

# CENTRALIZATION *VERSUS* DECENTRALIZATION OF MARKETING ACTIVITIES OF LEADING ITALIAN FIRMS: TOWARDS AN *INTEGRATED GLOBAL* *APPROACH?*\*

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## Introduction

International and multinational companies are showing an increasing interest in using global marketing, that is, taking integrated and globally uniform approaches to their marketing strategy and planning process. This has been particularly true in recent times with the growing globalization of business and markets. In order to effectively compete at the highest quality and lowest cost, and to survive in the dynamic and fierce competitive arena, and under pressures from increasingly eroding profit margins, firms have battled in search of "magic formulas" to solve this dilemma.

There have been a number of studies on the debate whether or not to pursue a *global* versus a *localized* approach to international marketing practice. However, none of these studies has specifically

empirically tested the complex implementation issues of a global marketing, let alone an *integrated global marketing strategy*. Indeed, there is absolutely no literature available whatsoever at this point in time. Without a smooth implementation, even a perfectly designed global strategy is bound to encounter difficulties, uncertainties, and even fail. Therefore analysis and research of global marketing operations integration is definitely needed. This paper attempts to address some of the issues and fill in the gaps in dealing with the implementation of an integrated global marketing strategy by exploring Italian firms' behaviour.

The framework is constructed on the basis of a multi-disciplinary amount of prior research done by the author. Indeed, integrating marketing with further inter- and intra- functional activities, moreover on a worldwide scale, involves some understanding of various branches of international business, including organization theory, trade theory, strategic management, marketing organization and strategy, social sciences, and an understanding of behavioral, relationship and cultural issues.

As it will become clearer, emergent views such as Sheth's (2001), retain that the traditional orientations of international marketing will be replaced by *integrated global marketing*, which involves a *global-wide integration of global marketing activities*, as well as an exclusive focus on *transnational market similarities*.

This paper builds on this dual geocentric view, by focusing on the organizational issues of worldwide integration of global marketing, as well as cross-functional operations and activities, both of central importance to the effectiveness of global strategies. The assumption is made that there will be a tendency towards increases in cross-functional and global integration in the firm's operations as a result of the globalization of markets and industries. Inherently, this will imply increased utilization of cross-functional, process-, team-driven, cooperative and coordinated organization. In the context of a "borderless world" and the continuance of its trend, it will make more sense to orchestrate operations globally, by configuring and coordinating these to achieve the benefits of cost savings, risk reduction, acceleration of return on investment, enhanced learning and knowledge sharing, strengthened global-wide recognition, synergies, competitive leverage and planning.

Given this preliminary discussion, and the apparent contemporary strengthened interest that firms are demonstrating in global approaches to survive in the "fierce global competitive arena", the issue of integrated global marketing is of utmost importance to both domestic and international marketing practitioners and to academics. This study is a contribution to this discussion through gaining additional insights on the topic. It reports on the finding of a research expressively conducted in Italy on Italian MNCs.

Building on organizational dimensions previously developed in the literature, this paper distinguishes MNC's market orientation, its marketing resource configuration and its organization for managing dispersed marketing activities.

It briefly reviews the literature on the globalization of industries, strategies and firms to establish a conceptual foundation of the study. It then outlines the research questions and methodology, before describing the research results. Finally the paper discusses the implications of the findings.

## 1. Globalization of Industries, Strategies, Firms and Marketing Activities

Important parallel streams of research have addressed the globalization of industries, strategies and organizations (see Malnight, 1995 for reviews). Globalization of industries has been associated with growing interdependence across national markets (Hout, Porter and Rudden, 1982) creating opportunities for operating globally. Global strategies emphasize how firms can develop a competitive advantage operating in interdependent national markets, emphasizing potential advantages including exploiting differences in national resource endowments, the flexibility of MNC networks, and economies of scale, scope and learning (e.g., Kogut (1984).

Building on the discussion of MNC network models can be associated with adjustments in why firms operate globally, reflecting a changing orientation towards competing in integrated worldwide markets. These models include *geocentric* (Perlmutter, 1969), *transnational* (Bartlett and Goshal, 1989), *heterarchical* (Hedlund, 1986), and *multifocal* ones (Prahalad and Doz, 1987). Organizationally these models project MNCs to alter why they locate key resources (resource configuration) and how they structure and manage worldwide operations (coordination or organization) (Kogut, 1983; Porter 1986).

Resource configuration decisions relate to which activities a firm chooses to perform internationally and where it chooses to locate them (Buckley and Casson, 1986). One important focus within network-based models has been the development of distributed and specialised resource configuration (Bartlett, Bartlett and Goshal 1989), impacting worldwide flows of products, capital, people and knowledge within the firm. A common theme in these discussions has been locating resource to pursue sources of competitive advantage associated with global integration, local responsiveness and learning (Westney, 1987; Prahalad and Doz, 1987; Bartlett and Goshal, 1989).

Hedlund further emphasizes the global diffusion of resources and headquarters' functions, with varying strategic roles for foreign subsidiaries being a topic addressed by a number of studies (Bartlett and Goshal, 1989; Doz, 1986; Gupta and Govindarajan, 1991; Hedlund, 1986).

With increasingly dispersed resources and complex internal flow patterns, a further important topic in the literature has been an expanding array of coordination and control mechanism (Martinez and Jarillo, 1991). Whereas earlier research tended to stress formal organizational structures and their alignment with strategy, more recent research has expanded consideration on informal integration mechanism, including informal control mechanisms (Doz, Bartlett and Prahalad (1981); Bartlett and Goshal, 1989).

Decentralized MNC models, including Perlmutter's (1969) *polycentric* model, Porter's (1986) *multidomestic* and Bartlett and Goshal (1989) *multinational* models which build on the notion that the best strategy and organization for operating internationally is through autonomous operations in major world markets. Most resources, staff and decision making are controlled within autonomous geographic affiliates, with little flows or exchanges among dispersed operations.

Contrasting these models, two fundamental adjustments can be projected. Firstly the transition will involve moving from duplicated resources across national markets to specialized centers performing

activities for meeting global requirements. Secondly, the transition will involve moving from primarily financial-based organizational linkage to an expanding array of control mechanism, enabling horizontal exchanges of resources, information, knowledge and techniques, reflecting an increasing interdependence of activities.

## **2. MNCs' Marketing Activities: Towards an *Integrated Global Approach*?**

Whereas most of the academic literature focuses on the role and the importance of international marketing and the deployment of country-specific marketing strategies (Pellicelli, 2000, Valdani, 1981, 2000, 2003), only a few refer to the management of interdependences between different national markets served by the firm (Picard, Boddewyn, Grosse, 1998; Sheth and Eshghi, 1989, Guerini, 1997; Sheth 2001). Indeed centralization *versus* decentralization decision are particularly important organizational issues in marketing for a number of reasons.

First, as a boundary function responsible for keeping the firm in alignment with customers and market conditions, effective marketing depends on the marketing organization's ability to "keep decisions closely matched to the facts" of the marketplace and to adapt to new conditions, which translates into a certain closeness regarding the customer of important activities. In other words, decentralization encourages initiative, responsibility, development of personnel, fact-based decision-making and flexibility; in short, all the qualities necessary to adapt to new conditions. However, many key marketing functions are characterized by substantial scale economies that can only be reaped through the centralization of these functions; in turn, capturing these scale economies is vital to maintaining a competitive cost structure and competitive prices.

Secondly, developments in both the external macro-environment and the larger organizational environment at many firms will create tensions in attempting to reconcile both centralization and decentralization. With increasing importance to the international dimensions of marketing and globalization marketing management faces ongoing decisions regarding the relative extent of centralization/ standardization of major marketing programs such as product lines, prices, distribution and communication, versus the customization/ decentralization of these programs to reflect country differences in culture, regulations, or other factors. These centralization/ decentralization tensions are a critical item on the strategic agenda for many firms and are usually the most salient in marketing activities, since the task is to develop and implement companywide marketing programs in a context where important resources and marketing skills may be decentralized in local operating units, especially within a multi-domestic multinational approach. On the whole, it is clear that centralization versus decentralization is a key organizational issue in marketing, and there are important benefits to each mode of organization, while the "ideal balance" is not a simple and straightforward concept to identify and to apply. The desired extent of decentralization and centralization will depend on the types of strategy

pursued by the firm, the types of marketing resources and skills possessed, as well as on the industry in which it competes and the markets it serves.

Moreover, following on from the discussions above, Jagadith Sheth (1992) indicates that specified forces are creating a borderless world where the national boundaries are becoming either obsolete or irrelevant in determining differential marketing practices. As the contextual determinants that defined the discipline of international marketing go out of existence, the result is bound to be a radical change in the discipline as a whole.

As the economic world becomes increasingly global and borderless as regards trade, labor mobility, private investment and information, *international differences* are being substituted by *intra-national differences*. In other words, in a borderless economy, *differences within a country* will surpass differences *between countries*. It therefore, may be more advantageous to research and operate in different target markets within a country, but on a global basis (Sheth and Eshghi, 1989; Ohmae 1990). Sheth (2001) supports the view that the traditional orientations of international marketing will be replaced by integrated global marketing, which involves a *global-wide integration of all global marketing activities*, as well as the focus strictly on transnational market similarities. The process will result in a two-dimensional shift:

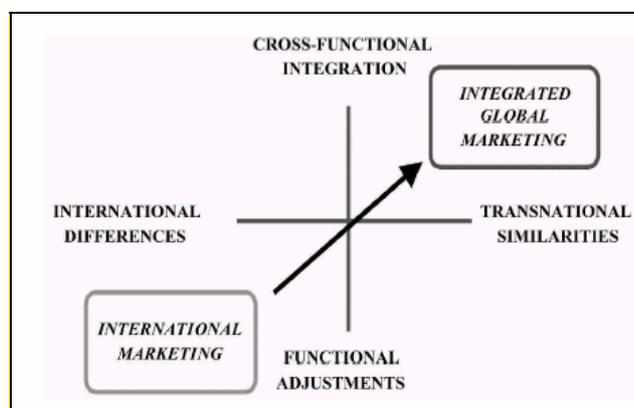
- 1) focus on transnational similarities; and
- 2) cross-functional global integration of operations and activities.

The first shift will focus more on transnational similarities for target markets across national boundaries and less on international differences.

The second shift will focus more on cross-functional integration and coordination as opposed to functional adjustments across national boundaries. The figure below illustrates the two-dimensional shift to integrated global marketing.

The first shift, the search for similar transnational target markets rather than international market differences, is a result of the increased globalization of markets and industries in order to reap the benefits that are involved. Various global segmentation techniques will be employed to determine the global segments (as discussed in the previous section), which will be more or less focused or broad based (i.e. niche markets, or mass markets).

Figure 1: The Transformation from International to Integrated Global Marketing (Sheth, 2001)



The second shift, the tendency towards a greater cross-functional and global integration, is a result of the global markets targeted. Organization will transform progressively them into cross-functional, flat, team-driven, cooperative, and market-driven organizations. In the context of a borderless world and continuing globalization it will make more sense to integrate functions of a firm globally, and configure and coordinate these to achieve the benefits promised by a geocentric orientation.

### 3. The Study

#### 3.1 Research Questions and Methodology

The purpose of this paper is to gain a better understanding of the integration of global marketing activities. There has been little effort in trying to analyze the centralization/decentralization issue in Italy, even if the need for local responsiveness dictates the decentralization of many operating decisions particularly in marketing, and even if - as we will see in due course - production and marketing are cited as “core competencies” of Italian MNCs.

In order to reach this purpose the following research questions are formulated:

- are Italian multinational companies moving towards a global orientation, especially in marketing?
- If so, why and how are they going to implement and integrate global marketing activities?
- Has the integration resulted in positive impacts on performance? What are the challenges, drawbacks or difficulties in implementing *integrated global marketing* activities?
- Has the integration of global marketing with other functional areas of the corporation, in the pursuit of both marketing and common goals, affected performance in a positive sense? What are the challenges, drawbacks and difficulties?

Before moving on to an explanation of the framework of the research, this paragraph describes the methodology. More specifically the research purpose, research approach, research strategy, data collection, sample selection, analysis of data and quality standards will follow.

To reach this understanding, the phenomenon of integrating global marketing activities will be explored, meaning that the study is mainly *exploratory* (1) in nature and it follows a *qualitative research approach* (2).

The strategy used is a combination of *case study research*, since the research questions are based on how and why, the researchers observed and interviewed, and *archival analysis* of previous academic research on various disciplines and areas that in the eyes of the author would be indirectly or closely related to integrated global marketing (organization theory, social sciences, global marketing, business strategy, international business). Moreover, the study focuses on a contemporary event that is hardly traceable in the past.

I have chosen a broad, rather than focused approach to this research for several reasons. First of all, the intention is to investigate whether at all and to what degree an integrated global marketing strategy is a viable option that will enhance the firm’s competitive advantage and performance. Although the

research sample is small, even though it represents leading player in its global marketing orientation (3), an extensive secondary research of the academic literature in various aspects that are relevant to the topic is conducted, with the final aim to be able to make a generalization of the results.

Secondly, the selected research strategy is qualifiable as partly empirical and partly non-empirical research, i.e. desk research. Literature is used in the form of international academic articles, due to apparent lack of interest demonstrated so far by Italian researchers. Use will be made of secondary data in the form of records of interviews of executive staff in news reports and journal articles retrieved from the Bocconi and LIUC Universities' databases. The last category of existing material, the official industry and company reports, is understood to mean data gathered periodically or continuously for the broader public. The official materials consist of corporate annual reports, corporate information brochures and catalogs, web-sites and other information gathered from the various industry associations in Italy, and Europe (4).

Due to the fact that the respondent's own views and opinions on suggested themes is desired, in depth individual semi-structured interviews with several managers of the companies' corporate Marketing Department have been applied in occasion of an on-site company visit. In addition to semi-structured interviews, multiple conference-call interviews, phone calls and e-mails allow semi-structured questions, useful to clear up doubts and verify interpretation, as far as contacts are taken and intimacy between interviewer and interviewee increases.

The sample is based on Italian companies diffusely cited for their global approach and for their global marketing practices in particular. Specifically, it has been chosen the sample of "few" firms on high visibility of the inquired objective (Pettigrew, 1991). The complete case studies are so far five, including MNCs operating in five different industries (food, fashion, coffee, chemistry, textile) (5).

Three steps suggested by Miles and Huberman (1994) were followed when analyzing the data. Firstly, the data were reduced to data relevant for the research questions. Secondly, the data were displayed in a feasible way, following the structure of my research questions and paper framework. Thirdly, conclusions about the data were drawn in the final part of the article.

In order to increase *construct validity*, both interviews and documents have been used as sources of evidence. A chain of evidence is established by referring to used secondary data, by presenting the primary data, linking together the purpose, research questions, frame of reference, interview guide, and findings, and by referring to methodological procedures.

*External validity* deals with the problem of knowing whether it is possible to draw general conclusions from the findings of the study. A single case study is generally a poor basis for generalizing, however Yin (1994) argues that since case studies rely on analytical generalizations, meaning to attempt to generalize findings with theory, the external validity could still be quite high.

In order to increase *reliability*, an effort was made to ensure that the respondent had sufficient knowledge, and the interview guide-lines were provided in advance to allow the respondent to prepare the answers (6). To further increase reliability, drafts and notes taken were sent back to the respondent aiming to eliminate misinterpretations.

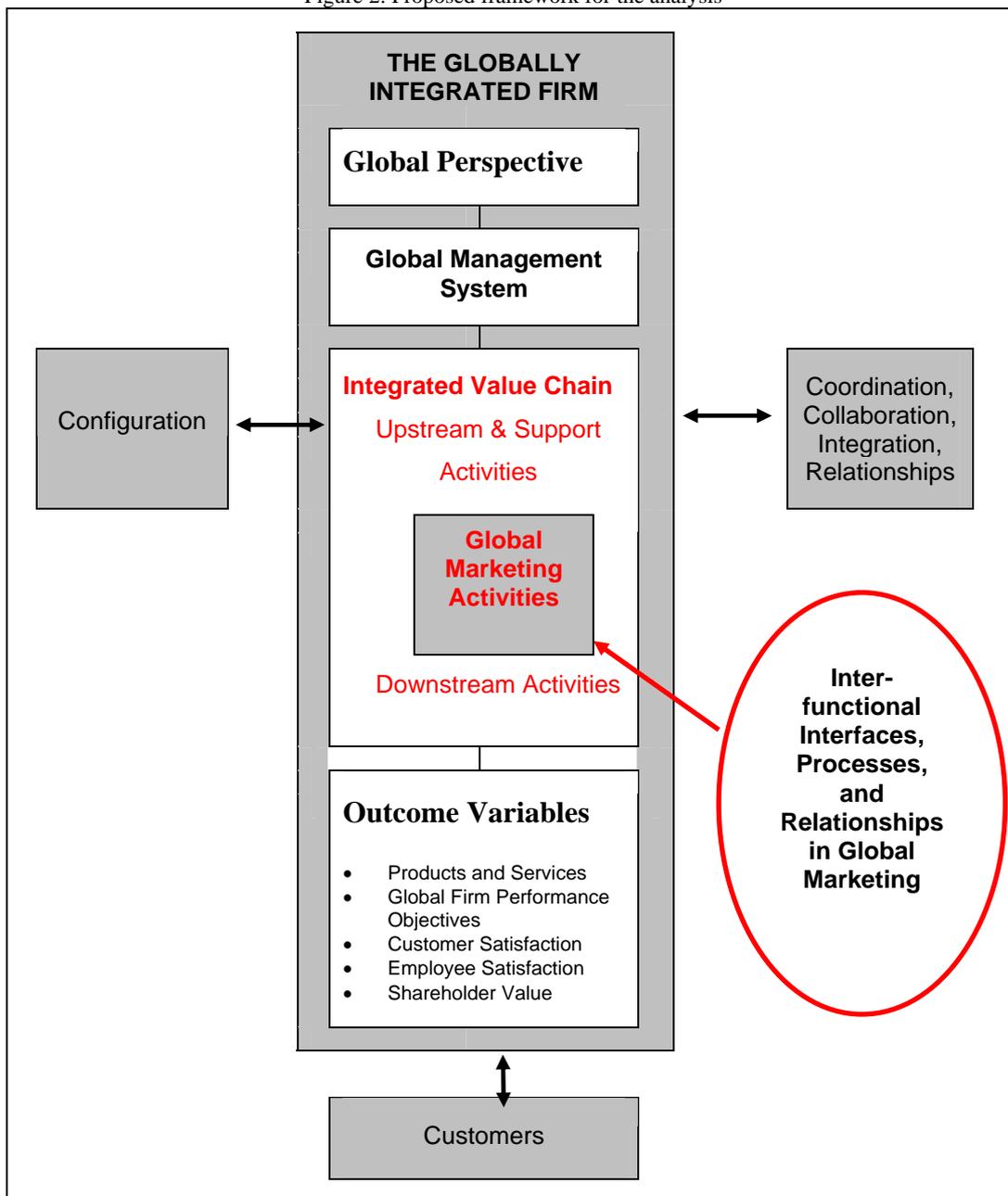
### 3.2 Principal Findings

#### 3.2.1 Italian MNCs and their Marketing Orientation

The objective of the first part of the research was to analyse the configuration of marketing activities and the relations between home office Marketing Departments at Italian MNCs and the Marketing Department in MNCs' subsidiaries. The focus was to understand how people in home office and subsidiaries contribute to various key-issues of flows and operations; who has the control over such marketing stages as strategy and tactics and how effectively these activities are implemented.

As already noted, a sample of Italian companies diffusely cited for their global approach and their global marketing practices was investigated.

Figure 2: Proposed framework for the analysis



An introduction to a basic organizing framework developed and proposed by the author for an analysis of integrated global marketing (see Figure 2) precedes the presentation of the principal findings of the present research.

The constructs in the framework consists of the definition of an underlying global management orientation/mission, the establishment of appropriate integrated global management systems, and the configuration, coordination and implementation of global value chain interactions, relationships, and integration, which all concure to produce corporate outcome variables, such as new products and services, global firm performance objectives (market share, net profits, value added, return on investment (ROI), and other indicators of market, and financial performance), customer satisfaction, employee satisfaction (or other stakeholder satisfaction as needed), and ultimately shareholder value.

A premise, before describing the principal findings, is necessary: serving marketing function as interface between external boundaries, but also as internal node between various functions of the MNC, interviewed firms acknowledge its relevance for internationalised companies. Even by them,

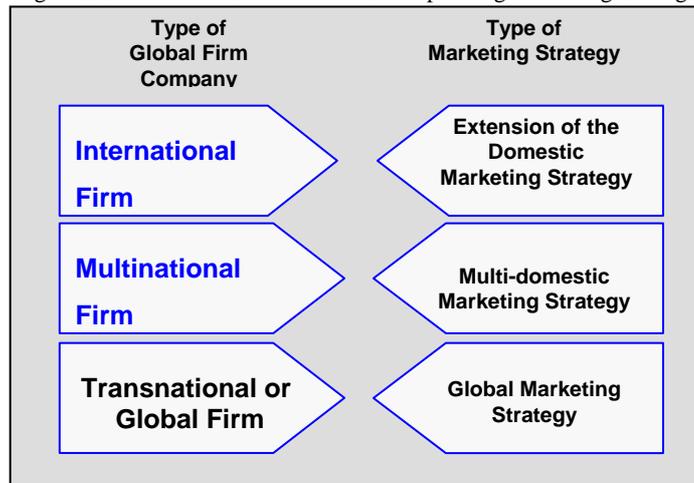
and despite their orientation, adaptation to local markets is considered important, due to the variety of environments in which companies operate and to the “need for responsiveness”. For the same reason, configuration/coordination issues in marketing activities are defined as critical.

Italian MNCs pursue, at a group level, an *international strategy* attempt to create value by transferring core competencies from home to foreign markets (see Figure 3). Headquarters typically maintain centralized control over the source of the firms’ core competency, which is typically found in production and/ or marketing functions.

Porter (1986) calls this kind of strategy “*a simply global*” one, as it seeks to concentrate as many activities as possible in one country, serve the world from this home base, and tightly coordinate those activities that must inherently be performed near the buyer.

Referring to the organization and strategies of MNCs’, marketing activities analysed at a different level, the dyadic headquarters-subsidiary interface level (vertical level), the present analysis confirms the necessity to distinguish strategic and operational marketing decisions. Responsibility for strategy initiatives and implementation in Italian MNCs is centralized and controlled at corporate headquarters in order to fully exploit specific competencies and skills available. At the same time, local initiatives are encouraged in the operational activities. This is especially important to ensure consistency of initiatives taken by subsidiaries with the global strategy (7).

Figure 3 Global Firm Structure and Corresponding Marketing Strategies



Given this kind of configuration, key problems for the top level management are therefore :

- how to transfer knowledge and capabilities within the organizational network, characterized by separation through time, space, culture and language (Schlegelmilch, Chini, 2003);
- how to coordinate marketing activities of the spatially distant subsidiaries so as to be sure that they follow marketing procedures designed by headquarters and implement centralized decisions;
- how to favor the contribution to the adaptation of operational decisions and the consequent dissemination of best practices and ideas within the global network .

Management systems to direct the spatial deployment of assets and resources across and within markets are considered critical by Italian corporate managers who confirm that they provide the firm with a competitive advantage at a global level (Malnight, 1996).

The specific management systems and mechanisms adopted to achieve this complex balance between corporate headquarters and local subsidiaries vary, though not extensively, from company to company, depending on its size and specific industry (Wiechmann, 1974).

The devices and mechanisms employed to integrate marketing activities *vertically* (i.e. between headquarters and subsidiary levels) and *horizontally* (i.e. among overseas global marketing operations) are diverse.

Integrative mechanisms such as global information systems, regularly scheduled meetings, written reports and reviews shared between dispersed subsidiary marketing managers, which can be more or less formalized, facilitate the transfer of information, ideas, experience. Transfers or traveling of marketing personnel overseas also provides a means of coordinating dispersed operations. Moreover, advances in information and computer technology provide important tools to facilitate global coordination of operations, such as groupware software, messaging systems, email systems, real-time videoconferencing and corporate intranets allow information sharing and interactive collaboration by managers in diversified geographic locations. These ones seems to be more important as company size grows.

There are also organizational mechanisms that facilitate information and resource flows between subsidiaries and functional units. Appropriate linking mechanisms allow for cooperation across units without sacrificing the advantages from specialization and decentralization. The choice of horizontal linkage depends on the degree of interdependence among the units. Examples of horizontal linkages ordered from the least formal to the most formal, used by Italian MNCs are: the deployment and relocation of personnel overseas, personal networks, the creation of a task force or a team, and the (formal) institution of *integrators*, i.e. facilitators, owning formal authority.

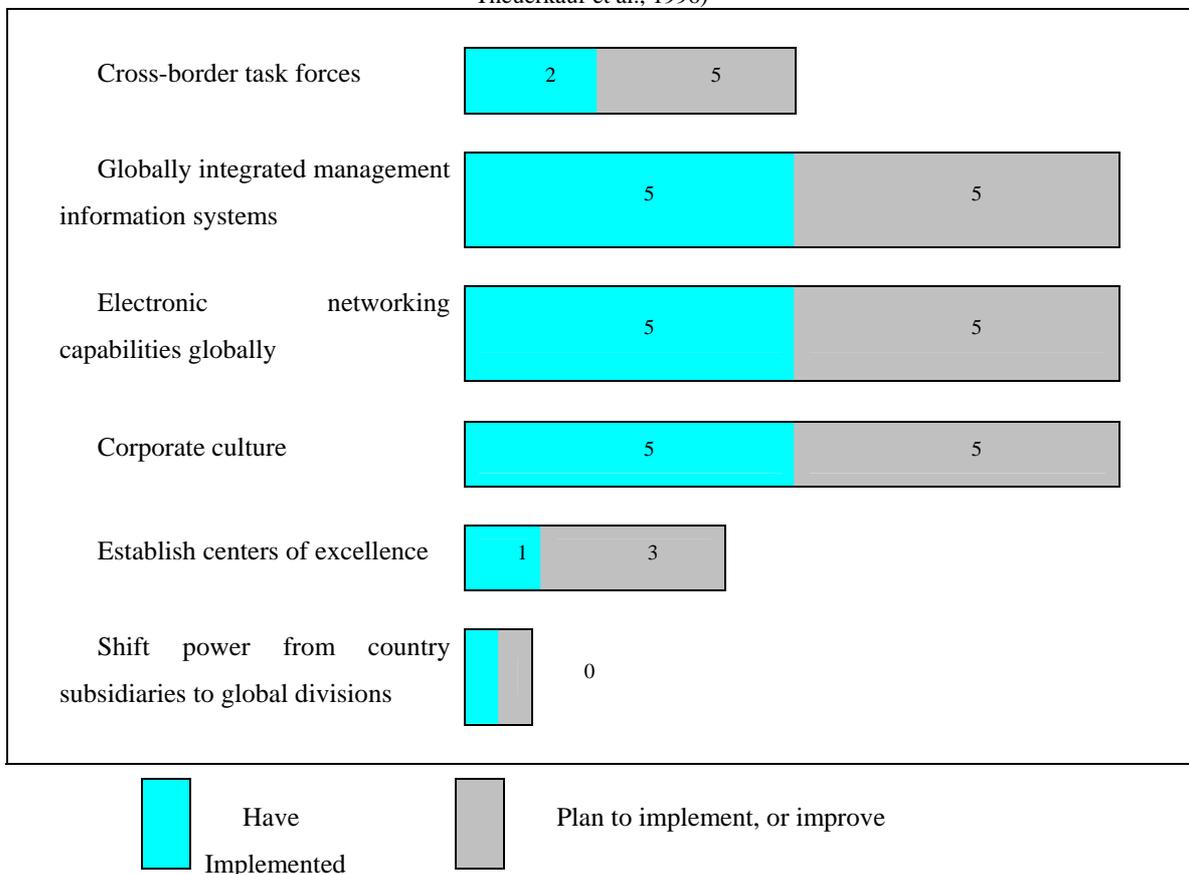
Comparing the mentioned organizational mechanisms with those proposed by Saloner (et al.2001), only *liasons* (formally designated linkages between units) fail to be mentioned by Italian MNCs.

The figure below (Figure 4) shows some of the mechanisms that Italian firms are utilizing to coordinate global activities and their relative importance. The absence of tight formal integrating mechanisms does not avoid the existence of management relations and/or of a strong *organisation culture* which is cited as the most powerful means if integration is concerned.

Managers at home offices stress the importance of “*socialisation*”, though it seems to be limited to the search of continuous personal contacts between home office and subsidiaries, not necessarily between marketing personnel at different location within the organisation.

Continuous socialisation allows managers to affirm that - even if centralised control over the marketing strategy is common - the interdependence level between units is high (8).

Figure 4 Initiatives taken/planned by Italian MNCs to coordinate Global Marketing Activities (adapted from Theuerkauf et al., 1996)



However, the *transnational* goal of achieving multidirectional transfer of core competencies is regarded with some “suspect” by corporate management: the concept of “global learning”, though not unknown, does not evolve in initiatives coherent with the freedom devoted to each subsidiaries to develop their own competencies or with the leveraging of these to benefit directly from single part of the organisation to other. In greater detail, what seems to be missing is a series of mechanisms enabling socialisation between subsidiaries.

This is partly due to the ethnocentric orientation of MNCs, partly to the goal of containing performance ambiguity: as Italian MNCs pursue distinctive product/market strategies on a worldwide scale by transferring competencies from the home country, but leaving autonomy in operational decisions at the subsidiary level, output controls must ensure their actions are consistent with the firms overall strategic and financial objectives without the interference of other subsidiaries.

Table 1 -A synthesis of Strategy, Structure and Control Systems in MNCs’ Marketing Departments

<b>Structure and Control</b>	<b>Strategy</b>
Vertical differentiation	Core competency centralized, the remainder decentralized
Horizontal differentiation	World wide Product Division, World Area Structure
Need for coordination	High
Integrating mechanism	Informal, socialization , organization culture
Performance ambiguity	Low
Need for cultural controls	Low, through personal contacts

The definition of global headquarters-subsidiary relations constitutes another important vertical integrative mechanism. A delicate balance must be maintained between centrally directing and focusing the firm’s resources so as to achieve corporate goals while, at the same time, empowering decentralized local management to take initiatives and respond creatively to diverse and fast changing environments through the adjustment of the four Ps. Flows of communication and control need to ensure effective coordination of subsidiary operations across worldwide locations to implement global strategies.

Trying to link the roles covered by MNCs’ subsidiaries and their contribution to the definition of the overall marketing activities to well known typologies (see Table 2), one could distinguish essentially three types:

- 1) the *implementer*: it has limited geographic scope, typically a single country. In this context, the implementer’s role is to adapt global products’ operative marketing to the needs of the local market (Birkinshaw, Morrison, 1995). All the interviewed companies have a great network of implementer, which have product/functional/geographical scope.
- 2) Roth and Morrison (1992) *world or regional mandate* defines a subsidiary which has worldwide/regional responsibility for a product line, or for a particular (marketing) activity. In other terms, mandates have a greater autonomy than simply implementer on defining marketing strategies and tactics, and can be called “*active implementers*”.

Though, where possible subsidiary roles are limited to that of implementers, for previously geographical-cultural reasons most of the subsidiaries localized in dispersed geographical areas are more active ones (i.e., subsidiaries in Asian countries are commonly defined as regional mandate)

In all cases, implementers are closely integrated with the parent company, as a result of their ethnocentric orientation. None of them have worldwide responsibility, but rather a regional one. Corporate parent usually avoid giving them a high discretion to implement a locally responsive strategy, whereas the level of interdependence is high.

- 3) The transition to an *integrated player*, based on interdependent, specialized and distributed resources is rare in Italian MNCs.

Only in one case, isolating part of the operational marketing activities, it is possible to outline a “globally integrated marketing communication process”. In this case, the *integrated player* has complete autonomy in defining the firm’s communication

Table 2 - Subsidiary Roles in Italian MNCs

Local implementer	<ul style="list-style-type: none"> <li>• Adapts product or operative marketing to market conditions in local market;</li> <li>• geographical responsibility is limited usually to the local market</li> <li>• High knowlegde inflow referred to marketing strategy and tactics</li> <li>• Moderate knowlegde outflow</li> </ul>
Active implementer	<ul style="list-style-type: none"> <li>• Worldwide or regional responsibility</li> <li>• Product- or entire business strategy is developed by-</li> <li>• Operational autonomy</li> <li>• Strategy definition in close relation with the parent company</li> <li>• High knowlegde inflow referred to marketing strategy and tactics</li> <li>• Medium knowlegde outflow referred to marketing strategy</li> </ul>
Integrated player	<ul style="list-style-type: none"> <li>• Worldwide responsibility knowledge outflow referred to marketing</li> <li>• Limited to particular marketing activities</li> <li>• No case registered where worldwide responsibility refers to marketing strategy</li> <li>• High knowledge inflow referred to marketing strategy and tactics</li> <li>• High knowledge outflow referred to marketing strategy and tactics</li> </ul>

strategy, favored by the access to a global knowledge pool granted by all dispersed marketing/communication units. This strategy is defined in accordance with the product/market- and positioning strategy developed at corporate level.

In terms of resource recognition, in this case it is associated with reallocating resources across specialized units. Activities benefiting from specialized resources and scale were centralized, while other resources continued to be decentralized within local markets. Responsibilities were reallocated across regions based on specialized and interdependent roles to be played by each unit within the communication strategy.

Referring to the issues of the four Ps – product, price, place, promotion- it is, therefore the latter where Italian MNCs’ headquarters recognize other markets’ superior competencies and accept

delegating responsibility. This is coherent with the fact that promotion and price are context inherent variables and that Italian MNCs offer differentiated products.

Referring to “the need for integration”, it appears a result of the increased globalization of markets and industries in order to reap the benefits that are involved (Sheth, 2001), but also an immediate consequence of the ability of the corporate management to recognize the necessity to standardize decisions (so as to exploit economies of scale) and to delegate them to the most capable unit or subsidiary, instead of tightening control and imposing solutions.

Referring to the issue of the “need for control” which can be defined as “regulating the activities within an organization so that they are in accordance with the expectations established in policies, plans and targets” (Child, 1973, Birkinshaw, Morrison, 1995), performance and/or behavior is monitored to avoid opportunistic behavior with *bureaucratic* means (*hierarchy models*) or *normative* and *cultural* ones, whereby managers are imbued with the value and goals of the MNC and thus act in accordance with them (*heterarchy model*). Bartlett and Goshal argue that the parent country of origin is important. They proposed that historically, *socialization* was predominant in European MNC identifying by that at the same time a special type and a different quality of control than those preferred by Japanese and American MNCs.

The present research, based on corporate managers perceptions and affirmations, confirms that organization culture, “sharing of goals and values” and “socialization” are both means of control and integration.

Bearden and Hewett (2001) are useful in understanding relations between Marketing Departments at headquarters and subsidiaries in Italian MNCs. The authors include between key success factors in cultivating successful relationships between subsidiaries and headquarters the subsidiary’s *trust* and *dependence* on the headquarters (Makoba, 1993; Morgan and Hunt, 1994). “Trust” is defined as existing when one party has confidence in an exchange partner’s reliability, ability, and integrity. In the case of headquarters subsidiary relationships, *dependence* reflects the extent to which the subsidiary depends on the effective functioning of the headquarters in order to perform its own tasks related to the implementation of a marketing program, e.g. for a certain product.

They define trust and dependence as the antecedent factors affecting headquarters-subsidary relational behaviors, defined as *acquiescence* and *cooperation*, which in turn will ultimately affect and enhance desired outcomes, namely a positive marketing (and product) performance in the local markets.

The behavioral dimensions of acquiescence and cooperation are not only consistent across the relationship marketing literature, but are also particularly appropriate in the context of headquarter-subsidary relationships in marketing in terms of the implementation of marketing program elements in individual foreign markets, which is especially vital in achieving a global integration of these programs. In particular, successful marketing relationships between headquarters and subsidiaries’ marketing operations should result in:

1. acquiescence to the headquarters in terms of marketing procedures, directives, and programs implemented in the local market, and

2. cooperation with the headquarters' marketing operations to achieve mutual goals with respect to the marketing procedures, directives, and programs for a particular product.

The present research underlines the importance of acquiescence and cooperation, as through them Italian MNCs affirm to encounter a low level of conflict in headquarters-subsidary relations, thus achieving -without great relational difficulties- corporate goals (performance objectives, customer satisfaction, employee satisfaction, and shareholder value).

### **3.2.2 Means and Reasons for Implementing and Integrating Global Marketing Activities**

As discussed in the previous paragraph, the actions, personalities, capabilities of management, and further "soft" factors, such as exposure to the firm's corporate culture, constitute an important source of competitive advantage in Italian MNCs.

A global firm needs to foster successful relationships between subsidiaries and headquarters' marketing personnel as a powerful source of integration, coordination, and cooperation to enhance performance across markets.

This paragraph strives to explore some of the past research on the topic of cooperation between headquarters and subsidiaries of a global firm so as to understand the driving forces behind successful integration of marketing activities. The ultimate goal is to clarify what are the reasons and which are the means used by Italian MNCs to favor integrated global marketing.

The two tendencies mentioned in the previous paragraph as antecedents of trust are distinguished in that *cooperation* is proactive, whereas *acquiescence* is reactive (9).

Therefore, headquarters at Italian MNCs face a need to utilize their unique knowledge in decision making, while somehow influencing the subsidiaries to act in compliance with their interests, and those of the global firm as a whole. For example, in the case of new product introductions, subsidiary acquiescence is viewed as an important factor in facilitating the headquarters' ability to present its products to end users in the local foreign markets in accordance with its proposed marketing plans. Acquiescence therefore represents the subsidiary marketing managers' participation in marketing procedures, directives, and programs that the central marketing function at headquarters (or another subsidiary with a particular mandate for the company as a whole) attempts to implement, as well as the performance of the headquarters' marketing operation requests.

On the other hand, *cooperation* - defined as complementary and coordinated actions taken by the headquarters' and subsidiary's marketing functions to achieve mutual outcomes (Anderson and Narus, 1990; Morgan and Hunt, 1994) (10) - suggests that it requires the two parties in a relationship to participate actively to achieve mutual benefits and that cooperation promotes success in relationships. Managers at corporate Marketing Departments underline some difficulties in achieving corporate goals (see next paragraph) but define subsidiaries' personnel "extremely cooperative" in most cases.

Social exchange theory has found relationships among the relational variables described above. In particular, the level of perceived *dependence* of one partner on another is thought to be positively associated with acquiescence to that party (Morgan and Hunt, 1994). The greater the perceived

dependence of the subsidiary's marketing operations on headquarters, the less powerful the subsidiary's marketing managers will feel, and the more likely the subsidiary will be to adhere to the marketing function at headquarters.

Further, *trust* is considered as having a direct influence on acquiescence and cooperation (Morgan and Hunt, 1994). From a relational perspective, trust is an important mechanism for persuasion, for committing to continuation of the relationship and encouraging future exchanges, as well as implicitly leading to a willingness to follow directions. Therefore it can be assumed that if the subsidiary knows that headquarter is concerned about its welfare, it may be more likely to accept that directives are developed in its best interest and more likely to follow them, thus expressing acquiescence.

Morgan and Hunt (2001) also found that trust leads to cooperative behaviors and to a decrease in uncertainty. Therefore the same arguments for the influence of trust on acquiescence can be made for the effects of trust on cooperation. If headquarters are considered to be trust worthy and credible, and concerned with the subsidiary's welfare, the subsidiary may be more likely to cooperate.

As far as marketing performance as an outcome of relational behaviors is concerned, it has been proven that in an effective relationship both parties, subsidiaries and headquarters, should be able to achieve their respective goals (Hewett and Bearden, 2001). To the extent that the subsidiary's marketing function displays cooperation and acquiescence, the product should be able to meet the objectives established for the individual subsidiary's market (in terms of profitability, sales and share goals). Therefore, once more, the ability of the headquarters to motivate and control subsidiary actions in executing its global strategies is described as being critical in order to compete successfully (Doz, Prahalad, Hamel, 1990).

Further, coordination efforts on the part of partners in dyadic relationships, defined as their pattern of complimentary actions and activities, can lead to enhanced performance in terms of profits resulting from those collaborative efforts (Jap, 1999).

From a relationship marketing perspective, the relational behaviors between headquarters and subsidiaries should result in positive outcomes for both units, and the achievement of a product's goals in a local market can be seen as a mutual objective within the global marketing program.

Conflict and poor relationships between dispersed marketing functions of the global firm discourage the transfer of global marketing program elements to individual markets.

In situations where the marketing program is customized to a particular local market, such that the subsidiary has operational autonomy (implementer, active implementer), acquiescence to the headquarters appears be less important to meet the objectives than it is cooperation.

In addition, when the headquarters attempt to standardize the marketing program, the likelihood of goal congruity between the parent organization and subsidiary is greater than when the subsidiaries are more autonomous. Thus, the importance of relational behaviors on the part of subsidiaries for reaching these goals is less, though, in this case, it is the headquarter which has two most demanding tasks:

1. to understand which are the best solutions adopted within the company, so as to promote them within the network avoiding conflict;

2. to favor the diffusion of information about the achievement of goals, so as to maintain a high level of acquiescence and trust.

### 3.2.3 The Correlation between Integrated Global Marketing Activities and Performance: Challenges, Drawbacks And Difficulties

Marketing performance is a complex construct, so as firm performance or MNCs performance. Managers at Italian MNCs' headquarters focus on trust-building issues to explain how they manage complex needs which arise in network structures as those in which they operate. And most studies reveal that cooperative behaviors are positively associated with performance, thus confirming their perceptions and their experiences.

The current research contributes to that point of view by listing a series of marketing activities where the contribution of subsidiaries has positively impacted on performance (see Table 3) and by discussing a series of challenges, drawbacks and difficulties (Table 4) with which managers were faced.

Table 3 - Areas in which subsidiaries' contribution has been successful

Contribution by subsidiaries	Effects
Market-entry approaches	Adaptation of the marketing plan to local conditions favored by local transfer of knowledge
New product testing	Diffusion of results facilitated design of testing in other countries
Merchandising ideas	Means of in-store promotion formulated in local markets (lead-markets) and diffused in others (even country of origin)
Price discrimination patterns (guide-lines for the application)	Practice of price discrimination spread over markets, after the successful introduction in local ones
"Sprinkler approach"	Simultaneous, synchronized introduction of new products

The sharing of successful marketing programs and practices developed within specific subsidiaries, not only in lead-markets (Von Hippel, 1986), permits:

- cost reduction, as existing solutions can be simply leveraged and applied to other markets;
- risk reduction, as failure is less probable;
- research cost reduction: as no more is needed;
- competitive benefits, due to the anticipated information and risk prevention.

Finally, what are the problems perceived in integrating global marketing activities? Problems are mostly referred to cultural problems: knowledge and cognition are guided by the contextual rules and resources resident in social structures and conventions. Beside cultural problems, organizational ones are cited - varying from subsidiaries' endowments and ability to measure them, to the actual lack in relations between units and/or functions- as well as activity- and industry-based problems (Table 4).

Table 4 - Difficulties in implementing globally integrated marketing

<b>Difficulties stemming from:</b>	<b>linked with:</b>
People	Local culture (both in the Firm/subsidiary and in the market) Process of trust-building Personal commitment to the organization
Industry	World-products or “Made-in” ones
Activity	Scale-, scope-effects
Structure- Organization	Poor competences at the subsidiary level, no linkage between units

In principle, all business functions should interact harmoniously to pursue the firm’s overall objectives. In practice, however, interdepartmental relations are characterised by rivalries and distrust. Some interdepartmental conflicts stem from real trade-offs between department and company objectives, whereas others from stereotypes and prejudices.

In an organisation, each business function has a potential impact on customer satisfaction. Under the marketing concept, all departments need to think in a “customer oriented” way and work together to satisfy customer needs and expectations. The marketing department in this context has a role which is twofolded:

- to coordinate the company’s internal marketing activities;
- to coordinate marketing with other company functions to serve the customer.

Yet there is little agreement on how much influence and authority marketing should have over other departments. Performing a “boundary spanning role” is not a simple task: it requires a certain blend of managerial as well as analytical and social skills.

In most firms, marketing, though being responsible for customer relations, does not have formal a line authority over parts of the company that directly affect those relationships. Furthermore, in dealing with other parts of the company, marketing managers often encounter different measurement systems, established administrative procedures, and operating constraints. This suggests some of the conflicts inherent in many marketing tasks.

### **3.2.4 Some Findings about the Integration of Global Marketing with other Funcional Areas**

Most literature addressing interfunctional integration between marketing and other departments or functions is referred to single-country companies, and not to global interdepartmental integration (Kahn, Mc Donough, 1997).

By the way, to instill and manage integration, literature has presented three different approaches which, in some respects resemble and emphasize, what has been previously discussed: an interaction-base approach, a collaboration-based approach, and a composite approach.

The first approach favors communication-related activities, such as meetings and the exchange of documents exchange (Sheth, Parvatiyar, 1993). A collaboration-based approach for integration prescribes that “teams” and “resource sharing” comprise interdepartmental relationship: it focuses on the willingness to work together. A collaboration approach for integration parallels the tenets of relationship marketing (Kahn, Mc Donough, 1997; Sheth, Parvatiyar, 1993). The composite approach for integration does not focus on interaction or collaboration. The constructs of interaction and collaboration are both considered key elements of integration, which suggests that integration is a multidimensional process.

Interaction and collaboration in a global context could enhance performance in MNCs, if the predicted shift towards cross-functional integration is recommended (Sheth, 2001).

As far as Italian MNCs are concerned there is limited support for that .

A general finding was that collaboration is essential to the marketing/ production/ R&D relationship. Marketing managers in the home country agreed that collaboration with manufacturing and R&D stimulates performance. They tended to agree that there was the need to prefer different means to favor collaboration when interacting and working with subsidiaries located in different markets, local cultures being different.

The sharing of ideas between departments also proved very beneficial, for example discussions on other information systems utilized for capacity planning, for global supply chain management, and for other corporate planning systems.

However, the interviewed companies do not confirm the recent shift versus global cross-functional integration, being the phenomenon static: being the degree of integration and proximity with other units and operations in the pursuit of marketing’s goals one of the major decisions with respect to *centralization-concentration* versus *decentralization-dispersion* of marketing activities globally-, it is part of the process through which MNCs decide their optimal configuration. Thus having a certain stability over time.

Consequently, they don’t consider programs that encourage different department spread over the world to achieve collective goals sharing visions and ideas.

The reasons for the lack of interaction also appear to lie in the location of the departments in the company facilities, often located in distant buildings that do not foster interaction and socialization. A further reason for the lack of interaction consists in the lack of time to communicate due to the work load.

It was further observed that other marketing sub-units of the firms such as brand management, and new product development seemed to have totally different cultures, and much more upper management attention and commitment. They also experienced less integration problems globally (both within marketing as with other functional units of the firm).

## **Conclusions**

The development of an integrated marketing strategy requires adjustments in the nature and distribution of marketing resources. The transition from an international strategy to an integrated one

involves rationalizing national resources and introducing and expanding specialized resources, eventually enabling the reallocation of specialized resources across the territory.

Following Sheth's view integrated global marketing activities will experiment two kinds of shifts, so as to cope with growing complexity: a shift towards the research of transnational similarities for target markets across national boundaries and a shift towards cross-functional integration and coordination as opposed to functional adjustments across national boundaries.

In extreme synthesis, Italian MNCs pursue international strategies in marketing activities and cannot represent, in all aspects, an effective example of "an integrated global marketing approach".

If global integrated marketing is defined as the result of a global knowledge pool, where each unit is viewed as a source of ideas, skills, capabilities, and knowledge that can be harnessed for the benefit of the total organization, the picture of Italian MNCs projected by this research is far from that. The trend towards a greater global integration as a result of the global markets targeted as predicted by Sheth, is not yet the case in Italian MNCs, even if limited initiatives coherent with that vision exist or are planned.

On the other hand, Italian MNCs prefer "transnational similarities" in addressing their offerings to standardized targets spread all over the world (transnational segments) via their ethnocentric orientation.

Prior research has shown that the business environment is one of several important variables associated with the subsidiary role (Jarrillo, Martinez, 1990). Interviewed MNCs operate in different industries and markets and tend to justify their structure design referring to environment. Nevertheless, as shown before, there is no significant difference in subsidiaries' roles. Most of them tend to delegate operational responsibility in marketing to subsidiaries when they are located in (significantly) different environments, but they are reluctant in delegating "full strategic autonomy".

Configuration decisions depend essentially on the product features. They are due, as affirmed by headquarters' managers, to the high degree of distinctiveness and differentiation of Italian offerings and the consequent "need or opportunity for globalization in targeting and positioning decisions".

The taxonomy of the different roles proposed to sum up some research findings are in that sense evocative: *integrated players* are, so far, limited to communication activities, whereas all the rest of the networks are represented by the implementer. As noted by the terms "subsidiary strategy" and "role" are sometimes used interchangeably, but the distinction is not only semantic. Role suggest a deterministic process whereby "the subsidiary fulfils its imposed function" (Birkinshaw, Morrison, 1995), whereas the IMCs headquarter represents powerful exchange nodes.

In any case, this study extends previous findings by investigating how firms acknowledge network-based models' utility and begin to define and develop new specialized resources and new organizational characteristics. Even if, generally speaking, Italian MNCs tend to have a centralized model as far as strategy is concerned and decentralized ones to achieve operational responsiveness, in the field of marketing communication there seems to be less difficulty in recognizing superior competences and capabilities in other European subsidiaries (and markets), thus reallocating resources and responsibilities.

Beneath that, the research results confirm that here are many factors limiting the firm's ability to introduce the new strategies, which go beyond administrative heritage, to the lack of specialized resources and organizational linkage called for in network-based models.

However, the most important results can be referred to the fact that Italian MNCs have proved to be endowed with management systems, relational and cultural characteristics and organizational mechanism which enable successful integration of marketing activities both horizontally and vertically, and with other cooperating functions.

In line with many studies, "soft" factors appear to be particularly effective when issues of coordination, communication, cooperation and interaction emerge, which, inevitably, are involved in integrating operations that consist of a person influencing the outcome of their own as well others behaviors, decision processes and therefore performance.

This study has several limitations: first of all, the broad approach used and due to the total absence of literature on the item, is, *per se*, a limit of the research. The broad approach and the framework limit, necessarily, also sample size number.

In that sense, future research with larger sample sizes is needed, so as to verify whether the generalization of the present research are really extensible to Italian MNCs as a whole.

A third limitation concerns the necessity to compare Italian managers' visions and perceptions to those of their counterparts in foreign marketing offices. Scholars have long since pointed out that headquarters and subsidiaries perceptions might differ, suggesting the distinction between dyad headquarters-subsidiary, and subsidiary-subsidiary relationship.

Despite these limitation continued research is encouraged, especially in Italy, where the subject will increase in importance as more and more marketing and internationalization issues will be recognized as central issues for firms' success.

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## Notes

\* This paper has been accepted and will be presented at the *International Conference on Coordination and Control across Organizational Boundaries*, to be held at Catholic University on April, the 20-21 April 2006.

1. The explanatory research purpose is appropriate when the emphasis is on studying a situation or a problem in order to explain the relationships between variables. To specify, the aim is to prove or disprove that a relation takes place or is of a certain character, and to find correlations between causes.
2. According to Yin (1994) there are two basic methodological approaches within social sciences, namely the *qualitative and the quantitative approaches*. The first one is used when the researcher wants to gain a deep understanding of a phenomenon and to give a comprehensive description. The researcher makes a thorough study of the phenomenon from the inside, gaining in-depth information on a small number of research units. The advantage of this method is the ability to gain a deep understanding.
3. In this context *Global Marketing* refers to situations where the company has extensive, and fairly uniform international operations worldwide. The terms *international, multinational, and global* establish a continuum relative to the geographic scope of the firm's operations. In addition to the geographic scope of operations, the terms *international, multi-domestic or multinational, transnational, and global* can be used to refer to different organisational arrangements and the management of marketing activities outside the firm's domestic market.
4. There are several advantages of using desk research for my research project. First, the combination of empirical evidence, literature survey and secondary research enables quick and extensive data collection. Secondly, the reliability of the material gathered in this strategy is an advantage.
5. According to Yin (1994), developing a case description, should only be used when little or no previous research has been done: this is precisely the reason why this second research strategy has been adopted, as there is practically no previous research on the topic of integrated global marketing and issues of implementation referred to Italian firms.
6. Following the development of a mail questionnaire, an initial mailing to the President or Managing Director of the headquarter and to the Marketing Manager and two follow-up mailings were necessary.
7. Within Robinson (1995) notes that American manufacturers in Japan generally leave *downstream* tasks to subsidiaries, e.g., sales and aftersales service, whereas upstream activities are conducted either at home or jointly. Picard, Boddewin and Grosse (1998) report an increase in relative power of subsidiaries in MNC international marketing decisions. A reason behind this was the increase in subsidiaries' own production.
8. When headquarters maintain centralized control over decisions, the need for coordination is usually limited, and the level of interdependence too. In this case, managers at Italian MNCs' headquarters, though pursuing that kind of strategy usually defined as "international", define interdependence as high and describe themselves as acting much more as central nodes of transnational company, than of international ones.
9. "Acquiescence" is defined as the extent to which one party in an exchange relationship accepts or adheres to another's specific requests, see Morgan and Hunt, 1994.
10. Similarly, Roth and Nigh (1992) define coordination by foreign subsidiaries as "collaborative actions to achieve unity of effort with the global firm" and suggest that collaboration is characteristic of effective headquarters-subsidiary relationships.