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## **WHEN IS BRAND ORIENTATION A USEFUL STRATEGIC POSTURE?**

### **ABSTRACT**

This study examines the extent to which the effect of brand orientation on sales performance is contingent upon levels of transformational leadership and inter-functional collaboration. Using primary data from 108 subsidiaries of multinational enterprises (MNEs) operating in the Commonwealth Caribbean region, the study finds that brand orientation is not directly related to sales performance. However, findings show that brand orientation is positively related to sales performance when levels of both transformational leadership and inter-functional collaboration are high. Theoretical implications of these findings are discussed while drawing lessons for MNE subsidiary brand management practice.

**KEYWORDS:** Brand Orientation; Transformational Leadership; Inter-Functional Collaboration; MNE Subsidiary; Commonwealth Caribbean Region

**Outlet:** Journal of Brand Management

## INTRODUCTION

Recent decades have witnessed increased academic and practitioner interests in the notion of brand orientation and its performance consequences (e.g., Baumgarth, Merrilees, & Urde, 2013; Schmidt & Baumgarth, 2014; Spyropoulou, Skarmeas, & Katsikeas, 2011; Urde, Baumgarth, & Merrilees, 2013). It is argued that increasing global market competition has made brand orientation a useful strategic posture for ensuring firm growth and profitability (Gromark & Melin, 2011; Rugman & Verbeke, 2001). Accordingly, the development of powerful brands and a continuous monitoring of brand equity has become an important top management issue (Hirvonen, Laukkanen, & Reijonen, 2013; Rao, Agarwal, & Dahlhoff, 2004). To this end, firms are continuously urged to adopt strong brand orientation as a strategic posture (Schmitt, 2012; Simoes & Dibb, 2001). The assumption behind this line of research is that brand-oriented firms benefit from greater efficiency as they standardize market offerings across multiple markets (Keller & Lehmann, 2006). In the particular case of multinational enterprises (MNEs), a branding advantage stems from a greater capacity to generate increased cash flows from loyal customers worldwide (Rao et al., 2004). Thus, the literature suggests that superior brand orientation is a major driver of financial health (e.g. Fastoso & Whitelock, 2007).

While researchers have examined the brand orientation–financial performance relationship at length (e.g., Baumgarth, 2010; Hankinson, 2012; Urde, 1999; Urde et al., 2013), knowledge is lacking on the boundary conditions of the relationship. As Table 1 shows, previous studies have reported mixed findings: positive (e.g., Ahmad and Iqbal, 2013; Baumgarth, 2009), negative (e.g., Noble, Sinha, & Kumar, 2002), and non-significant effects (e.g., Craig, Dibrell, & Davis, 2008), suggesting that we currently lack knowledge on the conditions under which brand orientation impacts performance. This study argues that the equivocal findings on the brand orientation–performance relationship can be addressed if firm-specific contingencies are modelled. Although Hirvonen et al. (2013) are unable to find

empirical support for moderating roles of firm-specific contingency factors (e.g., branding know-how), no study has sought to further analyze internal firm-specific boundary conditions of the relationship.

This study draws insights from resource-based view (Barney, 1991), organizational leadership, and structure research to shed new light on the boundary conditions of the brand orientation–performance relationship. Our research shows that the performance outcomes of brand orientation may be contingent upon a firm’s top management leadership style and intra-firm structural contingencies (Keller & Lehmann, 2006). Although in taking such a position we run counter to the traditional structure-conduct-performance paradigm of industrial organization economics, we think that by focusing more on firms’ internal leadership and structural processes, we can extend the extant brand orientation literature in two important ways.

First, we contend that brand orientation, like any strategic posture, is a firm-specific resource that offers a potential value (Day, 1994), but only to the extent that its performance outcomes may be dependent upon a number of complementary firm resources and capabilities (Baumgarth, 2010). Drawing lessons from the organizational leadership literature, we maintain that a firm’s top management team plays a vital role in shaping a firm’s overall strategic posture, including its brand orientation (Hankinson, 2012). The strategic postures adopted by the top echelon of a firm can be seen as a firm-specific complementary resource that may facilitate the effectiveness of a firm’s brand orientation. Effective leadership is the ability to manage change, establish direction, motivate subordinates, and reconfigure firm resources to achieve overall firm goals, and while we can think about several leadership styles (e.g., autocratic, charismatic), we reason that a transformational leadership style is particularly suited to achieve successful firm-wide brand orientation. Thus, we see transformational leadership as a complementary resource that may provide the capability for firms to build an abstract branding culture that subsequently facilitates effectiveness of brand orientation.

Second, the literature on inter-group cooperation (e.g., Baer, Vadera, Leenders, & Oldham, 2013) and inter-functional interaction (e.g. Menon, Jaworski, & Kohli, 1997), supports the idea that the impact of brand orientation on performance may depend on levels of inter-functional collaboration. While different functional units within a firm are expected to work together to achieve shared visions and goals, dysfunctional conflict and competition between functional units has been found to be prevalent (Baer et al., 2013), and this dysfunctionality is noted to undermine effectiveness of firm strategy (Pfeffer & Sutton, 2000). Accordingly, this study extends the brand orientation literature by examining how inter-functional collaboration conditions the effectiveness of brand orientation efforts.

In summary, this study proposes a conceptual model to examine the notion that the effect of brand orientation on sales performance is dependent upon levels of transformational leadership and inter-functional collaboration. The model is then empirically tested within the context of MNE subsidiary firms operating in the Commonwealth Caribbean region.

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Table 1 here

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## **THEORETICAL BACKGROUND**

Brand orientation has been defined as “an inside-out, identity-driven approach that sees brands as a hub for an organization and its strategy” (Urde et al., 2013, p. 1). This definition is based on an assertion that “brand orientation is an approach in which the processes of the organization revolve around the creation, development, and protection of brand identity in an ongoing interaction with target customers with the aim of achieving lasting competitive advantages in the form of brands” (Urde, 1999, p. 113). As a guiding principle that shapes a firm’s strategic direction and activities, brand orientation, therefore, provides a platform to lend significance to brands over and above the importance of satisfying customer needs and wants to improve firm performance (Ahmad & Iqbal, 2013).

For MNEs and their overseas subsidiaries, arguments have been made that adopting a strong brand orientation is a useful strategic posture to succeed in host markets (Rao et al., 2004). Within the strategic management literature, it is widely accepted that the treatment of an MNE subsidiary as a relevant unit of analysis is valid as subsidiaries are distinct from their parent companies in terms of their ability to take initiatives to improve their performance (Birkinshaw, 1997; Birkinshaw & Hood, 1998). Within this context, the way an MNE subsidiary's brand orientation affects its sales performance is of particular interest to MNE subsidiary managers. The assumption behind this line of research has been that the financial benefits of brand orientation are predicated on the development of successful brands through a re-orientation of the entire organization around the brand's core values and identity (Hankinson, 2012; Urde et al., 2013). Thus, brand orientation emphasizes the strategic significance of branding activities, and is therefore seen as a resource that may shape a firm's strategic direction (Urde et al., 2013). As an inside-out strategic posture, brand orientation enables a firm to develop and sustain a shared value with core stakeholders (i.e., customers and employees) to generate superior performance (Napoli, 2006; Reijonen, Laukkanen, Komppula, & Tuominen, 2012). Given that brand orientation encapsulates a firm's long-term strategic goal, it helps define and cement relationships within the firm (Napoli, 2006; Urde, 1994; Urde et al., 2013).

In reaction to this potential financial benefit of brand orientation, studies have focused on discovering and explaining how firms can develop their brand orientation levels (e.g., Baumgarth, 2010; Ewing & Napoli, 2005; Hankinson, 2001; Napoli, 2006; Mulyanegara, 2011; Schmidt & Baumgarth, 2014; Simoes & Dibb, 2001; Urde, 1994; Wong & Merrilees, 2005). Empirical studies examining how brand orientation impacts performance have primarily been descriptive (e.g., Baumgarth, 2009; Keller, Dato-on, & Shaw, 2010) and directed at understanding linear associations (e.g., Gromark & Melin, 2011). Yet, evidence suggests inconsistent empirical findings: There are studies that have reported positive effect, negative effect, and no relationship between brand orientation and performance, suggesting that

brand managers do not currently have solid evidence with respect to whether it is useful to be brand oriented (see Table 1).

Despite these inconsistencies in empirical findings, the extant literature portrays the benefits of brand orientation to be uniform along a spectrum of brand orientation levels, such that brand orientation is being depicted in the literature as beneficial for business success at all times and under all conditions. An exception is Hirvonen et al.'s (2013) study of Finnish small- and medium-sized enterprises that found that while external environment variables moderate the relationship, there is no evidence that the relationship is moderated by internal firm-specific variables (e.g., branding know-how). Thus, while some studies have attempted to explain the association of brand orientation and performance, the importance of boundary conditions of the brand orientation–firm performance relationship remains under-recognized and under-studied.

Additionally, given the importance of branding for the success of MNE subsidiaries, and in view of the fast-growing and wealthy middle class consumer segments, scholars now accept the notion that emerging markets have become an attractive target for global brands to improve their sales performance (Schmitt, 2012). Evidence suggests that foreign subsidiaries of MNEs represent important proprietary assets as they leverage their technological, manufacturing, and marketing-related know-how across multiple geographical locations (Rugman & Verbeke, 2001). Given that foreign subsidiaries provide capabilities required to efficiently coordinate and control an MNE's asset base (Rugman, 1981), it becomes important to understand how a subsidiary's brand orientation influences its performance and the boundary conditions of such a relationship. To date, only a few studies have looked at the performance impact of brand orientation within the context of MNE subsidiaries in emerging markets (e.g., Wang et al., 2012). In this study, we fill this knowledge gap by proposing a conceptual model (Figure 1) and by empirically investigating the extent to which brand orientation impacts sales performance under differing levels of transformational leadership and inter-functional collaboration.

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Figure 1 here

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## **HYPOTHESIS DEVELOPMENT**

### **Brand Orientation and Sales Performance**

A firm's overall performance can be measured by the achievement of market performance goals and financial performance goals (Merrilees, Rundle-Thiele, & Lye, 2011; Morgan, Katsikeas, & Vorhies, 2012). Market performance goals are based on the outcomes of branding and marketing-related activities: e.g., customer satisfaction, customer loyalty, and market share improvement. Financial performance goals are based on the efficiency results of the actions of all functional units: sales, finance, human resources, and the like. With turnover and profit being classic measures, Baumgarth (2010) argues that brand orientation is most likely to have a positive association with market performance. Similarly, Gromark and Melin (2011) suggest that favorable brand orientation can lead to superior performance, conceptualized as the attainment of superior brand equity.

Napoli (2006) concluded that because of the apparent positive association between brand orientation and market related performance, firms that direct their managerial practices towards the development, acquisition, and leveraging of branded products and services are likely to experience superior performance outcomes. Napoli's argument is based on the notion that brand orientation is a resource that provides firms with the capability to differentiate their market offerings from those of their competitors. Drawing on the resource-based view of the firm (Barney, 1991), we extend Napoli's logic and other recent literature on branding (e.g., Merrilees et al., 2011; Urde, 2013) by conceptualizing brand orientation as an organizational resource that provides a firm the capability to give meaning to its products and services. For MNE subsidiaries in particular, a strong brand orientation may help give coordinated guidance and support to the processes of launching new products and services abroad. Strong brands allow ownership of products and services that benefit subsidiary firms by adding credibility and



legitimacy, enhancing visibility, and supporting communication efforts. Brand equity is strengthened as subsidiaries' products/services succeed. Successful products/services help to reinforce and broaden brand meaning, revitalize brands, act as an effective safeguard against private labels, and improve brand value. It follows that brand-oriented MNE subsidiaries are better able to improve their performance than their less brand-oriented counterparts (Ewing & Napoli, 2005; Van Wijk, Jansen, & Lyles, 2008).

Brand orientation can be a particularly useful strategy for boosting performance in uncertain (unpredictable and dynamic) environments (Miller, 1988; Hirvonen et al., 2013). For example, in dynamic market environments in which demand constantly changes, and where opportunities are more plentiful, firms are more likely to earn higher sales when they have an orientation for building and sustaining strong brands that draw the attention of brand-conscious consumers (Wang et al., 2012), most notably boosting sales among wealthy and middle-income consumers (Wang et al., 2004). Strong brands are more resistant to competitor actions and piracy, and therefore contribute more to a firm's bottom line (Napoli, 2006). Committing to a strong brand orientation becomes a strategic platform for enhancing a firm's capability to compete overseas (Wong & Merrilees, 2005). Thus, companies with a strong brand orientation are expected to be more successful relative to less brand-oriented firms. Accordingly, we offer hypothesis H1:

**H1:** High levels of brand orientation are positively related to high levels of sales performance

### **Brand Orientation, Transformational Leadership, and Sales Performance**

The extent to which brand orientation enhances the sales performance of an MNE subsidiary may depend on the degree to which the subsidiary's top management team demonstrates transformational leadership. While a strong brand orientation may help a firm give meaning to existing and new products and services in target markets, a top management team that demonstrates strong transformational leadership may help further enhance performance outcomes. We base this proposition on the organizational citizenship literature that has credited transformational leaders with an ability to persuade

organizational members (or employees) to sacrifice their personal interests for the sake of a collective organizational goal (Flynn & Staw, 2004). Beugre, Acar, and Braun (2006) suggest that transformational leadership effectiveness is predicated on a leader's ability to unite followers, change followers' goals and beliefs, motivate followers to share the leader's compelling vision, and perform beyond expectations (Jung & Sosik, 2006; Limsila & Ogunlana, 2008; Ogbonna & Harris, 2000; Vallejo, 2009).

Transformational leadership behaviors may increase the possibility of brand orientation driving sales because such a leadership style motivates organizational members to take on a brand-oriented approach to decision-making activities (Napoli, 2006). Transformational leadership styles serve to rally organizational members around a shared brand vision to gain commitment and support for branding activities. Employees are more likely to idealize their transformational leaders as such leaders represent what employees may aspire to become. This leader–follower bond may generate a strong fondness and commitment that goes beyond transactional compliance (Javidan & Waldman, 2003), thus organizational members may be more willing to change their attitudes, values, and behaviors to be consistent with the leader's expectations. Employees likely will be more receptive to the idea of brand orientation if they are convinced that their transformational leader is supportive of their branding activities (Conger, Kanungo, & Menon, 2000). The kind of commitment, dedication, and advocacy required to ensure that an MNE subsidiary's branding activities are successful is facilitated when transformational leader style is increasingly demonstrated by the top management team.

Conger et al. (2000) found that when high group task efficacy is required to ensure positive performance results, the presence of a transformational leadership can be particularly helpful in motivating organizational members to act in a desired manner. Task efficacy allows leaders to set higher performance targets for personnel and increase acceptance rates. Given that transformational leaders are more capable of motivating organizational members to persevere in their tasks despite difficult organizational and environmental obstacles (Conger et al.), firms with such leaders should be expected

to outperform competitors; their capacity to hold the firm together in challenging environments shows that firms with well-known transformational leaders at the top management team tend to ensure higher stockholder confidence (e.g., Flynn & Staw, 2004). For example, Flynn and Staw (2004) found that investors are more willing to pay higher stock prices to firms that have a reputable transformational leader in charge. In this regard, the hypothesis can be proposed that a firm's brand orientation activities are more likely to be successful if they are championed by a transformational leader in the top management team.

**H2:** The effect of brand orientation on sales performance is greater as levels of transformational leadership style behaviors increase.

### **Brand Orientation, Inter-functional Collaboration and Sales Performance**

Firms can apply task efficacy requirements to help employees feel proud of belonging to a high performing group, leading to increased staff satisfaction and motivation (Conger et al., 2000), making them effective brand ambassadors who can help ensure brand success. Successful brand management requires an alignment of brand vision with stakeholders' supportive behaviors. As internal stakeholders, employees' identification with the brand for the sake of the firm as not merely their subunits can increase employees' proclivity to contribute to brand vision (Walumbwa, Wang, Lawler, & Shi, 2004). Where is a high level of collaboration across functional units within MNC subsidiaries there are likely to be a fruitful, even emotional, feelings towards the value that a firm's brand represent. Employees' sense of engagement, enthusiasm, and acceptance will increase when there is a firm-wide gravitation towards cohesive decision making. Greater group consciousness is likely to be high when everyone believes that inter-functional collaboration is a firm-wide accepted practice, which helps facilitate the benefits that firms derive from their brand orientation (Vallejo, 2009).

Inter-functional collaboration may affect performance given the integration of resources and capabilities that it brings to bear (Ellinger, Keller, & Ellinger, 2000). Sharing ideas, resources and

activities; creating a mutual understanding of interdepartmental responsibilities; informally working together; and jointly accomplishing corporate goals are inter-functional behaviors that can positively affect performance. Interdepartmental integration permits knowledge transfers across functional units enabling functional heads to leverage their strengths, which support smooth running of the firm and efficient implementation of a brand oriented philosophy (Van Wijk et al., 2008; Massey & Dawes, 2007). In order for brand orientation to be engrained in the heart of all organizational members inter-functional collaboration is critical; such interactions facilitate the responsiveness that is necessary for a brand orientation to be effective (Van Wijk et al., 2008; Stank, Daugherty, & Ellinger, 1999).

Increased levels of problem solving capabilities resulting from inter-functional collaboration is especially useful in brand oriented firms as all employees are concerned about achieving the firm's brand success. Brand orientation requires cultivation of the brand, not as a duty of a few staff but the entire organization. It requires an integrated effort across the entire firm with a deep understanding of what the brand is and its meaning to all staff (Wong & Merrilees, 2005). Greater inter-functional collaboration allows groups to converse, learn, and work productively across functional barriers (Stank et al., 1999), which can help improve the group performance critical to the success of a firm's brand orientation efforts. Because individual members forfeit self-interest to gain other members' cooperation for the achievement of a collective goal, and in view of the fact that members work with shared and collective goal interdependence, this inter-group solidarity maximizes achievement of shared brand success goals. Goal-oriented mutual interdependence encourages a friendly working environment that in turn nurtures and consolidates attachment to the brand, thus ensuring greater brand success (Cheng, Blankson, Wu, & Chen, 2005). Accordingly, we hypothesize that:

**H3:** The effect of brand orientation on sales performance is greater as levels of inter-functional collaboration increase.

## **RESEARCH METHOD**

## **Research Setting and Data Collection**

The conceptual model developed in this study is a universal theory that can be applied in any market economy. However, to empirically test our model we focused on MNE subsidiaries in the Commonwealth Caribbean region for several reasons. First, this region has been a market for Western multinationals for several decades, such that the region has virtually all Western MNE subsidiaries operating there. Second, while the Commonwealth Caribbean economy is a small open market economy, the region has one of the highest per-capita incomes in the world (Central Bank of Barbados, 2010; Central Intelligence Agency, 2012). Barbados and Bahamas, for example, are widely known as being the Caribbean region's wealthiest economies with offshore finance and tourism being key sources of economic growth. In particular, Barbados has consistently been ranked 37<sup>th</sup> of the freest economies in the world and 4<sup>th</sup> in the South and Central American/ Caribbean region. These strong foundations of economic freedom, a high degree of transparency, and an efficient judiciary have positioned the region for attracting MNEs (The Heritage Foundation, 2012). Thus, in view of the potential competition among MNE subsidiaries in the region, it would be insightful to learn how the MNE subsidiaries' brand orientations influence their sales performance.

Adhering to acceptable practice (e.g., Bird & Beechler, 1995; Qu, 2007), we tested our conceptual model on a sample of MNE subsidiary firms operating across the Commonwealth Caribbean region (i.e., Antigua and Barbuda, Bahamas, Barbados, Dominica, Grenada, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago). The sampling frame was developed from the respective countries' Chambers of Commerce and Industry. These Chambers are the top private sector organizations in the Commonwealth Caribbean region and are responsible for supporting and encouraging the interests of the business community in the region (Commonwealth of Nations, 2012). The firms selected for this study met three requirements: (1) they had been operating in the region for a minimum of five years, (2) they employed a minimum of 100 full-time staff, and (3) they had sales in

excess of USD\$1 million. Given these parameters, a sampling frame of 550 MNC subsidiaries was developed.

Literature indicates that senior managers are the most knowledgeable individuals within companies and have the capability to provide accurate information on companies' strategic decision-making (MacKenzie & Podsakoff, 2012). Accordingly, senior managers (e.g., the country director/coordinator, managing director, marketing director, vice president, chief executive officer, or president) of the 550 subsidiaries were asked to respond to a questionnaire containing the variables of interest to this study. We used electronic surveys (i.e., online and email) to administer a structured questionnaire to the managers. After three rounds of reminders, 108 valid responses were received, representing a response rate of 20%.

Sample distribution by country was as follows: Antigua and Barbuda = 5, Bahamas = 9, Barbados = 45, Dominica = 2, Grenada = 3, Jamaica = 14, Saint Kitts and Nevis = 12, Saint Lucia = 2, Saint Vincent and the Grenadines = 6, and Trinidad and Tobago = 10. Barbados tends to have a greater proportion of MNE subsidiaries, which is indicative of that country's economic dominance in the region. MNE subsidiaries in the sample were medium- to large-sized firms employing an average of 773 full-time staff with the largest firm employing 2,500 employees. The subsidiaries had been in operation for a total of approximately 111 years with the youngest subsidiary being 14 years old. The average sales turnover was approximately US\$3.4 million, the largest posting annual sales of US\$36 million. The firms spent an average of US\$1.9 million on research and development activities (with a minimum of US\$5,000 and maximum of US\$15 million). While 89% of the firms operated in the services industry (predominantly financial, tourism, energy, and healthcare sectors), 9% operated in the manufacturing sector (e.g., computer equipment), and 2% concentrated their operations in the mineral extraction sector.

In a follow-up study twelve months after the original study, and following the same sampling procedure, the finance managers or chief accountants in the 108 subsidiary firms that participated in the

first study were asked for information about their financial performance data. The follow-up study yielded a reasonably high response rate of 60% (i.e., 65 valid responses). We assessed non-response bias to determine whether there was any difference between early and late responses to our surveys (Armstrong & Overton, 1977). To identify late and early responses, date and time stickers were placed on each questionnaire upon receipt from respondents. Subsequently, a t-test of difference was performed on the early and late responses regarding managers' perceptions of brand orientation. Findings revealed that there were no significant differences between early and late responding firms at the .05 level of significance with t-values ranging between .629 and .892. This shows that non-response bias is unlikely to influence the results of the study.

### **Measure Development**

Measures of our key constructs were developed based on the existing literature and interviews with five subsidiary managers. First, we scanned the existing literature to locate appropriate scales to measure the study's constructs. Following interviews with the subsidiary managers and upon the managers' recommendations, the items constituting the scales were modified to enhance the managers' understanding of the questions. Modification was done by rewording and restructuring the questions and statements on the questionnaire. The full list of multi-item scales used to measure the constructs are provided in Table 1.

The brand orientation scale was developed from multiple existing instruments (e.g., Baumgarth, 2010; Gromark & Melin, 2011; Napoli, 2006). The instruments captured managers' perceptions of the brand orientation activities undertaken by their subsidiary firms. Each item was tested on a five-point Likert scale ranging from 1 (strongly agree) to 5 (strongly disagree).

Measures of transformational leadership were developed based on the scale developed by Vallejo (2009) and Javidan and Waldman (2003). This scale captured managers' perceptions of the

transformational leadership exhibited in the subsidiaries' top management teams. The seven items were measured on a five-point Likert scale ranging from 1 (very low) to 5 (very high).

Measures of inter-functional collaboration were developed from Menon et al.'s (1997) interdepartmental connectedness scale to capture managers' perceptions of the level of collaboration that existed across functional units within the subsidiary firms. The items were measured on a five-point Likert scale ranging from 1 (strongly agree) to 5 (strongly disagree).

The performance measure used focused on the sales performance of the MNE subsidiaries: sales growth, market share, and sales volume, all measured on a five-point scale (1 = below average; 5 = above average), relative to the industry (Menguc & Auh, 2008). Non-finance senior managers (e.g., country directors) provided this information in the first survey study. In our second survey study, we validated this sales performance data from the non-finance senior managers by asking the finance managers of the 108 firms to provide information on the firms' sales performance. This follow-up data from the finance managers was correlated with the data from the non-finance managers, and a strong correlation was obtained ( $r = .85$ ;  $p < .001$ ), indicating that the sales performance data from the two sources was similar. Consequently, in further analyses we relied on the original sales performance data provided by the non-finance senior managers of the 108 firms.

In addition to the key study constructs, we included several control variables to minimize potential confounds. In particular, in drawing lessons from previous studies (e.g., Rugman & Verbeke, 2001) we also controlled for MNE subsidiaries' sizes, annual R&D expenses, experience, and industry type as well as the managers' perceptions of environmental turbulence in the Commonwealth Caribbean region. Firm size was measured by the natural logarithm of the total number of full-time staff, whereas industry type was dummy coded in (services = 0; and manufacturing = 1).



## Reliability and Validity Assessment of Measures

To assess the validity and reliability of the study's measures, all scales were examined using exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). The initial factor analysis identified which items loaded on a variable to explain 79% variance, and this was followed by additional purification of the scale items in CFA. From the CFA, five factor solutions emerged reflecting the five multi-items scales analyzed. Table 2 provides detailed information about the study's key constructs and their respective item loadings and reliability scores. Convergent validity of scales was established as all items loaded significantly on their theorized constructs without any indication of cross loading and correlated errors. All scales have coefficient alphas greater than .70 and construct reliability above .60, indicating acceptable levels of reliability and convergent validity (Grewal, Cote, & Baumgartner 2004; Ping, 2004).

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Table 2 here

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Discriminant Validity was assessed to ensure that each construct was unique and portrayed a distinct phenomenon (Fornell & Larcker, 1981). Discriminant validity was demonstrated as none of the 95% confidence intervals of the elements of the latent factor correlation matrix had a value of 1.00. Inter-construct correlation was computed and revealed correlation among constructs was not significantly above .70 (Grewal et al., 2004; Ping, 2004). The largest inter-construct correlation was the correlation between brand orientation and leadership ( $r = .52$ ), which is within the recommended threshold. Furthermore, in comparing the average variance extracted (AVE) of each construct to the highest shared variance (squared correlation) between pair of constructs, it can be seen that the AVE values are all greater than the shared variances (see Table 3), demonstrating discriminant validity of our constructs.

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Table 3 here

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## **STRUCTURAL MODEL SPECIFICATION AND FINDINGS**

To test our hypotheses, averages were taken across the multi-items constructs to generate composite scores for brand orientation (BO), transformational leadership (LEA), inter-functional collaboration (COL), sales performance, and environment turbulence. The composite scores were subsequently used to test the structural relationships in a moderated hierarchical regression analysis using ordinary least square estimation method. While there are several statistical approaches for calculating interaction terms (e.g. Marsh et al., 2007; Ping, 1995), Marsh et al. recommend that the focus should be on ensuring greater “parsimony...and robustness in relation to violation of assumptions (e.g., normality)” (p. 578). Accordingly, we followed the traditional product-term approach (Ping, 1995) to compute two interaction (or moderator) terms. To capture the interaction terms, we multiplied brand orientation by transformational leadership (BO x LEA) and brand orientation by inter-functional collaboration (BO x COL). The three variables used to calculate the interaction terms were mean-centered to reduce multicollinearity problems (Aiken & West, 1991; Cohen & Cohen, 1983). This mean-centering approach helped ensure that our variance inflation factors (VIFs) were substantially below the recommended cutoff range of 5.00.

Subsequently, three nested regression models were estimated. In Model 1, we regressed the control variables on sales performance: MNE subsidiary size, total annual R&D expenses, environmental turbulence, firm experience, and industry type. In Model 2, we estimated the control variables together with the direct effects of brand orientation, transformational leadership and inter-functional collaboration. We then estimated Model 3 by adding the two interaction effect variables (i.e. BO x LEA, and BO x COL) to Model 2. We then estimated Model 4 in which we tested for a potential three way interaction between brand orientation, transformational leadership and inter-functional collaboration (i.e. BO x LEA x COL).

Findings show that brand orientation, leadership and collaboration explained 55% of the variation in sales performance. However, when the interaction terms were added to the model, we explained an additional 2% variation in sales performance ( $\Delta R^2 = 0.024$ ,  $p < .05$ ). Thus, we show that the interaction between brand orientation and transformational leadership, and brand orientation and inter-functional collaboration have significantly impacted on MNE subsidiaries' sales performance. Summary of results are reported in Table 4. Results of the study's analysis indicate that transformational leadership ( $\beta = .363$ ;  $t = 3.366$ ;  $p < .01$ ) and inter-functional collaboration ( $\beta = .243$ ;  $t = 3.923$ ;  $p < .01$ ) are both directly related to sales performance. A bivariate correlation analysis also indicated a positive relationship between inter-functional collaboration and brand orientation ( $r = .510$ ;  $p < .01$ ) and between transformational leadership and brand orientation ( $r = .211$ ;  $p < .01$ ). However, these correlations are not too high to raise any discriminant validity concern.

Regarding the specific hypotheses tested, the study argues in H<sub>1</sub> that the relationship between brand orientation and sales performance is positive. We failed to find support for H<sub>1</sub> because the direct effect of brand orientation on sales performance is non-significant ( $\beta = .032$ ;  $t = .252$ ;  $p > .05$ ). Thus, brand orientation is not directly associated with sales performance. The study argues in H<sub>2</sub> that the effect of brand orientation on MNE subsidiary sales performance is more positive when levels of transformational leadership are greater. Results suggest that transformational leadership does not significantly moderate the relationship between brand orientation and MNE subsidiary sales performance, although the direction of the effect has become negative ( $\beta = -.024$ ;  $t = -.325$ ;  $p > .05$ ), thus rejecting H<sub>2</sub>. Evidence as provided by the data indicates that the regression coefficient for the interaction between brand orientation and inter-functional collaboration is positive and significant at the 5% level ( $\beta = .183$ ;  $t = 2.740$ ;  $p < .01$ ). This means that at high levels of inter-functional collaboration, the non-significant positive association between brand orientation and sales performance becomes significant and more

positive. However, at low levels of inter-functional collaboration the relationship is less significant and less positive (see Figure 2), providing support for H<sub>3</sub>.

To further probe the non-significant interaction term involving transformational leadership, we estimated a three-way interaction between brand orientation, transformational leadership and inter-functional collaboration in Model 4. The Model 4 explained an additional 1% variation in sales performance, suggesting that a significant impact of the three-way interaction term. We find that the regression coefficient for the three-way interaction between brand orientation, transformational leadership and inter-functional collaboration is positively associated with sales performance ( $\beta = .126$ ;  $t = 2.446$ ;  $p < .01$ ), which is rather interesting. This suggests that the relationship between brand orientation and sales performance moves from being non-significant to become significant and positive when levels of transformational leadership and inter-functional collaboration are both high (figure 3). We discuss the theoretical and managerial implications of these findings in the sections that follow next.

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Table 4 here

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Figure 2, Figure 3 here

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## **DISCUSSION AND IMPLICATIONS**

The purpose of this study was to examine the extent to which brand orientation influences sales performance under differing levels of transformational leadership and inter-functional collaboration. The study's conceptual model was tested on a primary data obtained from a sample of 108 MNE subsidiaries operating in the Commonwealth Caribbean region. Findings reveal that brand orientation is not directly associated with sales performance in MNE subsidiaries operating in the Commonwealth Caribbean region. However, results show that under high levels of both transformational leadership and inter-functional collaboration, brand orientation is positively related to sales performance.

## **Theoretical Implications**

Unlike past research that has argued that brand orientation is positively associated with firm performance (e.g., Baumgarth, 2010; Ewing & Napoli, 2005; Gromark & Melin, 2011; Napoli, 2006), findings from this study suggest that brand orientation on its own is not directly associated with sales performance. One way to explain this surprising result is that brand orientation, like any other strategic orientation, constitutes costs to firms as it can be expensive to build brands. The logic backing this assertion is that expenses on marketing communication efforts (e.g., advertising, brand sponsorship, and sales promotion) aiming to make a brand visible and entrenched in the minds of consumers can be very high. Additionally, when firms are outwardly brand oriented and push the value of a brand to appeal to external customers, if a similar effort is not exerted to promote a brand and its vision to internal customers (i.e., employees), any sales benefits generated by the brand orientation efforts is cancelled out by employees lack of commitment to the brand's value (Baxter, Kerr, & Clarke, 2013). The values that a brand represents are best communicated by internal customers (i.e., employees) who are often in direct contact with external customers. Additionally, as a strategic resource (Urde et al., 2013; Wallace, Buil, & de Chernatony, 2013), brand orientation offers a potential value, and its actual value creation may depend on a variety of firm-specific complementary resources and capabilities (Lepak, Smith, & Taylor, 2007; Day, 1994). As findings from this study suggest, brand orientation's effect on sales performance is accentuated when firms align it to their leadership and structure-related activities. These important findings enable this study to extend the brand orientation literature in two ways.

First, this study provides empirical support for the notion that brand orientation impacts MNE subsidiary sales performance when levels of inter-functional collaboration are high. This finding extends Baumgarth's (2010) view that the brand orientation relationship to economic performance depends upon organizational structural contingencies. Baumgarth proposes a corporate culture model predicated on the idea that corporate leaders can help instill a "living the brand" culture across all functional units within

an organization. In extending Baumgarth's framework, this study shows that greater inter-functional collaboration enhances the effect of brand orientation on sales performance. We argue that brand orientation is a long-term strategic posture and as such its sales value is facilitated when employees share the brands' long-term vision, rallying around a common brand-related identity and purpose (Rao et al., 2004) and live the brand (Baumgarth, 2010). Importantly, given that the sales benefit of brand orientation is predicated on customers' identification with the brand, firms need less departmentalization of customer face-to-face activities and greater structural fluidity to perpetuate a common firm-wide identity around the brand. Thus, morale boosting, a sense of togetherness, and coordination of knowledge and intelligence benefits cross functional collaboration and helps facilitate the sales generating values of branding activities.

Second, this study finds that transformational leadership alone does not significantly moderate the effect of brand orientation on sales performance. While one may explain this non-significant relationship to mean that transformational leaders only appeal to employees' emotional instincts as a rallying force, and lacking a tendency to use punishment and rewards to encourage employees to rally around a common goal, an alternative leadership style (such as autocratic leadership) therefore may be more effective in enforcing brand-oriented goals to generate sales. Although this alternative line of reasoning is interesting, especially when positioned within the context of the Caribbean society where business culture tends to exhibit characteristics of the former colonial management style that was predicated on a top-down authoritative approach to the leader-follower relationship, an additional analysis of our data reveals that the brand orientation-sales performance relationship is strengthened when levels of both transformational leadership and inter-functional collaboration are high (see Figure 3). It is important to note that this high-order three-way interaction effect model is superior to the lower-order two-way interaction effect models such that any finding associated with the higher-order three-way interaction negates the lower-order findings (Aiken and West, 1991; Ping, 2004). With this in mind, we

contend therefore that the brand orientation–sales performance relationship is more complex than previously thought.

Based on our finding from the three-way interaction effect model, we suggest that the sales success outcome of brand orientation is a function of high levels of transformational leadership and inter-functional collaboration as these two organizational forces are required to translate a firm’s branding philosophy into sales. The complementary roles of transformational leadership style and inter-functional collaboration in facilitating the effectiveness of brand orientation extend Baumgarth’s (2010) corporate culture model that advocates for a corporate culture that promotes the idea of all employees “living the brand” in driving brand effectiveness. Thus, in order to enhance sales benefits, MNE subsidiaries in the Caribbean region must look for an alignment involving high levels of brand orientation, transformational leadership styles, and inter-functional collaboration activities.

### **Lessons for MNE Subsidiary Brand Managers**

This study’s implications for MNE subsidiary managers need explicating. First, the finding that inter-functional collaboration implies that managers can be certain that when employees throughout the organization and across different functional units are focused on a common brand agenda, that subsidiary can expect to extract greater sales benefits from its branding activities. Second, and a more interesting finding from this study, is that under conditions of high levels of brand orientation, transformational leadership, and inter-functional collaboration there is a corresponding increase in sales performance for MNE subsidiary firms.

A key message for subsidiary brand managers is that there is a need to foster a stronger brand oriented philosophy in their firms, but for this philosophy to help boost sales it has to be accompanied by a high degree of collaboration between functional units and pushed by a strong transformational leader.

## LIMITATIONS AND FUTURE RESEARCH DIRECTION

It is important to highlight that although the findings of this study extend knowledge on the relationship between brand orientation and sales performance, some limitations that affect the study must be taken into consideration. First, the sampling process in this study was limited to nations within the Commonwealth Caribbean region. Consequently, the ability to generalize our findings to other emerging markets is limited. To help improve the external validity of our finding, we suggest that our study be replicated in other contexts, particularly the BRIC countries (Brazil, Russia, India, and China) and the MINT (Mexico, Indonesia, Nigeria, and Turkey) countries whose economies are larger and who share similar cultural and economic characteristics with the Caribbean. Beyond the emerging market contexts, we propose replication of our study in developed markets such as the United States and Europe, and if possible a comparative study involving emerging and developed market samples.

We propose that research should be carried out to determine the effect of other styles of leadership (e.g., autocratic leadership and charismatic styles) and structural contingencies (e.g., organizational complexity) on the brand orientation–sales performance relationship. Additionally, it can be argued that brand orientation, like any strategic orientation, may have a curvilinear relationship with performance (Cadogan, 2012; Tang, Tang, Marino, Zhang, & Li., 2008). While we searched but did not find evidence of a curvilinear association in our data, we suggest that future research should explore these possibilities to broaden our perspective on the benefits and costs associated with brand orientation.

This study focused on explaining variations in subsidiary sales performance, but the relationships between parent MNEs and their subsidiaries remain a debatable subject. Future research may examine how parent MNE strategic brand orientation influences subsidiary brand orientation and sales performance. While such a study would require samples from MNE headquarters and subsidiaries in a dyadic research design, it would extend our understanding of brand orientation activities in MNEs.



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Figure 1: Conceptual Model

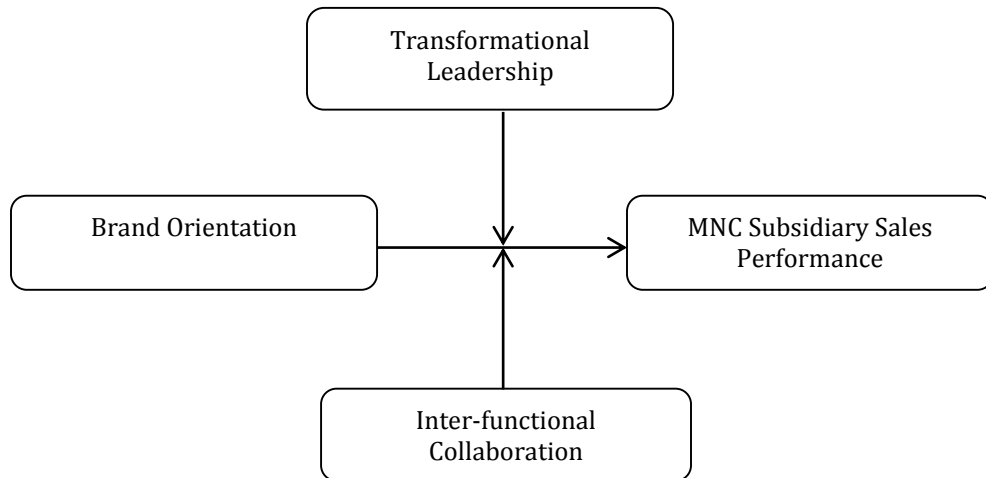


Figure 2: Surface plot of the moderating effect of inter-functional collaboration

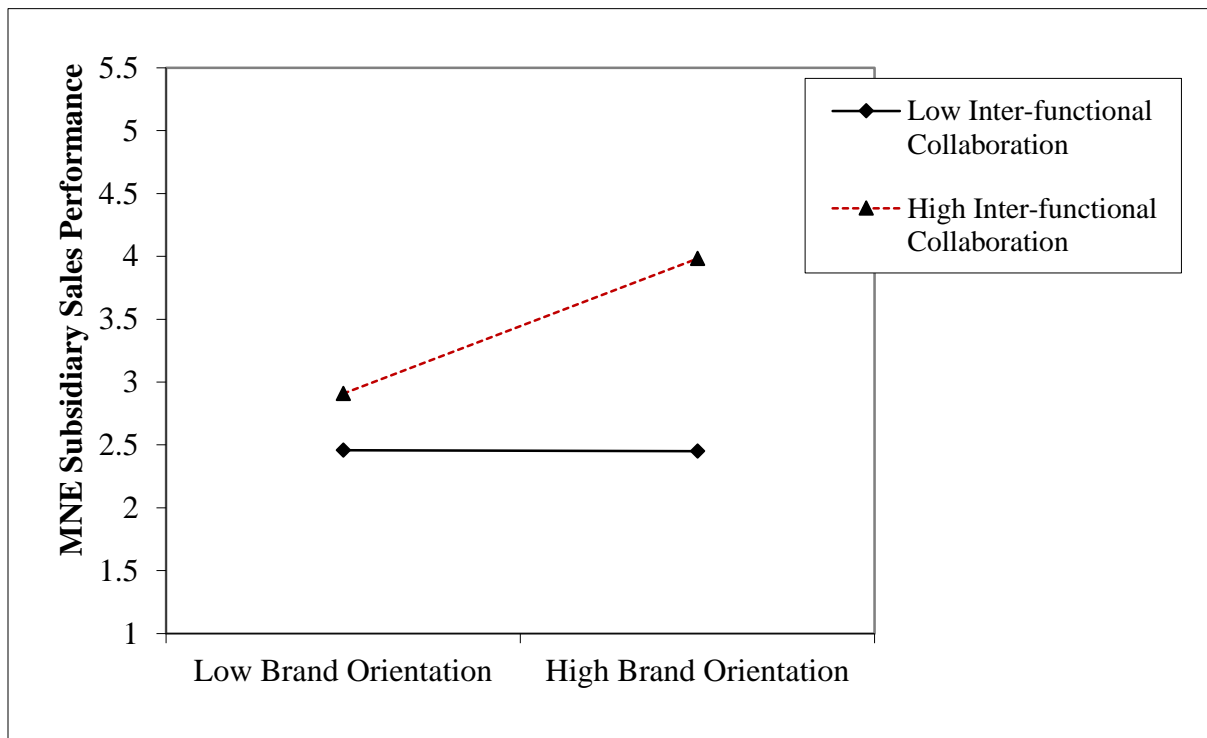


Figure 3: Surface plot of the three-way interaction effect of brand orientation, transformational leadership and inter-functional collaboration

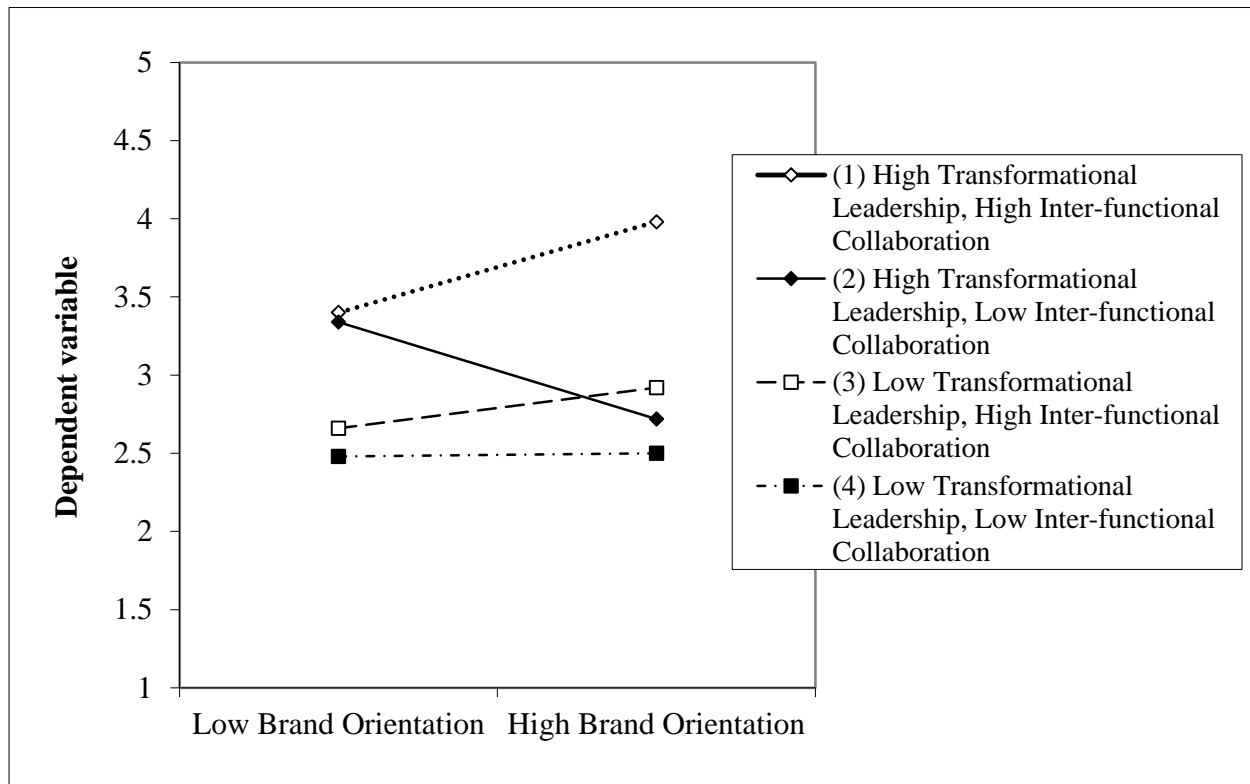


Table 1: Empirical contributions on brand orientation and performance

<b>Empirical studies</b>	<b>Focal brand orientation construct</b>	<b>Empirical setting</b>	<b>Performance variables studied</b>	<b>Key findings</b>
Ahmad & Iqbal(2013)	Brand orientation	Beverage industry in Pakistan	Brand performance	Brand orientation positively related to brand performance.
Baumgarth (2010)	Brand orientation	business-to-business sector in Germany	Market and economic performance	Brand orientation positively related to market and economic performance.
Baumgarth (2009)	Behavior of brand orientation	Museums in Germany	Market and cultural performance.	Behavior of brand orientation positively related to both market and cultural performance.
Craig et al. (2008)	Brand identity	SMEs in Western United States	Financial performance	Brand identity is not related to financial performance.
Hankinson (2012)	Brand orientation	Destination marketing organizations	Brand performance	Brand orientation positively related to brand performance.
Gromark and Melin (2011)	Brand orientation	Large companies in Sweden	Profitability	Brand orientation is positively related to Profitability.
Hirvonen et al. (2013)	Brand orientation	Finnish SMEs	Brand performance	Brand orientation positively related to brand performance.
Mulyanegara (2011)	Perceived brand orientation	Church attendees of a church denomination in Australia	Organizational performance (level of church participation)	Perceived brand orientation not directly related to organizational performance.
Napoli (2006)	Not for profit brand orientation	Not for profit organizations in Australia	Not for profit organizational performance	Not for profit brand orientation positively related to organizational performance.
Noble et al. (2002)	Brand focus	Retail sector in the United States	Return on assets and return on sales	National brand focus is positively related to performance but private label brand focus is negatively related to performance.
Rao et al. (2004)	Branding strategy	Fortune 2000 firms in the United States	Normalized Tobin's q	Corporate branding strategy positively related to performance but house branding and mixed branding negatively related to performance.



Table 2: Descriptive Statistics, details of measures, standardized factor loadings and reliability tests

<b>Item Description</b>	<b>Standardized factor Loadings</b>
<b>Brand Orientation</b> ( $\alpha = .95$ ; CR = .94)	
Branding is important to our strategy	.92
Branding flows through all our marketing activities	.94
The brand is an important asset for us	.90
We are very brand oriented as we feel inspired by our brands	.88
<b>Environment turbulence</b> ( $\alpha = .82$ ; CR = .83)	
In our business environment: : competitors are constantly trying out new competitive strategies	.77
In our business environment: customer needs and demands are changing rapidly	.85
In our business environment: firms are rapidly innovating	.89
<b>Transformational leadership</b> ( $\alpha = .94$ ; CR = .93)	
I believe that it is my job to transmit a clear and positive vision of the future of the company	.83
I believe that it is my job to promote trust, involvement and corporation among staff members	.93
I believe that it is my job to encourage staff to think of new methods of resolving problems	.93
I believe that it is my job to lead by example	.87
<b>Inter-functional collaboration</b> ( $\alpha = .91$ ; CR = .90)	
In this company, it is easy to talk with virtually anyone you need to regardless of rank or position	.85
In this company employees from different departments feel comfortable calling each other when the need arise	.93
People around here are quite accessible to those in other departments	.88
<b>Sales performance</b> ( $\alpha = .91$ ; CR = .92)	
Sales Growth	.86
Market Share	.80
Sales Volume	.92

CR = Composite Reliability;  $\alpha$  = Cronbach's Alpha

Table 3: Descriptive statistics, inter-construct correlation and discriminant Validity tests

	Mean	Standard Deviation	1	2	3	4	5
Sales performance	3.69	1.49	<b>.71</b>				
Brand orientation	2.10	1.24	.27**	<b>.72</b>			
Transformational leadership	1.96	1.38	.28**	.21**	<b>.77</b>		
Inter-functional cohesion	3.28	1.09	.43**	.51**	.28**	<b>.66</b>	
Environment turbulence	3.89	1.38	.46**	.52**	.33**	.17	<b>.72</b>

Note: Average variance extracted (AVE) are reported on the diagonal

Table 4: Results of hierarchical moderated regression analysis

		<b>Dependent Variable: MNE subsidiary sales performance</b>								
<b>Hypothesis</b>	<b>Variables</b>	<b>Model 1</b>		<b>Model 2</b>		<b>Model 3</b>		<b>Model 4</b>		
		$\beta$	t-values	$\beta$	t-values	$\beta$	t-values	$\beta$	t-values	
	<b>Control</b>									
	Firm size	-.407	-4.788	-.195	-3.188	-.235	-3.889	-.218	-3.666	
	Subsidiary experience (years)	.193	2.160	.128	2.042	.158	2.499	.164	2.656	
	Industry type	-.124	-.971	.043	.464	-.005	-.055	-.030	-.334	
	R&D expenses	.337	2.840	.278	3.420	.273	3.453	.277	3.596	
	Environment turbulence	.470	4.539	.141	1.816	.144	1.928	.130	1.791	
	Transformational leadership (LEA)			.592	6.157	.450	4.317	.363	3.366	
	Inter-functional collaboration (COL)			.296	4.762	.245	3.861	.243	3.923	
<b>H<sub>1</sub></b>	Brand orientation (BO)			-.143	-1.294	-.082	-.678	.032	.252	
<b>H<sub>2</sub></b>	BO x LEA					-.055	-.736	-.024	-.325	
<b>H<sub>3</sub></b>	BO x COL					.160	2.355	.183	2.740	
<b>Additional tests</b>	LEA x COL							.091	1.48	
	BO x LEA x COL							.126	2.446	
<b>Goodness of fit statistics</b>										
	F-statistics	17.576		38.576		34.508		33.527		
	R <sup>2</sup>	.463		.757		.781		.793		
	Adjusted R <sup>2</sup>	.436		.737		.758		.770		
	$\Delta R^2$	-		.294**		.024*		.012*		

\*\* p<.01; \* p<.05; † p<.10; Critical t-values for hypothesized paths = 1.645 (5%, one-tail tests)