

E-COMMERCE ON THE GLOBAL PLATFORM: STRATEGIC INSIGHTS ON THE LOCALIZATION-STANDARDIZATION PERSPECTIVE

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ABSTRACT

While extensive empirical and theoretical literature has been developed on organizational adaptation, especially in strategic management, the broad application of the environment-organization has not been applied adequately to the growing global e-commerce research realm. In this paper, we apply the concept of "adaptive strategies" [Kraatz 1998] to e-commerce practices in the global arena to address the localization-standardization paradigm, which continues to be a healthy debate. Bringing two areas of research together, the global e-commerce and institutional theory perspectives of organizational change and adaptation, adds a new dimension to the literature of global e-commerce, and conforms with institutional theorists that organizations are adaptive systems attempting to match the complexities of their environments [Meyer and Rowan 1977]. This paper offers strategic insights about the localization-standardization debate in international business and its strategic implications on global e-commerce strategies.

Key words: global, e-commerce, standardization, globalization, localization

1. Introduction

Since the mid-1990s, global e-commerce has been expanding rapidly; based on industry estimates several trillion dollars are being exchanged annually over the web. The global online population is also increasing substantially and by 2012, Jupiter Research [2008] estimates that there will be 1.8 billion internet users worldwide. The highest growth in internet usage is anticipated in countries like China, India, Russia and Brazil. According to Internet World Stats as of 2008, North America only accounts for 17.5 percent of global Internet users. Asia now has the largest number of internet users, accounting for almost 37 percent of the global online population, followed by Europe with 27 percent [Internet World Stats 2008]. By the end of 2010, U.S. retail e-commerce will be about \$182.5 billion [Grau 2008a]. On the other hand, European B2C e-commerce is expected to reach almost \$234 billion by 2010 [Grau 2006]. According to e-marketer estimates, by 2010 the British market share will fall to 44.5% as France and Germany ramp up their online sales. Asia will also see significant growth in B2C e-commerce with a 23.3 percent annual growth rate reaching almost \$168.7 billion in 2011 [Grau 2008b]. Japan and South Korea currently lead the B2C e-commerce sales in Asia but by 2011 they will be overtaken by China and India [Grau

2008b]. From these numbers, it is evident that e-commerce is now a truly global phenomenon that has initiated an enormous business revolution and that has affected the process of globalization tremendously [Cyr and Lew 2003]

One of the very crucial international business decisions surrounding the global e-commerce is whether to use a standardized approach to marketing and communications or a localized approach. On one hand, the debate on the appropriateness of standardization versus localization in international marketing continues to receive considerable attention among scholars and practitioners in the international marketing realm [Ohmae 1989]. Within the context of the World Wide Web, the debate takes another level of complexity. The Web constitutes a global communication medium, where technology makes mass customization or adaptation possible, while forces of global integration and the emergence of transnational web style [Sackmary and Scalia 1999] justify the use of a standardized web marketing and communication strategy.

The central purpose of this paper is to explain the changes that B2C e-commerce practices of multinational firms undergo when external variations in the environment exist. The main objective of this paper is to look at global e-commerce within the context of the localization-globalization debate and to offer strategic insights for best practices in this domain of marketing and international business as multinational firms tap into worldwide consumer markets. While organizational adaptation has been the focus of considerable amount of research in strategic management [Boisot and Child 1999; Koberg, Chesley, and Heppard 2000; Zajac and Shortell 1989], there is a lack in the application of the broad framework of environment-organization relationship to specific organizational practices such as global e-commerce. Specifically, this broad environment-organization relationship has not been adequately applied to examine whether and how B2C global-e-commerce changes and adapts to forces of localization and forces of global coordination. Therefore, we present conceptual thoughts that bring together the complexities of the multinational firm's external environment, the unique factors and variations within the environment, and the strategic responses of the multinational's B2C e-commerce strategies to these idiosyncrasies. Thus, the major contribution of this paper is the inclusion of the external environment and the exploration of its impact on strategic e-commerce decisions of multinational firm as they target customers in the global market.

This paper proceeds as follows. First, we offer a review of the standardization- localization debate within the realm of global e-commerce. Building on the general research linking institutional theory, organizational adaptation, as well as previous studies that examine factors (e.g., institutional distance, cultural distance,) affecting global e-commerce strategies of multinational firms, we present a framework that links global e-commerce strategies, environmental variations and the standardization-localization debate. Specifically, by examining global e-commerce strategies under the lens of institutional theory, we suggest strategic insights into the standardization-localization debate and how it applies to global e-commerce strategies. Finally, we conclude the manuscript with a discussion of the key findings, paying particular attention to managerial implications.

2. Standardization and Localization

Standardization is commonly defined in the literature as a strategy wherein marketers assume global homogeneous markets and in response offer standardized products and services using a standardized marketing mix¹ [Jain 1989; Mooij 1998]. Scholars in favor of the standardization approach argue that as technology develops and is globally dispersed, cultural distance is minimized, leading to convergence of national cultures into a homogenous global culture. Hence, there is little need to adopt a locally adaptive approach to the marketing mix [Levitt 1983]. The advantages that are associated with standardization have been addressed in the existing literature from various perspectives. Levitt [1983] argues that the forces of technology and globalization are creating homogenized consumer markets and marketers should use standardized marketing to attract these global consumers. Additionally, Standardization seems to be an economical strategy for marketers as it leads to leveraging the same template/product or service marketing mix configuration globally. This leads to economies of scale. By leveraging leverage their home country site for all countries; multinational firms can significantly reduce localization expenses.

Standardization can also lead to the development of a single and unified brand and corporate identity worldwide. This can lead to better global recognition and can provide global competitive advantage [Ohmae 1989]. Standardization can lead to having a rationalized product line which comprises only a few core global brands instead of multiple localized brands and brand extensions in numerous countries. This could potentially lead to better allocation of resources, higher efficiencies, homogenized marketing and higher profits. Hence, in the context of e-commerce, the cost and effort of maintaining a single global web site can be significantly less than maintaining several different multilingual sites due to lower resource allocation and marketing requirements.

¹ Marketing mix is a term used to define the four crucial aspects of marketing: Product, Price, Place or distribution, and Promotion.

When implementing a standardization strategy, companies assume homogenized consumer needs. Thus investments in international market research related to modifying the marketing mix are minimal. Firms following a standardized approach to marketing tend to have a centralized global marketing program—thus the need for coordinating, managing and controlling local subsidiaries for local marketing strategy is minimized.

However, emerging research studies are showing that standardization strategies do not really impact financial performance positively [O'Donnell and Jeong 2000; Samiee and Roth 1992]. Furthermore, the complex nature of the international marketing environment promotes diversity in terms of the physical environment, the political and legal systems, cultures, product usage conditions and economic development. Several researchers [Boddewyn, Soehl, and Picard 1986; Hill and Still 1984; Wind 1986] argue that, because of these fundamental differences across markets, it is neither desirable nor feasible, for firms in several industries to achieve standardization of their marketing activities. However, in certain industries like industrial products or very high end technology products, global standardization is more feasible than in industries like consumer non-durables [Boddewyn et al. 1986]. However, even when dealing with industries or product categories which require no localization, there is a chance that a certain element of the firm's marketing mix may need adaptation. For example, Intel ads promoting the microprocessor (which can be considered high tech product) experienced severe backlash in the US for showing several black men bowing in front of a caucasian man; this imagery in the Intel ad evoked feelings of the dark practice of slavery. Thus, it is preferable for firms to localize or adapt their marketing programs to the specific conditions prevalent in each market.

On the other hand, *Localization or Adaptation Strategy* takes into account the inhering diversity that exists in the international market arena and treats individuals as “cultural beings”, whose values and behaviors are shaped by the unique culture in which they live and grow [Hofstede 1991]. Localization strategy is geared toward understanding local consumer preferences and institutional requirements and then adapting the marketing mix to best satisfy consumer needs and wants.

A recent survey of multinationals by Petro, Muddyman, Prichard, Schweigerdt, and Singh [2007] found that 71 percent of companies see website localization a crucial driver for successful international expansion online. Additionally, the same study also reports that almost 70 percent of company executives see localization of websites crucial to acquiring international customers and 76 percent see localization important to achieving international customer satisfaction. Thus, to tap into global online markets, companies need to create localized international websites.

Proper localization can be a cost saving strategy for the multinational firm since the cost of offending a group of consumer by insensitive standardization of the marketing mix can be very expensive [Singh and Pereira 2005].

Additionally, the lack of local sensitivity can not only lead to financial losses but also be the cause of legal issues with host governments. For instance, when coloring in 800,000 pixels on a map of India, Microsoft colored eight of them a different shade of green to represent the disputed Kashmiri territory. The difference in greens meant Kashmir was shown as non-Indian, and the product was promptly banned in India. Microsoft was left to recall all 200,000 copies of the offending Windows 95 operating system software to try and heal the diplomatic wounds. "It cost millions," [McCarthy 2004]. A similar situation was faced by Google; following protests by the Taiwanese government and Taiwanese, Google removed the “Province of China” label from its map of Taiwan on the Google Maps site.

Hence, to better target their international audiences, many companies have proactively adapted/localized their products and marketing mix. This can be done through *product localization*, *price localization*, and *localizing translations*.

3. Global E-Commerce: Considering the Environmental and Institutional Change

Although institutional theory is usually regarded as a theory that explains similarity of organizational arrangements and institutional isomorphism in organizational fields [DiMaggio and Powell 1983], recent versions of the theory offer an excellent basis for change and the adaptive role that organizations play in an attempt to survive [Greenwood and Hinings 1996; Kraatz 1998; Oliver 1991]. It is important to note that institutional theory has many faces with similarities as well as disagreements [Scott 1987] and the literature on institutional change is a very rich one, which extends beyond what is presented in this paper. However, briefly reviewing the main arguments of what is known as neo-institutional theory sets the basic ground for the research question addressed in this paper.

The main argument that institutional theory purports is that organizations adopt institutionalized practices to their strategies or structures in an adaptive manner in order to match the changes in their environment [Scott and Meyer 1983]. Ultimately, isomorphic behavior prevails among organizations in the same environment due to coercive pressures, legitimacy pressures, or in an effort to remove uncertainty [DiMaggio and Powell 1991]. Hence, institutionalization becomes both a rational means of attaining desirable ends through specific organizational

structures [Meyer and Rowan 1991] as well as means for buffering the organizations from fluctuations in the surrounding environment [Emery and Trist 1965]. Additionally, Fligstein [1991] purports international operations of the firm reside in three contexts of what could be called institutional spheres. These three institutional frames are: the existing strategy and structure of the organization, the set of organizations in the organizational field, and the state [Fligstein 1991].

Hence, building on this body of theoretical background in institutional theory and organizational change enhances our argument about the effectiveness of localized solutions or globalized coordination to the e-commerce practices that multinationals apply in the global arena. Taking into account environmental variations that exist within the global platform such as cultural and administrative differences, we believe that multinational organizations will change the structure of their e-commerce practices and adopt practices that will match the institutional environments within which they operate .

4. Global E-Commerce and Organizational Adaptation

Van de Van, Poole, and Scott [1995: p 23] define organizational change as “a difference in form, quality or state over time in an organizational entity” where the entity can be an organizational subunit, strategy, structure, product or population of organizations. Organizational change can vary between radical and convergent and between revolutionary and evolutionary defined by the scale and pace of the change [Greenwood and Hinings 1996]. Although research on organizational change is an extensive research that goes beyond the scope of this paper, the majority of the literature can be summed under two categories: the antecedents and consequences of change.

When institutional environments change, organizations change and alter their strategies to take advantage of the opportunities and avoid the threats that arise within the institutional framework in an attempt to become more efficient [North 1990]. This economic view of organizational change is widely accepted among economists, where the antecedents of change are uncertainty, ambiguity and opportunistic behaviors of actors and the consequences of change are attempts to reduce transaction costs [Williamson 1975]. However, Institutional theory shows a great deal of skepticism towards the rational-actor models of behavior by pointing out behaviors that are hard to square with such models [DiMaggio and Powell 1983]. By rejecting the rational-actor models of organizational behavior and by treating institutions as independent variables, institutional theory purports an interest in "supra-individual units of analysis that cannot be reduced to aggregation or direct consequences of individual's attributes and motives." [DiMaggio and Powell 1991: 8]. Hence, the argument of institutional theorists favors conformity with the external environment and legitimacy as reasons behind organizational change. Organizations adapt in order to conform to the environmental changes. These organizational changes reflect the changes in the external organizational field within which the firm operates and organizational structures reflect their institutional environments; in addition to what is considered the demands of their work activities [Meyer and Rowan 1977].

Organizational responses to institutional processes vary according the context and nature of institutional process itself. These strategic responses vary from resistance to adoption or conformity [Oliver 1991]. Oliver's argument provides a classification of the strategic options that organizations can exercise as institutional processes change, where the key for classification is the nature of the institutional process itself. Other scholars such as Leblebici, Salancik, Copay, and King [1991] present a unique argument for institutional change and its influence on organizations within. An endogenous solution is needed for the spread of these changes within an isomorphic organizational field where existing organizations have little motivation to change. It is suggest that practical solutions are developed at the micro level and then institutionalized through conventions at the macro level [Leblebici et al. 1991].

While institutional change and organizational adaptation has been a very rich realm for scholars various fields of management, the core of analysis in such studies is primarily the traditional organization, with little reference to the virtual organization that constitutes a essential core of analysis for e-commerce research. Hence, we believe that building on institutional theory findings and applying it to virtual organizations and e-commerce strategies will enrich our understanding of how these strategies change to adapt to environmental variations. The major assumption that we are suggesting in this paper is that environmental variations such as cultural, legal, and administrative differences can impact both traditional and virtual organizations. While the extent of these effects may vary between traditional and virtual organizations, the overall business environments within which these firms exist pose many challenges opportunities by which all firms are affected. Therefore, in the next section, the strategic insights that we present in this paper build on this realm of research to suggest that global e-commerce strategies change in terms of localization and standardization efforts as the surrounding institutional environments vary.

5. Global E-Commerce: Strategic Insights Regarding the Localize-Standardize Debate

The ability of organizations to adapt their strategies and structures to match the periodical changes of their contexts is a valuable concern in organizational research [Kraatz 1998; Oliver 1991] and a very relevant realm to this paper as we suggest strategic insights about global B2C e-commerce regarding the localization-standardization debate. Additionally, we suggest that the extent of change in global e-commerce strategies depends on the nature of the environmental variation being considered.

Organizations exist within institutionalized contexts, which set the rules of the game as well as the boundaries within which organizations play. As exogenous shocks [Schumpeter 1942] or endogenous changes [Leblebic et al. 1991] occur in these organizational contexts, boundaries and rules are redefined, thus causing organizations to change their strategies accordingly [DiMaggio and Powell 1983; Meyer and Rowan 1977]. The concern with organizational adaptation continues with neo-institutional theory. It further elaborates the different characteristics of these institutional processes [DiMaggio and Powell 1983; Meyer and Rowan 1977], and their effects on organizational structure [Scott and Meyer 1987; Singh, Tucker, and House 1986], on organizational change [Greenwood and Hinings 1996; Kraatz 1998; Tolbert and Zucker 1983], and on strategic organizational responses and dynamics in institutionalized environments [Oliver 1991].

Hout, Porter, and Rudder [1982] suggest that global strategy is seen more from the perspective of the Standardization approach but they also emphasize that global strategy is not only a single approach, such as product standardization, but is instead a bag of many tricks. These include leveraging economies of scale to achieve global volume, leveraging first mover advantage, and managing interdependencies across global markets to achieve synergy across different activities.

On the other hand, Hamel and Prahalad [1985], lean more toward the localization end of the spectrum. They propose setting global strategy based on product varieties, so that investments in technologies, brand names and distribution channels can be shared. According to them economies of scope can be leveraged across product lines and markets, via well recognized global brand and strong worldwide distribution systems. They see proprietary technology and use of proprietary distribution channels as a way for companies to create strong global brands and gain competitive advantage.

Global.

Kogut [1985], another well know strategy thinker recommends that companies should exploit multiple sourcing, shift production to seek cheap labor and cost advantage, and look for arbitrage opportunities to take advantage of imperfections in financial and information markets. So Kogut [1985] in fact recommends that a company should localize its global strategy in response to the changing global economic needs and factors of production.

Bartlett and Ghoshal [1987] and Ghoshal and Nohria [1993] propose four different strategies that companies should use depending on the kind of industry environment they operate in and to what extent the industry environment demands standardization (global integration) or localization (local responsiveness). The four strategies are:

- *Global Strategy*: is more prevalent among companies in industries where forces of global integration are strong and demand for local responsiveness is weak. Thus companies have a strong centralized management operation with all decisions being made at head quarters and subsidiaries taking orders and following central direction. Since in such industries the need for local responsiveness is minimal the focus is on standardization of marketing mix and economies of scale. Industries such as mining, heavy equipment, construction etc fall in this category.
- *Multinational Strategy*: is more prevalent in industries wherein the forces of global integration are weak and demands for local responsiveness are strong. Companies under such industry sectors tend to have regional operations that are relatively autonomous and almost decentralized so as to increase sensitivity to differences among countries in which these organizations operate. Examples of such industries include beverages, food, household goods etc.
- *International Strategy*: is prevalent among industries where both the forces of global integration and local responsiveness are weak. In such industries, companies have regional operations that are relatively autonomous (and thus decentralized). Among such companies successful internationalization depends on transferring knowledge and expertise among its overseas subsidiaries so as to increase their sensitivity to differences among countries in which these organizations operate. Industries following this strategy include, textiles, paper, printing and publishing.
- *Transnational Strategy*: is prevalent among industries where both the forces of global integration and local responsiveness are strong. For companies in such dynamic and global industries it is difficult to succeed with a relatively uni-dimensional strategic capability that emphasizes only efficiency, responsiveness, or learning [Bartlett and Ghoshal 1987]. Rather, a successful strategy must achieve all three goals at simultaneously. Thus, such companies use a combination of standardization and localization to best leverage global opportunities. They

leverage global information and organizational capabilities and store it centrally for global deployment. Thus the role of centralization is not to control or give orders to subsidiaries but to streamline organizational processes to “think global and act local”. Examples of such industries include pharmaceuticals, automobiles, computers etc.

6. Conclusion

It is apparent that globalization has now percolated through every industry and the global business environment is shaped by global factors. At times companies can be short sighted in their investments relating to localizing their web content, as the apparent impact of web localization on profits is not always evident. But as technology is evolving there are means of tracking web site traffic, web usage behavior and other web metrics to measure the impact of localizing websites for international markets. According to Singh and Pereira [2005] web localization and cultural customization of websites is not only desired but should be an important part of companies global strategy, as global online consumers prefer local content that is adapted to their unique language and cultural preferences. In academia there are emerging web localization studies that are using Hofstede's [1980] cultural values and other cultural typologies, for explaining cultural differences in electronic commerce behaviors [Singh et al., 2008; Zhou, Dai, and Zhang, 2007], including cross-national web design (e.g., [Baack and Singh, 2007]; [Singh and Pereira, 2005]; [Singh et al., 2008]). Even in the popular press there seems to be a momentum toward documenting how companies are leveraging web localization when tapping global online markets. For example, trade magazines like ‘Multilingual Computing’ prominently showcase the importance of localization strategy when developing global web content. Thus, it becomes imperative to look at the e-commerce strategies that multinational organizations practice as adaptive strategies that match the variations in the environment. Restricted with local institutional constraints and driven by global coordination opportunities, these multinational organizations will face an industry environment which simultaneously demands local responsiveness and global integration to fully leverage global opportunities and gain a competitive edge.

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