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Headquarters to subsidiary transfer effects on marketing strategy exploitation☆

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ABSTRACT

The transfer of locally created marketing strategies worldwide represents a key competitive advantage for multinational corporations (MNCs). Although a research topic of much interest, empirical content of past studies is scarce. Absorptive capacity studies typically test direct effects of either the transfer capacity of the strategy's initiator or the recipient's ability to process and exploit the strategy on related learning outcomes. Mixed findings allow the possibility of more complex relationships. This study examines the relationships between MNC headquarters and marketing units located in subsidiary firms using a sample of 213 marketing managers. The study systematically explores linear, interaction, and quadratic effects within a structural equation modeling paradigm. The findings indicate that the relationship between a MNC headquarters' transfer capacity and a subsidiary marketing unit's processing capacity on the strategy's exploitation is one of mediation and moderation. The subsidiary marketing unit's processing capacity is a key mediating variable and headquarters' transfer capacity moderates the effects of this variable on the exploitation of the marketing strategy by the subsidiary's unit.

1. Introduction

In the field of strategy, widespread agreement exists that the long-term prosperity of organizations lies in their ability to identify and share strategic assets (Gupta & Govindarajan, 2000; Teece, Pisano, & Schuen, 1997: 226). This perspective is most relevant for the multinational corporation (MNC), where the diffusion of strategic knowledge along lateral and hierarchical flows between geographically distant subunits represents a key source of competitive advantage (Cantwell & Mudambi, 2005; Foss & Pedersen, 2002; Mudambi, 2002). In this context, marketing functions serve as boundary spanning links between customers and other organizational units within the MNC (Schlegelmilch and Chini, 2003: 216). Although marketing functions located in MNC subunits typically create strategic knowledge in their own cultural contexts, they also heavily source this knowledge from other parts in the MNC and subsequently need to balance global strategies with a feasible local application. Marketing strategies are "sticky" because they typically evolve in specific cultural contexts, which make a transfer across time, space, and culture difficult for both the initiator and the recipient (Szulanski, 1996, 2003).

Researchers on absorptive capacity give interesting insights and useful suggestions on how knowledge receiving units can enhance the ability to absorb external knowledge (Jansen, Van den Bosch, & Volberda, 2005). Other studies point to the dual embeddedness of MNC organizational units (they belong to the MNC network and are simultaneously situated in local markets) and highlight that being embedded in multiple contexts affects a unit's ability to create and absorb external strategies (Meyer, Mudambi, & Narula, 2011; Uzzi, 1996). Despite these advances, however, studies are comparably quiet in regard to the role of the knowledge source in international strategy transfer and absorption. This is surprising, considering that Cohen and Levinthal (1990: 131) explicitly highlight in their seminal paper on knowledge absorption that the intensity of effort by the knowledge source is critical.

This paper takes the view that the effort by the knowledge source is especially important for the transfer of strategies between organizational units, because unlike some external knowledge absorptions (i.e., unintended knowledge spillovers) within an organization, the knowledge initiators usually have an active interest in diffusing knowledge to other parts of the organization due to the shared organizational benefits this transfer promises (Grant & Baden-Fuller, 1995). Due to the socially complex nature, cultural dependence, and highly tacit character inherent in marketing strategies, the intensity of effort by a strategy initiating unit is likely to be critical for the ability of the recipient unit to absorb the strategy.

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Studies that have investigated the knowledge transfer process between and within organizations typically illustrate the transfer efforts by a knowledge sender, the ability (and motivation) to absorb knowledge by the receiver, and the knowledge implementation as a simple mediated process where the impact of the knowledge source on knowledge implementation is mediated by the ability to absorb (Jansen et al., 2005; Minbaeva, Pedersen, Bjoerkman, Fey, & Park, 2003; Zahra & George, 2002). This paper proposes that this process is more complex and responds to recent calls for more systematic, empirical research on the transfer and absorption of specific knowledge within the MNC (Kotabe, Dunlap-Hinkler, Parente, & Mishra, 2007; Martin & Salomon, 2003).

By empirically investigating specific source–recipient paths in the transfer of strategic marketing practices, this paper is one of the first to combine empirical testing of knowledge transfer capacities of the source, and processing and exploitation of a marketing strategy by the recipient unit in one process model and represents an initial effort to test domain-specific knowledge absorption in an intra-firm context (Volberda, Foss, & Lyles, 2010).

2. Theoretical framework and hypotheses

This paper draws on the knowledge-based view of organizations, which posits that knowledge is a primary resource and that social networks between different organizational units facilitate the sharing of knowledge (Grant, 1996; Kogut & Zander, 1993). This study specifically focuses on marketing practices of procedural, complex knowledge in the form of strategies. Strategies represent marketing practices that are of strategic importance to the firm and reflect its core competencies (Kostova, 1999). They incorporate decisions relating to market segmentation, targeting, and the development of a positioning strategy. Most international markets are heterogeneous due to different socio-economic and technological development levels, national culture, and consumer behavior (Ghoshal, Korine, & Szulanski, 1994). Therefore, they require MNCs to harmonize marketing strategies towards a particular market.

Given the complexity and context-specificity of marketing strategies (Hewett & Bearden, 2001), this study limits its investigations to the strategy flow in a particular direction. The focus is on the hierarchical flow of marketing strategies from MNC headquarters to a marketing unit in one subsidiary (Gupta & Govindarajan, 2000). This setting permits investigating the transfer process using a source-target lens (Mudambi, 2002) where the source is likely to have the ability to transfer knowledge to the recipient (in reverse knowledge transfer from MNC subsidiary units to MNC headquarters, this ability is more restricted (Monteiro, Arvidsson, & Birkenshaw, 2008)). The transfer under investigation represents only one of the numerous types of marketing strategy flows (Cantwell & Mudambi, 2005). Knowledge transfer processes within MNCs have different motivations and benefits for both source and target (Yang, Mudambi, & Meyer, 2008) and differ depending on the knowledge and direction of knowledge flow (Ambos, Ambos, & Schlegelmilch, 2006). An investigation of these differences is outside the scope of this paper.

A knowledge initiator's capacity to transfer strategically important knowledge is traditionally described in relation to the efforts with which the knowledge source acts (Gupta & Govindarajan, 2000). Accordingly, the source exerts a certain effort to articulate the value of a strategy to the target (Zahra & George, 2002), commits a certain amount of resources in order to transfer the strategy (Menon, Sundar, Phani, & Steven, 1999; Ross & Staw, 1993), and permits a certain degree of adaptation of the strategy at the level of the recipient (Szulanski & Jensen, 2006). These transfer efforts represent the MNC headquarters' *strategy transfer capacity*.

An organizational unit's ability to assimilate and put to use externally acquired knowledge along inter-related yet sequential dimensions is central to the absorptive capacity concept (Grant, 1996; Phene & Almeida, 2008). This study also distinguishes a subsidiary's capacity to recognize the value and assimilate external knowledge from its ability to internalize this knowledge (Camisón & Forés, 2010; Jansen et al., 2005; Zahra & George, 2002). Therefore, *strategy processing capacity* captures the extent to which the subsidiary's marketing unit understands the value of the strategy and perceives the strategy to be worth undertaking actions in order to internalize the strategy (Minbaeva et al., 2003; Szulanski, 1996).

Strategy exploitation is the enactment of the processing capacity and reflects the effectiveness of the implementation and internalization of the newly acquired strategy into the subsidiary marketing unit's own systems and processes (Camisón & Forés, 2010). Strategy implementation is the evaluation of the behaviors and activities by the subsidiary's marketing unit in relation to the strategy since its absorption (Kostova, 1999). Strategy internalization represents the degree to which the marketing unit accepts and sees value in the absorbed strategy (Von Krogh & Koehne, 1998). The impact the exploited marketing strategy ultimately has on the subsidiary's overall performance in the focal marketplace and the subsidiary's financial performance represent the last stage of the international marketing strategy process. Fig. 1 depicts the variables of interest and relationships in a basic theoretical model. The core hypotheses follow.

Although Foss and Pedersen (2002) found that marketing units (together with production) possess the highest level of competence among subsidiary functions, marketing strategies remain difficult to absorb locally. This is mainly due to a high degree of tacitness of marketing knowledge, high specificity due to transaction specific skills, and a high degree of complexity (Schlegelmilch & Chini, 2003: 221). Therefore, exposing subsidiary marketing units to knowledge created by the MNC headquarters is insufficient (Hewett & Bearden, 2001).

This study proposes that the intensity of effort from the knowledge source is critical (Jensen & Szulanski, 2004; Kotabe et al., 2007). Efforts on behalf of a knowledge source to actively promote the transfer process of strategies ease their assimilation and utilization for the receiver (Martin & Salomon, 2003). Unless MNC headquarters exercises specific efforts to make the strategy valuable and usable, the receiving unit located in the subsidiary will have difficulties understanding and exploiting the strategy (Roth & Nigh, 1992; Tsai, 2001).

Senders influence how receivers perceive the value of the strategy by enhancing verbal articulation of a strategy's details (Martin & Salomon, 2003; Szulanski & Cappetta, 2003). Increasing resource commitments for the strategy's implementation also enhances the ease with which the receiving unit can understand and assimilate the strategy (Menon et al., 1999). The willingness to allow for adaptation of the strategy to fit the subsidiary context also plays an important role in the transfer process (Gupta & Govindarajan, 2000). In particular, a subsidiary marketing unit's capacity to recognize and assimilate how to successfully exploit a strategy increases where headquarters articulates a willingness to adapt the strategy towards the target unit.

H1. In relation to marketing strategies, MNC headquarters' transfer capacity relates positively to the subsidiary marketing unit's strategy processing capacity.

Being able to recognize the value of and to assimilate an external strategy is a necessary condition if the marketing unit in the subsidiary is to enact the strategy successfully (Escribano, Fosfuri, & Tribo, 2009; Jansen et al., 2005), but this alone may not achieve effective strategy exploitation. Although subsidiaries may understand and see the value of a particular marketing strategy in their local market, deploying the strategy is a step in the absorption process that