

# THE ROLE OF MARKETING IN MULTINATIONAL SUBSIDIARIES: STANDARDIZATION VERSUS LOCALIZATION

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## Introduction

In the international marketing literature as well as practice, one of the most pressing issues for any multinational corporation's marketing strategy is the choice between standardization (or globalization) and localization (or adaptation) [3].

The first approach, often applied for example by companies producing cosmetics, electronics, soft drinks and most industrial goods, is based on the assumption that customer needs are relatively homogenized [5]. Companies with the standardized global marketing strategy apply a single marketing mix in every country. In doing so, they realize economies of scale (i.e. reduce costs of production and local marketing spending) [8], [3], yet may be less effective in capturing consumers' attention due to the lacking correspondence between the mix and consumers' needs.

On the other hand, locally oriented multinational corporations focus primarily on differences among individual markets. They assume that due to the differing cultural, socio-historical or geographical context consumers live in, most products cannot be successfully marketed in a standardized manner and adapt their marketing strategies and/or tactics to the local market conditions. Localization is thus more costly than standardization, yet can prove to be a more effective approach.

It is clear that for a corporation operating on an international scale, the decision regarding standardization or localization of marketing mix is crucial. Both strategic orientations can be successful depending on factors such as product category, level of competition on the

market etc. Because of the importance of the topic, many studies have concentrated on these issues to create recommendations that would guide decisions concerning this matter [7], [10], [3].

These decisions are often taken at the corporation's international marketing headquarters and that is also mostly the level of analysis to be found in literature. These decisions, however, clearly have an effect also on the local marketing practice, a fact mostly ignored within marketing literature. Especially within local markets that are considered relatively small for the corporation's business, this issue becomes quite interesting. Local marketers are those who know the market "from the inside", yet often do not have a say in the brand strategy. Does this global practice have an effect on their perception of their own work? This study tries to fill this knowledge gap.

The study, in fact, is not focused on comparison of the two philosophies of international marketing and does not offer recommendations about the appropriateness of one or the other. Rather, it concentrates on the perception of these global decisions by those who effectively carry them out on the local level. The Czech context is particularly adapt for this study because the Czech market is often seen as only marginally important by multinational corporations.

In particular, this paper analyzes how Czech marketers working in subsidiaries of multinational corporations perceive the role of marketing within their companies. Specifically, it tries to find out if those working for subsidiaries governed primarily by the philosophy of standardization perceive their role as different

from those who are employed by subsidiaries governed primarily by the philosophy of localization.

While in the second case, the local company is relatively independent in its marketing decisions, in the first case the subsidiary's marketing is controlled significantly by the parent corporation. Marketing managers in such multinational subsidiaries not only tend to be forced to accept all strategic marketing decisions from the headquarters, but many of the tactical marketing decisions are controlled by the central marketing body as well. Marketing activity of these subsidiaries thus often shrinks to more or less significant adaptations of marketing communications [9]. This situation is far removed from the complex role marketing function should be playing in corporations [4]. This forced adoption of most concepts from their headquarters and the lack of freedom in decision-making may result in de-motivation of marketing managers in subsidiaries with centralized marketing activities [6, pp. 18], [10]. Consequently, standardization can restrict entrepreneurial spirit, creativity and initiative in the subsidiary [10], [1].

Given these issues, the results of this study are of high importance not only to multinational corporations' global management that should take them into account when considering the effectiveness of standardization, but especially to HR managers of multinational subsidiaries who hire employees for their marketing departments. The findings are important also

for business faculties which prepare graduates for their future careers in marketing.

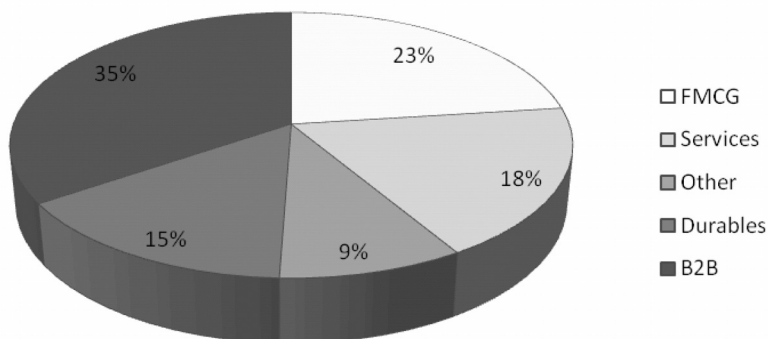
## 1. Methods and Sample Composition

In order to answer the research question, a mixed-method research has been carried out. A preliminary qualitative study was realized consisting in individual in-depth interviews with seven Czech marketing managers of larger multinational subsidiaries. The respondents were asked about the role their marketing department was playing in the subsidiary. The results of the qualitative study then represented grounds for the quantitative part of the research that was carried out through an online questionnaire.

The survey was realized during March and April 2011 with 87 marketing managers who were in charge of marketing departments in multinational subsidiaries. All of the corporations had their headquarters outside of the Czech Republic. Only relatively large corporations (with more than 100 employees) were addressed.

All respondents were marketing managers. Approximately 36 % of them worked in a small marketing department with 3 employees or less. The rest of the respondents worked in larger marketing departments with 4 employees and more. 23 % of the sample worked in corporations operating in the FMCG sector, 18 % of them worked in corporations operating in services, 35 % in corporations operating in B2B sector, 15 % in corporations which produce durables and 9 % in other corporations (e. g. media) (see fig. 1).

**Fig. 1: Sample Composition**



Source: authors

To get a more complex understanding of the issue, we carried out the research also among marketing managers of Czech companies with more than 100 employees. Altogether 140 marketing managers of those companies responded.

In order to uncover if marketing departments with higher parental control carry out different marketing operations and what these are, the questionnaire included questions about activities the respondents' departments were involved in most of the time. Respondents were allowed to choose maximum of two of the following possibilities: marketing communication development, media acquisition, brand strategy and positioning, new brand development, consumer research, sales analysis, reporting to the headquarters, price-related decisions, new product development, business plan creation and other. It can be noted how certain answers point to strategic and others to tactical kind of activities.

The respondents were also asked which of the activities listed above they would like to spend more time with. This question was intended to uncover ambitions (and also frustrations) of both groups of marketing managers. Similarly to the first question, respondents were allowed to choose the maximum of two of the possibilities.

Finally, respondents were asked about the most important gaps in knowledge and skills of their junior colleagues. Respondents were allowed to choose maximum of two of the

following possibilities: creativity, general overview, brand strategy knowledge, data analysis skills, negotiation skills, management skills, knowledge of economics, knowledge of media, knowledge of advertising, knowledge of sales strategy and other. This question allowed uncovering what are the valued abilities for a marketer in that particular organization, as they bear a close relation to the kind of activities that are mostly carried out.

Clearly, our study has its limitations, as the sample is not very numerous. As a consequence, for some of the differences found in the data statistical significance could not be asserted. Further research is therefore needed to strengthen our findings conclusively. However, this research represents a crucial exploratory voyage into the world of marketing practitioners that seldom is made accessible to researchers.

## 2. Preliminary Qualitative Study

The results of the qualitative study showed that both strategic orientations described in the introduction of this paper were recognized. They were then reflected in the respondents' perception of the relationship between the subsidiary and the parent organization. Some marketing managers felt they had enough freedom from the headquarters, whereas others believed that they were under inappropriate control from the parent marketing department. These two contradictory opinions are demonstrated by the following statements:

Fig. 2:

### The Role of Marketing in Subsidiaries According to the Multinational's Strategic Orientation

#### Marketing orientation of standardization

Marketing department is primarily focused on minor adaptations of marketing communications.

Much of the time of the marketing managers is consumed by reporting to the headquarters.

Creativity tends to be rather restricted.

#### Marketing orientation of localization

The role of the marketing department is much more complex.

Marketing managers are not only involved with marketing communications, but also with brand strategy, positioning or new product development.

Reporting to the headquarters is relatively limited.

Creativity tends to be supported.

Source: authors

“We are functioning federatively. The headquarters leave us surprisingly high degree of independence.”

“Centralization of marketing and low possibility of adaptation of the central strategy to the local needs is a huge barrier.”

Based on results from the qualitative research and literature review, we presumed that marketing departments in multinational subsidiaries tend to adopt one of the following patterns (see fig. 2).

We expected marketing activities of the subsidiary to differ in correspondence with the strategic marketing orientation on the global level.

In case of standardized marketing philosophy (i.e. high parent company control of the subsidiary’s marketing function) the focus of the marketing department should be relatively narrow and rather tactical in nature. Marketing managers should be primarily responsible for translations and minor adaptations of marketing communications. They should spend a relatively big portion of their time reporting to the headquarters. At the same time, the involvement of the subsidiary’s marketing managers with strategic activities should be limited because the global marketers want to prevent the local ones from diluting or confusing the global brand positioning as stated for

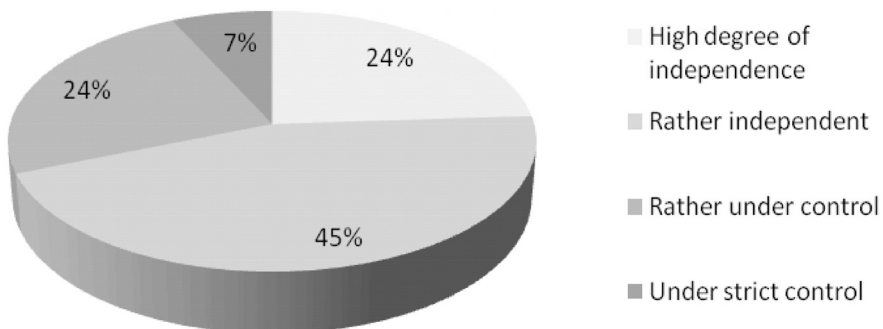
example by Gatignon and Anderson [2]. For the same reasons creativity of marketing managers should be rather restricted.

The company’s philosophy of localization (i.e. low parent company control of the subsidiary’s marketing function), on the other hand, will render the subsidiary’s marketing activities much more complex and more strategic in nature. Such marketing department should be involved not only in marketing communications but also in strategic marketing activities, such as brand strategy, positioning or new product development. Reporting should be less time-consuming than in case of high parent company control, whereas creativity of marketing managers should be relatively supported.

### 3. Perceived Control of the Parent Corporation

Based on the survey, surprisingly, only less than one third of the respondents claimed that they were under relatively high control from their headquarters (see fig. 3): 7 % of them stated that almost everything is decided from the headquarters and 24 % of them stated that the parent corporation decides in majority of situations. On the other hand, 24 % of the respondents felt they had a high degree of independence. Most of the respondents (45 %) believed that they were rather independent on the headquarters.

**Fig. 3: The Perceived Degree of Control from the Headquarters**



Source: authors

Because of the limited sample, answers were summarized into two groups only: “High degree of independence” was associated with “Rather independent” and “Under strict control” associated with “Rather under control”.

### 3.1 Marketing Activities in Subsidiaries with High/Low Parental Control

In tab. 1 there are marketing activities respondents claimed to be involved in most of their time. Based on this data, the hypotheses presented in fig. 2 seem to be quite relevant, because the marketing activities carried out by subsidiaries with low parental control tend to be more strategic in nature and present a more complex understanding of marketing. Our data suggest that these marketing departments are more typically involved with brand strategy, positioning and new brand development than departments with high parent control (19.3 % vs. 4 %). Similar tendency was found also for new product development. However, in

this case the difference was rather small (9.7 % vs. 8 %).

On the other hand, marketing departments with high parent control seem much narrower in their activity scope, as compared to departments with low parent control. Much more of their time is swallowed by reporting to the headquarters (28 % vs. 12.9 %). This difference was statistically significant at 10% level of significance. Similarly, creation of business plans takes more time in marketing departments of subsidiaries with high parent control than in departments of subsidiaries with low parent control (24 % vs. 19.4 %).

Counterintuitively, price-related decisions were more typical for departments with high parent control than for departments with low parent control (8 % vs. 4.8 %). A possible explanation can be that departments with high parent control are more typically involved with price decisions because of the need of global brand positioning protection (as price is usually a crucial element of brand positioning).

**Tab. 1: The Most Frequent Activities of the Marketing Managers**

	Departments with high parent control	Departments with low parent control	Departments of Czech corporations
Activities related to marketing communications			
Marketing communication development	52 %	54.8 %	42.1 %
Media acquisition	24 %	25.8 %	20.7 %
Activities related to brand strategy			
Brand strategy and positioning	4 %	16.1 %	17.1 %
New brand development	0 %	3.2 %	1.4 %
Data analysis			
Consumer research	16 %	14.5 %	11.4 %
Sales analysis	16 %	17.7 %	22.9 %
Reporting and business planning			
Reporting to the headquarters	28 %	12.9 %	12.9 %
Business plan creation	24 %	19.4 %	12.9 %
Price-related decisions	8 %	4.8 %	10.7 %
New product development	8 %	9.7 %	13.6 %
Other	4 %	4.8 %	7.1 %

Source: authors

It is interesting to compare marketing departments with high/low parental control with departments of Czech corporations. Marketing departments of Czech corporations are less

often involved in activities related to marketing communications (62.8 % vs. 76 %, resp. 80.6 %). When comparing activities related to brand strategy, marketing departments of Czech corporations

seem to be similar to departments with low parent control. The same was true also for reporting.

However, as for price-related decisions and new product development, marketing departments of Czech corporations scored higher than departments of multinationals of both types (high and low parental control). Therefore, it seems that marketing departments of Czech corporations may be even more complex in their activities than departments with low parental control, also for the fact that in all multinational corporations new product development would be carried out elsewhere. More data, however, would be necessary to prove this statement and explore this issue further.

### 3.2 Ambitions of Marketing Managers in Subsidiaries with High/Low Parental Control

The second battery of questions was closely related to the first one and it concentrated on uncovering those activities that the respondents would like to spend more time with. The results are available in tab. 2.

The most common answer of the respondents from both groups was that they would like to spend more time with consumer research. This

was especially true for marketing managers of subsidiaries with high parental control. 60 % of them answered this way. In case of marketing managers of subsidiaries with low parental control the number was 30.6 %. This difference was statistically significant at 5% level of significance, Pearson contingency coefficient being 0.263.

This finding suggests that marketing managers of both groups (but especially from subsidiaries with high parent control) feel that they do not have enough knowledge about their customers. Although this may be due to research bias, as our survey may have been answered primarily by marketing managers with positive attitudes towards surveys in general, the result still suggests an interesting insight into the workings of marketing departments. It especially corroborates the hypothesis that multinationals which follow the strategy of standardization assume consumer behavior to be homogeneous across different cultural settings. Thus, they do not deem it necessary to collect local consumer data and as a consequence and the local marketers are not given the budget and freedom to carry out local market research.

The hypothesis that corporations pursuing the strategy of homogenization provide the

**Tab. 2: Activities Marketing Managers Would Like to Spend More Time With**

	Departments with high parent control	Departments with low parent control	Departments of Czech corporations
Activities related to marketing communications			
Marketing communication development	20.0 %	22.6 %	19.3 %
Media acquisition	12.0 %	8.1 %	12.1 %
Activities related to brand strategy			
Brand strategy and positioning	44 %	27.4 %	25 %
New brand development	8.0 %	8.1 %	12.1 %
Data analysis			
Consumer research	60.0 %	30.6 %	44.3 %
Sales analysis	32.0 %	21.0 %	19.3 %
Reporting and business planning			
Reporting to the headquarters	4.0 %	1.6 %	4.3 %
Business plan creation	20 %	19.4 %	15.0 %
Price-related decisions	4 %	9.7 %	7.1 %
New product development	16.0 %	17.7 %	26.4 %
Other	4.0 %	1.6 %	5.7 %

Source: authors

local subsidiaries with a “ready-made” brand strategy is supported by other results. In fact, the second most common answer of the respondents to the question what activities they do not engage in often enough was brand strategy and positioning. Similarly to the first question, this answer was more typical for managers working in subsidiaries with high parental control than managers working in subsidiaries with low parental control (44 % vs. 27.4 %).

Both of these results are thus consistent with the hypotheses presented in fig. 2. What could follow from this is a possible feeling of frustration of managers in subsidiaries with high parent control, resulting from the inconsistency between their understanding of marketing as a strategic endeavor (including market research and brand strategy) and the reality, in which they engage in tactical activities.

The two groups of marketers differed also in the ambition to spend more time with sales

analysis. Marketers from subsidiaries with high parental control mentioned this activity more often than their colleagues from subsidiaries with low parental control (32 % vs. 21 %).

However, opposite tendency was found regarding price-related decisions. Consistent with our findings from table 1, marketers from subsidiaries with low parental control stated more often than their colleagues from subsidiaries with high parental control that they would have liked to spend more time with pricing (9.7 % vs. 4 %).

### 3.3 Perceived Gaps in Knowledge and Skills of Juniors in Subsidiaries with High/Low Parental Control

When asked about gaps in knowledge and skills of their junior colleagues, the answers of marketing managers working in subsidiaries with high and low parental control differed considerably (see tab. 3).

**Tab. 3: Perceived Gaps in Knowledge and Skills of Juniors**

	Departments with high parent control	Departments with low parent control	Departments of Czech corporations
Creativity and general overview			
Creativity	12 %	29 %	23.6 %
General overview	24 %	35.5 %	35 %
Brand strategy knowledge	32 %	12.9 %	14.3 %
Data analysis skills	60 %	45.2 %	20.7 %
Negotiation and management skills			
Negotiation skills	40 %	19.4 %	23.6 %
Management skills	32 %	16.1 %	18.6 %
Other knowledge			
Knowledge of economics	16 %	12.9 %	11.4 %
Knowledge of media	12 %	12.9 %	13.6 %
Knowledge of advertising	8 %	12.9 %	12.1 %
Knowledge of sales strategy	36 %	27.4 %	15.7 %

Source: authors

“Creativity” was stated more than twice more often by managers in subsidiaries with low parental control than those in subsidiaries with high parental control (29 % versus 12 %). This difference was statistically significant at 10% level of significance. Such result is in line with the proposed theory, as creativity would clearly be required from workers in less controlled environments.

Similar reasoning can be applied to “general overview” whose lack was noted more

often by managers in subsidiaries with low parental control than by those in subsidiaries with high parental control (35.5 % vs. 24 %). Again, if the workload consists mainly in carrying out given tasks, general overview is not among the necessary competences of employees.

On the other hand, managers in subsidiaries with high parental control feel much more often than managers in subsidiaries with low parental control that their juniors miss



“brand strategy knowledge” (32 % vs. 12.9 %). This difference is statistically significant at 5% level of significance. Pearson contingency coefficient of 0.218 implies weak to medium dependence. The knowledge of brand strategy here may refer to mastering the steps of carrying out a brand strategy (which would be required from marketers who are expected to implement a global brand strategy), but also to the company’s brands’ global strategies.

Quite interesting is also a notable difference in how the two groups of managers perceived analytical skills of their juniors. 60 % of managers in subsidiaries with high parental control perceived data analysis skills of their juniors as insufficient. In case of managers working in subsidiaries with low parental control this was only 45.2 %. What could be deduced from this difference is the greater importance that foreign companies place on data as such, be it internal or external data. What should be noted here is the opposite tendency individuated for creativity. Evidently, what is required by the multinational central headquarters is more action based on precise information and less improvisation based on creativity. Interestingly, then, there is a statistically significant (at 1% level of significance) difference between Czech and foreign companies, where Czech companies find the lack of data analysis skills much less important (only 20 % of them individuated this element as lacking in juniors). This may be due to the persisting misunderstanding of the role of marketing in Czech corporations, where marketing is considered to be creative, rather than based on careful analysis of available information.

However, there are also other differences: marketing managers in subsidiaries with high parental control (vs. those in subsidiaries with low parental control) found their juniors less competent in negotiation skills (40 % vs. 19.4 %), in management skills (32 % vs. 16.1 %), knowledge of sales strategy (36 % vs. 27.4 %) and knowledge of economics (16 % vs. 12.9 %). On the other hand, marketing managers in subsidiaries with low parental control criticized more often gaps in advertising knowledge of their juniors in comparison to their colleagues in subsidiaries with high parental control (12.9 % vs. 8 %). All these differences suggest that subsidiaries under a strict control from their headquarters tend to be much more oriented

towards sales, rather than strategic marketing. What is stressed there is the ability to sell given products (that is reflected in the negotiation skills and knowledge of sales strategy) rather than manage the marketing mix. The relatively independent subsidiaries, on the other hand, emphasize rather the knowledge of advertising as a key component of marketing mix. Such result should also be read together with the stress on creativity that these companies show.

Based on our data we can conclude that marketing departments of subsidiaries with low parental control tend to appreciate creativity and general overview more often than departments of subsidiaries with high parental control. Our hypotheses in figure 2 seem to be therefore supported, as these two elements add up to the overall “marketing freedom” of the companies with low parental control, which allows them to approach marketing strategically rather than just sell a prefabricated one.

On the other hand, marketing departments of subsidiaries with high parental control tend to appreciate brand strategy knowledge more often than departments of subsidiaries with low parental control. However, we expect that this knowledge is related primarily to patronage of the global brand positioning, not to brand development or creation. This explanation would be consistent with the reasoning of Gatignon and Anderson [2] which we mentioned in the previous text.

Our data suggest that working in marketing departments of subsidiaries with high parental control is probably more analytical in nature than working in marketing departments of subsidiaries with low parental control and demands more negotiation, sales-related and management skills.

It is also interesting to compare perceived gaps in knowledge and skills of juniors mentioned by marketers from departments of Czech corporations with those mentioned by marketers from subsidiaries with high/low foreign parental control. From this perspective, marketing departments of Czech corporations seem to be relatively close to marketing departments of subsidiaries with low parental control. This may be quite logical because marketing departments of Czech corporations should enjoy even greater degree of independence than marketing departments of subsidiaries with low parent control.



### Conclusions

Our findings suggest that there is a significant difference between the role of marketing in subsidiaries of multinational corporations with high parental control (i.e. marketing orientation of standardization) and subsidiaries with low parental control (i.e. marketing orientation of localization).

In particular, subsidiaries of corporations oriented at standardization are less often involved in strategic activities central to marketing considered as a complex process [4], such as brand strategy, positioning and new brand development. Their position of dependence is exemplified by the importance of reporting to the headquarters, which becomes one of the most frequent activities of the marketing departments.

In case of low parent control, marketing managers' involvement with brand strategy, positioning and new brand development tends to be significant. Approximately one fifth of the respondents claimed that those activities belong among the most frequent activities their department was involved with.

Differences exist also in relation to ambitions both groups of managers have. Marketers from subsidiaries with low parent control would like to be focused on consumer research more often than those from subsidiaries with high parent control. This finding suggests that marketers from subsidiaries with low parent control feel like knowing too little about their customers and may be allowed a too small budget for market research. That would resonate with the hypothesis that the corporations these subsidiaries belong to pursue the strategy of standardization, and the subsidiaries thus tend to receive most of the marketing strategy from the headquarters. In such situation, local market research may seem as redundant by the headquarters. The conclusion that these subsidiaries are guided by a standardized marketing strategy is supported also by the fact that its marketing workers lament not spending enough time with brand strategy and positioning. Such finding suggests there may be feelings of frustration caused by the tactical nature of their role, which does not add to the employees' motivation.

The results also resonate with the findings related to the abilities lacked in junior marketers. What we found was that marketing departments of subsidiaries with high parent control do not seek creativity in their employees. In fact, marketing managers in subsidiaries with high parent control stated more than twice less often that they lacked creativity by their junior colleagues (compared to marketing managers in subsidiaries with low parent control). This finding would point to creativity being less supported by these departments than those of subsidiaries with low parent control.

What marketers in subsidiaries with high parental control did lack much more often in their juniors was "brand strategy knowledge". However, this perceived gap in juniors' knowledge is likely to be related primarily to patronage of the global brand positioning, not to brand development or creation and the result thus resonates with the fact, that creativity is not emphasized in these companies.

Our findings corroborate the hypotheses set out in the beginning of this paper, i.e. that there are significant differences between the role marketing plays in subsidiaries of corporations governed by the strategy of standardization, as opposed to those governed by the strategy of localization. Such results are of high importance both for HR managers of multinational corporations as well as for business faculties. Working in subsidiaries with high parent control will be more suitable for employees who prefer standardized tasks, who do not mind about frequent reporting and who do not mind following strict regulations. On the other hand, a job in subsidiaries with low parent control should be more suitable for those employees who appreciate less structured tasks, who enjoy complexity of the marketing function and who are strong in strategic and creative thinking. The results are also important for top management of multinationals who compare pros and cons of strategies of standardization and localization, as the cost of de-motivation of the local marketing department is seldom taken into account.

*The study was supported from the resources for long term conceptual research development of the University of Economics, Prague (IP300040).*

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Doručeno redakci: 22. 6. 2012

Recenzováno: 27. 7. 2012, 10. 10. 2012

Schváleno k publikování: 17. 1. 2013

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STANDARDIZATION VERSUS LOCALIZATION****Miroslav Karlíček, Zuzana Chytková, Nikola Hořejš, Hana Mohelská,  
Jakub Fischer**

*This study focuses on differences between the character of marketing activities in subsidiaries governed primarily by the philosophy of standardization and those governed primarily by the philosophy of localization. 87 Czech marketing managers who were in charge of marketing departments in multinational subsidiaries were asked about the activities their department was involved most of the time. In case of high parent control, marketing managers' involvement with strategic marketing activities, such as brand strategy, positioning and new brand development, tended to be limited. On the other hand reporting to the headquarters was quite often mentioned as one of the most frequent activities of the marketing department. Opposite pattern was typical for marketing managers working in subsidiaries with low parent control. At the same time both group of marketers differed also in ambitions they had, as well as in knowledge and skills gaps of their junior colleagues they perceived. The findings are of high importance especially for HR managers of multinational corporations and for business faculties. Working in subsidiaries with high parent control will be more suitable for employees who prefer standardized tasks and who do not mind following strict regulations. On the other hand, working in subsidiaries with low parent control should be more suitable for employees who appreciate less structured tasks, who enjoy complexity of marketing and who are strong in strategic and creative thinking. However the findings of the study can be useful also for top management of multinationals who compare pros and cons of strategies of standardization and localization.*

**Key Words:** multinational subsidiaries, international marketing, role of marketing, marketing department.

**JEL Classification:** M31, M51, M16.