

Competing Perspectives in International Marketing Strategy: Contingency and Process Models

Empirical studies investigating the relationship between marketing standardization and performance have generated mixed results. This study investigates the causal ordering between marketing strategy and marketing structure as determinants of subsidiary performance. The authors propose a multiple contingencies approach that tests both the contingency (e.g., Chandler 1962) and the process (e.g., Bower 1970) frameworks in the subsidiary context. Findings based on a two-phase longitudinal study provide initial support for the framework that suggests that marketing structure follows marketing strategy. In response to increased target market similarity, companies in the study opted for more standardized marketing strategies. Furthermore, centralization of structure mediated the relationship between marketing strategy and subsidiary performance. The performance impact of centralization, however, was cross-lagged and negative. Results suggest adapting marketing strategies to local markets as a way of enhancing performance.

Recent publications show a continuing interest in documenting the relationship between marketing standardization and performance. The bulk of the empirical research has examined the standardization of strategy with respect to individual marketing-mix elements (e.g., brand name, advertising content, distribution channel, pricing, sales promotion), though some studies have also investigated organizational and environmental contingencies (e.g., Birkinshaw, Morrison, and Hulland 1995; Cavusgil and Zou 1994). These empirical studies provide limited and often conflicting evidence regarding performance outcomes of standardized marketing strategies (SMSs). For example, Kotabe and Omura (1989) find that businesses with globally standardized products perform better in market share and profit performance than do businesses that adapt products to different market conditions. Similarly, Johansson and Yip (1994) show that global strategy by itself is related to improved performance. 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 difference in economic performance between businesses that use more global marketing strategies and those that use locally adapted strategies. Despite the abundance of articles on the topic, the issue remains unresolved.

ABSTRACT

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Focusing on the standardization of marketing strategy while excluding centralization of marketing structure, however, fails to capture the underlying complexities between marketing strategy and structure: how they *evolve* in response to internal and external requirements and how they influence subsidiary performance. Therefore, in this article we propose a multiple contingencies approach of marketing strategy, structure, and performance for subsidiaries. Our model stems from the recognition that subsidiary performance depends not only on the standardization of marketing strategy or on the centralization of marketing decision making but also on these two factors simultaneously. The main issue then becomes to identify the *dominant factor* that affects performance directly—marketing strategy or marketing structure. Two competing models offer explanations of the causality between these constructs: the contingency perspective (structure follows strategy; e.g., Chandler 1962) and the process perspective (strategy follows structure; e.g., Bower 1970).

As Szymanski, Bharadwaj, and Varadarajan (1993) note, there is a relative lack of information from sources external to the firm on the determinants of business performance across international markets. Identifying the immediate antecedent of performance is of value particularly to managers of multinational companies (MNCs) at the head office (HO) and subsidiaries. Does an SMS by itself have a direct effect on performance (process model), or is a centralized marketing structure necessary to implement a global marketing strategy (contingency model)? Understanding the implicit time sequence involved—whether it is first strategy, then structure, or the reverse—would enable MNC managers to know on which strategic variable to place relatively greater emphasis to get the desired impact on performance. The purpose of the current study, therefore, is twofold: (1) to investigate the causal ordering among marketing strategy, marketing structure, and performance within the subsidiary context and (2) to look at the degree of stability in these relationships over time.

An MNC competing in multiple markets should first develop an understanding of the nature of the relationships between marketing strategy variables (e.g., advertising, personal selling) and performance in individual subsidiary markets (Szymanski, Bharadwaj, and Varadarajan 1993). The next step is to determine whether the pattern of these relationships is similar across subsidiary markets. We focus on a single subsidiary market, Turkey, as the initial study in a programmatic stream of research directed at better understanding firm-specific and environmental drivers of superior performance in subsidiaries and therefore MNCs.

THEORETICAL FOUNDATIONS

Marketing strategy and performance of subsidiaries can be analyzed within the framework of strategic management (for

similar applications in the international context, see Birkinshaw, Morrison, and Hulland 1995; Cavusgil and Zou 1994). The theoretical approach adopted here is the environment–strategy–structure coalignment. Two schools of thought provide the theoretical foundations for this study. The first one is based on Chandler’s (1962) “structure follows strategy” model, wherein effective product/market diversification (strategy) requires a decentralized structure. Specifically, as firms change their strategy to employ resources more profitably in the face of a changing environment, the new strategy poses new administrative problems. “If a (subsequent) structural adjustment does not take place, the strategy will not be completely effective, and economic inefficiency will result” (Galbraith and Nathanson 1978, p. 137). Chandler’s original formulation and subsequent theorizing thus imply a specific temporal ordering: Firms first develop strategies and later design structures to fit those strategies. Contingency theorists (e.g., Lawrence and Lorsch 1967) generally support Chandler’s model to the extent that corporate structures depend and are contingent on environmental and strategic influences. Therefore, we integrate Chandler’s causal sequence with the contingency perspective and refer to the environment–strategy–structure–performance sequence as the “contingency” model.

A second “process” school of thought emerged in the 1970s when Bower (1970) proposed structure as a cause of strategy. In this tradition, Rumelt (1974) argues that a high level of decentralization (structure) increases the time and objectivity of managers, which in turn allows them to perceive opportunities outside their areas of expertise and therefore diversify (strategy). As a result, decentralization leads to greater diversification. Hall and Saias (1980, p. 153) point out that strategists “take structural phenomena explicitly into account” and “admit that strategic choices are directly determined by the condition of structure.” Prahalad and Doz (1981) theorize that HO management defines the structural context for the subsidiary consistent with its own strategic objectives, which in turn shapes a strategy for the subsidiary. Furthermore, they suggest that the growth of overseas markets and global competition pressure MNCs to develop and implement a global strategy through a centralized structure (CS). This centralized control enables the HO to ensure that subsidiary strategies align with the global strategy, which supports the structure–strategy–performance causal sequence.

Before we proceed, two key features of the current study are worth noting. First, the focus is on the content of marketing strategy and individual marketing-mix elements. Instead of looking at whether the strategy should be local or global (i.e., globalization potential), our approach captures what the

strategy actually is in individual markets. This emphasis on the *act local* (global) dimension of an MNC marketing strategy rather than the *think global* dimension makes a subsidiary level of analysis necessary. Second, no research in international marketing has investigated the long-term effect of SMS on performance. The potential of a longitudinal study has not been realized because of the preference for testing cross-sectional models. The contingency and process frameworks are well-developed models that can be used to investigate the causal ordering among marketing strategy, marketing structure, and performance longitudinally to extend our understanding of performance drivers in subsidiaries and MNCs.

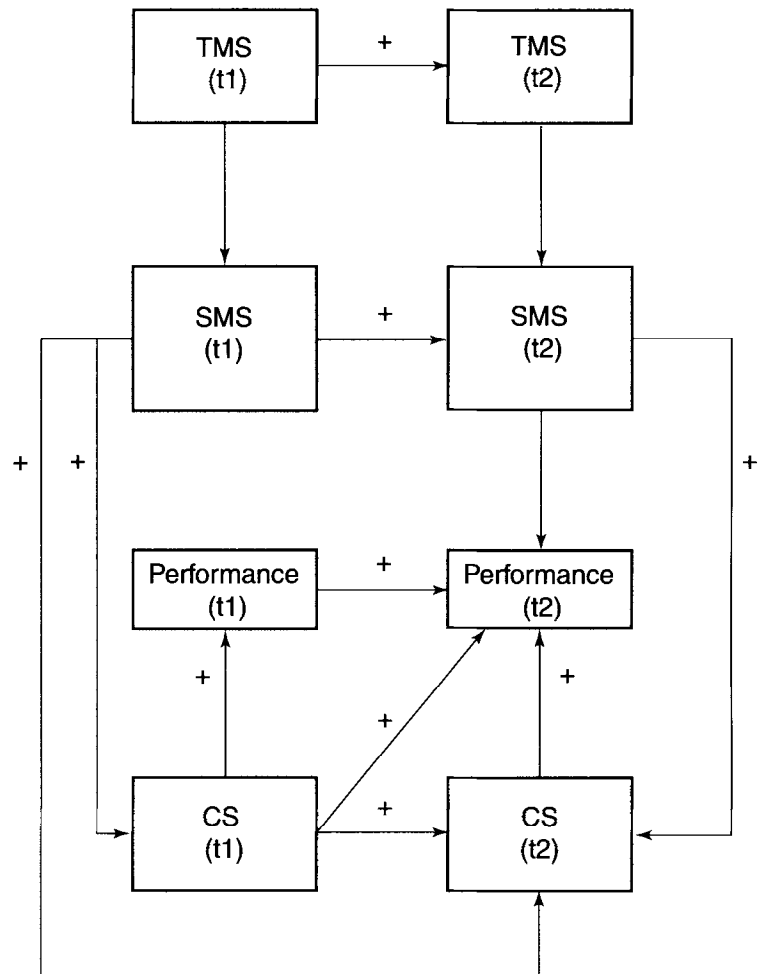
**COMPETING MODELS
AT THE INTERNATIONAL
MARKETING LEVEL**

Theoretical Constructs

We first consider key constructs in both the contingency and process models (see Figures 1 and 2). Next, we examine linkages in the contingency model followed by those proposed in the process model. Finally, we discuss the temporal stability of the marketing strategy–marketing structure relationship.

Target Market Similarity. Because marketing strategies and structures are developed to fit the needs of targeted market

Figure 1.
Contingency Model



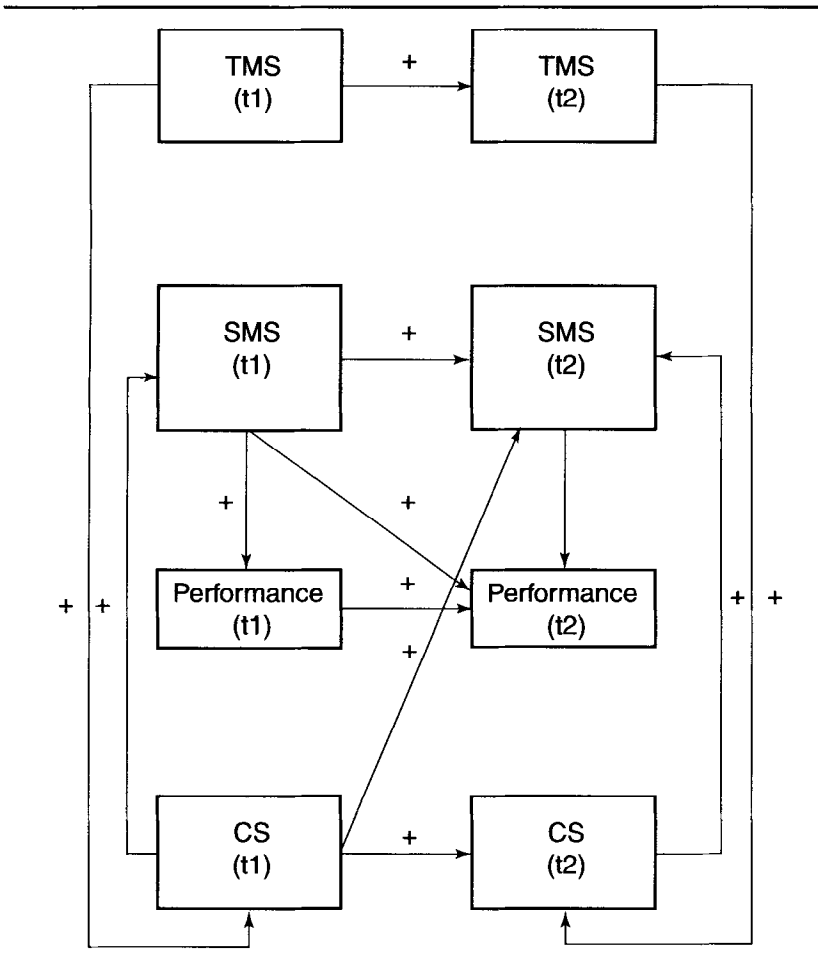


Figure 2.
Process Model

segments, it is necessary to investigate the effects of market drivers on structure and strategy (Johansson and Yip 1994; Saimee and Roth 1992). Target market similarity (TMS) captures the level of similarity from the customer/demand function perspective between the market in which the parent sells and that in which the subsidiary sells. The relevant issue is whether the tastes and preferences of target customers are similar in the home market and the host market. This construct includes only dimensions relevant to customers targeted by the subsidiary.

SMS. Standardized marketing strategy refers to the degree of standardization of the content of marketing-mix elements—product, price, distribution, and promotion programs—across national markets (Jain 1989; Szymanski, Bharadwaj, and Varadarajan 1993). The standardization of marketing strategy is viewed as a continuum with complete standardization and complete adaptation as the two extremes (Cavusgil and Zou 1994; Özsomer, Bodur, and Cavusgil 1991).

CS. Marketing structure is commonly conceptualized along a centralization–decentralization decision-making continuum (Bartlett and Ghoshal 1989; Brandt and Hulbert 1977; Jain

1989; Prahalad and Doz 1981). From this perspective a CS is one in which marketing-related decision-making authority is retained at the HO. A decentralized structure, then, is one in which marketing decision making is delegated to subsidiary managers. This definition of marketing structure is narrower than organization structure and captures only centralization of decision making related to the marketing mix.

Performance. Standardization and centralization are often considered for their influence on firm performance (Jain 1989). In international marketing, sales volume is commonly used as a significant component of performance when subsidiaries are evaluated (e.g., Samiee and Roth 1992). Sales provide a measure of economic performance that reflects “how well an organization relates to [its] environment” (Hofer and Schendel 1978, p. 4) by successfully expanding its product-market scope. Furthermore, sales figures have been shown to be correlated with other measures of firm performance (e.g., sales with overall performance, $r = .79$; Dess and Robinson 1984).

The Contingency Model

The first linkage portrayed in the contingency model indicates that marketing strategy is not developed in a vacuum but is embedded in the market environment. Similarities between markets create opportunities for standardizing marketing strategies, whereas differences generate a need for adapting marketing (TMS \rightarrow SMS). Opportunities to gain benefits from an SMS depend on the feasibility of identifying similar segments in both developed and developing countries (Jain 1989). For standardization to be successful, inter-market segments must be identified in those countries earmarked for standardization. Taken together, higher levels of perceived similarity between selected target markets lead firms to standardize their marketing strategy (Jain 1989).

The contingency model further implies that variety in marketing strategies (low standardization) creates new administrative needs for the subsidiary (SMS \rightarrow CS). Unless a new decentralized structure is developed to meet these needs, the product/market benefits of different marketing mixes cannot be exploited. Similarly, Bartlett and Ghoshal (1989) indicate that companies pursuing global strategies tend to favor more centralized global authority. A mismatch between SMS and structure can distort the “character of the strategic decision making process in ways that favor attending to other-than-profit objectives” (Williamson 1975, p. 133). In their empirical research, Johansson and Yip (1994) find initial support for the specification that structure follows strategy, though at the more general MNC strategy level.

Finally, in terms of the influence of structure on performance (CS \rightarrow P), localized marketing strategies require greater de-

centralization, and this alignment leads to enhanced performance. Hall and Saias (1980) predict that when important decisions are made by top management (e.g., HO managers), those who have the best knowledge of the target market (i.e., subsidiary managers) cannot decide or act. Many errors are inevitably made, and a CS subsequently leads to a decline in performance in the subsidiary market (Hill and Pickering 1986). Therefore, marketing structure can be expected to mediate the influence of marketing strategy on performance, and decentralized marketing structures are expected to lead to enhanced performance in subsidiaries. These relations can be expressed as follows:

P₁: In the subsidiary context, the dominant factor that affects performance directly will be marketing structure; the environment–strategy–structure–performance sequence specified in the contingency model will be supported.

The process model predicts that the impulse for CSs arises from the interaction of the subsidiary with its environment (TMS → CS). Greater similarities among market environments warrant CSs (less decision-making authority to subsidiaries) to deal effectively with the commonalities of the markets. In contrast, when local needs, wants, and idiosyncrasies exist and target markets are changing rapidly, HO managers are less likely to have the specific expertise necessary to operate in the local market. Thus, different market characteristics encourage HO managers to allocate marketing-related decision-making authority to subsidiary managers.

Process model predictions also indicate that CSs affect standardization (CS → SMS). In decentralized structures, in which subsidiary managers have greater decision-making autonomy, managers learn to run semiautonomous or autonomous country units. These autonomous subsidiary managers are similar to Mintzberg's (1983, p. 218) "mini-general managers." Moreover, subsidiary managers acting within decentralized structures gain general skills, engage in active environmental exploration, and consequently adapt their marketing strategies to the local environment. The key assumption in this model is that "the ability to use global strategy is determined by the *existing state* of centralization" (Johansson and Yip 1994, p. 584 [emphasis added]).

The pursuit of a standardized strategy is generally considered appropriate only to the extent that it has a positive influence on performance (SMS → P) (Jain 1989). When market conditions warrant, performance benefits from standardization stem from reduced costs in marketing (scale effects), improved product quality and programs, and improved competitive leverage (Jain 1989). Conversely, a marketing

The Process Model

strategy that is more global than warranted could influence performance negatively because specific target consumer needs may not be met adequately with standardized products, promotion, pricing, and distribution. Thus, the process model implies a direct link from marketing strategy to performance, which leads to the following:

P₂: In the subsidiary context, the dominant factor that affects performance directly will be marketing strategy; the environment–structure–strategy–performance sequence specified in the process model will be supported.

Investigating Temporal Stability

After determining the best-fitting causal sequence and therefore the dominant factor that affects performance directly, another objective of this study is to look at the degree of stability in modeled relationships over time. Because previous research in international marketing strategy has not investigated the temporal nature and stability of these relationships, we developed a longitudinal version of the dynamic processes among strategy, structure, and performance for both models (see Figures 1 and 2). To this end, we focused on three types of associations: (1) contemporaneous relationships (effects occurring in the same time period) among strategy, structure, and performance, (2) autoregressive influences (effects of a variable on itself over time) that indicate whether there are significant subsidiary-level rigidities in the form of strategic and structural momentum, and (3) cross-lagged effects (influences of variables on unlike variables over time).

Contemporaneous Relationships. The contingency and process frameworks previously described provide evidence of the significant relationships among TMS, SMS, CS, and performance within a single time period. These results imply that modeled contemporaneous relationships should continue to exist over additional time periods. Thus, we propose the following:

P₃: The modeled contemporaneous relationships among TMS, SMS, CS, and performance are stable over time.

Autoregressive Effects. We analyzed autoregressive effects to understand if there is environmental, strategic, and structural momentum—whether target market similarities in the past affect the future level of similarities and whether strategies and structures pursued in the past affect subsequent strategic and structural decisions. Repetitive momentum, the tendency for repeating previous firm actions (Amburgey and Dacin 1994), is particularly relevant for explaining autoregressive effects. That is, a firm's previous actions can become independent engines for its future actions. As a result, a subsidiary with a CS

will have high levels of centralization in the future because it knows how to centralize marketing decision making. This and other autoregressive effects lead to the following:

- P₄: Prior levels of TMS, SMS, CS, and performance will have significant, positive effects on their levels in the future.

Cross-Lagged Effects. On the basis of contingency model predictions, organizations first develop strategies and then adapt structures to fit those strategies. Thus, a time lag exists between the development of strategies and the implementation of suitable structures (Amburgey and Dacin 1994). In contrast, process model predictions indicate that structure influences subsequent strategic actions. Although the causal directions set forth in the contingency and process propositions are unique, both suggest that cross-lagged influences exist. The longitudinal dimension is implicit in the HO–subsidiary relationship (Bartlett and Ghoshal 1989). On the basis of the use of longitudinal data, we propose the following:

- P₅: Modeled cross-lagged relationships exist over time.

These propositions are evaluated in a study that involves two stages of analysis corresponding to the two objectives of the research. First, we compare two competing models (i.e., contingency and process) that propose a different causal ordering among strategy, structure, and performance. Second, we test the temporal stability of these relationships (for the best-fitting model). We facilitate this examination both by using a longitudinal design and by analyzing the data with structural equations modeling, which provides more accurate estimates of relationships among hypothesized constructs and enables the evaluation of competing theoretical models (James, Mulick, and Brett 1982).

We used a panel design to examine relationships among model constructs over time. This type of design enables a more powerful explanation of both the causal and descriptive nature of the proposed relationships. This design enabled us to assess effects not only within a single time frame but also across differing time frames as called for by recent research on the marketing strategy–structure–performance relationship (e.g., Cavusgil and Zou 1994; Symanski, Bharadwaj, and Varadarajan 1993).

Data were obtained from 45 executives in 26 MNCs operating in Istanbul, the largest city and the primary commercial region in Turkey. At the time of the first data collection (1988), there were 153 European and North American MNCs operating in Istanbul that qualified for the study. Thirty-three of them agreed to participate. Special care was taken to include

RESEARCH METHODOLOGY

Research Design and Data Collection

a variety of industries. Such heterogeneity is desirable when the focus is to examine relationships among the different constructs rather than generalize about the occurrence of constructs in multiple contexts.

Although there are no clear-cut guidelines for choosing time lags, a seven-year lag appeared appropriate because strategic policies often address a five- to ten-year horizon, and a seven-year lag would thus capture relevant influences. Whereas a test of the effect of strategy on structure (contingency model) may be captured with relatively short time lags, testing the effect of structure on strategy (process model) requires longer time lag evidence (Amburgey and Dacin 1994). Furthermore, because our interest is on the long-term impact of marketing strategy and structure, a seven-year time lag was selected.

Another stage of data collection, in which the same companies were contacted regarding a follow-up survey, occurred in 1994. One subsidiary was acquired by a local company and no longer existed. Twenty-six of the remaining 32 companies agreed to participate in the study. A comparison of the firms that participated only in 1988 and those that participated in both time periods (in terms of subsidiary sales, number of employees, and length of operations in Turkey) showed no significant differences.

Executives in the same positions were interviewed in 1994 by means of the same procedures. A total of 45 interviews was conducted over a three month period in late 1994. In 19 of the participating subsidiaries, two respondents were interviewed, as was necessitated by the 1988 data. In these cases an attempt was made again to interview both a local and an expatriate manager; t-tests revealed no significant differences in their responses. The data from the 1994 interviews were matched with initial interview data to provide both Time 1 and Time 2 data.

Measures

TMS. TMS was measured by first asking managers to consider company products being sold in both the parent country and Turkey. Interviewees then evaluated how similar or different they thought market conditions were in Turkey versus the parent company's country. Sorenson and Wiechmann's (1975) seven-point bipolar scale was used in reporting judgments. Responses were recorded by interviewers on a seven-point scale ranging from very different (1) to very similar (7). An index was created by summing the ratings for the items used. This construct thus measures the extent of similarity in target market conditions.

SMS. SMS was assessed by asking interviewees how similar the marketing practices of the parent company and its Turkish subsidiary were. Again, managers were asked to evaluate

products that were marketed in both the parent country and Turkey. A 13-item scale capturing the product, price, promotion, and distribution elements of the mix was used (Özsomer, Bodur, and Cavusgil 1991; Sorenson and Wiechmann 1975; Symanski, Bharadwaj, and Varadarajan 1993). Judgments were recorded on a seven-point scale ranging from very different (1) to very similar (7). Greater perceived similarity indicated that a more standardized marketing strategy was implemented. An index was created by summing the responses to the items used.

CS. The scale used to measure centralization of marketing decision making was adapted from Brandt and Hulbert's (1977) study. This measure captures HO managers' involvement in marketing-mix decisions and the influence they exert in specific marketing-mix activities performed in subsidiary markets. An example is the extent to which subsidiary managers receive directives from the HO in decisions regarding pricing. Responses were recorded on a seven-point scale ranging from none (1) to very much (7); therefore, high values on this scale indicate a more centralized structure. Again, an index was created by summing the ratings for the items used.

Performance. We used both archival and self-reported measures of economic performance following recommendations by Dess and Robinson (1984). We measured economic performance with a survey question that asked the executive to provide subsidiary sales volume for the year in question: 1988 for Time 1 and 1994 for Time 2. To eliminate problems of high inflation, we recorded sales in U.S. dollars using the average annual exchange rates for the corresponding years. If possible, we examined interrater reliability. That is, for both time periods, we estimated reliability when self-reported sales figures were provided by multiple respondents in the same subsidiary (19 cases). Interrater reliability for sales Time 1 and Time 2 was estimated at .97 and .98 respectively.

For the archival measure of sales, the Istanbul Chamber of Industry's Top 500 list was used. A reporter from a major newspaper in Istanbul contacted by telephone subsidiaries that were not in this list and asked for their sales volume. Again, the same average annual exchange rates were used to record sales in U.S. dollars. The correlation between self-reported and archival sales measures was .96 for the 1988 data and .60 for the 1994 data, which supports previous research by Dess and Robinson (1984), who found a strong correlation (.69) between subjective and objective measures of total sales. Consequently, an index reflecting each period's performance was created by summing the self-reported sales and the archival figures.

Measure Validation. Operationalizations of all constructs were based on previously used scales. Confirmatory factor

analysis (CFA) was conducted on the 1988 data (45 cases) to assess and validate the measurement model. Bentler's (1989) EQS program was used to confirm the hypothesized factors and evaluate overall measurement model fit. Individual factor loadings were examined to assess the appropriateness of item inclusion, whereas overall model fit indices were used to assess measurement model fit (e.g., Bentler 1989).

Several indicators of model fit were used to evaluate measurement and structural models: model chi-square, comparative fit index (CFI), nonnormed fit index (NNFI), and incremental fit index (IFI). Values of .90 and greater are indications of adequate model fit for these indices, and the NNFI and IFI can fall outside the 0–1 range (Bentler 1989). The parsimonious fit index (PFI; James, Mulaik, and Brett 1982) also was considered because it corrects for inflated model fit indices by adjusting for the number of model parameters estimated. Values of .60 and greater are commonly used as an ad hoc rule for model retention with this index. Finally, an insignificant chi-square suggests that the model should not be rejected and thus supports the proposed model.

In addition to indices used to assess model fit, the root mean square error of approximation (RMSEA), was examined to assess lack of fit. Values of the RMSEA of .05 or less indicate close fit, whereas values exceeding .10 indicate lack of fit in relation to the degrees of freedom in the model (Browne and Cudeck 1992).

Model Structural Analyses. Before proceeding with structural analyses, we averaged surveys from subsidiaries with multiple respondents to create a single response from each participating subsidiary. We did this to avoid problems associated with double counting and consequent biased parameter estimates. We thus derived an effective sample size of 26 for structural analyses.

Two stages of structural analyses were conducted in line with the stated objectives of the research. In Stage 1, the two competing theoretical models—contingency and process—were examined. Evidence of model fit (and lack of fit) was used to determine which theoretical model was empirically supported, and only this best-fitting model was examined in subsequent analyses. Stage 2 of the analysis involved comparing sequentially nested models with the best-fitting theoretical model to allow evaluation of the hypothesized contemporaneous, autoregressive, and cross-lagged effects (Gollob and Reichardt 1987). Thus, a series of alternative models was proposed and successively compared with the best-fitting model derived in Stage 1.

The best-fitting theoretical model derived from Stage 1 analyses is referred to as the unconstrained model because it

allows the variances and covariances among model variables at Time 1 to vary from those at Time 2 (Gollob and Reichardt 1987). The first model comparison in Stage 2 involved a test of the assumption of stability (i.e., contemporaneous effects remain stable over time lags). To test this assumption, the unconstrained model was compared with a constrained model, which fixed construct relationships to remain constant over time and forced contemporaneous effects to be identical at Time 1 and Time 2. For example, the path from SMS to CS at Time 1 was constrained to be identical to the same path in Time 2.

The next sequential models assessed autoregressive effects. A model including only autoregressive effects was compared with the best-fitting model. The only proposed effects in this model specification are those of each variable on itself. Finally, a model excluding the autoregressive effects that capture environmental and strategic momentum was compared with the best-fitting model. This model included contemporaneous and cross-lagged effects and only the autoregressive effect between performance at Time 1 and Time 2.

Structural paths were evaluated for significance, and sequential chi-square difference tests (SCDT) were interpreted when model comparisons were appropriate. The SCDT provides a comparison of nested models by evaluating the chi-square difference between such models. Structural modeling techniques included in Bentler's (1989) EQS program were used to evaluate proposed models.

We present in Table 1 correlations among constructs with means and standard deviations. The measurement model derived from the CFA accurately fit the 1988 data (CFI = .91, NNFI = .87, IFI = .92, PFI = .65). In addition, the 90% confidence interval surrounding the RMSEA estimate (RMSEA = .10) indicated that the null hypothesis of close fit could not

RESULTS

CFA Results

Table 1.
Means, Standard Deviations,
and Correlations

Variable	Mean	Standard Deviation	1	2	3	4	5	6	7	8
1. TMS1	3.32	1.23	(.50)							
2. SMS1	3.09	1.07	.68*	(.67)						
3. CS1	2.16	1.33	.30*	.42*	(.73)					
4. P1*	90.07	110.29	.12	.08	-.08	(.99)				
5. TMS2	5.13	1.28	.17	.14	.10	.12	(.51)			
6. SMS2	4.85	1.19	.01	.10	.18	.40*	.32*	(.58)		
7. CS2	2.33	.99	.10	.25*	.11	.21	.12	.39*	(.68)	
8. P2*	173.27	182.79	-.14	-.22	-.29*	.75*	.02	.26*	.16	(.65)

* $p < .05$.

* Sales are in million U.S. dollars.

Notes: TMS1 and TMS2 = TMS at Times 1 and 2, respectively.

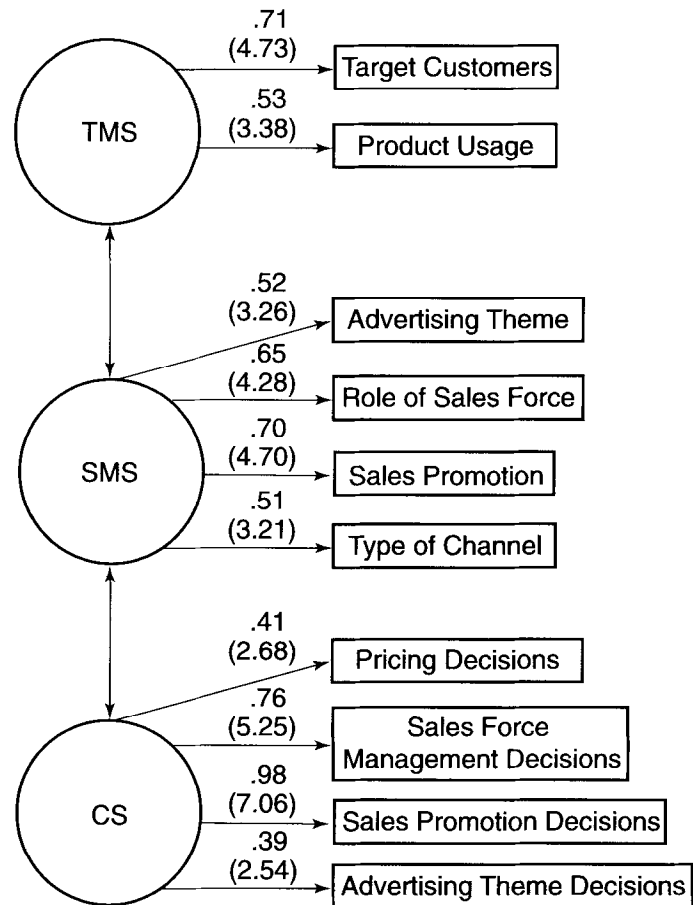
SMS1 and SMS2 = SMS at Times 1 and 2, respectively.

CS1 and CS2 = CS at Times 1 and 2, respectively.

P1 and P2 = Performance at Times 1 and 2, respectively.

Numbers in parentheses represent reliability coefficients.

Figure 3.
Confirmatory Factor Analysis



Notes: Chi-square = 46.18, $p > .05$, d.f. = 32. t-values are in parentheses.

be rejected (Browne and Cudeck 1992). Moreover, all factor loadings shown in Figure 3 were significant with a mean standardized loading of .62 (t-values are in parentheses). These results suggested aggregating items to form single composite manifest variables. This recombination of data has been used elsewhere (e.g., Cavusgil and Zou 1994) and makes more modest demands of sample size by conserving degrees of freedom.

Structural Model Results

Stage 1 structural model results are presented in Table 2. The contingency model (Model 1 in Table 2) accurately explained the sample data as indicated by an insignificant chi-square of 13.12 (d.f. = 16, $p > .05$) and supportive model fit indices (see Table 2). In contrast, the process model (Model 2 in Table 2) poorly fit the sample data. Specifically, the model chi-square was significant ($\chi^2 = 26.57$, d.f. = 16, $p \leq .05$), and the model fit indices indicated the process model was a worse fit to the data. A chi-square comparison between the models was not conducted because neither model was completely nested within the other. However, because relevant model fit indices for Model 2 were all lower than the .90 cutoff, it can be in-

Table 2.
Fit Indices for Contingency,
Process, and Nested Sequence
of Panel Models

Model	χ^2	d.f.	CFI	NNFI	IFI	PFI	RMSEA	90% Confidence Interval		d.f.	Assessment	
								SCDT				
1. Contingency model—unconstrained	13.12	16	1.00	1.13	1.00	.57	.01	(.00, .15)			P ₁ (S)	
2. Process model	26.57*	16	.72	.51	.78	.40	.16	(.02, .26)			P ₂ (R)	
3. Contingency model—constrained	14.77	18	1.00	1.13	1.06	.64	.00	(.00, .14)				
3-1 difference										1.65	2	P ₃ (S)
4A. Auto-regressive model	48.12*	24	.36	.26	.42	.31	.20	(.11, .27)				
4A-3 difference										33.35*	6	P ₄ (R)
4B. Auto-regressive effects dropped	16.37	21	1.00	1.16	1.10	.75	.00	(.00, .12)				
4B-3 difference										1.60	3	P ₅ (S)

*Significant chi-squares or sequential chi-square differences.
Notes: S = supported; R = Refuted.

ferred that the process model did not fit the data as well as the contingency model.

In summary, Stage 1 results provide initial support for P₁ but not P₂. Therefore, the structural sequence specified in the contingency model captures a more accurate description of the relationships between the constructs than does the process model. The contingency model thus was the unconstrained model to be used as the basis for all Stage 2 analyses.

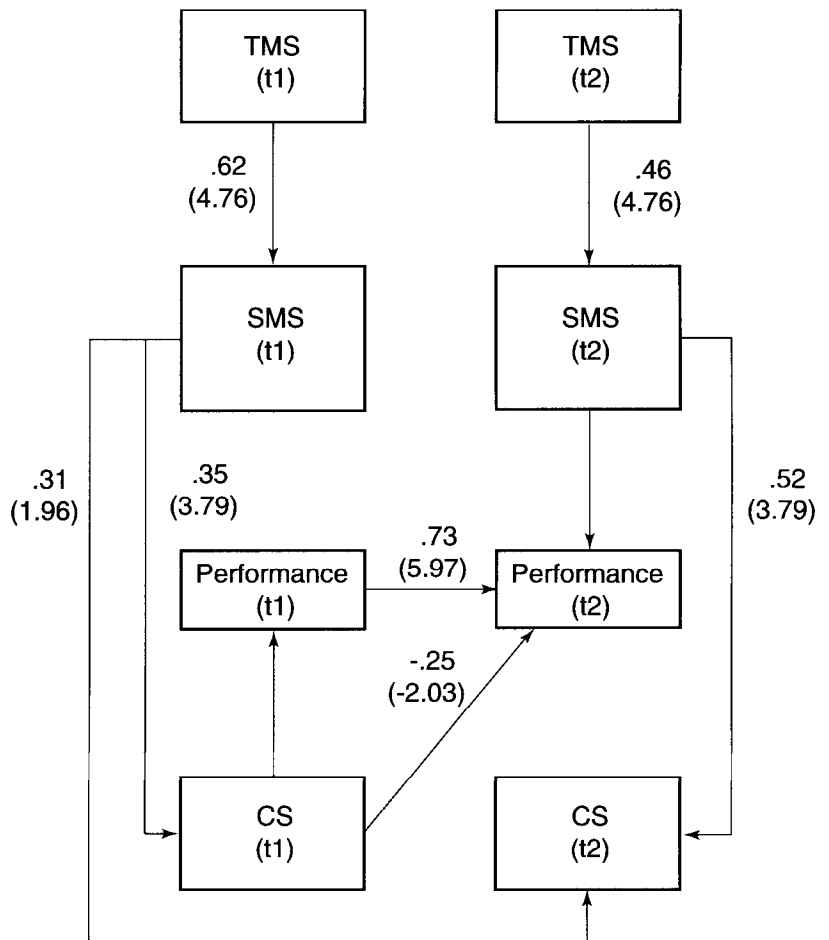
An alternative model constraining contemporaneous effects as stable over time is given by the constrained model (Model 3) and is nested within the unconstrained model (Model 1). Similar to the unconstrained model, the constrained model also fit the sample data well. Specifically, the model chi-square was insignificant, and the model fit indices exceeded the .90 threshold (see Table 2). These results provide support for P₃. To determine further if the restricted paths of the constrained model are appropriate, we compared Model 3 with Model 1 and calculated the sequential chi-square difference. The SCDT was not significant (see Table 2), which indicates tentative acceptance of the more restricted constrained model and thus supports P₃, which states that modeled contemporaneous relationships are stable over time.

To assess modeled autoregressive effects, we first specified a model including only autoregressive effects (Model 4A in Table 2). Table 2 shows that Model 4A poorly fit the sample data: $\chi^2 = 48.12$ (d.f. = 24, $p < .05$); all fit indices fell below

the .90 cutoff for good-fitting models. A nested comparison between Model 4A and Model 3 yielded a significant SCDT, which indicates that including only autoregressive effects in the model is inappropriate. These results lead to the rejection of P_4 .

Finally, we specified a model (Model 4B) that excluded environmental and strategic momentum effects but included contemporaneous and cross-lagged effects. This model fit the data well ($\chi^2 = 16.37$, d.f. = 21, $p > .05$), and all fit indices exceeded their required thresholds for fit (James, Mulaik, and Brett 1982). We then compared Model 4B with the constrained contingency model. The SCDT between these models was insignificant ($\chi^2 = 1.60$, d.f. = 3), which suggested acceptance of the more parsimonious of the two models, Model 4B. These results provide further evidence to reject P_4 while indirectly supporting P_5 , which states that SMS leads to a centralized marketing structure over time and CS influences subsequent performance. These results suggest the importance of modeled cross-lagged effects and reveal the significance of using longitudinal data to examine these relationships. In Figure 4 we present the significant path coefficients.

Figure 4.
Revised Contingency
Model—Constrained
Significant Path Coefficients



Notes: Chi-square = 16.37, $p > .10$, d.f. = 21.

cients in Model 4B (t-values are in parentheses). Although paths constrained to be equal show unique standardized path coefficients, unstandardized path coefficients are equal.

Our findings have implications for two key questions faced by subsidiary and MNC managers: What is the dominant factor that affects performance directly? and Are the relationships among these variables stable over time?

A comparison between contingency and process models provided initial evidence of marketing structure as the dominant factor that determines subsidiary performance: a CS has a direct, negative impact on performance, though the effect is not immediate (contemporaneous) but delayed (lagged) and occurs only over time. The contingency model explains the lack of a direct relationship between strategy and performance by showing that an SMS does affect subsidiary performance, but only through the key mediating variable of structure.

Both marketing strategy and structure are within the control of subsidiary and MNC managers. By responding to local conditions with an adaptation strategy and by decentralizing marketing structure to implement that strategy, MNCs can expect better results in subsidiary markets. Interviewed managers often attributed their success to local market familiarity and to adapting their marketing strategies to the market. For example, one executive emphasized that “in an increasingly competitive local market, adaptation is a way we differentiate ourselves from competition.” A locally adapted marketing strategy is a way to gain competitive superiority over competitors. The implication is that whenever adaptation can be achieved at reasonable cost, subsidiary management should pursue locally adapted strategies. In contrast, poor performance of subsidiaries can be attributed to too much centralization of marketing decision making at the HO and failure to adapt marketing strategy to subsidiary market conditions.

Given initial support for the contingency model, investigation of model stability involved examination of contemporaneous, autoregressive, and cross-lagged effects portrayed in the model.

Contemporaneous Effects. Results provide preliminary evidence in that (1) the effect of TMS on SMS occurs in the same time period, (2) the effect of SMS on CS occurs in the same time period, and (3) these significant contemporaneous effects are stable over time.

Consistent with the standardization literature, the significant contemporaneous effect of TMS on SMS suggests that marketing strategies are coaligned to the market context of the subsidiary (Cavusgil and Zou 1994; Samiee and Roth 1992).

DISCUSSION

What Determines Subsidiary Performance?

Are Relationships Stable over Time?

Subsidiaries opt for SMSs when target markets are similar across countries. The size of the coefficients (Figure 4) suggests that environmental contingencies, specifically TMS, may be as important as the internal consistency between strategy and structure.

Another significant contemporaneous link indicates that subsidiaries implement an SMS by centralizing the marketing decision-making structure. Structure is thus aligned to implement better the strategy chosen (Chandler 1962; Lawrence and Lorsch 1967): CSs follow SMSs. Similarly, decentralized structures are driven by marketing strategies that are locally adapted.

Results also suggest that these contemporaneous links are stable over time. For example, marketing strategy is consistently responsive to the target market environment, demonstrating a market orientation. Instead of being led by prior levels of standardization, new marketing strategies are developed as a response to TMS in the same time period. This corresponds to an emergent marketing strategy, because the environment directly imposes a consistent pattern of action on the subsidiary over time. Then, new structural changes are made to implement those emergent strategies. In contrast, a more deliberate strategy occurs when the external target market does not have an impact on marketing strategy. Therefore, for our sample, subsidiary strategies and subsequent structures are continuously fine-tuned to fit conditions of the target market and are more emergent and market oriented than deliberate.

Autoregressive Effects. Results provided no support for the presence of repetitive momentum. Prior levels of TMS, SMS, and CS did not have a significant effect on their levels in the future. Responding managers advocated continuous fine-tuning of their strategies and structures to environmental and firm-specific contingencies. With stable contemporaneous relationships, the lack of autoregressive effects provides evidence on the use of emergent strategies in these subsidiaries.

One plausible explanation for the lack of autoregressive effects is that the effects of initial TMS, SMS, and CS decay over time so that repetitive momentum is more likely to occur sooner than later (Amburgey and Dacin 1994). It might have been possible to detect momentum if the time lag used was less than seven years. Indeed, further research is necessary to shed light on this possibility.

The only significant autoregressive effect was the influence of Performance Time 1 on Performance Time 2. Past performance is a significant predictor of future performance (Figure 4). Even after controlling for the effect of Time 1 performance in predicting performance in Time 2, the cross-lagged effect of CS on performance was significant.

Cross-Lagged Effects. Our findings suggested two significant cross-lagged effects: (1) the positive influence of SMS on subsequent centralization of structure and (2) the negative impact of CS on future subsidiary performance. The first cross-lagged effect offers support for the thesis that structure follows strategy in general and that standardization of marketing strategy subsequently leads to centralization of marketing structure in particular (Bartlett and Ghoshal 1989). The adaptation of marketing strategy to subsidiary markets may create new administrative needs that over time lead to decentralized structures.

The second cross-lagged effect suggests that CSs, over time, lead to poor performance. Using contingency theory explanations, a localized marketing strategy leads to a decentralized structure, which then improves performance. This finding provides initial support for the act local dimension of a global strategy. Whereas the alignment of locally adapted marketing strategies and decentralized structures improves performance, the alignment of CSs to SMSs does not.

Indeed, extensive information flow to the HO (in CSs) may limit HO managers' time and objectivity, which makes it more likely that they will overlook opportunities in the subsidiary market (Williamson 1975). When every important decision is made by HO management, there is little room for maneuvering left to subsidiary management. One of the reasons to decentralize decision making in MNCs is to maximize learning from local markets (Bartlett and Ghoshal 1989). At Unilever, "the need to benefit from everybody's creativity and experience" led to the development of the firm's present decentralized structure (Maljers 1992, p. 46). When local learning benefits are foregone and a CS is adopted, performance can suffer in the long run.

In addition, more experienced expatriate managers warned against the increased tendency for centralizing marketing decision making. Their warning reinforced previous research that found cases in which HO management did not fully understand differences and complexities in subsidiary markets (Pralahad and Doz 1981). A powerful HO may weaken subsidiary performance, and greater attention should be paid to the opportunity to decentralize marketing decisions to individual subsidiaries (Hill and Pickering 1986). Our findings are only preliminary, and more longitudinal research is needed to examine the relationship between structure and performance closely.

A recent meeting with the general manager of Procter & Gamble responsible for Central and Eastern European health and beauty product marketing provided support for our findings. (Procter & Gamble was not one of the firms in our sample.)

Qualitative Interviews

The manager identified “deep local knowledge” as one of the firm’s core competences. He named the ability to act local despite operating in more than 160 countries as his company’s biggest strength. A major part of his job, therefore, was managing differences among markets. He further stated that he always starts his managerial thinking with the consumer before considering competitors, customers (retail), or country. He gave the examples of Flash liquid (United Kingdom), pull-on diapers (Japan), and detergent with bluing (Egypt) as successful products developed after the unique needs of local consumers were studied. In another example he stated that, though Pringles was a global brand, the product had different flavors in different markets (e.g., salt and vinegar in United Kingdom).

A second executive at Procter & Gamble gave the example of Zest soap. The product had been marketed successfully in Morocco by means of the same advertising theme as in the United States—an invigorating, refreshing soap appropriate for the morning shower. Marketers in Egypt decided to use the same advertising theme. However, sales flopped after two months. After a closer examination of consumer habits, market researchers realized that Egyptians take their showers in the evenings after coming home from an exhausting day. Therefore, the shower is viewed as relaxing and calming rather than invigorating. Procter & Gamble managers launched a new advertisement that captured these market-specific issues, and sales increased significantly and stayed that way.

A marketing director in another fast-moving consumer goods company also attributed market leadership and high profitability to a highly localized marketing strategy enabled through a decentralized structure. The subsidiary ranked third in sales volume among 18 subsidiaries. Subsidiary management had locally conceptualized and implemented a positioning for its product that captured the needs of target consumers well. The product quickly became the market leader, backed by a locally adapted advertising campaign. The subsidiary was able to retain leadership by fine-tuning new product introductions, advertising, sales promotion, and distribution to the idiosyncrasies of the local market.

The same subsidiary took an existing product formulation that had mediocre success in other markets and turned it into a success story in its local market. Through a locally developed marketing strategy including a brand name, the company created a product category and enjoyed leadership. The director also noted that the company’s decentralized structure enabled it to react to changing customer needs and exploit windows of opportunities more quickly than its much larger but centralized competitors.

The general manager of a manufacturing software provider explained how his company used local adaptation as a way

to increase its competitiveness in the highly dynamic subsidiary market. Targeting smaller firms with heterogeneous software needs and tighter budgets, the firm adapted product features, pricing, and the role of its sales force while relying more on local managers in a decentralized structure. Similarly, one of the first providers of electrical turbines in Turkey took pride in how it beat its competition by carefully adapting its products to fit the needs of its customers. The firm made the implementation of this locally adapted strategy feasible by developing a decentralized structure in which subsidiary managers enjoyed significant autonomy in marketing decision making.

Finally, many of the managers interviewed cautioned that in recent years they were facing more pressure from HO management to pursue global marketing strategies. Our interviews demonstrated that the issue of standardization versus adaptation is far from being resolved and that there is a lack of knowledge even among practicing MNCs on the performance implications of these marketing strategies. One of the managers identified the issue as the most important one and said that developments over the next five to ten years will be interesting to watch. We hope our preliminary findings generate a healthy debate on these important issues.

The limitations of our study should be considered when the findings are interpreted. First, the small sample size may have reduced statistical power and led to unreliable goodness-of-fit estimates. Similarly, significant but small effects may not have been detected because of reduced statistical power. However, even with reduced statistical power the panel design of the study provided enough sensitivity to uncover significant causal relationships. Thus, our study can be viewed as a conservative test of the proposed models. Second, composite indexes were used to operationalize the constructs. This procedure can result in biased path estimates (James, Mulaik, and Brett 1982). Nevertheless, the longitudinal design decreases problems associated with single-item measures.

A third limitation is the problem of excluding other firm-specific and environmental variables that may affect the dependent variable—the unmeasured variable problem (James, Mulaik, and Brett 1982). Previous research suggests that firm size affects firm performance (e.g., Samiee and Roth 1992). To address this possibility we tested the revised contingency model (Figure 4) and included subsidiary size (number of full-time employees) as an additional predictor of subsidiary performance (model $\chi^2 = 20.14$, d.f. = 28, $p > .10$). The strength and direction of previous path estimates did not change significantly, which suggests that the original parameter solutions were not biased by the omission of firm size.

Limitations of the Study and Directions for Further Research

Further research is needed to determine the extent to which other unmeasured variables (e.g., experience in the subsidiary market, percent of foreign ownership) constitute relevant causes of subsidiary performance. Similarly, a fruitful area for further research is an investigation of the way moderators not included in this study (e.g., level of competition) influence modeled relationships.

Fourth, our sample included Turkish subsidiaries of MNCs, which limited the effects generalizability of results (Calder, Phillips, and Tybout 1981). In contrast, current findings provide a general understanding of the relationships among constructs in the model and thus have theory generalizability. Further research is needed when the primary goal is to apply the specific effects observed to different research settings.

CONCLUSION

The study has contributed to our understanding of the relationships among marketing strategy, marketing structure, and performance in subsidiaries of MNCs. The results provide initial evidence that supports the contingency model, which states that SMSs lead to centralized marketing structures. Centralized structures, in turn, influence the performance of the subsidiary negatively in the long run. Localized marketing strategies and decentralized marketing decision making have emerged as key success factors in subsidiary marketing.

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