11 Subsidiary marketing strategy implementation (SMSI): the missing link of international marketing strategy research

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What to do – the marketing strategy – is clear. . . *How* to accomplish the strategy – the marketing implementation – is problematic.
(Bonoma, 1984)

INTRODUCTION

Strategy implementation has long been identified as the problematic component, the 'black box' or the 'missing link' of strategy research. Despite the concept's undisputed importance and centrality in strategy literature, most discussions of strategy are confined to its formulation, with no or only fleeting mention of implementation considerations (Freeman and Boeker, 1984; Skivington and Daft, 1991). The problem is not unique to strategy research in marketing but is equally troubling in its conspicuous paucity in the international marketing strategy literature. Reviews of the extant research reveal that strategy implementation remains an understudied aspect of the field in terms of its conceptual dimensions, empirical support and managerial implications (Birnik and Bowman, 2007).

Our nominal understanding of how international marketing strategies are implemented represents a widely acknowledged major shortcoming. It has long been acknowledged that the importance of a specific international marketing strategy lies in its potential to enhance business performance (Samiee and Roth, 1992; Katsikeas et al., 2006). Yet the few studies addressing performance implications of international marketing strategy report mixed results (e.g. Cavusgil and Zou, 1994; Szymanski et al., 1993; Albaum and Tse, 2001; Shoham, 1999), making it difficult to develop theory and derive managerial prescriptions. What is more problematical is the fact that without due attention to implementation considerations, it is impossible to determine whether the resulting performance outcomes, positive or negative, stem from the inappropriateness of strategy adopted or the wrong implementation of otherwise appropriate strategies. That is, as Bonoma (1984) had elucidated, execution inadequacies mask both the appropriateness and inappropriateness of strategy, not only causing management to experience poor performance but also hindering attempts to understand the reasons behind it. On the other hand, good execution may mitigate poor strategy, giving managers time to remedy the problem before it causes performance to deteriorate. Hence, grounded as well as actionable understanding of the relationship between international marketing strategy and its impact on performance requires that due attention be given to strategy implementation.

This fundamental void in our understanding underscores the recurrent calls suggesting that instead of concentrating on the macro perspective of strategy formulation, which focuses on the content of strategic initiatives and hence strategy formulation, the emphasis should shift towards a more micro perspective, which focuses on how strategy is put into practice, namely strategy implementation (e.g. Birnik and Bowman, 2007; Bonoma, 1984; Miller et al., 2004; Skivington and Daft, 1991). Motivated by these calls, this study is devoted to advancing the conceptual as well as empirical base of international marketing strategy research from strategy formulation to strategy implementation. Accordingly, the study presented here is the first empirical study we are aware of that is designed explicitly to examine subsidiary marketing strategy implementation (SMSI). To that end, we provide a theoretically grounded empirical investigation of what SMSI is, whether it matters and, if so, to whom, when and to what extent it matters. We investigate these questions within the context of US based multinational corporations (MNCs) on the basis of potential drivers and performance outcomes of SMSI. In so doing, our research makes four additional contributions to the extant literature.

First, to provide greater generalizability of our findings, we focus on SMSI without constraining its scope with the type of strategy formulated. Hence, instead of using a fine-grained approach that would enumerate how individual strategic decisions are implemented, we adopt a coarse-grained approach that calls for aggregation of decisions at some level in order to identify generalizable relationships (Harrigan, 1983). Second, we respond to calls for stronger links to the strategy literature and to central theoretical perspectives (Birnik and Bowman, 2007) in order to generate grounded and credible prescriptions that can advance the field. We use the resource dependence perspective (Pfeffer and Salancik, 1978) as the theoretical foundation for determining the drivers of SMSI and explaining their impact. Third, we adopt and build on Hambrick and Mason's (1984) upper-echelons perspective and focus on involvement of managers at the strategic apex of the MNC (i.e. headquarters) in SMSI. Fourth, to enhance the practical relevance of our theoretically grounded research we use an inductive approach and examine strategy implementation in the context of marketing activities that are considered to be relevant by executives at the headquarters.

This study is organized as follows: after a brief overview of the international marketing strategy literature, we describe the current thinking on and critical elements of strategy implementation, present our theoretical base and apply them to SMSI. We then outline the assumptions of our conceptual model and present our hypotheses. Next, we describe the research design and present our findings. We conclude by discussing the normative and practical implications of our findings, along with suggestions for future research.

OVERVIEW OF THE INTERNATIONAL MARKETING STRATEGY LITERATURE

With significant growth opportunities available in foreign markets for businesses of all sizes and types, developing a strategy that will ensure success in the global marketplace becomes a priority for an increasing number of firms. In marketing literature, this interest has resulted in a strong and growing research that has traditionally focused on formulating a strategy that leverages the firm's domestic marketing know-how and enables it to compete effectively in global markets. As such, a key consideration in international marketing strategy has been the standardization or adaptation of the firm's domestic marketing activities in foreign markets. Numerous studies have examined the nature of a firm's decision to standardize or adapt its marketing activities based on one element of the marketing mix (Elinder, 1961; Myers and Harvey, 2001; Walters and Toyne, 1989), a few (Bello and Gilliland, 1997; Cavusgil et al., 1993; Griffith et al., 2003a) or all four and more (Buzzell, 1968; Cavusgil and Zou, 1994; Shoham, 1999; Vrontis, 2003). Rejuvenated by Levitt's (1983) 'globalization of markets' thesis, subsequent studies have further distinguished between marketing program versus marketing process standardization (e.g. Jain, 1989; Chandra et al., 2002; Griffith et al., 2003b; Sorenson and Wiechmann, 1975; Zinn and Grosse, 1990) and examined its various drivers and consequences (e.g. Albaum and Tse, 2001; Jain, 1989; Szymanski et al., 1993). The prevalent view today is that standardized marketing programs and processes are not an all-or-nothing strategic decision but a matter of degree. Furthermore, the few studies that have investigated the performance implications reveal that success does not depend on adaptation or standardization per se but on merging the two and finding the right level of standardization and adaptation for each element of the marketing mix in each foreign country (Vrontis, 2003; Zou et al., 1997).

Recent research on international marketing strategy has extended the traditional standardization–adaptation considerations in two important ways. One set of studies has explored various moderating and mediating effects as well as contingent influences (e.g. Cavusgil et al., 1993; Hewett and Bearden, 2001; Katsikeas et al., 2006; Ozsomer and Simonin, 2004) to better explicate the international market strategy and performance relationship. In so doing, these studies highlight not only the importance of coalignment or fit between international marketing strategy and its internal as well as external contingencies, but also the need to institute mechanisms to facilitate its management. While none of these studies had an explicitly stated focus or interest in implementation, they do provide important insight into how and why formal structural mechanisms such as export plans (Shoham, 1999), control (Myers and Harvey, 2001) or centralization (Ozsomer and Simonin, 2004) affect the international marketing strategy adopted and its subsequent performance.

The second group of recent studies on international marketing strategy has extended the traditional focus of this research on leveraging the firm's domestic marketing know-how to leveraging the knowledge generated by the geographic scope and diversity of the firm's international operations. For example, Craig and Douglas (2000) state that in formulating a strategy and achieving a competitive advantage in global markets, a firm needs to consider the strengths and weaknesses of its competitive position in each country along with unique sources of competitive advantage that stem from the spatial configuration of its assets, capabilities and resources. The potential synergies that exist across different markets provide these firms with a unique opportunity to exploit them by not only coordinating efforts across markets but also through optimal configuration of value-chain activities (Porter, 1986; Craig and Douglas, 2000). This spatial configural advantage is hence considered to be a key element of a firm's competitive advantage, enabling it to achieve leadership position in individual markets as well as globally. In addition to cross-national configuration and coordination value-chain activities, related research has emphasized the importance of integrating the firm's strategies and competitive moves across markets. For example, a firm's ability to subsidize activities in one market with resources generated in others (Birkinshaw et al., 1995; Hamel and Prahalad, 1985) and to respond to competitive attacks in one market by counter-attacking in others (Yip, 1995) are considered to be fundamental to its sustainable competitive strategy. A common denominator of all the studies in this group is that they complement the individual country focus of the earlier studies by highlighting the unique opportunities and resulting advantages offered by interlinkages among markets. In so doing, they establish the importance of the headquarters (HQ) as the critical level of analysis and underscore the importance of the HQ's role in building on country-specific competitive advantages to gain sustainable advantages on a global scale. In fact, the necessity to ascribe such a broader role to HQ is best captured in the 'global marketing strategy' (GMS) conceptualization proposed by Zou and Cavusgil (2002), which integrates the standardization, configuration and integration approaches evident in the extant literature. Rooted in this broader perspective, these authors define GMS as 'the degree to which a firm globalizes its marketing behaviors in various countries through standardization of the marketing-mix variables, concentration and coordination of marketing activities, and integration of competitive moves across markets' (p. 43).

Despite the flourishing research interest as well as increasingly theoretically grounded and empirically rigorous research on various aspects of international marketing strategy, relatively little attention has been directed to what is needed to implement the intended or adopted strategy, however it may be defined. Hence, strategy implementation remains an under-researched and ill-understood topic in the extant literature. In fact, Birnik and Bowman (2007) refer to execution as the *missing link* that should be explored to advance our understanding after their comprehensive literature review surfaced a limited number of only conceptual studies on implementation.

In an attempt to redress this situation, this study adopts the broader perspective of marketing strategy advanced by Zou and Cavusgil (2002) in terms of both level and scope of analysis, and argues that this broader perspective, by definition, may necessitate involvement of HQ managers in SMSI. Moreover, it provides a theoretically grounded exposition of the nature, drivers and outcomes of this involvement and empirically tests the proposed model in the context of US-based multinational corporations (MNCs). Against this backdrop, the next section reviews the building blocks of strategy implementation and their implications for SMSI before presenting the hypothesized relationship of interest.

BUILDING BLOCKS OF STRATEGY IMPLEMENTATION

Five fundamental aspects of strategy implementation are considered to delineate its scope. These are: the *actors* involved in strategy implementation; *modes* of strategy implementation; *conditions* that foster involvement in strategy implementation; the *activity context of* strategy implementation; and *performance outcome*, the results of the strategy implementation.

Strategy Implementation Actors: Who is Involved in Strategy Implementation?

International marketing strategies may involve a web of actors including the managers from various levels within the MNC as well as different home and host country stakeholders outside the firm. While studies on international marketing strategy formulation have traditionally been conducted from the standpoint of the headquarters (e.g. Samiee and Roth,1992; Szymanski et al., 1993), recent studies highlight the increasingly strategic role of foreign subsidiaries (e.g. Delios and Beamish, 2001; Bartlett and Ghoshal, 1989) and their ability to instigate strategic initiatives (Birkinshaw et al., 1998) and pursue autonomous strategic behavior (Burgelman, 1983). Unlike strategy formulation, however, responsibility for implementing international marketing strategy is said to rest with the foreign subsidiary, in general, and its marketing unit, in particular (Aylmer, 1970; Brandt and Hulbert, 1977; Hewett and Bearden, 2001; Katsikeas et al., 2006). This has been attributed to the polycentric nature of the marketing function, which makes it deeply affected by local factors (Jain, 1989).

Notwithstanding the foreign subsidiary's direct formal responsibility and authority for carrying out its marketing strategies, we focus on the headquarters perspective and investigate HQ managers' role in SMSI for conceptual as well as methodological reasons. Conceptually, as noted before, the configuration and integration perspectives embedded in the global marketing strategy reestablish the importance of the HQ as the critical player in strategy implementation. This is consistent with Finkelstein and Hambrick's (1990) contention that corporate managers' involvement matters, and it may matter greatly. In fact, the upper-echelons theory in the strategy literature (Hambrick and Mason, 1984) maintains that the degree of involvement by the top management team is significant in influencing the strategic choices and outcomes. We extend this logic and argue that this is especially so in MNCs where the value of a foreign subsidiary comes partly from the ties it has with the headquarters (Cui et al., 2005; Lee at al., 2008). This is also akin to network strength or relational capital, which has been documented as a major source of competitive advantage (Achrol and Kotler, 1999; Inkpen and Tsang, 2005; Kogut, 2000).

Methodologically, given that subsidiary managers are responsible for carrying out the strategy in the local market, their involvement with SMSI may not generate the prerequisite variability to explain the observed performance differences. On the other hand, HQ managers at some MNCs may be centrally involved and influential in SMSI while at other businesses they may be peripheral – less active or not involved at all. Hence, by examining SMSI from the perspective of the HQ executives, this study sheds light not only on the extent to which they are involved in strategy execution, but also how particular levels of involvement influence performance outcomes.

Strategy Implementation Modalities: How are Strategies Implemented?

Strategy is enacted in organizations through two distinct organizational dimensions. One implementation modality involves actions that are administratively imposed on the foreign affiliate through formal authority embedded in the organizational structure. Organizational structure is usually understood to imply an enduring configuration of task and activities which include the rules, prescriptions of authority, division of labor, hierarchy of authority, task specialization and formalization. The concept of formal structure was influenced by the idea of Weber (1949), and subsequent research focused on the formal, impersonal aspects of bureaucracy (Child, 1972). According to this view, managers implement strategic decisions and translate them into action by constructing a formal structure and defining duties and roles within this structure. As a result, strategy implementation theory and research traditionally have emphasized changes in tangible dimensions that are part of a firm's formal structure. Top management has the authority to arrange reporting relationships, and institute coordination and communication mechanisms as primary means for transforming decisions into actions (Rumelt, 1974). Structure is considered a tool because implementation is portrayed as a technical adjustment in the formal structure and support systems of the organization (Galbraith and Nathanson, 1978). As such, differences and changes in formal structure have been the focus of much research in both domestic and international marketing strategy.

The other implementation route entails deployment of managerial resources to explain and interpret strategy (Daft and Weick, 1984; Miller et al., 2004). In this view, intended strategy is implemented not only by bringing in new skills, values and frames of reference compatible with the new strategy (March, 1981) but also through processes such as communications, rewards and sanctions (Skivington and Daft, 1991). While varied classifications of numerous activities are offered in the literature, implementation through deployment of managerial resources is based on the need to understand, interpret and convey the logic underlying the strategic decision and redirect thinking about the organization and its position in the marketplace (Prahalad and Bettis, 1986). As Miller et al. (2004) succinctly highlight, the most important resource is the managerial time and effort expended in getting decisions to work. Without the allocation of this managerial time and effort, it would be very difficult to assign meaning and achieve the necessary direction for execution.

In this study, we focus on deployment of resources in terms of managerial time and effort expended as the relevant strategy implementation modality for two reasons. First, there is already a long tradition of research focusing on structural antecedents of strategy in general, and of international marketing strategy, in particular. While structural considerations included in these studies were not driven by an explicitly stated research interest in implementation, they do provide a fairly consistent understanding of how and why structural considerations such as control, centralization, formalization and specialization (e.g. Cavusgil, 1996; Jain, 1989; Myers et al., 2002; Ozsomer and Simonin, 2004; Quester and Conduit, 1996; Raffée and Kreutzer, 1989) affect the type of international marketing strategy adopted, and even subsequent performance. Conversely, there is very little, if any, systematic research on the resource deployment as an alternative modality for strategy implementation.

Second, since the organizational structure entails the enduring configuration of task and activities, structural changes may be painful, time consuming and politically unattractive. Furthermore, as Bonoma (1984) had observed, while structural organization can be problematic due to the presence of bureaucratic obstacles, managers usually get around these obstacles by exercising their execution skills. That is, managers are often observed supporting, supplanting or even discarding inadequate structures rather than rebuilding or modifying them. Hence, poorly functioning formal structures tend to be patched up when managers using them exercise informal skills and activities. These observations suggest that inadequacies resulting from structural implementation can be substituted with or compensated for by the second implementation modality involving resourcing activities. Since MNC-wide structural changes may be especially disrupting to initiate and institute, understanding HQ managers' involvement in SMSI in terms of deployment of managerial resources via the time and effort they expend on subsidiary marketing activities becomes paramount.

In order to map adequately the richness and complexity of the task facing the HQ managers, the strategy implementation modality of resource deployment adopted in this chapter considers the managerial time and effort inherent in this modality in broad terms. As such, our conceptualization of this modality represents any and all involvement of HQ managers that may require them to expend time and effort; this may range from providing information to being present at meetings, and from coordinating tasks at the headquarters to supporting implementers with advice and data, to name just a few (Miller et al., 2008). While the particulars of deployed resources may be situation-specific and hence vary widely, they all have the same behavioral effect of involving managerial time and effort. As a result, in this study we focus on HQ managers' involvement in SMSI in terms of the time and effort they expend rather than where these resources are deployed.

Strategy Implementation Conditions: What are the Drivers of Implementation?

The conditions refer to the contextual factors that are expected to trigger headquarters' involvement in SMSI by expending time and effort on subsidiary marketing activities. As such, systematic investigation of the strategy implementation conditions necessitates grounding the study in a solid theoretical foundation. This is especially critical given that the majority of studies on international marketing strategy have been criticized repeatedly for either being atheoretical or not addressing its theoretical foundations satisfactorily (Birnik and Bowman, 2007; Ozsomer and Simonin, 2004).

In this study, we adopt the resource dependence perspective to understand and explain headquarters' involvement in SMSI based on the following considerations. First, resource dependence perspective rooted in sociology (Weber, 1947) attributes organizational success to maximization of firm power (Pfeffer, 1981). Accordingly, organizations are viewed as coalitions, altering their behavior to acquire and maintain scarce and valued resources from the environment. Acquisition of such resources from the environment is achieved by decreasing the organization's dependence on others and/or by increasing others' dependence on it; that is modifying the interorganizational power relationship (Ulrich and Barney, 1984). This is especially relevant for the MNC context, enabling us to conceptualize HQ involvement in SMSI as a function of factors that alter power-dependence balance between HQ and its foreign subsidiaries. Second, knowledge has consistently been identified as a critical and valuable resource in the international marketing literature (Craig and Douglas, 2000; Griffith and Harvey, 2001; Solberg, 2000). In fact, this knowledge is imperative for the HQ to achieve the optimal degree of configuration and integration embedded in its global marketing strategy. A resource dependence perspective hence enables a systematic exposition of HQ involvement in SMSI based on the need to access, acquire and maintain this knowledge, which is imperative. In the MNC context, a resource dependence perspective would suggest that the need to access such knowledge from the subsidiary would be the impetus for headquarters' involvement in SMSI in order to protect its interest as well as to maintain supremacy of headquarters (Ambos and Schlegelmilch, 2007) and enhance its influence and power within the MNC network.

To conduct a valid application and test of the resource dependence perspective in the MNC context we used three criteria in identifying the key drivers of HQ involvement in SMSI. First, the drivers must be central to the international marketing strategy literature. Using peripheral constructs would not constitute a meaningful and fair test of the research question, as important facets of the relevant context might be overlooked. Second, the drivers must be logically and empirically distinct. Third, they must be theoretically consistent with the resource dependence perspective adopted in shaping the power–dependence relationship between HQ and foreign subsidiaries.

Four drivers that represent the contextual conditions of strategy implementation stand out in meeting all three criteria. These are: attitudinal involvement of HQ managers in SMSI, international experience of HQ, customer as well as host-country market diversity.

Strategy Implementation Parameters: Which Activities to Implement?

Strategy implementation parameters specify the focal consideration or factors that can be used by managers in a given context. In the context of SMSI, the parameters that HQ managers can use involve some aspect of the intended marketing strategy. With our focus on resource deployment as the relevant strategy implementation modality, our goal was to identify parameters that are generalizable. Hence, rather than focusing on a single strategy or any one of the generic strategy typologies available in the extant literature, some common thread that was applicable across diverse strategies and settings was sought. We therefore decided to focus on HQ managers' resource deployment in terms of the four dominant marketing tasks, namely product, pricing, place distribution and promotion (4P). By evaluating the managerial resources in terms of time and effort allocated to these tasks, generalizable components of a wide variety of strategic decisions otherwise specific to individual firms became the focus of this study.

A second consideration for using the 4P framework pertained to linkages with the existing body of conceptual and empirical research. As revealed in the international marketing strategy literature above, individual international marketing studies addressing diverse and changing strategy formulation issues continued to maintain consistency with the well-established 4P framework. The use of these four marketing activities, then, was seen as a way of bridging strategy formulation and implementation research.

A final factor for the use of the 4P classification as SMSI was methodological. It was important for participants in this research to convey the implementation of their strategy without being constrained by the relevance of a particular strategy. The research as well as strategy language needed to be familiar and applicable to practitioners from a wide variety of industries and operating in a wide variety of countries. The strategy implementation parameters succinctly summarized by the 4P framework are familiar concepts that HQ managers could easily relate to when asked about the implementation of their subsidiary marketing strategy and when calibrating the managerial time and effort allocated to the intended strategy.

Strategy Implementation Performance: What are the Consequences of Implementation?

It has long been acknowledged that the importance of specific international marketing lies in its potential to enhance business performance (Samiee and Roth, 1992; Katsikeas et al., 2006). Hence, the general goal of this research is to develop and test hypotheses about how SMSI via the resourcing modality is used and is related to firm performance.

In assessing the success of SMSI, we adopt the Ruekert et al. (1985) multidimensional performance construct. Accordingly, we use *satisfaction with market performance* as well as *profitability* in assessing the effectiveness and efficiency of SMSI respectively. Effectiveness reflects the degree to which organizational goals are reached. Also, it has been suggested that the degree to which the organizational outcome is satisfactory to those involved in implementation is an important criterion for evaluating what occurred (Miller, 1997; Piercy, 1989). Furthermore, as noted by Bonoma and Clark (1988) as well as being used in the literature (Brouthers et al., 2005; Marinova, 2004; Siguaw et al., 1998; Shoham, 1999; Venkatraman, 1990) managerial satisfaction is important because it provides a benchmark measure of performance effectiveness against organizational expectations and affects the selection of future strategies. Hence, in this study satisfaction with market performance is intended to internally evaluate the extent to which a foreign subsidiary has achieved established performance goals, where success in attaining one's goals is assumed to be related with satisfaction (Audia et al., 2000). On the other hand, efficiency represents the ratio of organizational inputs to outputs required to reach those organizational outputs. Thus, profitability metrics in comparison to those of the competitors provides an external benchmark for efficiency of subsidiary performance. While these performance metrics provide us with internal and external benchmarking abilities in assessing SMSI success, they also enable us to capture the widely acknowledged multi-attribute nature of firm performance.

Inductive Support for the Conceptualization of SMSI

The paucity of research on strategy implementation in general and SMSI in particular led to the decision to undertake a pilot study to test the face validity of our concepts and evaluate their relevance as well as appropriateness. The pilot study included open-ended interviews with the 17 international marketing managers from 14 firms participating in the executive education program. These executives were asked several questions about how international marketing decisions were put into practice and asking them to describe their involvement in this process. First and foremost these interviews confirmed managerial time and effort are critical in reflecting managers' involvement strategy execution. This was especially true in the case of SMSI since these managers reported exerting a conscious effort to subsidiary marketing activities and as a result were able to comment about implementation process without any difficulty. The qualitative results also showed that SMSI should be treated as a complex phenomenon consisting of discrete elements rather than as a singular process or a collection of processes over time. Hence, associating individual marketing activities with implementation should reduce the number of confounding relationships. However, in considering each of the components of the 4P framework, these executives representing diverse industries expressed difficulty in relating to the implementation of subsidiary promotion strategy in that these decisions as well as activities were largely outsourced and implemented with little involvement by the HQ managers. The time and effort allocated to this component of the marketing was at best limited to the specification of the global advertising agency to be used or the identification of the appropriate local agency. None of the executives in the pilot study considered these to be reflective of their involvement with implementation of subsidiary promotion strategy. It is important to note that the pilot study questions concerned only the implementation of the intended marketing mix strategies such that lack of corporate involvement with subsidiary promotion strategy implementation should not be taken as absence of corporate-level involvement with its formulation. In fact, studies on advertising strategy formulation report medium levels of advertising program standardization, further highlighting the importance of distinguishing between strategy formulation and implementation at the level of individual marketing mix elements.

In sum, the pilot study provided initial qualitative support for the concept of SMSI as a complex phenomenon, the appropriateness of capturing its domain with the product, price and distribution components of the 4P framework, and the relevance of focusing on HQ resource deployment in terms of time and effort allocated to these subsidiary marketing activities.

CONCEPTUAL MODEL AND HYPOTHESIS DEVELOPMENT

As depicted in Figure 11.1, our conceptual model includes SMSI drivers, parameters and their consequences in an attempt to examine the interrelationships among them adopting the resource dependence perspective as the underlying theoretical foundation.

Attitudinal Involvement

Attitudinal involvement is used in this study to represent the corporate relevance of international marketing activities. This is based on Zaichkowsky's (1985) and Mittal's (1995) conceptualization of involvement as inherent values, needs and interests. In our context, it captures the HQ managers' values, needs and interests about international marketing activities. As such, it is considered an important precursor of the subsequent behavioral involvement of HQ managers in SMSI and international marketing behavior of the firm as a whole. HQ managers' strong belief in and sense of commitment to international marketing will increase the importance of the local subsidiaries and their marketing activities for the MNC. As such, HQ managers need to make sure that local marketing programs do not go off in all and conflicting directions, resulting in undesirable diffusion of effort and random results. Examples of these include uncoordinated pricing strategies that encourage the emergence of gray market imports (Craig and Douglas, 2000; Myers, 1999) or jeopardized price/quality perceptions of brands stemming from inconsistent product

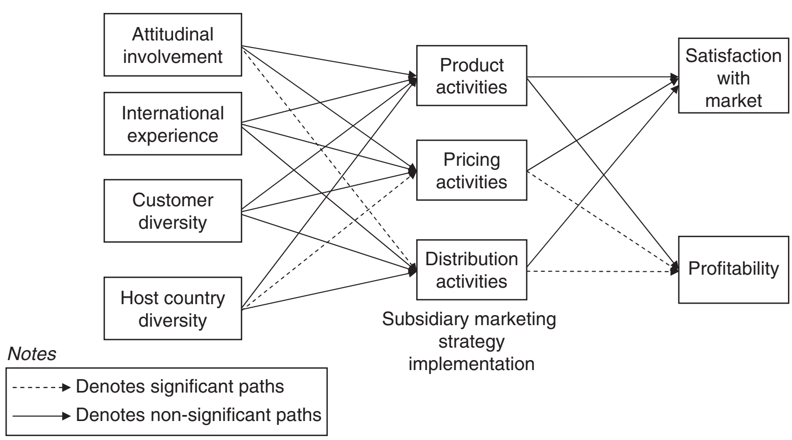

Figure 11.1 Antecedents and performance consequences of SMSI

strategies (Cavusgil and Sikora, 1988). This will require HQ managers to prevent the subsidiaries from pursuing their parochial interests and instead realize the significance of their respective product, distribution and pricing operations for the whole MNC. From a resource dependence perspective, this would mean preventing subsidiaries from becoming increasingly independent of the headquarters and maintaining the power of the HQ. This would call for deliberate time and effort on the part of the HQ to align subsidiary marketing activities with its priorities, and thus serving the MNC as a whole (Pfeffer and Salancik, 1978). Therefore, it is postulated that:

H1: The attitudinal involvement of HQ managers with international marketing is positively related to resources they allocate to:
(a) subsidiary product activities;
(b) subsidiary pricing activities;
(c) subsidiary distribution activities.

International Experience

Conducting business internationally necessitates access to reliable, valid and timely information about a wide array of influences that can not only vary across markets but also affect the execution of the intended strategy in each market. When marketing internationally, considerable market knowledge is required to carry out the complex marketing decisions, whether they involve products (Ozsomer and Simonin, 2004; Zou and Cavusgil, 2002), pricing (e.g. Myers, 1997; Myers and Harvey, 2001), or distribution activities (Bello and Gilliland, 1997; Myers, 1999). The international experience base of the firm, in terms of length of its experience as well as geographic dispersion of its activities, denotes the varied knowledge accumulated and available in-house which can be brought to bear upon SMSI.

The internationally experienced firms are typically capable of assessing local market conditions and detecting their differentiated requirements through already established market intelligence systems and/or deeply rooted market knowledge. From a resource dependency perspective, availability of this multifaceted market knowledge to subsidiary managers would be expected to lessen HQ dependence on the subsidiary, reducing the former's need to expend additional managerial time and effort in collecting and processing information necessary for execution (Benito et al., 1993). The internationally experienced firms are expected to have the international preparedness necessary to cushion the effects of possible competitive attacks when entering and penetrating new markets and to be more self-assertive without the need to allocate greater corporate managerial resources to carrying out their marketing activities (e.g. Solberg et al., 2006). In contrast, limited international marketing proficiency of less experienced HQs is likely to be manifested by its heavy dependence on the knowledge of the foreign subsidiary. As Solberg (2000) argues, this dependence will give the subsidiary serious leverage when deciding and executing different facets of marketing strategy. With scant understanding of the international market and ill-equipped to generate the insight necessary by itself, HQ will be expected to restore the power balance and increase its involvement with SMSI by devoting more managerial time and effort. As such, it is hypothesized that:

H2: The international experience level of the home-office is negatively related to resources HQ managers allocate to:
(a) subsidiary product activities;
(b) subsidiary pricing activities;
(c) subsidiary distribution activities.

Customer Diversity

The customer diversity is an element of the micro task environment of a subsidiary. Understanding its customers in various markets, regardless of their geographic location and leveraging, this understanding to develop and manage its global strategy is particularly crucial for MNCs to sustain their competitive advantage (Almeida and Phene, 2004; Ghoshal and Bartlett, 1990; Gupta and Govindarajan, 2000; Lee et al., 2008). When the number and type of customers served in a foreign market are different and more varied than the MNC's customary customer base, existing HQ understanding as well as existing models and tools based on this understanding may no longer be relevant or appropriate for creation of customer value. As a result, non-routine and novel conditions created may disrupt the conventional understanding and ways of doing business. Existing organizational routines at the HQ may not be sufficient, or such routines may not exist to handle the variations encountered in customers served (Daft and Weick, 1984; Weick, 1979), creating a knowledge gap. This gap will increase the leverage of the subsidiary toward the HQ in discussions on marketing strategies and activities in the local market since the diverse customer base of the subsidiary will inevitably necessitate readjustment of the whole marketing mix involving product design, accepted list prices, warehousing and inventory management practices. Therefore, the HQ's ability to gain a configural advantage will be considerably harder (Craig and Douglas, 2000). This will shift the power balance between the local subsidiary and HQ in favor of the former, where the HQ's role would then be reduced to responding to the requirements put forward by the subsidiary managers (Solberg, 2000). To compensate for this shift and reinstate its position, the HQ will be expected to heighten its involvement in SMSI, which will be reflected in the time and effort they expend on marketing activities of the foreign subsidiary. Accordingly, we suggest that:

H3: The customer diversity of the foreign subsidiary is positively related to resources HQ managers allocate to:
(a) subsidiary product activities;
(b) subsidiary pricing activities;
(c) subsidiary distribution activities.

Host Country Diversity

The host country conditions that have been shown to influence international marketing strategy are differences in the macro landscape of the foreign country. The macro considerations that have been fairly established in the extant literature include differences in economic conditions (Douglas et al., 1986; Katsikeas et al., 2006; Terpstra, 1986), cultural values (Jain, 1989), standard of living (Vrontis, 2003), and per capita income (Michell et al., 1998; Solberg et al., 2006). These fundamental macro differences influence the purchasing power of people, the product attributes they value, as well as the regulations that determine the ways of doing business in a particular country. Differences in the macro environment of the subsidiary will inevitably necessitate making local exceptions and changes in local marketing activities to be congruent with the unique requirements of the host country. To achieve the congruency necessary, HQ managers will seek and depend more on the subsidiary managers' input, market knowledge and local connections. The HQ would then be expected to reestablish its power by increasing its time and effort directed to SMSI. Therefore, it is hypothesized that:

H4: The host country diversity of the foreign subsidiary is positively related to resources HQ managers allocate to:
(a) subsidiary product activities;
(b) subsidiary pricing activities;
(c) subsidiary distribution activities.

Performance Consequences of SMSI

Success of a strategy depends not only on its formulation, but also on the steps involved in its implementation (Dean and Sharfman, 1996).

Despite the critical role of strategy implementation in firm performance (Hutzschenreuter and Kleindienst, 2006), the link between the two is a relatively under-researched area in both management and international marketing literatures (Birnik and Bowman, 2007; Dean and Sharfman, 1996; Skivington and Daft, 1991). In this study, the performance outcomes of SMSI by HQ managers' time and effort allocation to subsidiary product, distribution and pricing activities are examined in terms of HQ satisfaction with subsidiary market performance as well as profitability of the subsidiary. The hypothesized performance effects of SMSI on each of the three subsidiary marketing activities are discussed below.

Product

More intensive involvement of headquarters managers in product-related activities has been shown to result in new product designs and specifications that more effectively meet local as well as global challenges and hence are more likely to succeed (e.g. Almeida and Phene, 2004; Lee at al., 2008; Martin and Salomon, 2003). In particular, greater allocation of managerial resources to product considerations enables the headquarters to design new products and change product and packaging specifications that not only satisfy customer needs but also provide value for them. HQ involvement in product strategy has also been found to facilitate provision of subsidiary marketing support and training that new products necessitate (Skivington and Daft, 1991), resulting in a more proactive response to the local market. Furthermore, the coordination and integration of product strategies involved in a global marketing strategy will stimulate MNCs to seek for similar market segments across countries (Levitt, 1983). This intermarket segmentation requires firms to develop products including all the features demanded in any foreign market or to develop a universal product with an optimal set of functions and features that balance market needs with the costs of its development and production (Kotabe, 1990). Involvement of the HQ in subsidiary product activities and integration of these activities across foreign markets will generate economies of scale, and thus lead to higher profitability. To the degree that the benefits of HQ involvement in subsidiary product activities are realized, they should contribute positively to both HQ satisfaction with subsidiary market performance as well as subsidiary profitability. Thus, we hypothesize that:

H5: The resources HQ managers allocate to subsidiary product activities are positively related to:
(a) their satisfaction with subsidiary market performance;
(b) subsidiary profitability.

Pricing

Developing and managing pricing activities consists of specification of prices and identification of price discounts. Pricing has been singled out as the most important strategic parameter (Myers and Harvey, 2001) as well as one critical for financial performance because of its direct effect on the revenue side of the profitability equation (Theodosiou and Katsikeas, 2001). These attributes of pricing will attenuate HQ managers' interest in subsidiary pricing activities. Yet pricing activities may be hard to leverage across markets because of enduring cross-country variations in customer demand, regulations, and/or economics (Solberg et al., 2006). The HQ is likely to be too removed from the local market to understand the pricing implications of these variations. Furthermore, HQ involvement with subsidiary pricing strategy may slow down or discourage local managers from responding quickly to attacks from nimble local competitors (Ozsomer and Simonin, 2004). Therefore, we expect that attempts at coordinating and integrating pricing strategies may not be beneficial for subsidiary performance. Relatedly, as suggested by research on network strength and relational capital, integration of pricing strategies across markets may result in collective logic (Lincoln et al., 1996) which can hinder creativity and slow down infusion of new information and novel ideas. As a result, this will prevent implementation of unconventional pricing solutions arising that may extract higher sales and profits. Therefore:

H6: The resources HQ managers allocate to subsidiary pricing activities are negatively related to:
(a) their satisfaction with subsidiary market performance;
(b) subsidiary profitability.

Distribution

MNCs often must rely on existing distribution channels for distributing their products in foreign markets (Theodosiou and Katsikeas, 2001). The distribution strategy of a subsidiary includes the number, type, costs and margins of intermediaries used in moving the product from production to customers and/or end users. This strategy is important, not only for influencing the product availability and accessibility, but also in determining the cost of distribution activities such as warehousing, logistics, and inventory management. HQ involvement in the subsidiary's distribution activities may benefit performance in two ways. First, the HQ may enjoy quantity discounts or lower distribution costs by coordinating and leveraging its relationship with large or internationally active distributors across markets. Regional expansion of distribution networks at both the wholesale and retailer levels has increased the opportunities to enjoy such cost benefits. Second, even in markets with a fragmented distribution system, the HQ can identify distribution opportunities based on procedures that have proven to be effective in other markets (Bello and Gilliland, 1997). Under both of these circumstances the effectiveness as well as efficiency of the subsidiary distribution activities should improve. Accordingly, it is posited that:

H7: The resources HQ managers allocate to subsidiary pricing activities are positively related to:
(a) their satisfaction with subsidiary market performance;
(b) subsidiary profitability.

RESEARCH METHOD

Sample and Data Collection

Consistent with the recommendations of past studies (e.g. Myers and Harvey, 2001; Zou and Cavusgil, 2002), our unit of analysis was at the product market (PM) level, focusing on marketing activities associated with a single product or product line sold in a specific foreign country. The data collection was accomplished in three stages. In the first stage, the presidents/CEOs of 350 manufacturing firms selected from a state directory of firms with international operations were contacted by mail to request their participation in the study as well as to obtain the names of managers responsible for the respective firms' international marketing operations. Service firms as well as those in primary industries (e.g. metals) were excluded because of observed differences in their international expansion and marketing strategies (e.g. Erramilli, 1991) as well as our theoretical interest in adoption of product (vs. service) innovations. Of the 229 firms that responded to the introductory letter, 163 firms that agreed to participate in this study identified 252 informants, representing 227 divisions.

In the second stage, 27 informants from 18 different firms were used to pre-test the format and content of the survey instrument. No difficulties were encountered and hence no major changes were made in the measures or the questionnaire used. In the third stage of data collection, questionnaires along with a covering letter were mailed to the remaining 225 informants at the 132 divisions across the 103 firms. To facilitate development of valid measures and control for extraneous sources of variation, respondents were asked to self-select a product unit and one foreign market served by this unit with which they were most familiar, and to answer all questions with respect to the chosen foreign market. After a postcard reminder and two follow-up letters, completed useable questionnaires were received from 137 informants at 103 firms, for a firm response rate of 61 per cent.

Non-response bias was assessed by comparing early and late respondents on key variables. To assess non-response bias, we divided our data into two groups based on the date on which we received the completed surveys. Based on a comparison of the averages of annual sales volume, years of exporting, and the number of employees, t-tests between the mean responses of the early and the late respondents indicated no statistically significant differences at the .05 level (Armstrong and Overton, 1977). Additionally, using secondary data on employees and annual sales volume available in the sampling frame, we compared the 103 responding firms with the 76 non-participating firms as well as with 42 non-responding firms. The t-tests revealed no significant differences between respondents and the two groups of non-responding firms. Accordingly, non-response bias was not considered to be a significant problem in the data.

The survey respondents held upper-management positions (President/CEO, Director, Vice-President, Area Manager/General Manager), had on average 13.02 years of experience working with the current firm and 6.23 years of direct experience with their firm's marketing activities in the foreign country they had selected. These characteristics suggest that the respondents were familiar with their firm's foreign operations, knowledgeable about the questions asked in the survey, and competent to serve as a key informant for the particular foreign venture of their respective firms.

Measures

Several considerations guided the development of the scales to operationalize each of the constructs discussed in our conceptual model (Churchill, 1979; Nunnally, 1978). First, based on the conceptualization of constructs included in this study, an initial list of items was generated through an exhaustive review of the literature. Then, in view of the extensively reported concerns about the adequacy of single indicators, we used multiple item scales to measure each construct of interest. Finally, the order of the scales was randomized and some of the items were negatively stated in order to minimize position and response set bias. All measures used in this study are listed in Table 11.1.

The *attitudinal involvement* scale was adapted from Zaichkowsy (1985) and Mittal (1995) and assessed the HQ managers' perceived relevance of international marketing activities based on interests, values and need. We used an 8-item, 7-point semantic scale to measure attitudinal involvement.

Table 11.1 Results of the CFA

Scale items		Standardized loading	t-value[a]
Attitudinal Involvement			
AVE = 74.4%; HSV = 13%; CR =.90			
Home-office managers of this product unit view international marketing activities as:			
Important	Unimportant[rc]	.85	11.89
Beneficial	Not beneficial[rc]	.88	12.54
Undesirable	Desirable	.85	11.89
Not needed	Needed	.87	12.32
Irrelevant	Relevant*		
Trivial	Fundamental*		
Significant	Insignificant[rc]*		
Wanted	Unwanted[rc]*		
International Experience (formative)			
Number of *years* since the first foreign sale of your product unit to any foreign country.			
Number of *foreign countries* in which your unit's products have ever been sold.			
Approximate *dollar value* of your product units foreign sales as a percentage of your product units total.			
Customer Diversity			
AVE = 50.4%; HSV = 13%; CR = .80			
Number of individual customers served by your product unit.		.61	6.86
Number of distinct end user functions/purposes served by your product unit.		.73	8.21
Width of the served market of your product unit (many versus one or a few segments).		.78	8.90
Geographic coverage of your product unit (geographic distribution of markets served).*			
Number of different types of customers served by your product unit (e.g. OEM, retail).*			
Host Country Diversity			
AVE = 69.2%; HSV = 5%; CR =.90			
Economic conditions		.83	11.07
Standard of living		.90	12.37
Level of per capita income		.76	9.84
Cultural values *			
Regulatory condition *			
Product Activities			
AVE = 81.2%; HSV = 30%; CR =.90			
Product design specifications		.95	14.43
Process design specifications		.84	11.77

Table 11.1 (continued)

Scale items	Standardized loading	t-value[a]
Development of new products	.91	13.42
Package design specifications*		
Brand name selection *		
Pricing Activities		
AVE = 78.2%; HSV = 30%; CR =.90		
End user price specification	.82	11.29
List price specification	.92	13.61
Price discounts	.91	13.28
Provision of credit*		
Dealer allowances*		
Distribution Activities		
AVE = 74.6; HSV = 25%; CR =.90		
Warehousing	.89	12.81
Inventory management	.94	13.84
Local transportation	.75	9.98
Order processing *		
Specification of territorial coverage*		
Satisfaction with Market Performance		
AVE = 74.1%; HSV = 39%; CR =.90		
Sales of your product unit	.90	12.78
Sales growth rates of your product unit	.81	10.92
Market share of your product unit	.87	12.13
Profitability		
AVE = 82.1%; HSV = 39%; CR =.90		
Growth rate of your product unit's profits.	.81	11.16
Profit margins of your product unit.	.97	15.06
Operating profits of your product unit.	.93	13.98
Model Fit Statistics: $\chi^2 = 365.55$ (df = 247, $p < .05$)		
NNFI = .94		
CFI = .95		
IFI = .95		
RMSEA = .06		
90% Confidence Interval of RMSEA (.046, .072)		

Notes:
AVE = Average variance extracted; HSV = Highest shared variance with other constructs; CR = Composite reliability.
[a] The t-values from the unstandardized solution; *Deleted items; [rc] Reverse coded.

The operationalization of *customer diversity* was intended to tap the extent to which a foreign subsidiary's customer base is different from that of the HQ. A five-item scale based on a 6-point Likert scale ranging from 'Much lower than US' to 'Much higher than US' was used to measure customer diversity. *Host country diversity* assessed the degree to which the foreign country in question was perceived as being different from the home country. Accordingly, it was operationalized using a 3-item, 6-point Likert scale ranging from 'Very similar' to 'Very different'.

The operational definition of international experience required a formative measure which is best represented as a sum (i.e. composite) of its different components (Cannon and Homburg, 2001). *International experience* was intended to assess the product market unit's (PMU) experience in marketing its products in foreign markets. International experience may accumulate through a variety of sources. Thus, international experience is defined as the number of years since the first foreign sales of the PMU to the chosen foreign country, number of different countries in which the PMU's products have ever been sold, and dollar value of PMU's foreign sales as a percentage of its worldwide sales. Although each item contributes to total international experience, these three items are not necessarily correlated.

In this study, we define SMSI in terms of the resource deployment modality and operationalize it as the time and effort expanded by HQ managers of the focal PMU. The three marketing mix elements of product, price and distribution confirmed by the initial pilot study were then used to dimensionalize the strategy implementation parameters. As such, SMSI was measured as the degree to which HQ managers spend time and effort on three facets of marketing concerning product, pricing and distribution activities. Each of these parameters was assessed with 5 items by using a 7-point Likert scale ranging from 'Home office managers spend very little time and effort' to 'Home office managers spend a lot of time and effort'.

To investigate the relationship between SMSI and the performance of the foreign subsidiary, we used two performance indicators: (1) satisfaction with subsidiary market performance; and (2) profitability of subsidiary. We use subjective measures of both performance indicators which were considered appropriate in the international context for the reasons deliberated by Brouthers et al. (2005) and Woodcock et al. (1994). The first assessment of performance tapped the extent to which HQ managers were satisfied with the subsidiary market performance. The *satisfaction* scale was measured by these three items (sales, sales growth and market share) on a 6-point scale ranging from 'Extremely dissatisfied' to 'Extremely satisfied', adopted from Naman and Slevin (1993). The second indicator assessed the degree to which the foreign subsidiary attained profitability.

It was measured by a 3-item (growth rate, profit margins and operating profits), 6-point scale ranging from 'Much lower than major competitors' to 'Much higher than major competitors'.

Control variables

To account for possible effects of extraneous variables, HQ equity ownership level in the focal subsidiary and foreign subsidiary size in terms of the number of employees residing in the host country as a percentage of the business total (worldwide) workforce were included as control variables. These variables were chosen specifically since they have been observed to influence various strategic decisions and actions, albeit with mixed results.

ANALYSIS AND RESULTS

The Measurement Model

We evaluated the psychometric properties of our measures using a confirmatory factor analysis (CFA) that combined each factor measured by reflective scales (Bagozzi et al., 1991; Gerbing and Anderson, 1988). Because we operationalized international experience as a formative scale, it was not included in the CFA analysis. Thus this resulted in an 8-factor confirmatory measurement model that was fitted using the maximum likelihood estimation procedure with the raw data as input in EQS 6.1 (Bentler, 1995). After we dropped some items that had low factor loadings or high cross loadings, the confirmatory measurement model fitted the data satisfactorily.

Each measurement item loaded only on its latent construct. The model showed a chi-square (χ^2) value of 365.55 (df = 247), having a p-value of less than .05, indicating significance of the χ^2 test. There has been considerable discussion in the Structural Equation Modeling (SEM) literature concerning the validity of the χ^2 test as an index of model fit, especially when the sample size is small, as in our study. As a result, a number of adjunct fit indices have been proposed to reflect the improvement in fit of a specified model, in which all parameters are fixed to zero. Accordingly, the model provides a satisfactory fit to the data (Bentler–Bonett non-normed fit index (NNFI) = .94; comparative fit index (CFI) = .95; Bollens fit index (IFI) = .95; root mean square error of approximation (RMSEA) = .06), indicating the unidimensionality of the measures (Anderson and Gerbing, 1988) (Table 11.1). Furthermore, all the factor loadings were statistically significant ($p < .01$), and the composite reliabilities of all constructs were .9, except customer diversity, with a composite reliability of .8. The results showed that all composite reliabilities exceed the threshold value of .70 (Nunnally, 1978). Thus, the measures demonstrate adequate convergent validity and reliability.

Discriminant validity was examined by calculating the shared variance between all possible pairs of constructs, verifying that they were lower than the average variance extracted for the individual constructs (Fornell and Larcker, 1981). These results showed that the average variance extracted by the measure of each factor was larger than the squared correlation of that factor's measure with all measures of other factors in the model (see Table 11.1). Given these values, we concluded that all the factors in the measurement model possess strong discriminant validity.

In light of this evaluation, we conclude that the measurement model adequately fits the data and it is appropriate to proceed with the testing of the structural model.

Hypothesis Testing

As depicted in Figure 11.1, the structural relations among the constructs were examined by using SEM, with the EQS 6.1 program. First, we tested the model including control variables. The results showed that neither HQ equity ownership level nor subsidiary size appear to be significantly related to the two performance outcomes, HQ managers' satisfaction with subsidiary market performance and subsidiary profitability. Then, we tested the structural model after removing the non-significant paths.

Although the chi-square test was statistically significant ($\chi^2_{(275)} = 476.66$, $p < .05$), the Bentler–Bonett non-normed fit index (NNFI = .90); the comparative fit index (CFI = .92); the Bollens fit index (IFI = .92); the root mean square error of approximation (RMSEA = .075) indicated a good fit with the hypothesized structural model (see Table 11.2).

HQ managers' attitudinal involvement was found to have significant positive effects on HQ resources allocated to product activities ($\beta = .27$; $p \leq .005$) and pricing activities ($\beta = .18$; $p \leq .05$), which confirm H1a and H1b. However, it did not have any significant effects on the resources allocated to distribution activities ($\beta = .13$; $p > .10$). Thus, H1c is not supported. The HQ's international experience was found to be significantly and negatively associated with its resources allocated to product activities ($\beta = -.27$; $p \leq .005$), pricing activities ($\beta = -.27$; $p \leq .005$) and distribution activities ($\beta = -.28$; $p \leq .005$), which confirm H2a, H2b, and H2c respectively. In contrast, higher degrees of customer diversity were found to have positive and significant effects on HQ resources allocated to product activities ($\beta = .25$; $p \leq .05$), pricing activities ($\beta = .24$; $p \leq .05$) and distribution activities ($\beta = .33$; $p \leq .005$), in support of H3a, H3b, and H3c. Similarly,

Table 11.2 Results of hypothesis testing

Independent variables	*Dependent variables*						
	Product activities	Pricing activities	Distribution activities	Satisfaction w/market performance	Profitability	Hypotheses	Conclusion
Attitudinal involvement	.27*** (2.95)					H1a	Supported
		.18** (1.93)				H1b	Supported
			.12$^{n.s.}$ (1.28)			H1c	Not supported
International experience	−.27*** (-3.19)					H2a	Supported
		−.27*** (-3.04)				H2b	Supported
			−.28*** (−3.21)			H2c	Supported
Customer diversity	.25** (2.36)					H3a	Supported
		.24** (2.21)				H3b	Supported
			.33*** (2.95)			H3c	Supported
Host country diversity	.19** (1.96)					H4a	Supported
		.10$^{n.s.}$ (1.01)				H4b	Not supported
			.27*** (2.76)			H4c	Supported
Product activities				.36*** (3.89)		H5a	Supported
					.34*** (3.70)	H5b	Supported
Pricing activities				−.23** (-2.52)		H6a	Supported
					−.11$^{n.s.}$ (−1.24)	H6b	Not supported

Distribution activities		.14* (1.56)		H7a	Supported
			$-.08^{n.s.}$ ($-.90$)	H7b	Not supported
Model Fit Statistics:	$\chi^2 = 476.66$ (df = 275, $p < .05$)				
	NNFI = .90				
	CFI = .92				
	IFI = .92				
	RMSEA = .075				
	90% Confidence Interval of RMSEA (.063, .086)				

Notes:

t-values are in parentheses.
$^{***}p \le .005$; $^{**}p \le .05$; $^{*}p \le .10$.

host country diversity was found to be significantly and positively associated with HQ resources allocated to both product activities ($\beta = .19$; $p \leq .05$) and distribution activities ($\beta = .27$; $p \leq .05$). However, host country diversity was not found to be related to HQ resources allocated to pricing activities ($\beta = .10$; $p > .10$). Thus, only H4a and H4c are supported.

In assessing the performance outcomes of HQ managers' involvement with SMSI, we found that HQ resources allocated to product activities had significant positive effects on satisfaction with subsidiary market performance ($\beta = .36$; $p \leq .005$) as well as its profitability ($\beta = .34$; $p \leq .005$), which confirm H5a and H5b respectively. In contrast, and as hypothesized, HQ resources allocated to pricing activities had significant negative effects on satisfaction with market performance ($\beta = -.23$; $p \leq .05$), but not on profitability ($\beta = -.17$; $p \leq .05$). Thus, only H6a is supported. Finally, HQ resources allocated to distribution activities were found to have a significant positive impact on satisfaction with market performance ($\beta = .14$; $p \leq .10$), in support of H7a. However, it was not significantly associated with the subsidiary's profitability ($\beta = -.08$; $p > .10$). Thus, H7b is not supported.

DISCUSSION AND CONCLUSIONS

Successful implementation has long been accepted as the most critical, but least understood factor underlying effective strategy. The purpose of this research was to bring strategy implementation to the forefront of the international marketing strategy research. To this end, we undertook a theoretically grounded empirical investigation of SMSI to understand and explain its nature, drivers and consequences within the context of US based MNCs. This is a significant contribution to both the strategy and marketing literature, which has been criticized for their dearth of attention to implementation considerations. Furthermore, besides integrating concepts from strategic management literature with implications of extant research on international marketing, we adopted a resource dependency perspective as a theoretical foundation of our research to respond to calls for research with stronger links to strategy literature and strong theoretical underpinnings (Birnik and Bowman, 2007).

This study considers all marketing mix elements found to be relevant for HQ managers simultaneously and considers their individual impact on subsidiary performance. This remedies a major shortcoming in the traditional international marketing literature where only a few studies on distribution and pricing activities have been reported (Birnik and Bowman, 2007). Additionally, we contribute to this literature with a systematic and multidimensional conceptualization as well as measurement of performance.

In general, our pilot study and empirical results confirm the relevance and importance of HQ managers in the implementation of subsidiary marketing strategies. While strategy execution may ultimately be the responsibility of the managers at the foreign subsidiary, our study supports the upper-echelons theory in the strategy literature (Hambrick and Mason, 1984) and reveals that managers at the strategic apex of the MNC are involved in SMSI, and their involvement does influence the subsidiary performance.

Another contribution of this study to the literature stems from its use of a resource dependency perspective as the underlying theoretical framework. As Ambos and Schlegelmilch (2007) observe, while the literature on organizational power and resource dependence is well established, its use in the MNC context has been sporadic. Therefore, the overwhelming empirical support found for our hypotheses signifies the relevance and importance of the strategy implementation drivers considered in this study based on the implications of resource dependency theory. Specifically, this theory provides the rationalization needed for HQ managers' involvement in SMSI by disentangling the otherwise complex power dynamic between HQ and foreign subsidiaries. In this context, SMSI involvement is seen as a way of minimizing HQ dependence on resource-rich subsidiaries. By anchoring the analysis on key determinants of the knowledge resource gap between HQ and subsidiaries, we also contribute to the resource dependency perspective by extending its implications to the MNC context.

Apart from the aforementioned theoretical contributions, this study offers several recommendations to HQ as well as subsidiary managers based on the implications of our empirical findings. In particular, the results reveal that HQs interested in increasing their involvement in SMSI should focus first on subsidiaries with a diverse customer base and those operating in diverse host countries because of their possession of country-specific knowledge. Similarly, HQs that consider international marketing activities to be valuable and important would want to increase their involvement in SMSI. The results are also consistent with our expectations regarding the negative influence of international experience on HQ managers' involvement with all three parameters of subsidiary marketing strategy. Hence, the depth and breadth of experience accumulated through years of operations in different countries appear to create an operating environment that diminishes the need for personal involvement of HQ managers with the execution of subsidiary product, price as well as distribution strategy.

Our findings also contribute to the existing knowledge and practice of SMSI by empirically validating the direct relationship between HQ involvement in subsidiary marketing activities and subsidiary performance. This fundamental relationship was supported for all marketing mix elements included in this study and the two different performance metrics considered. The results are of particular importance in light of Pitcher and Smith's (2001) assertion that one of the most important topics of inquiry in strategy implementation is the link between organizational performance and the people at the strategic apex of that organization.

Specifically, HQ involvement in the product component of the subsidiary's marketing strategy appears to pay off in terms of both HQ satisfaction with the subsidiary's operating performance as well as the subsidiary's financial performance in relation to its local competitors. While they may be triggered by different underlying mechanisms, these results are in line with the findings of strategy formulation research on international marketing programs where the majority of studies suggest greater HQ involvement in product activities because of the prevalent desire to promote a uniform image and to capitalize on brand equity globally (e.g. Ozsomer and Simonin, 2004; Vrontis, 2003). For example, Steenkamp et al. (2003) show that global brands enjoy higher purchase intentions because of their association with quality, prestige and globalness. Hence, when HQ managers get involved with the execution of product and related activities as revealed by the time and effort they expend on these activities, there is a positive and significant pay-off in terms of both operational and financial performance of the foreign subsidiary.

The performance outcomes for the HQ managers' involvement in the implementation of the subsidiary's pricing strategy exhibit equally consistent but negative associations across both dimensions of subsidiary performance. Given the direct and indirect role of pricing in determining profits, HQs may be predisposed to expend time and effort on subsidiary pricing activities. However, our findings clearly indicate that HQ managers must be very cautious when considering such an involvement, since performance pay-offs may not be realized. The same also holds true for the subsidiary's profitability in the case of HQ involvement in the subsidiary's activities. Investment in these activities appears to enhance the subsidiary's effectiveness but not efficiency in terms of profitability. Given the satisfactory sales improvements resulting from the time and effort that HQ managers spend on these activities, the inconsequential changes in profitability would point to cost overrun as the potential culprit.

These results, taken together, show that subsidiaries' performance can be improved by deliberate and careful involvement of HQ managers in the subsidiary's marketing strategy. Clearly, simplistic or ad hoc allocation of managerial time and effort allocated to SMSI without careful examination of the country-specific knowledge resources of the subsidiary is not advised. Hence, HQ managers need to incorporate SMSI into their strategic management agenda and diligently plan when to deploy their time and effort to which elements of the subsidiary's marketing activities. Only then may the anticipated pay-offs in terms of subsidiary effectiveness and efficiency be realized.

Limitations and Future Research

Based on the resource dependence perspective along with the upper-echelons theory adopted in this chapter, SMSI was examined in terms of the resources expended by HQ managers. The significant relationships observed between resources allocated to various marketing activities and the performance outcomes investigated support the hypotheses grounded in these theoretical perspectives and the relevance of marketing strategy implementation as conceptualized and operationalized in this study. While this alone is a significant contribution to the extant literature with dearth of attention to implementation considerations, future research may add the subsidiary managers' involvement in strategy execution as well. The inherent assumption in this study is that the HQ dependence on the subsidiary's resources will result in its involvement with subsidiary SMSI irrespective of subsidiaries' desire or consent. As Birnik and Bowman (2007) suggest, procedural justice, which Kim and Mauborgne (1993a; 1993b) have investigated, would be an important consideration in ensuring subsidiary managers' commitment and compliance to execution of the intended strategy. In fact, coupling HQ involvement with that of the subsidiary managers would provide a richer exposition of not only international marketing strategy implementation itself but also of its subsequent outcome.

Additionally, structural framework and resource deployment are increasingly considered complementary features of implementation (Nadler and Tushman, 1988; Quinn et al., 1988). Since the descriptive research on these complementary features has been slow to emerge, this study focused specifically on resource deployment in the form of managerial time and effort without considering the attending structural framework or its implications. Accordingly, future studies may benefit from considering the use of both formal structure and resource deployment to implement subsidiary marketing strategies. Understanding of how these two implementation modalities jointly influence the strategy–performance relationship would extend our current research on implementation and assist in the construction of more complete models of strategy execution.

While a comprehensive analysis of all actors, modalities, conditions, parameters, and outcomes associated with international marketing strategy would be beyond the scope of a single article, future studies are encouraged to extend the implications of the current study by altering its focus on HQ managers, resource deployment modality, marketing mix parameters as well as its theoretical foundation, as suggested above. The validity of theoretical explanations and inferences discussed here can also be explored more deeply for individual marketing strategy decisions, contingency influences as well as in non-US firms. In sum, it is hoped this study will instigate a research program designed to identify the issues associated with strategy implementation and to develop a theoretically grounded and managerially relevant explanation of strategy execution.

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