AN EMPIRICAL INVESTIGATION OF THE RELATIONSHIP BETWEEN TASK INTEGRATION, EFFORT ALLOCATION, CONTROL AND GOVERNANCE MODE OF FOREIGN OPERATIONS

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ABSTRACT

Control of foreign marketing activities is a serious challenge for marketing managers involving both gaining control over independent distributors as well as the division of control between home and foreign office managers. Existing research has mostly assumed that high equity modes provide greater control for the organization compared to the use of nonequity modes. In this study, we suggest that home office control of marketing tasks is influenced not only by entry mode but also by task characteristics. More specifically, this study provides a preliminary empirical assessment of how home office control of marketing tasks in foreign markets varies over alternative modes of entry, different marketing tasks performed, and in relation to different levels of home office managerial time and effort dedicated to monitoring such tasks.

This study is unique in that it focuses on the location of control within organizations, specifically the level of control possessed by home office managers rather than managers operating within a particular foreign market. While the issue of home office control has received attention in the international business literature, it has received limited assessment within the marketing literature. Second, the focus of control here is on functional levels tasks, specifically those in the marketing mix, rather than on overall levels of control or in control of only one set of marketing tasks such as distribution. This study is therefore more specific to marketing than treatments in the international business literature and more general than those studies examining only the degree of control or integration within distribution systems. Third, this study examines the level of control achieved directly rather than relying on centralization or mode of entry as a surrogate for such control. Since control has been presumed to be the key driver of many of the mode of entry decisions, it seems appropriate to focus on control directly.

Data for the study was collected in three stages from U.S. based international firm. In the first stage, the president/CEO of 130 firms randomly selected from a directory of international firms were contacted by mail to request their participation in the study as well as to obtain the names of managers responsible for respective firms' international operations. Of the 97 firms that responded to the introductory letter, 58 agreed to participate and identified 158 informants. In the second stage, 13 informants from 6 different firms were used to pretest the format and content of the survey instrument. In the third stage, questionnaires along with a cover letter were mailed to remaining 145 informants at the 82 divisions across 52 firms. After a post card reminder and two follow-up letters, completed useable questionnaires were received from 91 informants at 45 firms, for a response rate of 62.7 percent. Statistical procedures used to validate the reflective measures included assessments of item and scale reliability, unidimensionality and convergent validity.

The results obtained from this study provide a number of interesting new insights into the operations of marketing activities abroad. At a task level, we predicted that home office control would be related to the degree to which those tasks were performed by company employees as well as to the degree to which home office managers expended time and effort in monitoring these tasks. Simple correlation analysis supports these predictions. More interesting findings emerge from the relationship between mode of entry and control. The critical and controversial observation in this study is that while using mode of entry with greater equity involvement may increase overall level of control the organization holds in a foreign particular market, it is not necessarily associated with increased home office control over marketing tasks. The examination of differences in control between firms with equity modes versus those without equity ownership indicate just the opposite effect where home office managers actually report lower levels of control when the level of equity involvement increases. Of course, one possibility is that location of control shifts to company managers located in the foreign market as the firm relies on modes of entry such as joint ventures and wholly owned subsidiaries. However, the findings of this study suggest that home office managers may face problems in controlling marketing tasks within the organizational hierarchy in these cases, as evidenced by the negative relationship between mode of entry and home office control. This suggests that company employees may be as difficult to manage, or at least share some of the roadblocks, as external agents for home office managers in supervising the actions of employees overseas.

In general, the theoretical implications of this research tend to support aspects of both the mode of entry research as well as that concerned with centralization