

RESEARCH BRIEF

Global Marketing in Multinational Firms

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Executive Summary

With increasing globalization of the world economy, there is growing interest in international business research among academics, business practitioners and public policy makers. As marketing is usually the first corporate function to internationalize, it occupies the centre-stage in the international strategy debate. The objective of this study was to understand the environmental and organizational factors that drive the desirable outcomes of learning, innovation and performance in multinational firms (MNCs). The key research question addressed in the study was: how and to what extent the global marketing *environment*, the international marketing *strategy*, and the organizational *structure*, impact on the outcomes of *learning, innovation and performance* in MNCs?

Major findings. Contrary to conventional wisdom, the traditional international marketing strategy issue of marketing mix *adaptation*—the degree to which the firm alters its marketing to local conditions—and the organizational structure issue of *subsidiary autonomy*—the extent to which the subsidiary acts independent of the MNC headquarters—does not have a significant direct influence on MNC performance. Rather, the three factors we discovered that affect MNC performance directly were:

- The extent of collaborative decision-making—firms that make marketing mix decisions in groups, such as teams and task forces comprising managers from headquarters and subsidiaries, outperform those that use a less collaborative decision making mode
- The magnitude of interunit learning—organizations that share knowledge, information and common goals and values amongst geographically dispersed units of the MNC outperform those that do not
- The degree of marketing mix innovation—subsidiary marketing managers who develop new ways of carrying out their marketing activities achieve greater performance for their firm than those with less innovative inclinations

In addition to these direct effects, there are a number of complex indirect interactions that also drive performance. For example, collaborative decision making has the additional effect of enhancing interunit learning. Also, although subsidiary autonomy does not drive performance directly, it does have a significant indirect influence based upon its relationship to the innovativeness in MNC subsidiaries—i.e., more autonomous subsidiaries are more innovative and hence perform better. Finally, one of the more interesting results is that a ‘misfit’ between the level of a subsidiary’s adaptation of its marketing mix and the pressures to integrate its operations globally will lead to significantly poorer performance. In other words, firms that follow an adaptation strategy when the market environment demands scale and global integration will perform poorly.

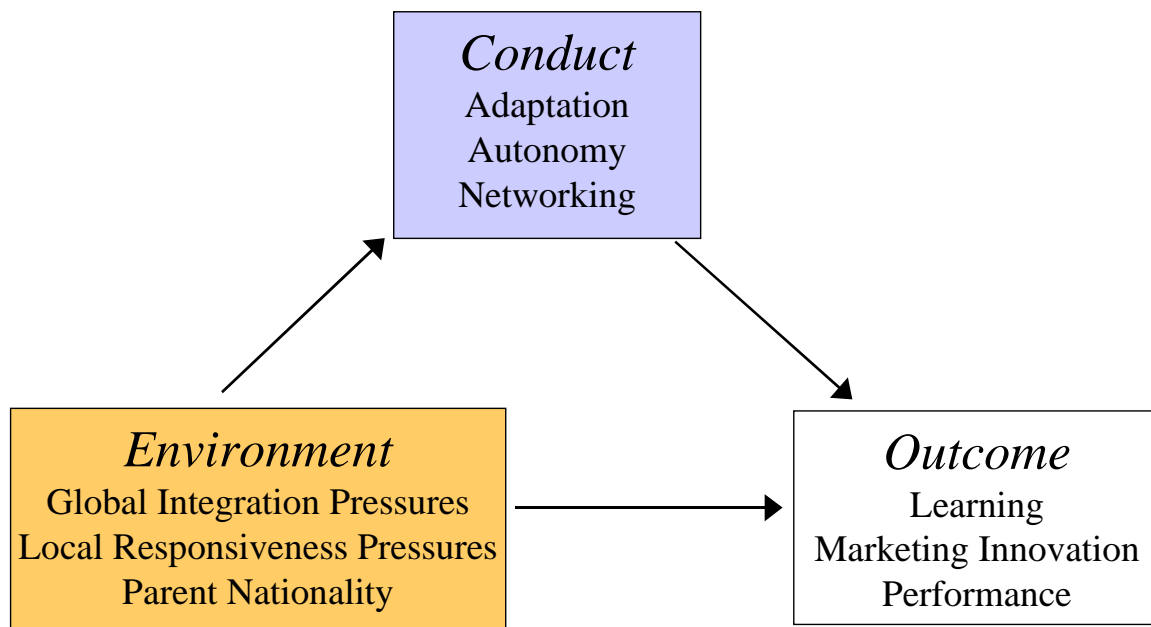
Implications. These findings have important implications for the management of global marketing in MNCs. First, to enhance organizational learning and innovation, and ultimately improve corporate performance, MNCs should simultaneously develop the potentially conflicting organizational attributes of collective decision-making among the subsidiaries and greater autonomy to the subsidiaries. Second, to tap local knowledge, MNCs should regard their local operations as ‘colleges’ or ‘seminaries’ of learning rather than as merely ‘subsidiaries’ with subordinate roles. Finally, to improve MNC performance, the key requirement is to achieve a good fit between the global business environment, international marketing strategy and organizational structure.

A Model of Marketing in MNCs

According to traditional industrial organization perspectives of strategy, industry structure—that is, the business environment—influences the conduct of firms within an industry, which in turn impacts on the performance of all firms within the industry. Thus, the conventional theory regards the performance of firms to be determined largely by the industry structure within which the firm operates. The alternative ‘resource-based’ viewpoint regards the organizational resources, skills and competencies of the firm to have a greater impact on company performance than industry structure. Differential resources, especially those that are intangible in nature, are considered to be the main drivers of competitive advantage. Paraphrasing Shakespeare, the resource-based approach to understanding firm performance looks on the successes and failures of firms to be in ‘themselves’ (their skills and competencies) while the traditional industrial organization approach considers the ‘stars’ (the industry and environment) more important.

Combining these perspectives, we posit a more eclectic approach, which we call the environment-conduct-outcome framework (see Figure 1). According to our approach, the business *environment* impacts on the marketing *conduct* and both the *environment* and *conduct* impact on the organizational *outcome*. As shown in the figure, the MNC’s environment can be represented with three broad components: *global integration pressures*—external pressures that force the firm to conduct its activities on a global basis—*local responsiveness pressures*—external pressures that force a company to conduct its activities on a country-by-country basis—and *parent nationality*—reflecting its cultural heritage. Similarly, the concept of *conduct*, which characterizes the purposeful actions and decisions of the MNC’s management, is represented by marketing *adaptation* and the two organizational structure components of subsidiary *autonomy* and collaborative *networking*.

Figure 1: The Environment-Conduct-Outcome Framework



In the strategic management literature, *interunit learning* and *innovation* are regarded both as organizational outcomes as well as processes that affect the current and future *performance* of multinational firms. Increasingly, multinationals conduct their marketing strategy and set their organizational structure to simultaneously achieve the desirable outcomes of learning,

innovation and improved performance. Therefore, it is important to understand not only the factors that improve current corporate performance, but also the factors that enhance organizational learning and innovation, since the latter provide the foundation for future firm profitability. Thus, our concept of *outcome* includes *learning* and *innovation* in addition to the more obvious and traditional financial and operational *performance* measures.

Who was Studied?

Our study utilized a stratified random sample of mainly Japanese, UK, and American MNC subsidiaries selected from the Dun and Bradstreet WorldBase database. To capture the diversity in MNCs' international marketing environment, strategy, structure and performance, firms were selected to include subsidiaries located in both developed and developing countries and operating in varied manufacturing and services businesses across the consumer and industrial product spectrum. Since the unit of analysis was the business unit in the subsidiaries of multinational firms, the data were collected from *business unit marketing managers in MNC subsidiaries* using a self-administered mail survey questionnaire.

The questionnaire was mailed to 728 subsidiaries. The net response rate of 17.8 per cent compares favourably with the response rates of between 6 and 16 per cent reported in the literature for global mail surveys. The sample contains responses from 119 MNCs engaged in 84 different manufacturing businesses and 24 different services businesses, with nearly equal numbers in consumer and industrial product businesses. The subsidiaries are located in 36 countries around the globe and serve 40 country markets/regions covering almost the entire world. 88 per cent of businesses that responded belong to MNCs from three countries—Japan (24%), UK (24%) and USA (40%). The sample includes mainly large MNCs, with the mean and median number of employees in the parent company being 44,000 and 22,000, respectively, and that in the subsidiary company being 1,299 and 325, respectively. Tables 1–3 present some additional details of the sample used for our study.

Table 1: Global Mail Survey Sample (number of companies sent surveys)

Parent country	Subsidiary business		Total
	Manufacturing	Services	
Japan	171	72	243
UK	172	63	235
USA	185	65	250
Total	528	200	728

Table 2: Country of Domicile of the Parent MNC in the Survey Response Sample

Country	Number of firms responding	Country	Number of firms responding
Australia	7	New Zealand	2
Canada	1	Singapore	1
France	2	South Africa	1
Holland	6	Sweden	1
Hong Kong	1	Switzerland	1
Japan	45	UK	45
Netherlands	1	USA	77

Table 3: Locations of the MNC Subsidiaries in the Survey Response Sample

Country	Number of subsidiaries responding	Country	Number of subsidiaries responding
Argentina	2	Luxembourg	1
Australia	84	Malaysia	2
Austria	1	Malta	1
Bangladesh	2	Mexico	3
Belgium	6	Netherlands	1
Brazil	4	New Zealand	2
Canada	2	Philippines	13
Chile	1	Portugal	6
China	1	Seychelles	1
France	4	Singapore	5
Germany	7	South Africa	2
Holland	1	Spain	5
Hong Kong	4	Sweden	1
India	1	Switzerland	3
Indonesia	3	Thailand	5
Ireland	2	UK	7
Italy	2	USA	1
Japan	3	Zimbabwe	2

The Bottom Line

Figure 2 provides a schematic of the model that was the best predictor of MNC outcomes—innovation, learning and financial performance. Table 4 gives detailed descriptions of the measures used. The solid lines in Figure 2 indicate a significant positive relationship between the nodes (e.g., between innovation and financial performance) and dashed lines indicate a significant negative association (e.g., between marketing adaptation and networking).

Figure 2: The Empirical Determinants of MNC Learning, Innovation and Financial Performance

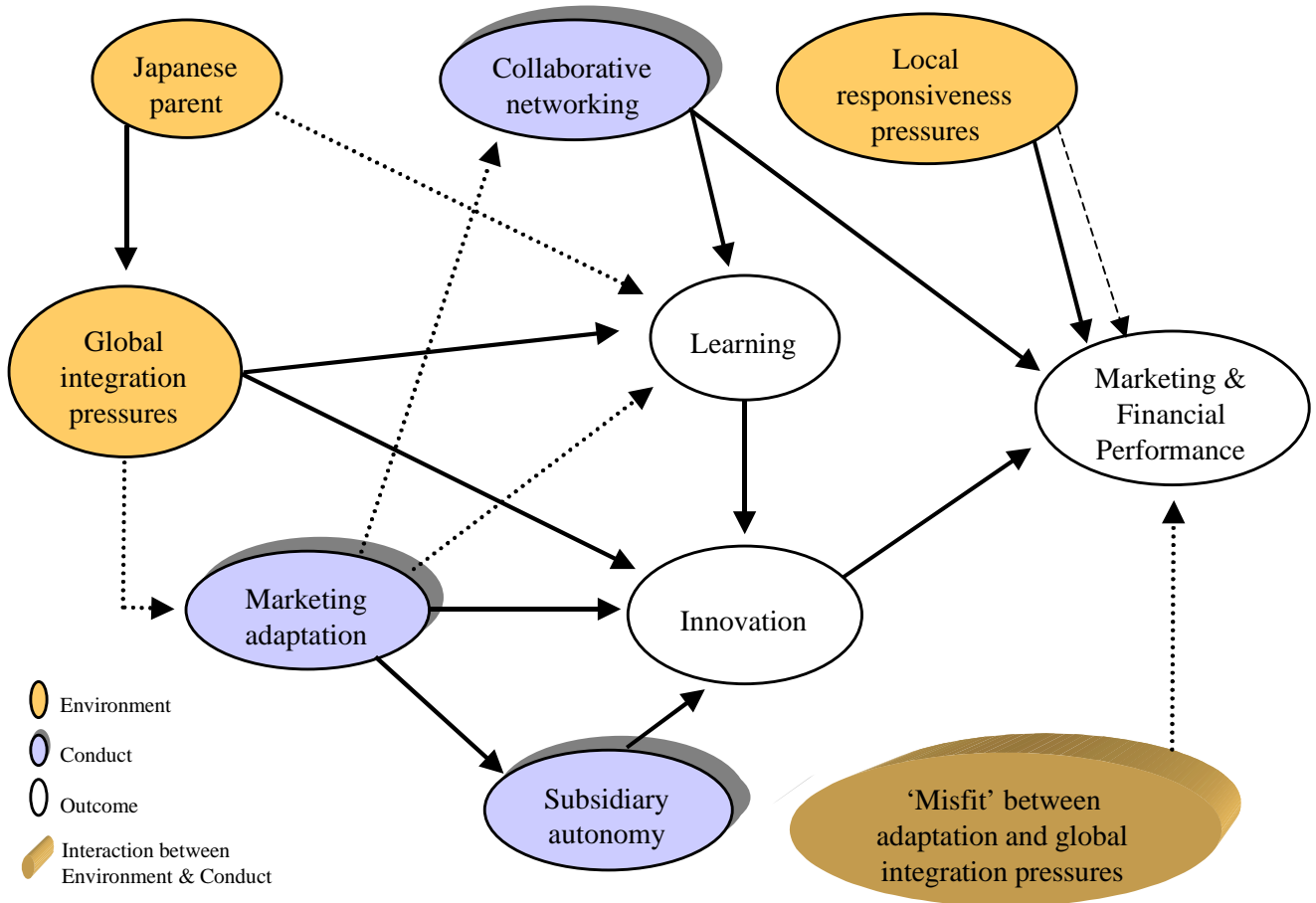


Table 4: Description of the Constructs Presented in the Empirical Model

Construct Name	Construct Definition
Global Integration Pressures	Environmental pressures that force MNCs to conduct their activities on a global basis, e.g., global competition
Local Responsiveness Pressures	Environmental pressures that force MNCs to conduct their activities on a country-by-country basis, e.g., local customers and government
Japanese Parent	Parent/home country of MNC subsidiary is Japan
Adaptation	Extent to which marketing mix is modified for the subsidiary market
Autonomy	Extent to which marketing mix decisions are taken by subsidiary managers
Networking	Extent to which marketing mix decisions are taken in groups, such as teams and task forces, comprising managers from headquarters and subsidiaries
Learning	Extent to which knowledge, information, and common goals and values are shared among geographically dispersed units of the MNC
Innovation	Extent to which subsidiary marketing managers find new ways of carrying out the marketing activities
Performance	Market share, sales growth, ROI and unit costs relative to competitors

The major findings are:

- Financial performance is:
 - ❖ Positively related to pressures to localize marketing and operations
 - ❖ Positively related to the innovativeness of the subsidiary's marketing activity
 - ❖ Positively related to collaborative networking amongst subsidiaries and headquarters
 - ❖ Negatively related to the misfit between the firm's adaptation of its marketing strategy and the pressures toward global operations
- Innovation in the MNC's marketing activity is:
 - ❖ Positively related to interunit learning
 - ❖ Positively related to the autonomy of the subsidiary
 - ❖ Positively related to the degree to which the firm adapts its marketing mix
 - ❖ Positively related to pressures to globalize operations
- Learning across the MNC is:
 - ❖ Lower for subsidiaries of Japanese MNCs
 - ❖ Positively related to pressures to globalize operations
 - ❖ Negatively related to the degree to which the firm adapts its marketing mix
 - ❖ Positively related to collaborative networking amongst the subsidiaries and headquarters
- Globalization pressures reduce subsidiary marketing adaptation and are more likely to be met by subsidiaries of Japanese MNCs
- Collaborative networking is negatively affected by marketing adaptation activities

There are a number of lessons that follow from these results. Since autonomy is likely to motivate and encourage country managers to seek new and improved ways of carrying out their marketing activities, it is imperative that MNCs provide greater autonomy to their subsidiary managers in order to enhance the creation of innovations in the geographically dispersed units of the firm. Ultimately, the local innovations will not only improve the performance of the subsidiaries, but leveraging good local ideas on a global basis will improve the worldwide competitive position and performance of the multinational firm. This is further reinforced by the finding that intra-organizational networking has a significant positive influence on both interunit learning and performance in MNCs. Since MNCs operate in dynamic business environments, sustaining global competitiveness is likely to require extensive knowledge and information exchange among their geographically dispersed units. To ensure effective collaboration among managers from diverse countries and cultures, it is imperative that MNCs invest in training their headquarters and subsidiary managers to develop their participative decision-making skills.

The descriptive statistics for the constructs described in Table 4 are provided in Table 5. These numbers show that, whereas MNCs have reasonably high levels of marketing mix adaptation and autonomous decision-making in their subsidiaries, the level of network decision-making, interunit learning and marketing mix innovation—variables that have direct

positive influence on performance—have relatively low to moderate values on average. It is clear that these more complex factors deserve more attention by MNC management.

Table 5: Description Statistics for the Constructs Presented in the Empirical Model

Model Construct	Mean	Standard deviation	Minimum	Maximum
Global Integration Pressures	4.28	1.12	1.33	6.50
Adaptation	5.16	1.03	1.25	7.00
Autonomy	5.25	1.07	1.96	7.00
Networking	3.59	1.51	1.00	7.00
Learning	4.46	1.07	1.00	7.00
Innovation	4.48	1.10	1.47	7.00
Performance	4.91	1.17	1.50	7.00

Note: Measurement scale ranges from 1 (low) to 7 (high)

In sum, MNCs should simultaneously exploit networking and autonomous decision-making mechanisms in order to enhance both learning and innovation respectively. This will ultimately improve corporate performance. Neither networking nor autonomy alone is likely to provide the necessary competitive advantage to the MNC for achieving the best performance. However, managing the seemingly contradictory organizational requirements of autonomous decision-making for subsidiary innovativeness and collaborative decision-making for interunit learning is likely to be an interesting challenge and an opportunity for MNC managers. Finally, the relationships we have discovered amongst global integration pressures, adaptation, and autonomy indicate that, to improve performance, the key question is not whether to standardize or adapt the global marketing mix, but rather how to achieve a good fit between the global business environment, international marketing strategy and organizational structure.

A Final Wrap

Overall, the three key theses of this research are:

- International business is driven by *complex, multidimensional* and *multilevel* interactions of a number of strategic pressures (*Environment*) and managerial choices (*Conduct*). In order to gain a comprehensive understanding of the environmental and organizational factors that affect MNC performance (*Outcome*) it is imperative to understand these interactions.
- The achievement of a good fit between the global business environment, international marketing strategy and organizational structure is the *sine qua non* for improved MNC performance.
- With MNC subsidiaries moving from a position of *dependence* on the parent company for resources, to one where they are *sources* of innovation that the MNC can leverage globally, it is important to regard MNC subsidiaries as ‘colleges’ or ‘seminaries’ of learning, rather than merely as ‘units’ with secondary or subordinate roles.

Readings for Those Wanting to Know More

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