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ADVERTISING STANDARDIZATION'S POSITIVE IMPACT ON THE BOTTOM LINE: A Model of When and How Standardization Improves Financial and Strategic Performance

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ABSTRACT:

Building on Zou and Cavusgil's (2002) global marketing strategy (GMS) framework, the authors propose a structural model of advertising standardization that explores (1) the factors that encourage firms to engage in standardized advertising; and (2) the impact of advertising standardization on advertising effectiveness, as well as on two measures of firm performance. Results from a survey of Japanese and U.S. subsidiaries operating in the European Union (EU) provide support for the model. They also suggest that standardized advertising does enhance a firm's financial and strategic performance, provided that the external environment and internal resources of the firm are conducive to standardization.

During the last few decades, the topic of standardization of advertising has received considerable attention in the academic literature. As Agrawal (1995) noted, the issue has been formally studied for over 50 years, and it is one of the most researched topics in international advertising. Despite this attention, only a few studies (e.g., Laroche et al. 2001; Samiee et al. 2003) have examined the factors that lead companies to standardize their advertising (Taylor 2002). Harris (1994) pointed out that there has been too much focus on whether firms should standardize and too little focus on how they should go about it.

Prior studies also overlooked the related issue of the relation between standardized advertising and global measures of financial and strategic performance. While calls for more emphasis on the financial return provided by marketing practices abound, virtually no attention has been paid to whether standardized advertising pays off for companies in terms of "bottom-line" performance measures.

The purpose of this study is to develop and test a theoretical model that (1) identifies the factors that lead firms to standardize advertising, and (2) examines whether standardized advertising is effective in achieving firms' goals that are related to financial and strategic performance. Our model's predictions are based on the theoretical perspective provided by global marketing strategy (GMS) theory (Zou and Cavusgil 2002). Primary data from a survey of marketing executives of Japanese and U.S. subsidiaries in the European Union (EU) was collected to test the model. The use of subsidiaries from both the United States and Japan is designed to provide a robust test of the model, which is hypothesized to apply across cultures.

As Samiee et al. (2003) have noted, most prior research on standardization has emphasized the perspective of the headquarters of multinational corporations (MNCs). Because those located at headquarters are closely exposed to strategic planning for advertising, but are often less involved in actually implementing advertising programs, some researchers have questioned the reliability and validity of the perceptions of standardization collected from executives based at company headquarters (Dunn 1976; Onkvisit and Shaw 1999). Thus, there have been calls for more research at the subsidiary level (Samiee et al. 2003). Examining managerial perceptions at the subsidiary level allows measurement to take place closer to the actual implementation of the advertising program. Although the viewpoints at both the headquarter and subsidiary level provide insight into the firm's advertising programs (Laroche et al. 2001), the focus of the present study is at the subsidiary level.

The EU context of the study is important because it allows for a test of the model in a key economic region. The following section provides an overview of European economic unification. Presentation of the study's model and development of research hypotheses are followed by discussion of its methodology and results.

EUROPEAN ECONOMIC UNIFICATION AND ITS IMPACT ON ADVERTISING

The current European Union is the result of years of effort toward greater European unity, which dates back to the postwar period in which Europe had to rebuild itself (Cunningham 1999). Over the years, the EU has gradually grown, from the six original member countries to 25 as of 2004. To ensure its effective functioning in light of its continued growth, EU decision making has been streamlined, and the Treaty of Nice (effective February 1, 2003) imposed new rules governing EU institutions (European Union 2003).

Integration efforts have gone through several iterations and have taken many years, but some have argued that Europe can now be treated more as a single market than it was in the past (e.g., Leeflang and van Raaij 1995). As a result, much attention has been paid to whether unification has led to a greater possibility of pan-European marketing and advertising. At the same time, recent developments, including French voters' rejection of a new Constitution for the EU, indicate that obstacles to complete unification remain. Moreover, research findings suggest that some marketers still adapt advertising to a considerable extent when operating in the EU. By conducting personal interviews of the European advertising managers of 15 multinational corporations, Rijkens (1992) found that all the firms allowed their local European offices to adapt the basic advertising idea, albeit to varying degrees. These findings appear to be consistent with other empirical studies showing some level of adaptation by marketers (e.g., Harris 1994; Harris and Attour 2003; Leeflang and van Raaij 1995; Seitz and Johar 1993).

The above studies do not refute the notion that it may be possible to standardize advertising strategy throughout Europe, but they suggest that adaptation of executions is often necessary for legal, structural, and cultural reasons. Each European country maintains its own rules and regulations for the advertising industry, although some rules have had to be modified to be consistent with more general EU laws. Still, enough differences remain to support the finding of Howard and Ryans (1989) that advertising executives believe that government regulations will continue to present an obstacle to true panEuropean advertising. In addition, a meta-analysis identified substantial differences between EU nations in terms of media shares, levels of advertising, sales promotions, and expenditures on direct marketing and marketing research (Leeflang and van Raaij 1995). These findings suggest that structural factors may also require modifications in ad executions.

Howard and Ryans (1989) noted that social customs and languages are still perceived as obstacles to standardization, and they are likely to remain so. At the same time, it is clear that many advertisers are attempting to engage in pan-European advertising. Firms that follow a consistent brand strategy across Europe include non-European MNCs such as Microsoft, Dell, Electronic Arts, and Kawasaki (Kaplan 2003; Sweney 2003a, 2003b; Weernink 2002). Thus, it appears that the consensus of prior research on the extent of advertising standardization is that there is a trend toward standardization of strategy, while executions are often adapted when necessary. As a result of these variations, the EU represents an excellent research context for testing our model, because the focal constructs in the model will have sufficient variation in this context, a key requirement for a sound research design.

MODEL AND HYPOTHESES

Theoretical Model

Building on industrial organization theory and the resource-based view of the firm, Zou and Cavusgil (2002) developed a theoretical model of global marketing strategy. Specifically, they presented a broad conceptualization of GMS that incorporates eight dimensions. These include product standardization, promotion standardization, distribution standardization, and pricing standardization, in addition to other dimensions related to global integration and configuration coordination of value-adding activities. The GMS model contends that the fit between a company's marketing strategy and its external environment and internal organizational resources determines its performance in the global market. When external market factors and internal organizational characteristics are conducive to global marketing, a global marketing strategy, such as employing a higher degree of standardization and integration, will positively impact the company's global market performance.

Using survey data, Zou and Cavusgil (2002) offered empirical support for the GMS model. Specifically, they found that external globalizing conditions in global markets positively affect a company's propensity to use a GMS, and that a company's global orientation and international experience were also found to be associated with the use of a GMS. In addition, the use of a GMS was found to positively influence a company's global strategic performance and financial performance when it fits the company's external globalizing conditions and internal organizational characteristics.

Given that advertising standardization is a component of GMS, Zou and Cavusgil's (2002) theoretical model provides a solid foundation for investigating the drivers and consequences of advertising standardization. Specifically, building on the GMS model, we present a theoretical model of advertising standardization in Figure 1. Our model predicts that environmental and strategic factors affect the level of advertising standardization that a company uses, which in turn affects the firm's advertising effectiveness and its financial and strategic performance. Both sides of the model warrant attention, as it is important to examine the factors that make firms more prone to standardize their advertising, as well as whether standardized advertising is associated with better performance. Essentially, the model shown in Figure 1 contends that advertising standardization is effective in improving performance when it fits external environmental factors (e.g., market similarity, competition conditions) and organizational strategic factors (e.g., global strategic orientation, global integrated marketing communications [IMQ]).

Factors Associated with Standardization

Many previous studies have discussed whether advertising should be standardized, and some studies have proposed variables that lead to a higher probability of standardization (e.g., Taylor and Johnson 2002). Our review and synthesis of the literature suggests that three general categories of factors affect the level of advertising standardization that a firm employs. These are external environmental factors, strategic factors, and factors that relate to internal organizational characteristics. The GMS model predicts that companies with internal orientations and external conditions more conducive to standardization will be more likely to employ advertising standardization and, in turn, will achieve higher levels of performance.

Environmental Factors

As Figure 1 shows, customer similarity, market similarity, similarity of advertising infrastructure, and the level of competition are all factors that have been linked to the level of standardization that a firm engages in when it advertises. Collectively, we refer to these four constructs as environmental factors, as they all relate to the external environment of the cross-national markets served. As defined here, customer similarity refers to the degree to which consumers in the markets served have similar lifestyles, preferences, and tastes. Cultural factors such as tastes and preferences can have a substantial impact on the viability of standardization (e.g., Jain 1989; Laroche et al. 2001; Onkvisit and Shaw 1999; Papavassiliou and Stathakopoulos 1997). Consistent with GMS theory, to the extent that customers are more similar across markets, a more standardized advertising program would fit this external environmental factor and would thus be more effective.

Market similarity refers to the degree to which the countries served by the MNC have similar levels of economic development. In the context of our study, market similarity reflects both the extent to which managers view the individual countries as economically similar, and their perceptions of the impact of economic unification on the overall market similarity of the EU. As with customer similarity, GMS theory suggests that firms are more likely to standardize advertising if they view the cross-national markets they serve as having similar levels of economic development (e.g., Duncan and Ramaprasad 1995; Harvey 1993; Samiee et al. 2003).

The similarity of the advertising infrastructure, including the availability of similar media with similar costs (Hite and Fraser 1988; Taylor and Johnson 2002), the presence of similar laws (Harvey 1993; Hill and Still 1984; Taylor and Raymond 2000), and access to market research

firms, has also been predicted to influence the level of standardization in a market (Samiee et al. 2003). In general, when advertising infrastructures are similar across markets, it has been found that it is more feasible for companies to engage in standardized advertising (Jain 1989).

The final environmental factor is the level of competition, which refers to the degree to which the markets served are sought after by competitors. The level of competition can affect the propensity to standardize (Harvey 1993; Samiee et al. 2003; Yip 1995). In settings where competitive conditions are intense, GMS theory would recommend using standardized advertising to build a consistent image to gain a competitive advantage, or to respond to a competitor that has built a consistent image. It should be noted that the level of competition, as defined here, refers not to the firm's relative competitive position in each market but, rather, to the overall degree of competition that the company faces in those markets in which it operates.

We have outlined four environmental factors: customer similarity, market similarity, advertising infrastructure, and level of competition. Since the presence of these factors makes standardized advertising more feasible and desirable (Zou and Cavusgil 2002), consistent with GMS theory, we predict a positive relation between each of these factors and the level of standardization:

H1: Firms that face environmental factors conducive to global marketing will pursue a higher degree of advertising standardization.

Strategic Factors

It has been suggested that in addition to environmental factors, various internal strategic factors influence the level of standardization in which a firm engages (e.g., Cavusgil and Zou 1994; Duncan and Ramaprasad 1995). We have identified four strategic factors, namely, global strategic orientation, perceived cost savings, cross-border segmentation, and the ability to implement global IMC across markets.

The idea of a firm having a global strategic orientation has received considerable attention in the marketing strategy literature, but it has not been the focus of the literature on advertising standardization. However, Zou and Cavusgil's (2002) global marketing strategy perspective suggests that advertising standardization is a key characteristic of firms that have a global orientation. As defined by Zou and Cavusgil (2002, p. 46), a global orientation refers to "the organization-wide emphasis on success on a worldwide basis rather than on a country by country basis." Global orientation is part of a firm's corporate culture, and it can be viewed as a key organizational resource because it is a potential source of competitive advantage (Levitt 1983; Ohmae 1989; Zou and Cavusgil 1996). The GMS perspective clearly implies that firms with a global strategic orientation will be more likely to standardize their advertising.

The second strategic factor in our model, perceived cost savings, refers to the firm's belief that standardization of advertising will lead to cost savings. If the firm has a desire to save costs through standardizing, it follows that it will engage in a relatively high degree of standardization. Numerous authors have argued that standardization is associated with substantial cost savings (e.g., Cateora and Graham 2002; Duncan and Ramaprasad 1995; Levitt 1983). Duncan and Ramaprasad (1995) found that most managers surveyed did not believe that cost savings alone were sufficient to justify standardized campaigns, but it is quite likely that firms that are confident that they can develop effective advertising across markets view cost savings as a key advantage.

Another concept related to Zou and Cavusgil's (2002) GMS perspective is the firm's belief that cross-border segmentation can be effective. Cross-border segmentation is defined as the extent to which firms believe they can and should target consumers with similar characteristics across markets. Several researchers have suggested that MNCs should engage in crossmarket segmentation (Hassan and Katsanis 1994; Miller 1998; Shermach 1995). In addition, a study by ter Hofstede et al. (1999) suggested that cross-market segmentation could be successfully applied to the market for yogurt in Europe. To the extent that marketers engage in targeting groups on criteria that cut across countries (e.g., age, lifestyle), we predict that they will be more likely to standardize their advertising in order to reach their customers.

The final strategic factor is the firm's ability to engage in globally integrated marketing communications (IMC). Here, we refer to IMC in the traditional sense of communicating a single message through multiple media. New types of information technology are making IMC more feasible than it was in the past (Kitchen and Schultz 1999). Gould, Lerman, and Grein (1999) argue that media availability may make completely integrated communications across markets almost impossible to attain, but from a GMS perspective, it makes sense for firms that perceive a greater ability to implement IMC programs across markets to engage in more standardization of their advertising.

As with the external environmental factors, GMS theory suggests that the aforementioned internal strategic factors are likely to facilitate a standardized advertising strategy. Thus, it is hypothesized that a higher level of each of the four strategic factors will lead to a higher level of advertising standardization.

H2: Firms that emphasize internal global strategic factors will pursue a higher degree of advertising standardization.

Level of Control

Another internal factor that has received widespread attention is the level of control that the parent firm has over subsidiaries, and its impact on advertising standardization (e.g., Gould, Lerman, and Grein 1999; Samiee et al. 2003). It is widely believed that when control is centralized at the MNCs headquarters, advertising will be more standardized (e.g., Duncan and Ramaprasad 1995; Laroche et al. 2001; Tai and Wong 1998). The basic idea is that centralized decisions help to ensure that overall corporate goals are met. If these goals involve standardization, it is much easier to implement them centrally than it would be if local subsidiaries were granted autonomy. An empirical survey by Duncan and Ramaprasad (1995) confirmed that firms with a higher degree of control emanating from headquarters were more prone to engage in standardized advertising. Similarly, Laroche et al. (2001) found that those MNCs with highly centralized control engaged in more standardization.

H3: When there is a higher degree of parent company control over its subsidiaries, the company will pursue a higher degree of advertising standardization.

Size of the Firm

Size of the firm is defined here as the subsidiary's annual sales volume. As Samiee et al. (2003) noted, prior research on international business suggests that larger firms are more likely to expand into foreign markets and to have a standardized worldwide image (e.g., Grubaugh 1987; Melewar and Saunders 1999). In addition, work on foreign market entry suggests that large firms are more prone to prefer wholly owned subsidiaries, partly to ensure that their general corporate strategy is carried out uniformly (Erramilli and Rao 1993; Kwon and Konopa 1993). At the subsidiary level, it can be argued that it is similarly likely that larger firms will be more prone to engage in closely coordinated activities. Thus, GMS theory would identify large firm size as an internal factor that is consistent with standardization.

H4: The larger the size of the subsidiary, the higher the degree of advertising standardization.

International Experience

Several researchers have found that experience is also helpful to firms in planning international strategy (e.g., Douglas and Craig 1989; Hill 1996). Cavusgil and Zou (1994) found empirical support for the idea that more experienced exporters have higher levels of success in international markets. In addition, Zou and Cavusgil (2002) found a significant link between the firm's level of international experience and its use of a global marketing strategy, including a global promotional strategy. As a result of this prior research, we would expect more experienced firms to engage in more standardization.

H5: The more internationally experienced the company, the higher the degree of advertising standardization.

Level of Standardization

In this study, the level of standardization is construed as a combination of the use of a uniform strategy and the use of uniform executions. In recent years, research has found an increasing trend to standardize strategy more frequently than executions (e.g., Alden, Hoyer, and Lee 1993; Cho et al. 1999; Duncan and Ramaprasad 1995; Harris 1994; Taylor 2002). It is therefore important to measure standardization at both levels. Below we detail the hypotheses on how the level of standardization is related to advertising effectiveness, and also to financial and strategic performance.

Advertising Effectiveness

For the purpose of our study, advertising effectiveness is defined as the degree to which the company's advertising induces the consumer to like the brand, improve its image, and/or purchase the brand. In the international marketing literature, it is well documented that a primary purpose of the use of a global marketing strategy is to improve the image of a product on a global basis as well as to increase sales (Yip 1995). The GMS model suggests that when the external environmental forces and internal organizational characteristics are conducive to global marketing, a higher degree of advertising standardization fits both the external environment and the internal firm characteristics, and makes the advertising more effective.

H6: Firms that engage in higher levels of advertising standardization will achieve higher levels of advertising effectiveness.

Financial Performance and Strategic Performance

In studies of MNC performance, both Samiee and Roth (1992) and Cavusgil and Zou (1994) have stressed the need to consider both the firm's strategic performance and its financial performance. As used here, strategic performance refers to success in achieving the firm's strategic objectives by implementing a global strategy. While financial performance often represents the most important long-term goal for firms, the achievement of strategic objectives is likely to be related to future financial performance (Zou and Cavusgil 2002). Financial performance is a "bottom-line" measure that refers to the firm's success in increasing its sales and profitability. While we recognize that multiple determinants of performance exist, we predict that firms running more effective advertising will see enhanced measures of performance.

H7: Higher levels of advertising effectiveness are associated with higher strategic performance.

H8: Higher levels of advertising effectiveness are associated with higher financial performance.

METHOD

Sampling Frame

The questionnaire was sent to top marketing executives of U.S. and Japanese MNCs' subsidiaries in the United Kingdom, France, Germany, Italy, and the Netherlands. These five countries were selected because they are among the largest national economies in Europe, and because resource constraints prevented the translation of the questionnaire into additional languages.

One hundred seventy-eight U.S. firms were chosen from the Forbes 500 (Forbes 2003) after excluding firms in the following industries, given the localized nature of these businesses: aerospace/defense, local banking/insurance, general utility, food and drug retail chains, health-care providers, metals/mining, and oil and gas extraction. For each firm, local subsidiaries' addresses were found in the Directory of American Firms Operating in Foreign Countries

(1999). To ensure accuracy, each address identified in the directory was checked on the headquarters' home page. If the address had changed, the information was updated.

We chose Japanese subsidiaries from the Multinational Companies Database created by the Research Institute for Economics and Business Administration at Kobe University (2003). This on-line database provides the most recent addresses and relevant financial information for approximately 4,600 subsidiaries of 62 Japanese MNCs. In total, 564 Japanese and U.S. subsidiaries were chosen in the five countries.

Survey Instrument

On the basis of the literature review and our conceptual framework, we developed a survey instrument containing 69 items. Because the model contains several new constructs and because the scales needed to be adapted to the EU markets, the scales were newly developed for the study. However, in developing the scales, we consulted the prior work of Samiee et al. (2003) and Laroche et al. (2001).

Most constructs were assessed on a multi-item seven-point Likert scale (see the Appendix for a listing of the scales). The subsidiary's annual sales volume and the parent company's years of experience in international operations were assessed on ordinal scales. Finally, the type of product advertised in the subsidiary's market was assessed on a categorical scale that consisted of consumer durable goods, consumer nondurable goods, industrial goods, and services. All questions were specifically directed to executives of the MNCs' subsidiaries, who were asked to make ratings based on their subsidiaries' viewpoint.

The questionnaire was originally drafted in English and then translated into the local languages using the translation-back-translation process, which is recommended for developing a cross-culturally equivalent instrument (Craig and Douglas 2000). The questionnaire was translated into the local language to render it appropriate in cases in which it was passed to someone more comfortable in the native language of the country. A team of multiple translators was employed to ensure that questionnaire items and response formats had equivalent meanings across the countries studied. All translators were bilingual and fluent in both English and their native language, and all held graduate degrees and had been teaching translation courses in European universities for more than five years. The original questionnaire and cover letter were translated into the local language and later independently back-translated from the local translation into English, to ensure that there were no major discrepancies between the two translated documents.

Three waves of the questionnaire, along with the cover letter and a postage-paid business reply envelope, were mailed to the executives in November 2003 and February and May 2004. The cover letter explained that the study was a scholarly undertaking, and that the results would be reported only at an aggregate level.

Data Collection

The first wave of mailing produced 44 responses. Several envelopes were returned, either because the addresses were incomplete or unknown, or because the subsidiaries were no longer operating. Some responses received via e-mail explained that the subsidiaries' operations were mainly in R&D or purely manufacturing, and therefore did not include any advertising activities. After deleting firms that had responded and those that had indicated that they could not participate, we conducted a second mailing, which produced 58 responses. A third mailing produced 14 additional responses. In total, the survey obtained 116 responses, with 9 firms responding that they could not fill the survey out. Of these responses, 107 were usable. A total of 32 surveys were returned as undeliverable. Thus, the response rate was 23.5%.

Assessment of Nonresponse Bias

Potential nonresponse bias was assessed by comparing the early and late respondents (Armstrong and Overton 1977). The subsidiaries that responded to the first wave, second wave, and third wave of mailing were compared in terms of all the observed variables consisting of the proposed constructs. A discriminant analysis was conducted with the timing of the mailing as dependent variable and the observed factors as independent variables. We found no significant discriminant function at $p < .05$, indicating that there are no significant discriminators to differentiate the three types of respondents. On this basis, it was concluded that nonresponse bias does not seem to be a serious concern.

RESULTS

Descriptive Statistics

Table 1 presents descriptive statistics for the scale items. As a preliminary analysis, we conducted statistical tests to explore whether the Japanese and U.S. managers responded in fundamentally different ways. Specifically, a multivariate analysis of variance (MANOVA) was performed with the mean values of the proposed constructs as dependent variables (metric) and the country (United States or Japan) as an independent variable (nonmetric). The three basic assumptions for the use of MANOVA were assessed and all were found to be met: (1) independence among the observations, (2) the homogeneity of variance-covariance matrices via Box's M (145.15, $p > .125$), and (3) the normal distribution of any linear combination of the dependent variables by its skewness and kurtosis (Hair et al. 1998). As Table 1 shows, the resulting Wilks's λ was statistically insignificant ($p = .145$). In addition, Table 1 shows comparisons of the means for individual variables in the model for both the United States and Japan. Although univariate tests show significant differences for a minority of the variables (5 of 13), it is notable that these United States versus Japan differences are generally relatively small in magnitude.

We then computed the mean values by product category (Table 2), similar to the analysis by country. The firms are classified as marketing either consumer products or industrial products. Univariate F tests identified significant differences for only 1 of the 14 variables. Moreover, MANOVA detected no significant multivariate differences ($p = .112$), suggesting that there are no differences between consumer and industrial product firms.

Tables 3 and 4 show the frequency distributions for the size of the subsidiary and variables for international experience level. Not surprisingly, the subsidiaries represented were mostly medium and large firms. Meanwhile, only a small proportion of the subsidiaries (9.3%) had less than 10 years experience.

Measurement Model Fit

With the exception of the size of the subsidiary and international experience, the constructs used in this study were measured by multiple items, which were assessed on seven-point Likert scales. For the purpose of a first-order analysis, a mean value of multiple items was calculated for the environmental factors, the strategic factors, and the level of advertising standardization. Observed item scores were used for the level of control, advertising effectiveness, financial performance, and strategic performance. Cronbach's α s were calculated for all the multiple-item constructs. All the scores exceeded the widely accepted cutoff of .70, with the exception of advertising infrastructure (.67).

Next, to assess the quality of our measurement model, we examined construct validity, convergent validity, and reliability by conducting a confirmatory factor analysis (CFA) with the generalized least square method via AMOS 5.0 (Arbuckle and Wothke 1999; Byrne 2001). Specifically, we first examined two measurement models separately, one for independent latent constructs (strategic factors, environmental factors, and level of control), and another for dependent latent constructs (level of advertising standardization, advertising effectiveness, financial performance, and strategic performance). For each measurement model, items associated with large modification indexes and standardized residuals were dropped and the model was reestimated (Joreskog and Sorbom 1993). The subsequent assessment indicated

nonsignificant χ^2 value and high goodness-of-fit statistics for the independent latent construct model ($\chi^2 = 57.76$, $df = 48$, $p = .158$, CFI [comparative fit index] = .90, IFI [incremental fit index] = .92, RMSEA [root mean square error of approximation] = .044), and the dependent latent construct model ($\chi^2 = 64.62$, $df = 54$, $p = .153$, CFI = .93, IFI = .94, RMSEA = .043). Next, we assessed the overall construct validity of all the multi-item measures by combining both models (Table 5). The overall model's fit was acceptable ($\chi^2 = 274.01$, $df = 251$, $p = .152$, CFI = .87, IFI = .90, RMSEA = .029). More important, all items successfully loaded on their corresponding constructs with highly significant estimates, while standardized factor loadings were all above .5, providing support for convergent validity. Furthermore, in addition to examination of the loadings, both the composite reliability and variance extracted were calculated. Both scores exceeded a generally recommended level of .60, which provides evidence for construct reliability (Bagozzi and Yi 1988).

Finally, because of the general nature of our model, our intention was to test it independently of firm nationality. To pool the U.S. and Japanese samples, however, we needed to establish the invariance (or equivalence) of the path coefficients between the two samples. Following the procedure suggested by Steenkamp and Baumgartner (1998), we performed a twogroup analysis of the path model in which the path coefficients are constrained to be equal across the two groups. Specifically, we conducted a two-group path modeling with factor scores based on the CFA results. The factor score for each multi-item construct was obtained by weighing its component items by the items' factor loadings as estimated from the final CFA. Next, we used these factor scores as the input for the twogroup path modeling.

In the unconstrained model, all the paths were allowed to be free across Japan and the United States. In the constrained model (i.e., equal-path model), the paths were constrained to be equal across the samples. Next, we compared the two models using a χ^2 difference test. The two-group unconstrained model produced $\chi^2 = 35.29$, $df = 24$, $p = .064$, while the constrained model produced $\chi^2 = 42.25$, $df = 30$, $p = .037$. The χ^2 difference between the two models ($\Delta\chi^2 = 6.96$, $\Delta df = 6$) was not statistically significant at $p < .05$. Thus, the path coefficients are invariant/equivalent across the two samples. Therefore, we conclude that pooling the data from the two samples is justified.

Structural Model and Tests of Hypotheses

The proposed structural model was analyzed via AMOS 5.0 using the generalized least squares method.¹ Table 6 presents a summary of the key parameters as well as fit statistics for the proposed model. The χ^2 value suggests a good fit, $\chi^2 = 327.67$ ($df = 309$, $p = .223$), as do the fit indexes, because CFI and IFI are above .90 and RMSEA is lower than .08 (Bagozzi and Yi 1988). Furthermore, the squared multiple correlations in Table 7 clearly show that the proportion of variance that is explained by the predictor variables is generally high.

Hypotheses 1, 2, and 3 address the influence of environmental factors, strategic factors, and level of control, respectively, on the level of standardization. The coefficient estimates indicate that the paths from environmental factors to the level of standardization (standardized coefficient = .33), and from the level of control to the level of standardization (standardized coefficient = .55) were significant at $p < .05$, while the path from the strategic factors to the level of standardization (standardized coefficient = .71) was significant at $p < .001$. Thus, Hypotheses 1, 2, and 3 are supported by the results.

Hypotheses 4 and 5 relate to the effect of the size of the subsidiary and international experience, respectively, on advertising standardization. Our predictions were that the larger the size and the more experience in international operations, the more likely it is for MNCs to standardize advertising across the markets. Our results show that at $p < .05$, the path from the size of the subsidiary (standardized coefficient = .26) was significant, but the path from international experience was not. These estimates indicate that H4 is supported, whereas H5 is not.

Hypothesis 6 concerns whether the level of standardization has a positive and direct impact on perceived advertising effectiveness. This path (standardized coefficient = .64) was significant at

$p < .001$. The sign and magnitude of the path reveal that a substantial amount of the variance in the advertising effectiveness is accounted for by the standardization of international advertising. This indicates that H6 is supported.

Hypotheses 7 and 8 concern the relations between advertising effectiveness and two kinds of performance measures—financial performance and strategic performance, respectively. The estimation results support both H7 and H8, as the paths from advertising effectiveness to both financial performance (standardized coefficient = .50) and strategic performance (standardized coefficient = .85) were statistically significant at $p < .001$.

DISCUSSION

GMS Theory

GMS theory generally suggests that firms that have internal factors conducive to standardization and that face similarly conducive environments will be more likely to standardize marketing variables. GMS also suggests that firms that do standardize based on these conditions will achieve higher levels of performance. Thus, our results are consistent with those of Zou and Cavusgil (2002) and provide support for GMS theory as it applies to advertising. Indeed, firms with appropriate internal conditions and facing conducive environments were more likely to employ standardized advertising programs. Firms that standardized advertising to fit the internal and external environments were more likely to report high performance. Below we examine the results and implications of the specific findings that support the theory.

Effects of Independent Latent Variables

The environmental factors include customer similarity, market similarity, similarity of advertising infrastructure, and level of competition, all of which are related to the similarity of the cross-national markets in which a firm operates. Overall, respondents' general perceptions were fairly neutral regarding customer and market similarities. Likewise, perceptions of the advertising infrastructure, including the availability of similar media with similar costs, barely exceed the midpoint of the scale. This finding seems inconsistent with Dibb, Simkin, and Yuen (1994), who suggest that European media are increasingly adopting uniform standards across countries, which in turn ensures cross-border media availability. Our finding suggests that despite both the growth of new telecommunication technologies and the wave of deregulation, practitioners in both the United States and Japan still see important differences in the infrastructure of European markets. By contrast, the respondents generally perceived competitive conditions across the EU to be intense.

Taken together, the environmental factors were significantly related to the level of standardization. This supports the contention that the combined effect of customer similarity, market similarity, similarity of advertising infrastructure, and the level of competition contributes to the level of standardization. The significant finding lends support to the hypothesis regarding the positive effect of the environmental factors on the level of standardization.

Second, with respect to the strategic factors, our latent construct incorporates global strategic orientation, cost savings, cross-border segmentation, and the ability to engage in IMC on a global basis. On the whole, we find that the strategic factors have the strongest effect on the level of standardization, explaining 60% of the variance in the MNCs' intention to engage in pan-European advertising. Therefore, firms that globally implement IMC strategies and that seek to emphasize a global strategic orientation, cost savings, and cross-border segmentation are likely to standardize their advertising. This finding is not too surprising, given that it suggests that firms that believe there are significant benefits to uniform marketing strategies that can be realistically implemented are likely to standardize their advertising. This is an important component of the model, however, as it suggests that firms that find global strategies to be desirable and feasible appear to have more success in implementing standardized advertising programs.

Third, a positive relation exists between the level of control and the level of standardization. This finding is consistent with prior literature and suggests that firms with centralized strategies are more likely to engage in standardized advertising.

Effects of Firm Size and International Experience

It has been suggested that the level of standardization increases with the greater size of the subsidiary (i.e., a firm's annual sales volume) and with the parent firm's international experience in external markets. Our results support only the effect of the size of the subsidiary. International experience failed to show the hypothesized positive impact on the level of standardization. This finding was surprising, but seems less robust ($p = .175$). The lack of a significant finding may be because most of the firms in the study had a relatively high level of experience. However, this finding seems to contradict prior research that found a significant link between a firm's level of experience and its use of a global marketing strategy (Zou and Cavusgil 2002). This discrepancy may have occurred because the Zou and Cavusgil study was set in the context of business units based only in the United States, where the level of international experience may have varied more. By contrast, the majority of our sample was comprised of European subsidiaries with reasonably high levels of international experience. Thus, there may be a threshold level of experience beyond which additional years of experience do not have much impact on the tendency to standardize advertising.

Effects of Dependent Latent Variables

The proposed model, with advertising effectiveness proposed as a mediator between the level of standardization and the two performance measures, provided an acceptable fit with the data under study. Based on path coefficients, advertising effectiveness was significantly and positively related to the level of standardization. Notably, both financial performance and strategic performance are strongly influenced by advertising effectiveness.

Second, we find that the level of standardization has a strong effect on strategic performance. This finding is noteworthy, given our conceptualization of this construct based on the global marketing strategy literature (Cavusgil and Zou 1994; Samiee and Roth 1992; Zou and Cavusgil 2002). It also reinforces the notion that the standardization of advertising is a key component in achieving global objectives such as a uniform brand image. The squared multiple correlations of the endogenous variables in Table 7 indicate that advertising standardization accounts for 41% of the variance in advertising effectiveness, which in turn explains as much as 72% of the variance in strategic performance.

Finally, it appears that it may be possible to achieve a substantial improvement in financial performance by increasing the level of standardization. This finding is important because it suggests that many firms believe that standardized advertising enhances "bottom-line" performance. Although the effect was not as striking as for strategic performance, the effect size was still substantial. As little empirical research has been done on advertising standardization and performance, the importance of these findings should be highlighted.

CONCLUSION

This research empirically examined the effects of the antecedents and consequences of international advertising standardization in a European context. Although the debate over advertising standardization has led to much research effort investigating which of the two approaches (standardization or local adaptation) MNCs are likely to adopt, little theory has addressed why firms standardize and whether standardization leads to higher performance.

A key contribution of this research is that it provides support for the application of GMS theory to the context of advertising standardization. Consistent with GMS theory, our model supports the notion that there are specific antecedents that drive advertising standardization. We find that three latent independent variables—environmental factors, strategic factors, and level of control—and one observed independent variable—size of the subsidiary—can significantly influence the

level of standardization. An additional contribution is that the model also looks at the impact of standardization on performance. The study finds that, on average, managers reported that standardized advertising is more effective across the European Union. There is also consistent evidence for the relation between advertising and financial and strategic performance. Our conceptualization of these impacts was based on the broader global marketing strategy model proposed by Zou and Cavusgil (2002). Consistent with Cavusgil and Zou's broader findings for marketing strategy in general, our findings suggest that a more global (standardized) advertising strategy improves performance.

Our study does have a number of limitations. First, it contained only U.S. and Japanese subsidiaries operating in Europe; subsidiaries from other countries were not included. In addition, the study tested perceptions of only Japanese and U.S. firms operating in EU markets. Future research should attempt to validate the model by using foreign and home comparisons of advertising strategy, and the study should be replicated with additional samples including firms of other national origins, across different markets, and with a separate focus on business to business versus consumer products. Furthermore, a longitudinal study could offer insights into how MNCs are increasing or decreasing the degree of standardization across markets. An additional limitation of the study is that it measured managerial perceptions of performance, as opposed to actual performance. However, considerable evidence from the strategic management literature indicates that managerial perceptions of performance are largely accurate (Robinson and Pearce 1988; Venkatraman and Ramanujam 1986).

Sidebar

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Footnote

NOTE

1. A reviewer suggested that uniform strategy and uniform executions could be two separate factors. We analyzed our model by splitting uniform ad strategy and uniform ad execution into two factors. The results indicate that except for two paths leading to uniform ad execution that become insignificant, the basic findings are similar to those when the two factors are combined. Given that the combined factor has a composite reliability of .90 and that the basic findings are similar with either approach, for the sake of clarity, we have presented our findings using the combined factor of level of standardization (reflecting both strategy and executions).

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Appendix

APPENDIX

Proposed Constructs: Scale Items Used

Environmental factors (assessed on a seven-point semantic differential scale)

Customer similarity

- * The customers in the European markets we serve are similar across borders.
- * We appeal to similar target segments in the European markets in which we do business.
- * Consumers have similar lifestyles in the European markets in which we operate.
- * Consumers have similar tastes and habits in the European countries in which we operate.
- * Consumers have similar levels of product knowledge in the European markets in which we operate.
- * Language remains a strong divide for consumers across borders (reverse coded).

Market similarity

- * The European markets in which we operate are at similar levels of economic development.

* European markets have generally become more homogeneous due to economic unification of the European Union.

* The circulation of the euro has improved economic homogeneity in the European markets in which we do business.

* The European markets in which we do business have similar educational levels and literacy rates.

* Countries with geographic proximity tend to have similar market conditions.

* Similar competitive conditions exist across the European markets in which we do business.

Advertising infrastructure

* Similar advertising media are available in these markets.

* Advertising regulation is similar across these markets.

* Similar market research studies can be conducted across these markets.

* Media costs are similar across these markets.

* Advertising agencies with global networks are available in these markets.

Level of competition

* We face powerful competitors in these markets.

* There is a great deal of competition in these markets.

Strategic factors (assessed on a seven-point semantic differential scale)

Global strategic orientation

* Our company wants to develop a strong international identity.

* It is important that our ads help reinforce a uniform image across the markets in which we do business.

* We believe it is important to follow the same general strategy in all the markets in which we do business.

* Our company wants to establish consistency across markets in customer service.

* We use a similar advertising campaign across markets according to a uniform product positioning strategy.

* Our goal is to use successful advertising ideas that become internationally proven.

Perceived cost savings

* We want to save costs by using similar advertising campaigns in the markets in which we do business.

* We believe that we can spend promotional dollars more efficiently if our advertising is standardized.

* We can save on the costs of producing advertising if we use standardized advertising.

* We can save on the costs of media buys if we use standardized advertising.

Cross-border segmentation

* We believe we should target similar market segments across the European markets in which we do business.

* We believe that standardized ads can accommodate the increased mobility of consumers within the European Union.

* We believe that standardized ads can attract consumers with similar characteristics across borders.

* We believe that standardized ads can reach multicultural segments beyond national boundaries.

Global IMC (integrated marketing communications) (ability to implement IMC across markets)

* We believe that our company can take advantage of the use of advanced technology to reach all our European markets.

* Our company is able to take advantage of cross-border media buying capability to enhance IMC.

* Our parent company encourages us to use enhanced IMC.

* We use the same marketing communications strategy across markets to accommodate the high rate of technological change.

* Our company can take advantage of the global affiliation of networked agencies.

Level of control (assessed on a seven-point semantic differential scale)

* Our subsidiary has considerable autonomy in making final decisions on advertising programs (reverse).

* Our parent company tightly controls the advertising strategy we use.

* Our advertising decisions are made centrally at our company's world headquarters.

* Our parent company wants us to play a central role in making advertising decisions (reverse).

Level of standardization (assessed on a seven-point semantic differential scale)

Uniform strategy

* We use the same general strategy for our ads in all of the countries in which we advertise.

* The main ideas or themes are similar across the European markets in which we advertise.

* We use a similar budgeting process in the European markets in which we advertise.

* We use similar media strategies across the markets in which we advertise.

Uniform executions

* We use the same advertising executions for all of the European countries in which we advertise.

* We use uniform copy and textual information for our ads in all the European countries in which we advertise.

* We use a uniform visual image for our ads in all of the European countries in which we advertise.

* We use similar creative strategies in all of the European countries in which we advertise.

Advertising effectiveness (assessed on a seven-point semantic differential scale)

* Our advertising is generally well liked in the markets in which it is run.

* Consumers react positively to our advertising.

* Our advertising improves the consumers' image of our brand.

* Our advertising makes it more likely that consumers will purchase our brand.

Financial performance (assessed on a seven-point semantic differential scale)

* Sales of our product have been increasing.

* Our brand equity has been increasing.

* The financial performance of our brand has improved.

Strategic performance (assessed on a seven-point semantic differential scale)

* We have achieved a uniform image for our brand.

* We have been executing a global strategy effectively.

* We have created and reinforced a strong global image for our brand.

* Our advertising has been effective in helping us achieve our company's objectives.

Size of the subsidiary (assessed on an ordinal scale)

* What is the annual sales volume of your venture in this foreign market?

less than \$100 million

\$100-\$499 million

\$500 million to \$999 million

\$ 1 billion or more

International experience (assessed on an ordinal scale)

* How long has your parent company had international operations?

less than 5 years

6-10 years

11-20 years

20-49 years

50 or more years

Subject: Standardization; Advertising; Studies; Impact analysis; Business models

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