

**APPLICATION OF CONTROL MECHANISMS ON MARKETING DECISIONS
IN MULTINATIONAL COMPANY MARKETING UNITS IN MALAYSIA**

by

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*This dissertation is dedicated to my wife and my greatest blessing, Supanee,
my parents, who raised me with courage and strength,
my parents-in-law, who supported me through the tough times,
and my children and bundles of joy, Viriya and Anand.*

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LIST OF ABBREVIATIONS

| | |
|------|------------------------------------------|
| BFC | Bureaucratic Formalized Control |
| CSN | Control by Socialization and Network |
| D | Durbin-Watson Statistics |
| DSC | Direct Support Control |
| DVC | Direct Value Control |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| IMP2 | Malaysia's Second Industrial Master Plan |
| LMU | Local Marketing Unit |
| MNC | Multinational Company |
| NIE | Newly Industrialized Economies |
| OC | Output Control |
| PCC | Personalized Centralized Control |
| R&D | Research and Development |
| SIC | Standard Industrial Classification |
| VIF | Variance Inflation Factor |

APPLIKASI MEKANISMA KAWALAN DALAM KEPUTUSAN PEMASARAN DI UNIT PEMASARAN SYARIKAT MULTINASIONAL DI MALAYSIA

ABSTRAK

Penyelidikan dalam bidang pengurusan subsidiari antarabangsa telah mengalami perkembangan pesat dalam pemahaman mekanisma kawalan rentas sempadan. Tetapi penyelidikan isu mekanisma kawalan dalam bidang pemasaran amat terhad. Penyelidikan ini bertujuan menyiasat jenis and tahap mekanisma kawalan yang digunakan dalam pembuatan keputusan pemasaran. Penentu-penentu and faktor-faktor penyederhanaan mekanisma ini juga dikaji. Kaedah soal selidik telah digunakan dalam penyelidikan ini. Di kalangan 96 unit pemasaran tempatan daripada syarikat multinasional yang beroperasi di Malaysia, empat jenis mekanisma kawalan pembuatan keputusan pemasaran telah dicamkan, iaitu kawalan nilai secara langsung, kawalan sokongan secara langsung, kawalan dengan sosialisasi dan rangkaian, dan kawalan output. Kawalan dengan sosialisasi dan rangkaian didapati digunakan dengan paling meluas dalam pembuatan keputusan pemasaran. Di antara elemen pemasaran, keputusan produk menerima tahap kawalan yang tertinggi. Faktor yang mempengaruhi pilihan dan tahap mekanisma kawalan termasuk jenis organisasi, saiz unit pemasaran tempatan, dan kebersandaran di antara unit pemasaran tempatan dan ibu pejabat. Perhubungan di antara penentu and mekanisma kawalan didapati disederhanakan oleh peskitaran yang kompleks and sasaran pasaran.

APPLICATION OF CONTROL MECHANISMS ON MARKETING DECISIONS IN MULTINATIONAL COMPANY MARKETING UNITS IN MALAYSIA

ABSTRACT

Research in international subsidiary management has made significant advances in understanding the cross-border control mechanisms. However there is very limited research done on issues related to marketing related control mechanisms. Using a questionnaire survey, this study investigates the types and level of control mechanisms used specifically on marketing-related decisions, and examines the determinants and moderating factors of the mechanisms. From the responses of 96 local marketing units of multinational companies operating in Malaysia, four types of control mechanisms on marketing decisions are identified, namely direct value control, direct support control, control by socialization and networks and output control. Control by socialization and network is found to be used most extensively in marketing decisions. Among marketing mix elements, product decisions received the highest level of control. Factors influencing the choice and the level of control mechanisms include organization model, the size of local marketing unit, and interdependence between local unit and headquarters. The relationship between the determinants and control mechanisms are found to be moderated by environmental complexity and target market.

CHAPTER 1 INTRODUCTION

1.0 Introduction

This chapter introduces the concept of control of marketing decisions and the importance of paying attention to such control mechanism. Subsequently the research problem is highlighted in the context of the need for better performance for Malaysian companies. This is followed by specific research questions this study attempts to answer. Finally, this chapter enlists the potential areas of contribution of the study.

As the world economy continues to globalize, many multinational companies (MNCs) are faced with the challenge of integrating effectively their operations around the globe. MNCs operate subsidiaries in different and numerous nation states, which often have diverse political, cultural, economic and legal environments. Increasingly MNCs are required to coordinate activities along product lines, geographical lines and functional lines (Hedlund, 1993). As such, control and coordination mechanisms in MNCs have emerged as an area of research interest in the past three decades.

1.1 What is Control of Marketing Decisions

From an organization theory perspective, control is important as an integrating and coordination mechanism within an organization stem from the fact that it reduces uncertainty, increases predictability, and ensures that behaviors and decisions originating from separate parts of the organization are compatible and supports common organization goals (Egelhoff, 1984).

Control of marketing decisions is generally considered as a process through which organizations ensure their marketing planning and implementation are carried out according to the marketing objectives. It is a collection of tools, principles and techniques that achieve the desired effect of proper planning and implementation (Merchant, 1988).

Marketing objectives may include achieving desired market share, product and brand awareness, establishing distribution channel and developing positive relationship with customers. These objectives are achieved through a series of marketing activities that include market research and positioning, product planning and development, pricing, channel development, promotion and advertising, and sales force training and deployment. These activities require decisions at both strategic and tactical level before and during the implementation. Control of marketing decision is the process where decisions are controlled to ensure coordination and effective use of marketing resources.

1.2 Importance of Control of Marketing Decisions

The primary purpose of control is to prevent deviation from the desired objectives and to achieve coordination. In addition to internal problems, deviations can be caused by changes in the external market environment that require adjustment in product and resources. For example, entrance of a new competitor requires the marketing unit to realign to face new competitions. Previous pricing decisions, which may be appropriate then, are rendered ineffective with the new competition. Therefore, the pricing decision needs to be revised to ensure competitiveness. In short, marketing managers rely on control

mechanisms to ensure marketing decisions are effective in achieving the marketing objectives.

1.3 Importance of Study in Control of Decision in Marketing Function

There are three reasons why this study chooses to study control in marketing instead of control in other functional areas of MNC subsidiaries. The main issue lies with the fact that marketing environment is different from that of other functional units, such as human resource, production and finance. Lawrence and Lorsh (1967) have argued that organizations do not operate in a uniform and singular environment. Their studies distinguished three subenvironments – market, technical-economic and scientific. Lawrence and Lorsh found that successful firms had a differentiated departmental structure that meets the requirements of each of the subenvironment. Since marketing units operate in the “market” subenvironment, its environmental factors could be vastly different from that of other functional units.

Firstly, uncertainty in the external environment may not be important in studying production management as it is largely buffered from the environment, as compared to the marketing unit on which market environment often have direct impact. External environmental contingencies should present strong moderating factors of control mechanisms on marketing units. Prahalad and Doz’s (1987) study on computer industry strongly supported this viewpoint. They found that marketing function is far more locally responsive than R&D function, and is lower in need for tight integration with headquarters.

Secondly, unlike production and financial units, marketing is not at a stage where performance deviations can be quickly quantified and corrected

with certainty (Jaworski, 1988). Therefore, a pure cybernetic analytical model (e.g., as proposed by Hulbert & Toy, 1977) will not meet the control need of marketing units. A more holistic approach with a host of control types will be necessary in the study of marketing control.

Thirdly, marketing strategies often involve long term objectives that usually go beyond measurements of short-term financial, accounting and market-based performances. The strategies include brand building, product positioning, channel establishment and service quality (Kotler, 2005). In addition, in comparison with financial and operation functions, the goal of marketing is not cost reduction, but to enhance growth and profitability (Onkvisit & Shaw, 1990; Rosen, 1990; Whitelock & Pimblett, 1997). Therefore, the consequence of marketing control will need to include, in addition to financial performance, variables of organization capabilities, customer satisfaction, employee competence and market share. The fundamental different features of marketing function mentioned above warrant a marketing-centered investigation.

1.4 Research Problem

Marketing management competency, especially those related to international businesses, has grown in its importance and criticality to bring national competitiveness to Malaysia. Yet the research in this area is scarce and plagued with many limitations.

The reliance of Malaysia's economy on investments from foreign multinational companies is substantial. In year 2000, FDI accounts for 1.7 per cent of the total GDP (Nambiar, 2003). In Malaysia, both the government and

private sectors have for long time focused on technical and production-sharing agreement with MNCs and Malaysian companies in order to upgrade the technical capabilities of the local companies. Such endeavor aims to foster competent and world-class local companies compete internationally.

A total of 1,162 technical agreements on know-how sharing have been signed between 1989 and 1997 (MIDA webpage, 2001). Yet, judging from the lack of Malaysian strong global brands, local companies are yet to be seen as serious contenders in the international markets. It is apparent that focus on technical and production related know-how is far from adequate for Malaysian companies to be globally competitive. Furthermore, the know-how in these areas no longer provides the needed edge to Malaysian companies in the wake of strong challenge from China and newly industrialized economies (NIEs).

There is an apparent switch in the government's effort from merely technical know-how toward marketing capabilities in the recent years. In the Second Industrial Master Plan (IMP2) 1996-2005, strategies were outlined to support industries along the upstream and downstream of the manufacturing "plus-plus" value added chain (Star, 2000). This strategy aims to move along the value chain from assembly-based and low value added activities towards high value-added activities including research, development and product design, product distribution and marketing (MIDA webpage, 2001). Marketing function, as outlined in the IMP2, has become an important part of both the upstream and the downstream of the manufacturing "plus-plus" value added chain. Upstream marketing activities include market definition and product development, and downstream marketing activities, on the other hand, include distribution channels selection, pricing, promotion and sales. It is clear that the

government has realized the importance of bringing in the marketing know-how into the equation of global competitiveness of Malaysian companies. This IMP2 mandate aligns perfectly with arguments from Rugman and Douglas (1996), who formulated three conditions required to ensure the host countries receive full benefit from the operations of foreign subsidiaries: local involvement in design engineering, new product development and regional and global responsibilities for marketing its product lines. The last condition calls for emphasis in marketing know-how in Malaysia.

Taking a perspective of economic development, Malaysian economy has gone through the import-substitution phase in the 1960s and export-orientation phase in the 1970s and 1980s. Malaysia is in the midst of trade and investment-linked phase (Sieh, 2000). In the trade and investment-linked phase, as compared to the earlier phases, companies requires more marketing prowess to succeed. Most companies venturing into foreign markets are conscious of the importance of emphasis on market-focused strategies (Sieh, 2000). Market-focused strategies requires companies to be sensitive to local needs and values, while at the same time trying for global standardization to reap economic benefits from world-wide operations (Bartlett & Ghoshal, 1998). The balancing act, between global standardization and local sensitivity, is research areas explored by organization theorists under the theme of international control mechanisms. As such, the author is keen to find out the practices in control mechanism in marketing related decisions by foreign MNCs. It is hopeful that the findings of the study will provide insights and lessons for Malaysian companies to take on the world market.

To the best of the author's knowledge, studies in control mechanisms in marketing functions have been scarce. There are two supposedly marketing control study by Jaworski (1988), and Jaworski and Stathakopolous (1993). In essence, however, the control mechanisms in these studies are not marketing-specific, but general management control mechanism (Merchant, 1988). Effectively, therefore, no marketing specific control mechanism has been studied.

Previous studies were based on the view of control mechanisms that were oversimplified and dichotomic. In addition, most works were carried out on control of subsidiaries located in developed countries. This limits their applicability to subsidiaries located in developing countries. In view of the gaps, this research is set out to investigate the nature of control mechanism used in marketing function and factors influencing the choice and the level of such control mechanism.

1.5 Research Objectives

In order to effectively investigate the nature of control mechanism used by MNCs in marketing function on their subsidiaries in Malaysia, this research has several specific objectives.

- 1) To identify the types and the level of various control mechanisms used on local marketing units.
- 2) To identify level of control used on different categories of marketing tasks.
- 3) To determine relationships between organization factors and use of control in marketing decisions.

- 4) To determine the effect of environmental factors on use of control mechanism in marketing decisions.

1.6 Research Questions

In order to achieve the above objectives, the following research questions are formulated:

- 1) What are the types and level of control mechanisms being used by MNCs on their local marketing units in Malaysia?
- 2) What is the relationship between organization factors and control of marketing decisions?
- 3) How the environmental factors affect the relationship between organizational factors and the control mechanisms on marketing decisions?

1.7 Significance of the Study

This research attempts to remedy many limitations encountered in the earlier research as stated in the research problem. Specifically, this research expects the findings of this research to contribute in the following areas.

Firstly, this research brings to the marketing field a more synthesized control typology recently developed in MNC organization research. This addresses the problem of oversimplified and primarily financial-oriented conceptualization of control used in previous studies.

Secondly, this research conducts the first empirical study on how MNCs with headquarters in developed countries control their marketing units in developing countries. Previous empirical studies have only research on subsidiaries in developed countries. These subsidiaries are generally more

matured in their technical and managerial capabilities, as compared to the subsidiaries in developing countries.

Thirdly, this research includes considerations of the target market (business vs. consumer) into the research stream of control of marketing decisions. Recent research in business marketing outlined stark difference between business-oriented and consumer-oriented marketing, especially in the areas of technology, sale process and relationships building (Ford, 1997). Different target markets are likely to have difference imperative to control in marketing decisions.

Fourthly, this research relates environmental effects on control of marketing decisions. Environmental factors are important as they impose constraints and risks, and provide opportunity to the MNCs. This must be dealt with in the process of marketing their products.

Finally, this research includes MNCs from more country of origin other than just western developed countries. Sixteen countries of origin will be included in this research. This addresses the problem of generalizability of the findings which were faced by previous research due to limited number of country of origin. For example, there is only one country of origin included in Garnier (1982) and Sohn (1994), two countries in Chang and Taylor (1999), three countries in Sim (1978), Chow et al. (1999) and Wright et al. (1990), and ten countries in Picard (1978). This research also includes MNCs from newly industrialized countries (NIEs), such as Taiwan and Singapore, which have substantial investment in Malaysia.

1.8 Summary and Organization of the Remaining Chapters

The thesis is organized into six chapters. This chapter, Chapter 1, introduces the research background, problem, and objectives and potential contributions. Definitions of important terms used throughout the remainder of the thesis are provided here.

Chapter 2 is devoted to literature review. Key studies on control mechanisms, international management and marketing decisions are reviewed. Important concepts are synthesized and clarified. Following that, limitations and gaps in the previous studies are identified.

Drawing from the literature reviewed in Chapter 2, Chapter 3 develops the theoretical framework. Hypotheses are proposed here.

Chapter 4 provides details of research methodologies to be adopted in this study. Research methods, unit of analysis, sampling techniques and operationalization issues are discussed in this chapter.

Chapter 5 reports the data analysis and findings. Descriptive statistics, factor analyses, regression analyses and test of hypotheses are described in detail in this chapter.

Chapter 6 summarizes the research findings. This chapter also indicates the research's theoretical and managerial implications. Research's limitations are identified here and further areas of research are suggested.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter focuses on review of literatures. The scope of literature covers the subject of agency theory, control mechanisms, contingency theory, international management and marketing decisions.

This research intends to investigate control of marketing decisions on local marketing units (LMU) by their parent companies. In considering the research opportunity in this area, the author has reviewed literature in five main subjects, namely control mechanisms, agency theory, contingency theory, international control mechanisms, and control of marketing decisions. The review aims to establish theoretical building blocks for this study.

Agency theory provides crucial perspective and understanding of control mechanisms. It is discussed in the first section of this chapter. Subsequently, control mechanism concept, its roles in management, marketing decisions, control of marketing decisions, and the types of control are reviewed and discussed. Since this study is interested in international control mechanism, literature on MNC management is reviewed as well.

In trying to understand determinants of the use of control mechanisms, concepts from contingency theory offers a set of perspectives that helps explain the choice of control mechanisms. Consequently, contingency theory is reviewed in this chapter as well.

Empirical studies in the area of control mechanisms are reviewed. It is then followed by a discussion on the subject of organization management and

environmental factors, which are the potential independent and moderating variables for this study. Finally this chapter lays out the limitation and gaps found in the literatures.

2.1 Conceptualization of Control Mechanisms

This chapter begins with a review and discussion of the agency theory, conceptualization and definition of control mechanism, and its roles in management and marketing function.

2.1.1 Agency Theory, Risk and Control

In the attempt to understand the underlying cause of need of control, and the nature of relationship between “controller” and “people under control”, the author has reviewed theories on the concept of “agency”. The following sections discuss the background of agency theory, its assumptions, the concept of agency risks and costs, and how it relates to the headquarters-subsidary relationships.

Agency theory was developed in the 1960s in the field of micro-economics as an attempt to model the relationship existing when one party, the “agent,” acts on behalf of another party, the “principal.” The theory’s focus on the relationship between two parties makes it useful for investigating any type of situation where the outcome to one individual depend on the actions of another (Pratt & Zeckhauser, 1991). In the field of management, the agency relationships that have been studied most frequently are those created by the separation of management from ownership (Fama, 1980). Below the level of shareholder, from the management team point of view, the CEO is the principal

and the business unit managers are the agents (Anthony & Govindarajan, 2001).

Agency theory assumes that information is distributed asymmetrically among principals and agents (Eisenhardt, 1989). Specifically, the information that agents possess about the organization and its operations is greater than that of the principals. The information asymmetry creates a situation where information about the behaviors or the decision making of agents not easily accessible to the principals.

Agency theory assumes that human beings are inherently risk-averse and self-interested (Eisenhardt, 1989). Thus, it is likely that agents and principals differ in their preferences for outcomes. These differences cause agents to make decisions that reduce their own risks, at the expense of increasing the amount of risk for the principal. Anthony and Govindarajan (2001) stressed that one of the purposes of a management control system is to ensure congruence of personal and organization goals. This is because personal goal, or the goal of the agents, cannot be perfectly congruent with the goals of the principal due to the self-interest nature of human being.

The agency relationship consists of a contract under which principals engage agents to perform some service on their behalf. This involves delegating some decision making authority to the agents (Fama, 1980). However, principals may not be able to wholly control the behaviors of the agent. As such, they always bear risks and uncertainty about what the agents are actually doing. Such a risk has been referred to as “agency cost.”

In domestic companies, examples of agency costs are most clearly seen in the stockholder-manager relationships, where top managers may invest

funds in projects with negative or sub-optimal present value in order to maximize their own payoffs under the existing executive compensation scheme. Similarly, the managers of various subsidiaries held by MNCs may be viewed as agents. The MNC headquarters invests funds and resources in the subsidiaries, who in turn are expected to work for the benefit of the parent headquarters. Thus, agency theory would predict that these subsidiary managers may attempt to maximize their own self-interests. In the international environment, MNCs must function in more than one external environment, and respond to a set of complex factors such as the diverse nationalities of employees, floating exchange rates, geographically and culturally imposed problems of communication, and so forth. Therefore, MNCs suffer much higher risk and agency cost due to increased information asymmetry between the subsidiaries and the headquarters. Correspondingly, MNCs are more in need of controls than domestic companies.

According to agency theory, principals will generally attempt to control their agents in order to minimize the costs of the agency relationship to them. Taking this view, Chang and Taylor (1999) based on agency theory in studying the control mechanisms in Korean subsidiaries by the parent companies from the US and Japan. They found that the degree of ownership and relative importance of a subsidiary positively impact the level of control exerted on the subsidiaries. In other words, the stronger the agency relationship, the need for control is more obvious.

The following sections will review the role of control mechanisms in overall business management. Subsequently a working definition is formed for

the purpose of this research. Finally, a typology of control mechanism is synthesized from an array of literature.

Control and Decision Making

In the study of management, decision making has long been seen as a central managerial activity. In the literature of agency theory, the object “under control” is “decision making” rather than the manager’s actions. For example, Fama (1980) sees that agency relationships exist because there is need for delegating some decision making authority to the agents. In the study of organization structure and design, the level at which decisions are made is one of the important organization dimensions. This level is often referred to as “centralization” (Robbins, 1990). The main purpose of maneuvering centralization is to control the decision making process. Again, it can be seen here that the object under control is “decision making”. When a headquarter sets up foreign marketing units, it delegates some marketing decisions to the units. These marketing decisions, which will be discussed in detail later in this chapter, involve decisions on product, price, promotion and distribution.

2.1.2 Definition of Control

Youssef (1975) defined control as a set of activities in assuring the execution of organizational goals and plans. Lebas and Weigenstein (1986) relate control and coordination in their definition, which identify management control as the process by which an organization ensures that its sub units act in a coordinated and co-operative fashion. Similarly, Egelhoff (1984) saw control as an integrating mechanism within organization to reduce uncertainty, increase predictability, and ensure behaviors originating in separate parts of the

organization are compatible and support common organization goals. The ultimate goal of applying control is to utilize the available resources in an optimal manner. Several authors use the term control and coordination interchangeably (e.g., Hennart, 1991; Martinez & Jarillo, 1989), consistently speaking of “coordination and control mechanisms”. Some authors used yet other terms to denote the same idea: governance mechanisms and integrative mechanisms (e.g., Roth & Morrison, 1990; Wiechmann, 1974). It is apparent that the differences in these terms are artificial.

Narrow and Broad Views of Control

The word “control” is used both in narrow and broad perspectives in management literatures. Flamholtz et al (1985) defined control in a narrow view and used it to refer only to cybernetic-type control involving reactive measurement and feedback processes. The reactive form of control mechanism is triggered only when there is deviation from expected behaviors and results. Such cybernetic approach to the studies of control lacks proactive and preventive aspect.

Other authors used the term “control” in a much broader view, including everything that helps ensure that the people, at all levels of organization, are making decisions and acting so as to ensure attainment of agreed goals. Anthony and Govindarajan’s (2001) management control process offers a broad view of control but emphasizes mainly on the use of financial and accounting tools to control capital investments, expenses, financial performance, and to ensure inter-departmental goal congruence. Drawing from the experience of control mechanisms on the overall organization, Merchant (1988) commented that a broad perspective on control is a wise choice for studies focused on

control of marketing decisions because it provides a better understanding of the collection of tools, principles and techniques that achieve the desired effect of control. Similarly, Geringer and Hebert (1989) viewed control broadly as a process by which one entity influences, to varying degrees, the behavior and output of another entity, through the use of power, authority and wide range of bureaucratic, cultural and informal mechanisms. Tadeipalli (1992) proposed a more proactive control, called “feedforward”. Feedforward control instill the ability in the people under control to anticipate, detect and if necessarily, correct deviation autonomously. Tadeipalli argued that traditional narrow and “feedback-based” view of control seriously limit its usefulness to marketers due to lack of preventive and proactive features.

Due to the limitations of narrow view of control mechanisms, this research adopts a broad view of control. The working definition of control mechanism is as follows:

Control mechanism is the process by which an organization proactively or reactively ensures that its sub units, at all level of organization, act in a coordinated and co-operative manner.

2.1.3 The Role of Control Mechanism in Management

The role of control mechanisms in organization management is depicted by Anthony and Govindarajan (2001) as one of the strategic implementation tools (see Figure 2.1). After a high level strategy is defined, it is implemented in order to achieve the desired goals. The control mechanism must work hand in hand with other implementation aspects.

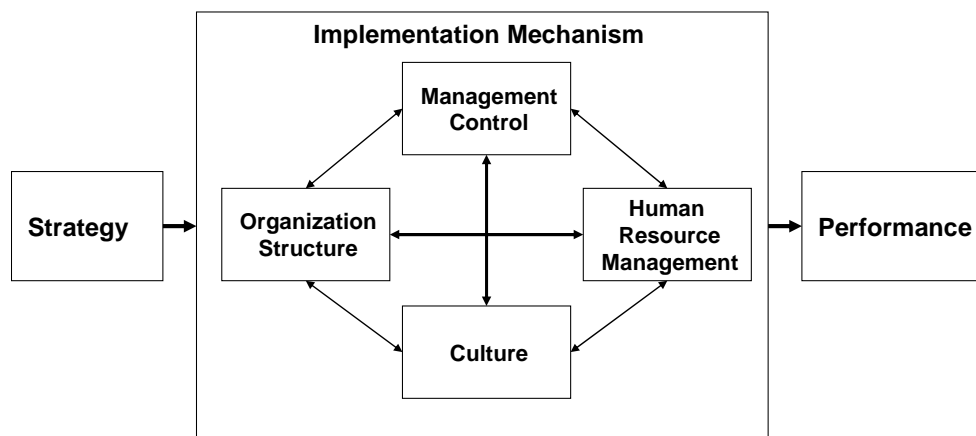


Figure 2.1. Role of management controls in business organization
Source: Anthony and Govindarajan (2001)

In addition to management control, strategies are also implemented through the organization's structure, its management of human resources, and its particular culture. Organizational structure specifies the roles, reporting relationships, and division of responsibilities that shape decision-making. Human resource management concerns with the selection, development, evaluation, and separation of employees so as to develop the knowledge and skills required to execute organizational strategy. Culture refers to the set of common beliefs, attitudes, and norms that explicitly or implicitly guide managerial actions.

Anthony and Govindarajan's (2001) framework above clearly emphasized the fact that the control mechanisms are interrelated to organization structure, human resource management, and culture. This framework leads us to consider investigating the relationship between these three dimensions and control mechanisms. However, the international human resource management and culture have been researched widely (Harzing,

2000a). Therefore, this research will focus on the dimension of organization structure as a factor influencing control mechanisms.

Mainstream research of management control system (MCS) has historically emphasized on financial and budgetary control. This is understandable as design of MCS has been a mainstream issue in accounting research for many years (Harrison & McKinnon, 1999). Although marketing departments do carry out accounting and budgetary activities, these are not their core functions. The concepts developed in mainstream MCS, such as responsibility center, transfer pricing, management compensation, etc., are less applicable to the study of marketing control mechanisms. The next section will discuss the role of control in marketing decisions.

2.1.4 The Role of Control Mechanism in Marketing Decisions

Each business function has its own objectives and a set of managerial decisions. The objective of control mechanisms in marketing units is to ensure that the marketing-related decisions are made effectively to achieve the marketing objectives. Marketing objectives are measured with indicators such as market share, market penetrations, revenue, profit margin, leads-to-customer conversion rate, product and brand awareness, and channel coverage. In order to fulfill these objectives, there is an array of marketing decisions to be made. For instance, marketing managers decide on how products should be designed, manufactured, positioned, packaged, and branded. Pricing must be set right to generate enough sales and market share while protecting the profit margin. Marketing managers must also plan promotional programs to garner sufficient

awareness and desires for their product. Finally, distribution channel must be established to provide efficient product distribution and support.

The types of marketing decision are usually founded on the well-known marketing mix elements of the four P's – product, price, place and promotions, as demonstrated by many researchers (Couto et al, 2005; Hulbert & Brandt, 1980; Picard, 1978; Wiechmann, 1974; Wright et al., 1990). The similar approach is taken in this research to limit marketing decisions based on the marketing mix elements of four P's. The benefit of using the 4P's approach is that there is a high awareness and wide consensus of the concept among practicing marketing managers. This will provide high consistency and validity in the data collection. Based on the discussion above, the “decisions under control” in marketing functions can aptly be grouped into the traditional marketing mix elements. Table 2.1 lists the elements of decisions in marketing function.

Table 2.1

Marketing decisions Elements (Quester & Conduit, 1996)

| Product decisions | Promotion decisions |
|------------------------------------|-------------------------------|
| Brand name | Creative expression |
| Packaging | Basic advertising message |
| Warranty | Media allocation |
| Product features / characteristics | Sales promotion |
| Product positioning | |
| Price decisions | Distribution decisions |
| Wholesales price | Management of sales forces |
| Retail price | Role of intermediaries |
| Discount given | Types of intermediaries |
| Gifts given | Role of sales force |

Subsequent to the discussion above, control of marketing decisions is defined as follows:

Control in marketing decision is the process by which an organization proactively or reactively ensures that its marketing units, at all level of the marketing organization, act in a coordinated and co-operative manner to achieve marketing objectives.

2.1.5 Control Typology

Few early studies have made distinction between different types of control mechanisms. Most of these authors treated control as a dichotomous dimension, such as Sim, (1978), Picard (1978), Garnier (1984), and Lee and Beamish (1985).

The task of control is effortful and requires resources to achieve its desired effect. Managers will like to have more features and options in the controlling tools to achieve the objective with desired cost, short-term and long-term effects. For instance, the headquarters may use rules and regulations to ensure compliance of subsidiary. Despite its effectiveness in ensuring compliance as well as being low-cost, such mode of control generates resentment and lack in transference of values, skills and knowledge to the subsidiaries. Alternatively, the headquarters may use expatriates to supervise local subsidiaries. This direct supervision approach is ideal in guiding and imparting values, skills and knowledge to the local employees, but it is costly to hire such expatriates. Therefore, different choices of control entail different level of costs, short-term compliance, and long-term subsidiary satisfaction and development. A dichotomous approach to control is not able to address the multi-facet need of control.

In recent years, more sophistication in treating control mechanisms is observed. Ouchi and Maguire (1975) have identified behavioral and output controls. Based on the transaction cost theory, Ouchi (1980) recognized “clans” as a more cost-effective alternative control mechanism; he suggested that non-economic governance mechanisms, such as trust, may serve to increase economic efficiency in exchange relationships. In about the same period when Ouchi proposed his clan theory, Mintzberg (1979), in his attempt to identify organizational configurations, synthesized six mechanisms on which organizations rely on to coordinate their human resources. Mintzberg named them as direct supervision, mutual adjustment, and standardization of work process, outputs, skills and norms. Building upon Ouchi’s notion of “clan”, Sohn (1994) confirmed empirically that MNCs with social knowledge reduced the need to resort to ownership for control.

Bartlett and Ghoshal (1998), stressed that in order to simultaneously be responsive to different strategic requirements and remain competitive, MNCs need to develop a sophisticated set of coordination mechanisms and avoid the simplistic centralization-decentralization dichotomy. Bartlett and Ghoshal articulated three building blocks for MNCs, namely *structural arrangement*, *administrative processes* and *social practices*. The structural arrangement gives authority to individuals and departments to exercise control; administrative processes provides the formal and bureaucratic control; and the social practices establish the subtle influences and norms that ensure organization members are aligned with the desired behavioral patterns. Jaworski (1988) proposed classification of formal and informal controls. Martinez and Jarillo (1989) used two broad categories of control mechanisms, which are structured and formal

control, and less formal and subtle control. Goold and Compbell (1989) identified three types of styles in control of MNC diversity, which are strategic planning, strategic control and financial control. Headquarters with a *strategic planning* style influence the development of business strategy development of subsidiaries within a long term context using established planning processes. In contrast, headquarters using a *financial control* style merely control the business outcome of its subsidiaries with investment, budget and financial target approvals. In between the extreme of strategic planning and financial control is *strategic control*, which combines some of the characteristics of strategic planning and financial control. Chang and Taylor (1999) investigated the application of three types of control, namely *behavioral*, *output* and *staffing* controls. Wiechmann (1974) used the term “integrative mix” to describe means of integrating multinational marketing activities. His integrative mix includes *centralization*, *corporate acculturation*, *system transfer* and *people transfer*. Baliga and Jaeger (1984) proposed two types of control, namely *bureaucratic control* and *cultural control*. A list of control typologies mentioned above is shown in Table 2.3.

Harzing (2000a) proposed a control type matrix along two dimensions (see Table 2.2). The first dimension distinguishes whether a control mechanism is formal and bureaucratic, or is personal, informal and cultural. The second dimension distinguishes whether a control mechanism is direct and explicit, or is indirect and implicit. She named the resultant four types of control as *personal centralized control* (PCC; direct, personal and cultural), *bureaucratic formal control* (BFC; direct, impersonal and formal), *output control* (OC; indirect,

implicit and formal), and *control by socialization and network* (CSN; personal, implicit and indirect).

Table 2.2

Types of control mechanism (Harzing, 2000a)

| | Personal / Cultural | Impersonal |
|----------------------------|---------------------------------------------|---------------------------------------|
| Direct / Explicit | Personal centralized Control (PCC) | Bureaucratic formalized control (BFC) |
| Indirect / Implicit | Control by socialization and networks (CSN) | Output control (OC) |

Control typology proposed by Harzing (2000a) can be mapped to those proposed by other authors earlier. Table 2.3 shows a list of control mechanisms identified by various authors; corresponding to the dimension synthesized by Harzing (2000a).

A review of early development in economic and management theories helps to explain the distinction between choices of direct-indirect, and personal-impersonal controls.

The distinction between direct control and indirect control originated from the early economic research stream of markets and organizations controls. Recognizing the need for coordination of economic activities, Coase (1937) proposed two mechanisms to achieve coordination. The market control is the control mechanism in the market system. This mechanism uses price of end products to determine what an organization should produce. Thus market control forms the basis of indirect control. On the other hand, organization control, or hierarchy control, relies on internal process control to determine what and how to produce goods and services. The choice of control would largely be determined by the transaction cost (Williamson, 1975). The transaction costs