sales force, and sales promotion. Again, centralization was measured with respect to the key product (product line) selected by the respondent for this survey. These measures capture the involvement of head office or reference market managers in the decisions pertaining to the subsidiary's marketing mix and the influence these managers exert on the marketing activities performed in the local market. Under this view, centralization of marketing decision making involves all aspects of the marketing mix.

3.4.4. Performance

Two self-reported indicators (main product line profitability in subsidiary market; and BU's overall profitability in subsidiary market) were used to assess business performance. Subjective measures of performance were chosen because: (1) objective performance measures were virtually impossible to obtain at the BU level because the majority of the subsidiaries under consideration are privately owned companies in both Japan and Turkey; (2) moderate to high correlations have been found between subjective and objective measures (e.g., 0.69 in Dess & Robinson, 1984); (3) high levels of correlation (0.78 on average) have been found between subjective and archival measures of total sales in subsidiaries operating in Turkey (Özsomer & Prussia, 2000); and (4) subjective measures have been used in past marketing standardization studies (e.g., Cavusgil & Zou, 1994; Samiee & Roth, 1992).

4. Analysis and results

Through its flexible interplay between theory and data, the structural model approach is well suited to bridge theoretical and empirical knowledge for a better understanding of the real world (Fornell, 1982). It allows for modelling based on both latent and manifest variables, an important property for the hypothesized model where most of the constructs are abstractions of unobservable phenomena. It also takes into account errors in measurement, variables with multiple indicators, and multiple-group comparisons. Thus, we tested the measure-

ment and structural models using EQS version 6.0 (Bentler, 2002) with covariance matrices as input. EQS's ML estimation procedure was preferred for estimation.

To assess the second-order *marketing program standardization* scale and the complete measurement model of latent factors, and to test the structural model and related hypotheses, we adopted a two-stage data analysis approach recommended by Anderson and Gerbing (1988) and Hunter and Gerbing (1982). First, with respect to *marketing program standardization*, we perform second-order confirmatory factor analyses (CFA) separately for Japan and Turkey. We calibrate the first-order loadings with the respective second-order factors in these analyses. Second, we conduct a test of the complete measurement model again, separately for Japan and Turkey. Third, we conduct a test of the structural model for each sample. The advantages of separating the measurement model from the structural model have been stated in the literature by Anderson and Gerbing (1988) and Hunter and Gerbing (1982).

4.1. Second-order CFAs

To assess the measurement model of the *marketing program standardization* scale, we carried out separate second-order CFAs for the Japan and Turkey samples, with product, price, promotion, and distribution standardization as the four first-order dimensions. Second-order CFA was fitted by the ML procedure of the EQS program (Bentler, 2002). The same two items (product positioning and sales promotion in Appendix A) were dropped from both samples because of their low loadings (Anderson & Gerbing, 1988). The final second-order MPS scale with the same 10 items in Japan and Turkey had a very good fit in Japan and good fit in Turkey (Japan: $\chi^2=38.19$, $df=32$, $p=0.21$, NNFI=0.97, CFI=0.98, RMSEA=0.03; Turkey: $\chi^2=71.90$, $df=32$, $p=0.009$, NNFI=88, CFI=0.92, RMSEA=0.09). All first-order and second-order factor loadings were significant, demonstrating convergent validity. Appendix C presents average item correlations within and across the four dimensions of standardization. These results provided us with enough confidence to calculate averages for the first-order factors of product, promotion, and distribution of the MPS scale (price

was measured by a single item). This approach was necessary given our sample sizes and our desire to test the model in both countries. This practice is also well accepted in the marketing literature (e.g., De Wulf, Odekerken-Schröder, & Iacobucci, 2001; Steenkamp, Ter Hofstede, & Wedel, 1999).

4.2. Overall measurement model evaluation

We assessed the quality of our measurement model by investigating unidimensionality, convergent validity, reliability, discriminant validity, and measurement equivalence separately for Japan and Turkey. Through exploratory factor analysis, evidence for the unidimensionality of each construct was supported by appropriate items that loaded at least 0.60 on their respective hypothesized component and loaded no larger than 0.30 on other components. In the CFA itself, the complete measurement model demonstrated good fit for Japan and adequate fit for Turkey⁷ (Japan: $\chi^2=145.77$, $df=104$, $p=0.004$, NNFI=0.92, CFI=0.94, RMSEA=0.05; Turkey: $\chi^2=243.65$, $df=104$, $p=0.000$, NNFI=79, CFI=0.84, RMSEA=0.09). The overall goodness of fit also supports unidimensionality (Steenkamp & van Trijp, 1991). More important, the loadings of items on their respective factors were all significant and positive; standardized factor loadings were all above 0.5 in both samples; and all *t* test values were highly significant (at $p<0.05$ level: averaged 8.0 in Japan and 8.2 in Turkey), providing support for convergent validity.

Discriminant validity was tested by means of several subsequent procedures. First, as a basic test, we checked whether correlations among the latent constructs were significantly different from one. In both samples, construct correlations met this criterion. Second, we compared a series of nested confirmatory factor models in which, for every pair of the constructs in the measurement model, we tested if a

⁷ Although the fit for the Turkish sample was lower than the fit for Japan, we preferred to keep a richer measurement model that captured a fuller domain of the constructs in both countries and that was conceptually sound (and fit well the Japan sample). Furthermore, in this measurement model all item-factor loadings were highly significant and the model performed well in discriminant validity and metric equivalence tests. Such a richer model also facilitates meaningful replication and comparison in future studies.

two-factor model would fit significantly better than the one-factor model (Anderson, 1987; Bollen, 1989). If the two-factor model fits significantly better than the one-factor model, the discriminant validity of the two factors is supported (Bagozzi, Yi, & Phillips, 1991). Chi-square differences were significant for all model comparisons ($p < 0.05$) in both samples, except for customer similarity and marketing infrastructure similarity in the Japan sample. However, since this was an issue only in one sample (Japan) and since we were interested in the relationships of these constructs to marketing program standardization, we do not consider this a major problem. Third, we performed a test for discriminant validity provided by Fornell and Larcker (1981). This test suggests that a scale possesses discriminant validity if the average variance extracted by the underlying construct is larger than the shared variance (i.e., the squared intercorrelation) with other latent constructs. On the basis of this test, we found evidence for discriminant validity between each possible pair of latent constructs in both samples.

Finally, to cross-nationally investigate the interrelationships between constructs in a nomological net, we also conducted tests for full or partial measurement invariance because the scale intervals of the latent constructs must be comparable across countries. Following the nested sequential procedures suggested by Bagozzi and Foxall (1996) and Steenkamp and Baumgartner (1998), we assessed measurement invariance by comparing nested complete measurement models in terms of the difference in chi-square relative to degrees of freedom, RMSEA, and CFI. In the first model (base model), all factor loadings, error variances, and all factor variances/covariances were allowed to be free across Japan and Turkey. (One marker item was selected and the same marker item was used in each sample.) In the second model (equal loading model), we constrained the factor loadings (apart from the marker item) to be equal across the samples. The nonsignificant sequential chi-square difference test (SCDT) results ($\Delta\chi^2 = 6.98$, $\Delta df = 11$) were in support of factor loadings being invariant across samples. This means that the same factors underlie the measures for Japan and Turkey, and the correspondences between factors and indicators are the same. Given metric invariance, we next tested the invariance of factor variances. A model where all factor variances were constrained to be equal (in

addition to constrained factor loadings) yielded a significant decrease in model fit ($\Delta\chi^2 = 14.83$, $\Delta df = 6$). Following Steenkamp and Baumgartner's (1998) approach, we then tested for partial factor variance invariance by releasing one of the six constraints. The resulting insignificant chi-square difference ($\Delta\chi^2 = 6.82$, $\Delta df = 5$) suggested retaining this constrained model for further analysis. In a third model, we also constrained factor covariances to be equal across Japan and Turkey. The decline in chi-square was significant ($\Delta\chi^2 = 44.06$, $\Delta df = 15$), suggesting releasing two constraints. Finally, in a very restrictive test, we constrained error variances to be invariant across the two samples. The sequential SCDT was not significant ($\Delta\chi^2 = 17.97$, $\Delta df = 11$), supporting error variance invariance. In sum, out of 40 equivalence constraints imposed, only one-factor variance and two-factor covariance constraints needed to be released. Thus, full invariance of the factor pattern, factor loadings, and error variances, as well as partial invariance of factor variances and covariances, were supported for the Japan and Turkey samples.

In summary, the measurement models for Japan and Turkey are clean, with evidence of unidimensionality, convergent validity, discriminant validity, and measurement invariance, which enabled us to proceed to the structural model evaluation.

4.3. Structural model evaluation

The structural model (Fig. 1) depicts the postulated relationships among the latent constructs at the BU level of a foreign subsidiary. Since multiple respondents from the same BU would be likely, on average, to respond similarly to the different scale items, violating the independence of observations assumption, we averaged multiple responses for such BUs.⁸ After checking that, indeed, the same main product (line) was selected by the multiple respondents of a same BU as their focal point for answering the survey, the cases were adjusted accordingly, yielding a sample size of 123 for Japan and 99 for Turkey.

⁸ Such averaging of responses at the BU level was not necessary for measurement model analyses because various respondents from the same BU are expected to exhibit correlations across scale items independently.

Table 1 reports the parameter estimates and goodness-of-fit indicators of the structural equation system for each sample. The model fits the data very well in Japan and reasonably well in Turkey (Japan: $\chi^2=126.25$, $df=110$, $p=0.14$, CFI=0.97, RMSEA=0.04; Turkey: $\chi^2=209.77$, $df=110$, $p=0.00$, CFI=0.82, RMSEA=0.09); about 35% of the variance of the construct *performance* is accounted for by the model (Bagozzi & Yi, 1988) in each sample. Hence, overall, the model is a reasonable representation of the data.

We now turn to the testing of the various hypotheses, focusing on the main endogenous variable *performance* first. Looking at the parameter estimates in Table 1, a first notable result is that the relationship between *marketing program standardization* and *performance*, the focal path of interest in this study, is significant and positive in both samples ($\beta_{52}=0.37$, $t=2.41$ for Japan; $\beta_{52}=0.64$, $t=2.64$ for Turkey). This result provides strong empirical evidence for the cross-validation of this part of our conceptual model, which is noteworthy given the fact that the countries examined differ considerably on demographic, economic, and cultural dimensions. Consequently, there is strong and

uniform support for H6. That is, fundamentally, greater (smaller) levels of marketing program standardization correspond to higher (lower) performance at the subsidiary level.

In terms of the other antecedents of *performance*, H5 is also supported in both samples: *centralization of nonproduct decision* is significantly and negatively associated with *performance* ($\beta_{54}=-0.47$, $t=-3.19$ for Japan; $\beta_{54}=-0.46$, $t=-2.02$ for Turkey). On the other hand, the analogous effect of *centralization of product decisions* on *performance*, encapsulated by H4, exhibits a consistent positive pattern of association across the two countries, but these associations are not significant ($\beta_{53}=0.12$, $t=0.92$ for Japan; $\beta_{53}=0.24$, $t=1.50$ for Turkey). That is, while more (less) degrees of centralization of nonproduct decisions correspond to lower (higher) performance at the subsidiary level, the degree of centralization of product decision (or lack thereof) does not seem to be related to actual performance levels.

Turning to the antecedents of marketing program standardization, Table 1 reveals that the correlation between *customer similarity* and *marketing infrastructure similarity* is positive and significant

Table 1
Structural parameter estimates for Japan and Turkey samples

Hypotheses	Paths		Japan		Turkey	
			Estimate	t	Estimate	t
H _{1A}	Customer similarity ↔ market infrastructure similarity	ϕ_{21}	0.78	5.15*	0.55	3.39*
H _{1B}	Customer similarity → marketing program standardization	γ_{21}	0.95	2.43*	0.59	2.97*
H _{1C}	Market infrastructure similarity → marketing program standardization	β_{21}	-0.21	-0.70	0.31	1.90**
H ₂	Marketing program standardization → centralization of product decision	β_{32}	0.18	1.45	0.44	3.14*
H ₃	Marketing program standardization → centralization of nonproduct decision	β_{42}	-0.01	-0.06	0.61	2.81*
H ₄	Centralization of product decision → performance	β_{53}	0.12	0.92	0.24	1.50
H ₅	Centralization of nonproduct decision → performance	β_{54}	-0.47	-3.19*	-0.46	-2.02*
H ₆	Marketing program standardization → performance	β_{52}	0.37	2.41*	0.64	2.64*
			n=123		n=99	
			χ^2 (110 df)=126.25		χ^2 (110 df)=209.77	
			p=0.14		p=0.00	
			NNFI=0.96		NNFI=0.78	
			CFI=0.97		CFI=0.82	
			St.RMR=0.06		St.RMR=0.09	
			RMSEA=0.04		RMSEA=0.09	

* Significant at the $p<0.05$ level.

** Significant at the $p<0.10$ level.

($\phi_{21}=0.78$, $t=5.15$ for Japan; $\phi_{21}=0.55$, $t=3.39$ for Turkey). Likewise, *customer similarity* is positively and significantly related to *marketing program standardization* ($\gamma_{21}=0.95$, $t=2.43$ for Japan; $\gamma_{21}=0.59$, $t=2.97$ for Turkey). Thus, there is uniform support for H1A and H1B in both samples. In both Japan and Turkey, the Customer Similarity→MPS→Performance sequence is supported, as suggested by IO's SCP framework.

For the other relationships postulated in the model, some manifest differences exist between the two samples. First, with respect to the relationships between marketing program standardization and centralization of decision making, both H2 and H3 are supported in Turkey ($\beta_{32}=0.44$, $t=3.14$; $\beta_{42}=0.61$, $t=2.81$), but not in Japan ($\beta_{32}=0.18$, $t=1.45$; $\beta_{42}=-0.01$, $t=-0.06$). That is, in Turkey, unlike Japan, *marketing program standardization* is indeed associated with higher levels of *centralization of product and nonproduct decisions*. Combining H3 and H5 reveals that, in Turkey, in addition to the direct positive association between *marketing program standardization* and *performance*, there is an indirect process at work: the effect of *marketing program standardization* on *performance* is also through *centralization of nonproduct decision*. In Turkey, therefore, *marketing program standardization* is associated with greater *centralization of nonproduct decision*, which, in turn, reveals a negative association to *performance*. The net effect on performance is dampened by the indirect negative impact through centralization of nonproduct decisions.

Finally, Table 1 reveals the presence of a significant positive path from *market infrastructure similarity* to *marketing program standardization* in Turkey ($\beta_{21}=0.31$, $t=1.90$) in support of H1C but not in Japan ($\beta_{21}=-0.21$, $t=-0.70$). That is, in Turkey, *marketing program standardization* is influenced by direct effects of both *customer similarity* and *market infrastructure similarity*. In Japan, in contrast, only the effect from customer similarity seems to be present. For completeness and to enhance our confidence in the validity of the postulated model, we now further examine the robustness of the hypothesized model and provide a formal assessment of its performance against competing structural models.

4.4. Robustness of the hypothesized model and rival models

To further assess the robustness of the hypothesized model in light of possible BU level effects, the basic model was retested with the presence of *subsidiary size* as a control variable. Size represents a pertinent covariate as it has long been viewed in the literature as an important contingency variable with respect to governance, levels of diversification, and resistance to organizational change (Hoskisson, Johnson, & Moesel, 1994). In the IO theory, firm size plays an important role in defining the structural characteristics of an industry/market and is one of the structure variables of the SCP framework (Lipczynski & Wilson, 2001). Therefore, the model was respecified with subsidiary size (captured by the log transformation of number of employees) as a control variable related to the four main endogenous variables in the model. For the Turkish sample, this revised model ($\chi^2=225.81$, $df=123$, $p=0.00$, CFI=0.82, RMSEA=0.09) led to the same results regarding hypotheses testing as with the original model. In addition, none of the paths between *subsidiary size* and *performance*, *marketing program standardization*, *centralization of product*, and *nonproduct decisions* was found to be significant. For the Japanese sample, the same results as before were also held ($\chi^2=152.92$, $df=123$, $p=0.04$, CFI=0.95, RMSEA=0.05). Unlike Turkey, in Japan, the control path between *size* and *marketing program standardization* was found to be significant and positive (at the $p<0.10$ level; $t=1.93$). This result would indicate that, in Japan, larger subsidiaries tend to be involved with more standardized marketing programs. For both samples, the overall invariance of the results after controlling for the effect of subsidiary size conveys an additional sense of confidence in the robustness of the hypothesized model.

In addition to assessing the robustness of the postulated model, it is also pertinent to further refine the main results reported in Table 1. In particular, one may want to evaluate the extent to which the paths reported significant in both Japan and Turkey are equal in strength. That is, is there a difference of magnitude between the same effects across the two countries? To answer this question, a multiple-group analysis approach was developed. A corresponding series of

SCDTs on these paths was performed, one path at a time (for Japan, these $\Delta\chi^2$ range from 0.01 to 1.12 with $\Delta df=1$; for Turkey, these $\Delta\chi^2$ range from 0.13 to 1.93 with $\Delta df=1$). This series of formal tests reveals that, indeed, paths that are significant in both Japan and Turkey do not differ in magnitude across countries (for instance, the effect of marketing program standardization on performance is the same in Japan and Turkey). As such, the postulated model shows some degree of consistency across countries.

Bagozzi and Yi (1988) recommend that researchers compare rival models and not just test the performance of a proposed model. We tested three pertinent, rival models. In the first rival model, *centralization of product and nonproduct decisions* are considered antecedents (not outcomes) of *marketing program standardization*. Likewise, *customer similarity* and *marketing infrastructure similarity* are now specified as direct antecedents of *centralization of product and nonproduct decisions*. In this rival model, *marketing program standardization* is considered an immediate antecedent of performance.

With respect to the overall fit, the rival model has a much higher chi-square and lower CFI than the hypothesized model (Japan: $\chi^2=178.18$, $df=110$, $p=0.00$, CFI=0.87, RMSEA=0.07; Turkey: $\chi^2=248.67$, $df=110$, $p=0.00$, CFI=0.75, RMSEA=0.11). Only two of eight paths are significant in the rival model for Japan, down from four out of eight, and the explained variance of performance declines to 0.22 (down from 0.35). For Turkey, the number of significant paths is also down from seven to four. The explained variance in performance is also lowered to 0.16 (down from 0.35). Overall, this model is a much worse fit for both samples. It must be discarded in favour of the original model.

In the second rival model, we challenged the mediating role of *marketing program standardization*. When first introducing this variable, we provided some theoretical rationale for defining it as a mediating variable. Because our hypothesized model allows no direct paths from the two *market similarity* constructs (*customer* and *infrastructure*) to *centralization of product and nonproduct decisions*, it implies a central nomological status for *marketing program standardization*. For contrasting purpose, the competing model of interest here stipulates the presence of direct paths from both similarity con-

structs onto *centralization of product and nonproduct decisions* in lieu of paths to *marketing program standardization*. As such, this rival model makes *marketing program standardization* nomologically similar to *customer* and *infrastructure similarity*. With respect to overall fit, variance explained, and loss of significant paths, this second rival model performed poorly as well (Japan: $\chi^2=177.69$, $df=109$, $p=0.00$, CFI=0.87, RMSEA=0.07; Turkey: $\chi^2=266.08$, $df=109$, $p=0.00$, CFI=0.72, RMSEA=0.12). Thus, there seems to be greater support for the original model and its specification of *marketing program standardization* as a mediating variable of *customer* and *infrastructure similarity* onto *centralization of product and nonproduct decisions*.

Finally, in a third rival model, we tested for the possible direct effects of customer and market infrastructure similarity on performance. Here, too, through a series of SCDTs, we found that, for both Japan and Turkey, these additional direct paths were not significant ($p<0.05$ level), and that the original, more parsimonious, model was superior. Again, there seems to be some support for the central nomological status of *marketing program standardization* as a mediating variable. Overall, the results associated with the testing of these additional models point to: (1) the relative robustness and validity of the postulated model, and (2) the fundamental role of *marketing program standardization* as a mediating variable.

5. Discussion

The development and implementation of a global marketing strategy have always been surrounded with some degree of ambiguity regarding its underlying determinants and consequences. In this regard, we believe that our research has shed some additional light on marketing program standardization at various levels. First and foremost, our model contributes to the existing knowledge of global marketing strategy by empirically validating the positive direct relationship between marketing program standardization and performance of subsidiaries. This fundamental relationship was established by examining two diverse markets, Japan and Turkey. This result is of particular importance in light of the conflicting findings that

have surfaced from the few empirical studies investigating the relationship between global marketing strategy and performance (e.g., Johansson & Yip, 1994; Kotabe & Omura, 1989; Samiee & Roth, 1992).

Furthermore, our model specification may have teased out some of the underlying effects that were partly responsible for the presence of these inconsistent empirical findings reported by Shoham (1995) by explicitly accounting for both the positive direct effects of standardization on performance and its negative indirect effect through the centralization of nonproduct decision making. That is, standardization, often the main driver of a globalization strategy, enhances performance directly and, also indirectly, can carry the seeds of lower performance through the centralization of nonproduct decision making. The indirect leg of the effect, *marketing program standardization* → *centralization of nonproduct decisions* → *performance*, was established clearly and sequentially for Turkey, while, in the case of Japan, the negative impact of centralization on performance was apparently not triggered directly by the degree of program standardization. Such a difference of effects is also accompanied by some structural differences of levels of centralization between the two markets: the independent-samples *t* tests reported in Appendix A reveal that, on average, *centralization of nonproduct decisions* is higher in Japan (mean=4.83) than in Turkey (mean=4.39), a statistically significant difference ($t=2.54$). Conversely, *centralization of product decisions* is higher for Turkey (mean=5.59) than Japan (mean=5.07), again a statistically significant difference ($t=-2.65$). Whereas structural differences are to be expected between a lead market like Japan and an emerging market like Turkey, additional research is needed to understand how such differences emerge and can disappear over time.

If there are different mechanisms at work to trigger the centralization decisions, as evidenced by our results, there is some consistency on the negative impact of nonproduct decision centralization on performance across markets. Oftentimes, nonproduct decisions need to be updated more frequently and involve local collaborators (e.g., retailers and distributors) beyond the subsidiary. Thus, nonproduct decisions made by head office management often leave subsidiary management with little room for

quick response, flexibility, and innovation. Such lack of flexibility can affect performance negatively. For example, a major local packaged foods company, Ülker, introduced a local cola drink called Cola Turka in the summer of 2003. Backed up by a nationwide mass media campaign and riding on the company's extensive national distribution network, Cola Turka quickly gained a 17–20% market share in its category. Faced with such a nimble local competitor, the Turkish Coca Cola subsidiary had to quickly adjust its prices and launched a sales promotion campaign with on-pack snack premiums. Decentralization of nonproduct decisions was critical for Coca Cola's quick response.

The problems of nonproduct centralization can be also traced to both a struggle for power and control between the head office and subsidiaries, and to communication inefficiencies between them. Extensive information flows from subsidiaries to the head office may negatively affect managers' time and objectivity at the head office. As a result, these managers are more likely to overlook opportunities in the subsidiary market. While the presence and logic of these dynamics are well known, much remains to be uncovered with respect to their actual root causes and evolution in the life of a subsidiary.

Second, this study specifies how the external market environment influences marketing program standardization. Specifically, by separating the impact of *customer similarity* and *market infrastructure similarity*, our model captures the positive association between these two constructs and the consistent impact of customer similarity on marketing program standardization. Thus, this research identifies customer similarity as a more generalizable antecedent of marketing program standardization, generalizable at least to both samples in this study. Here, too, we observe some differences across markets: the influence of *market infrastructure similarity* on *marketing program standardization* is significant for Turkey, not Japan. Likewise, Appendix A reveals greater customer similarity for the subsidiaries between Japan and their home-office market (mean=5.17) than for Turkey (mean=4.79), a statistically significant difference ($t=2.19$). No such difference is observed for market infrastructure similarity. Overall, these results tend to suggest that, today, the greatest differences in international markets and source of stickiness for globalization

are still the mind and behaviour of consumers not infrastructure readiness and technological gaps. Since culturally rooted differences that shape consumer attitudes, needs, and expectations seem to remain the greatest impediment to standardization, MNCs will have to keep on localizing some of their offerings in a cost-effective way and, for the long-term, on educating new generations of consumers on global trends. Both orientations will remain important challenges and a source of competitive advantage for the more inspired marketers. As for the relationship between customer similarity and infrastructure similarity, although Porter (1985, 1990) implicitly suggests the antecedent status of customer similarity, future longitudinal research is needed to investigate the temporal ordering and causality between the two.

Furthermore, customer similarity as an antecedent of marketing program standardization in both markets is a reflection of how the homogenization of markets is an important process underlying the feasibility of standardization (Levitt, 1983). That is, the existence of global or panregional segments suggests a potential for marketing standardization. Groups of consumers in different countries may have more in common with one another than with other consumers in the same country (Steenkamp & Ter Hofstede, 2002). Global segmentation aids the firm in structuring the heterogeneity that exists among consumers and nations, and helps to identify segments that can be targeted in an effective and efficient way through a standardized marketing program. Studying our model at the segment level may be an issue for future research.⁹

Third, this research underlines the need to approach centralization of decision making according to both product and nonproduct decisions. Only when these two constructs are considered simultaneously is the negative relationship between centralization of nonproduct decision and performance captured. The lack of such discrimination in prior studies could be one of the reasons for inconsistent findings in the literature. From a managerial point of view, our findings clearly indicate that head office managers must be particularly cautious when centralizing marketing decision making, as it can constitute a barrier to enhancing performance in subsidiaries. While the locus of product-related decisions may

not matter so much, it appears to be critical for nonproduct decisions. The centralization of such decisions translates into lower performance in subsidiaries. The following illustration drawn from the field interview of the marketing director of a medium-size German consumer goods MNC is informative in that respect. Comparing the difficult situation of Turkey to the case of Thailand at the beginning of the recent economic crisis, the executive pointed to the fact that all major foreign competitors had decided to cut back on advertising spending, expecting lower sales. As media prices fell, the subsidiary of the German MNC opted to increase its advertising spending, to buy a lot of the unutilized media time at lower cost, and to launch several advertising campaigns. Even during the crisis, its sales increased. As larger competitors wanted to respond similarly, their centralized decision-making structures prevented them from acting quickly. By the time foreign competitors increased their advertising budgets back to their original levels, the German MNC had stolen a significant market share and emerged from the crisis stronger than before.

To the best of our knowledge, this is the first study that separates centralization of product and nonproduct decision, revealing their asymmetric relations to performance. However, there could be further differences regarding the product (nonproduct) marketing decision in question. Future research should look into the individual elements of product (nonproduct) decisions, particularly separating distribution or advertising from others such as pricing, sales force, and sales promotion decisions. Furthermore, a next essential step consists of testing the generalizability of the hypothesized model. To do so, future research should examine the strength of the structural paths in light of possible moderating effects such as technological intensity of product category, product category type (industrial or consumer), and product life cycle stage in respective markets.

Another issue for future research is the potential long-term impact of marketing program standardization. We can expect standardization to have a stronger impact on long-term (vis-à-vis short-term) performance due to sustained efforts in quality improvement, image building, distribution channels, and improvements in pricing. For example, since their Path to Growth strategy was launched in 2000, Unilever

⁹ We are thankful to a reviewer for pointing this out.

has reduced the number of brands from 1600 to 400 leading brands and under 250 tail brands (<http://www.unilever.com>). This enables Unilever to concentrate resources on a portfolio of leading brands with strong *growth* potential, which best meets the needs and aspirations of people around the world. Most marketing managers and academics agree that scarce marketing resources should be allocated to create long-term as well as short-term impact and profitability. However, in this paper, we do not take the time dimension of performance into account (for a recent discussion on the long-term profitability of marketing spending, see Dekimpe & Hanssens, 1999).

As implied by Dekimpe and Hanssens (1999), we should also investigate the possibility that standardized marketing programs, through their sustained and consistent marketing investments in global brands, open up the local markets for these products/brands. Standardized products like Coca Cola, through their marketing investments, help shape the future by contributing to changing market conditions and the emergence of global/regional segments. Thus, we hope that new research on the long-term impact of standardization on performance as well as research on the reciprocal effects of market conditions on standardization and standardization's impact on market conditions will advance our understanding of global marketing strategy in general and marketing standardization in particular.¹⁰

¹⁰ The editors suggested the possibility of an inverted U-type relation between standardization and performance. A thorough investigation of nonlinear relationships in the context of structural equations featuring latent variables is beyond our reach given our small sample sizes. In the spirit of Ping's (1995, 1996) approach, we opted for a shortcut method. First, we created weighted indexes for standardization and performance by using item factor loadings from the measurement model as weights. We then regressed the predicted performance index on the predicted standardization index and its square. For Japan, the coefficient for standardization was positive and significant ($p=0.001$), while the quadratic term yielded a negative but insignificant coefficient ($p=0.334$). For Turkey, the linear term was positive and significant ($p=0.004$), while the coefficient for the quadratic term was negative and significant ($p=0.043$). Hence, the editors' intuition is valid. There is the possibility that marketing programs can become too standardized, at least in some markets. A formal investigation of the nature of the relationship between standardization and performance appears to be a promising area for future research.

Finally, this study is a first attempt to provide some insights into the existence of different processes pertaining to the impact of marketing program standardization and centralization of decision making on the performance of subsidiaries. Indeed, the study showed that, while the final performance levels can be similar across markets (i.e., Appendix A shows no statistical difference in the level of performance for subsidiaries in Japan and Turkey), some common processes as well as some distinct processes may be at work. To further examine the simultaneity of these processes, their variations, and outcomes, more large-scale, multi-country, cross-sectional studies of this type are needed. Of particular relevance, the challenging but pertinent joint investigation of the subsidiary and head office levels of given MNCs would add to our understanding of the globalization phenomenon beyond the standardization issue. Twenty years after Levitt's provocative vision of the "globalization of markets [1983]," the standardization–adaptation debate remains timely and, more than ever, in need of empirical sophistication if not evidence. As more firms learn how to enter and operate in over a hundred national markets, this issue does not go away and more certitudes are the wish of international marketers.

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Appendix A

Measures, construct reliabilities, means, and independent-sample *t* tests

Item number	Item	Source
<i>Customer similarity</i> ($\alpha_{Japan}=0.70$, $\alpha_{Turkey}=0.69$; $mean_{Japan}=5.17$, $mean_{Turkey}=4.79$, $t=2.19^*$)		
V ₁	The way consumers use the products are very similar in Japan/Turkey and in the parent (head office) country.	Adapted from Johansson and Yip (1994) and Sorenson and Weichman (1975)
V ₂	Stage of product life cycle is very similar in Japan/Turkey and in the parent (head office) country.	Same as above
V ₃	The target markets are very similar in Japan/Turkey and in the parent (head office) country.	Same as above
<i>Market infrastructure similarity</i> ($r_{Japan}=0.44$, $r_{Turkey}=0.52$; $mean_{Japan}=4.37$, $mean_{Turkey}=4.25$, $t=0.65$)		
V ₄	Marketing regulations are very similar in Japan/Turkey and in the parent (head office) country.	Same as above
V ₅	Availability of advertising media is very similar in Japan/Turkey and in the parent (head office) country.	Same as above
<i>Marketing program standardization</i> ($\alpha_{Japan}=0.64$, $\alpha_{Turkey}=0.73$; $mean_{Japan}=4.37$, $mean_{Turkey}=4.80$, $t=-3.23^*$)		
	Comparing the situation in Japan/Turkey and in the parent company's home market, how similar or different are the following marketing mix elements for your major product (line)?	Adapted from Sorenson and Weichman (1975)
V ₆	Product Product physical characteristics	Same as above
	Brand name	Same as above
	Packaging	Same as above
V ₇	Promotion Sales promotion ^a	Same as above
	Product positioning ^a	Same as above
	Advertising theme	Same as above
	Media allocation	Same as above
	Advertising copy	Same as above
V ₈	Pricing policy	Same as above
V ₉	Distribution Distribution	Same as above
	Customer service	Same as above
	Role of sales force	Same as above
<i>Centralization of product decision</i> ($\alpha_{Japan}=0.79$, $\alpha_{Turkey}=0.79$; $mean_{Japan}=5.07$, $mean_{Turkey}=5.59$, $t=-2.65^*$)		
	To what extent do you receive <i>explicit directives or guidance</i> from the parent company (head office) in the following marketing decision areas?	Adapted from Brandt and Hulbert (1977)
V ₁₀	Product design	Same as above
V ₁₁	Brand name	Same as above
V ₁₂	Package design	Same as above
<i>Centralization of nonproduct decision</i> ($\alpha_{Japan}=0.78$, $\alpha_{Turkey}=0.70$; $mean_{Japan}=4.83$, $mean_{Turkey}=4.39$, $t=2.54^*$)		
V ₁₃	Pricing	Same as above
V ₁₄	Sales force management methods	Same as above
V ₁₅	Sales promotion	Same as above
<i>Subsidiary performance</i> ($r_{Japan}=0.53$, $r_{Turkey}=0.44$; $mean_{Japan}=5.45$, $mean_{Turkey}=5.58$, $t=-0.83$)		
V ₁₆	Over the last 5 years, please rate the extent to which your main product (line) has been a <i>success</i> or <i>failure</i> with respect to profitability in Japan/Turkey.	Newly developed
V ₁₇	Over the last 5 years, please assess the overall performance of the BU with respect to profitability.	Newly developed

*Significant at the $p<0.05$ level.

^aThese items were deleted in the final analysis.

Appendix B

Means, standard deviations, and Pearson correlations^a

Measures		V_1	V_2	V_3	V_4	V_5	V_6	V_7	V_8	V_9	V_{10}	V_{11}	V_{12}	V_{13}	V_{14}	V_{15}	V_{16}	V_{17}	
	Means	5.08	4.20	4.89	3.81	4.54	6.13	4.17	4.17	4.69	5.68	5.98	5.36	4.01	3.41	3.29	5.90	5.34	
	S.D.	1.76	1.85	1.81	1.70	1.73	1.04	1.39	1.94	1.44	1.63	1.61	1.84	1.82	1.65	1.65	1.18	1.36	
V_1	5.23	1.81		0.39	0.49	0.25	0.27	0.11	0.26	0.24	0.37	0.17	-0.01	0.04	0.13	0.24	0.21	0.07	0.38
V_2	4.94	1.77	0.48		0.41	0.25	0.28	0.35	0.38	0.20	0.45	0.28	0.16	0.20	0.19	0.28	0.34	0.19	0.21
V_3	5.04	1.68	0.43	0.40		0.21	0.31	0.30	0.37	0.41	0.46	0.22	-0.09	0.23	0.13	0.18	0.09	0.25	0.33
V_4	3.89	1.80	0.31	0.21	0.31		0.52	0.13	0.40	0.26	0.31	0.11	0.10	0.00	-0.07	0.18	0.21	0.05	0.14
V_5	4.60	1.64	0.44	0.42	0.35	0.44		0.10	0.53	0.25	0.40	0.18	0.15	0.05	-0.08	0.13	0.23	0.18	0.19
V_6	5.88	1.30	0.30	0.25	0.24	0.14	0.27		0.33	0.48	0.47	0.25	0.24	0.35	0.25	0.07	0.16	0.09	0.16
V_7	4.01	1.24	0.43	0.41	0.45	0.26	0.28	0.26		0.34	0.64	0.21	0.18	0.32	0.13	0.30	0.48	0.18	0.20
V_8	3.31	1.81	0.22	0.30	0.26	0.14	0.16	0.21	0.39		0.37	0.23	0.08	0.30	0.24	0.20	0.31	0.13	0.16
V_9	4.04	1.51	0.13	0.20	0.31	0.36	0.21	0.16	0.44	0.41		0.31	0.21	0.33	0.18	0.33	0.53	0.20	0.31
V_{10}	5.00	1.94	0.04	0.13	0.18	0.05	0.09	0.22	0.03	-0.07	-0.05		0.59	0.62	0.44	0.15	0.33	0.33	0.16
V_{11}	5.54	1.88	0.12	0.14	0.21	-0.02	0.00	0.34	0.12	0.15	0.10	0.53		0.47	0.29	0.19	0.38	0.03	-0.10
V_{12}	4.79	1.96	0.03	0.03	0.20	0.00	0.03	0.25	0.09	-0.04	0.03	0.60	0.53		0.59	0.21	0.32	0.21	0.04
V_{13}	3.60	1.86	0.04	0.04	0.06	-0.07	-0.04	0.02	0.02	0.06	-0.10	0.19	0.21	0.23		0.38	0.34	0.15	-0.02
V_{14}	2.89	1.55	-0.02	0.05	0.06	-0.07	-0.03	0.05	-0.07	-0.10	0.07	0.27	0.18	0.25	0.49		0.63	0.05	0.17
V_{15}	2.90	1.53	-0.04	-0.03	0.05	-0.03	-0.03	0.03	0.03	-0.01	0.00	0.26	0.21	0.25	0.48	0.70		-0.01	0.02
V_{16}	5.92	1.41	0.07	0.07	0.08	0.13	0.11	0.12	0.15	0.17	0.21	0.00	0.09	-0.08	-0.33	-0.25	-0.29		0.44
V_{17}	5.10	1.73	0.07	0.13	0.16	0.13	0.07	0.09	0.28	0.12	0.31	0.00	0.06	-0.03	-0.11	-0.26	-0.23	0.52	

^aThe matrix's upper triangle corresponds to the Turkish sample ($n=99$), while the lower triangle corresponds to the Japanese sample ($n=123$). The means may be different from those in Appendix A. In Appendix B, responses from multiple managers from the same BU were averaged before calculating the means.

Appendix C

Average correlations within and across dimensions of marketing program standardization^a

Dimensions	Within		Across			
	Japan	Turkey	Product	Promotion	Price	Distribution
Product	0.55	0.56		0.19	0.17	0.11
Promotion	0.44	0.50	0.20		0.30	0.25
Price ^b			0.33	0.35		0.32
Distribution	0.42	0.57	0.27	0.40	0.31	

^aThe matrix's upper triangle corresponds to the Japanese sample, while the lower triangle corresponds to the Turkish sample.

^bPrice has only one item (no within correlation).

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