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Understanding multi-level institutional convergence effects on international market segments and global marketing strategy

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ABSTRACT

Dynamic changes in the global marketplace have increased opportunities for marketing strategy standardization due to the convergence of cross-national market segments. An oversimplified understanding of the complexities of this convergence could lead to ineffective global marketing strategy execution. This study develops a multi-level institutional approach to address level-based convergence effects necessary to understanding market segment convergence and its influence on global marketing strategy. A model of influential level effects on global marketing strategy is developed having implications for global marketing academics and practitioners.

The development of global marketing strategy has been the subject of intense academic debate and research for decades (cf., Baalbaki & Malhotra, 1993, 1995; Katsikeas, Samiee, & Theodosiou, 2006; Ryans, Griffith, & Jain, 2008; Sanchez-Peinado, Pla-Barber, & Hébert, 2007; Sousa & Bradley, 2008). Central to this debate is the extent to which marketing strategy elements, e.g., elements of the marketing mix, can be transferred effectively across countries (e.g., Baalbaki & Malhotra, 1993, 1995; Jain, 1989; Katsikeas et al., 2006; Okazaki, Taylor, & Doh, 2007; Onkvisit & Shaw, 1987, 1999; Ozsomer & Prussia, 2000; Sanchez-Peinado et al., 2007; Seggie & Griffith, 2008; Shoham, Brencic, Virant, & Ruvio, 2008; Solberg, 2000; Taylor & Okazaki, 2006). Underlying this debate has been the weighting of the effectiveness gains of local market adaptation against the potential economic benefits obtainable through standardization in cross-national segments (Katsikeas et al., 2006; Ozsomer & Prussia, 2000; Ryans, Griffith, & White, 2003; Sousa & Bradley, 2008). This has become increasingly complex given the movement toward globalization at multiple levels and the increasing dynamism of markets and their effects on market segments (Ghemawat, 2003; Luo, 2007; Okazaki et al., 2007).

The issue of market segments and market segmentation has received increased attention in the literature due to globalization (Steenkamp & Ter Hofstede, 2002). A wide variety of segmentation bases and methods have been used by scholars investigating this important area (e.g., Askegaard & Madsen, 1998; Bolton & Myers, 2003; Day, Fox, & Huszagh, 1988; Steenkamp & Ter Hofstede, 2002). Wedel and Kamakura (1999) note that the goal of market segmentation is to identify those individuals who exhibit similar behaviors and therefore will react uniformly to marketing stimuli. While market segments have often been viewed as having clearly defined boarders within a nation-state, the movement toward integrated markets due to globalization has created the need for conceptualizing market segments in new ways (Ghemawat, 2003; Okazaki et al., 2007). For example, as Ghemawat (2003) notes, market integration creates opportunities for firm strategies to stretch across national boundaries in a semi-globalization approach. While the issue of global marketing strategy employment is well formulated, limited research has employed a strong theoretical foundation for its understanding (Lages, Jap, & Griffith, 2008; Morgan, Kaleka, & Katsikeas, 2004). The extant literature has done little to incorporate the theoretical complexity of the environment to provide academic or practitioner actionability, an action called for by Katsikeas et al. (2006).

The purpose of this study is to contribute to the literature by specifically addressing these limitations (i.e., lack of theoretical foundation and complexity of the environment) in the literature by employing institutional economics to examine the factors influencing the changes in cross-national market segments and adaptation appropriateness of a firm's global marketing strategy as the firm operates across countries. Institutional economics is used to understand the appropriateness of global marketing strategy elements. This will provide academics and practitioners with a better understanding of how to adapt and standardize their marketing strategy. Institutional economics is discussed first, explicating the dimensionality of institutions. Next, the multi-level nature of institutions in which firms operate, and the dynamic nature of these elements are addressed. This sets the foundation for market segment convergence. Next, we discuss the complexity of global marketing strategy, both as discussed in the literature (i.e., the complex nature of each marketing mix element) as well as

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executed within the marketplace. Implications for academics and practitioners are then discussed setting forth a foundation for actionability.

1. The complexity of institutions

1.1. Institutional economics

Institutional economics has become a central aspect of international research (Jackson & Deeg, 2008; Luk et al., 2008; Luo, 2005). Institutional economics is founded on the premise that the institutional environment is composed of a set of fundamental social, legal and political tenets that govern economic activity (Davis & North, 1970; North, 1990). These tenets influence the organizations operating within each country market. Empirical studies based on nation-state level factors (reflective of institutional environments) such as education, capital investment, technological innovation, national culture, etc., continue to demonstrate nation-state-based performance differences (e.g., Chelminski & Coulter, 2007; Franke, Hofstede, & Bond, 1991; Gomez-Meija & Palich, 1997; Homburg, Kuester, Beutin, & Menon, 2005; Luk et al., 2008; Shane, 1995; Song, Nason, & Di Benedetto, 2008). For example, Franke et al. (1991) demonstrate that differences in nation-state level economic performance may partially result from differences in national culture. In addition, research suggests that the more dissimilar the country profiles, i.e., institutional environments, the more difficult it is to understand the requirements of the collection of operations and responses appropriate to local demands (Goerzen & Beamish, 2003). To better understand these institutional elements, each is briefly discussed.

Social institutions are constructions derived from the culture of individuals within a set society. Culture is one of the most studied aspects of institutional effects on business, most notably through the work of Hofstede (Kirkman, Lowe, & Gibson, 2006). Culture is defined as the homogeneity of characteristics that separates one human group from another and provides a society's characteristic profile with respect to norms, values and institutions that affords understanding to how societies manage exchanges (Hofstede, 2001). While numerous frameworks of culture have been offered (e.g., Clark, 1990; Hofstede, 2001; Triandis, 1995; Trompenaars & Hampden-Turner, 1998), the work of Hofstede (2001) presents an ideal conceptualization for the study of social institutions as it directly relates to the attitudinal and behavioral approach upon which exchange transactions (e.g., commerce) are founded. Hofstede (2001) identifies five dimensions along which countries can be classified: individualism, power distance, uncertainty avoidance, masculinity and long-term orientation. While Hofstede's classification provides for national cultural understanding, more fine grained insights can be gained by examining specific country cultural elements. For example, the significance of key cultural institutions such as guanxi (connections, relations) and propriety (li) is often traced to the Confucian emphasis on social roles and clan ties (Gu, Hung, & Tse, 2008; Lee & Dawes, 2005; Peerenboom, 2001). Guanxi, in particular, can play a role in the key commercial area of contract implementation (Ahlstrom, Bruton, & Yeh, 2008; Peerenboom, 2001), trust in firm boundary spanners (Lee & Dawes, 2005), as well as on firm capability (Gu et al., 2008).

The legal element of institutional economics is concerned with codified rules and laws and their impact on organizations and individuals (North, 1990). This institutional environment encompasses property rights, contract law, company law and arbitration, and numerous commercial customs, and differs widely across nation-states (Scott, 1995; Zhang, Griffith, & Cavusgil, 2006). As firms operate within legal environments, their operations are constrained by the legal parameters the operating environment sets forth. For example, Edelman and Suchman (1997) denote three unique legal environments influencing organizational activities: the facilitative environment (i.e., law provides for an exogenously developed passive set of policies and practices that managers actively engage), the regulatory environment (i.e., an exogenously developed active set of constraints injected into the firm's operating environment) and the constitutive environment (i.e., where the legal system constructs and empowers organizational actors and their relationships). The implication of the institutional element is clearly delineated in the literature. Studies show that differences in the legal systems in two institutional environments can influence shareholder protection (La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1998) and the time and costs associated with opening a new business (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2000). Similarly, Capelleras, Mole, Greene, and Storey (2008) found that when examining registered new venture growth rates across markets, differences in regulatory environments influenced growth. Further, Zhang et al. (2006) indicate that differences in legal environments influence the timing of the dispute handling procedures in contract violations, therefore influencing the overall governance of exchange transactions.

The political institutional environment is also a fundamental aspect influencing business. The political environment refers to the structuring and operation of political institutions within a society. Political institutions exist along a continuum from democracy to totalitarianism. A democracy offers constitutional opportunities for changing governing officials, and a social mechanism which permits the largest possible part of the population to influence major decisions by choosing individuals for political office (Lipset, 1995). Common traits of a democracy include popular sovereignty, political equality, majority rule, civic participation, a free press and protection of individual liberties. Alternatively, a totalitarian political systems is one in which one party controls all the political, economic, military and judicial power (Roskin, Cord, Medeiros, & Jones, 2000). Totalitarian political environments are characterized by a single ideology, a monopoly in communication and a controlled economy (Friedrich & Brzezinski, 1965). Rodriguez, Siegel, Hillman, and Eden (2006) note the importance of political institutional effects on firm business strategy and the need for greater guidance in the literature as to how these environmental aspects influence firm competitive strategy. Similarly, Dow (2000) notes that differences in political systems are a key element separating nation-states influencing market selection decisions.

1.2. Degree and speed of institutional convergence

These three institutional elements have been employed to categorize nation-state environments when exploring critical global marketing issues (see Fig. 1). The conceptualization of nation-state institutional elements has been static in nature. This is probably due to the cross-section research employed in comparative market system research and its general reliance on static economic models. However, institutional elements are not static in nature but rather ever evolving through integrative efforts both within and between macro (e.g., institutions) and micro (e.g., firms, consumers) economic actors (Akhter, 2004; Ghemawat, 2003; Holm & Sorenson, 1995). Akhter (2004), building on Holm and Sorenson (1995) and consistent with Ghemawat (2003), notes that at the country level, globalization is a process of intensified interaction between markets that fundamentally changes the economic, social and political positions of these markets. The degree of convergence of institutional elements of these markets is parallel to the degree of engagement of an individual nation-state within the global environment. This entails integration not only in terms of frequency of engagement (i.e., the number of bi-lateral or multi-lateral trade agreements a country has made), but more

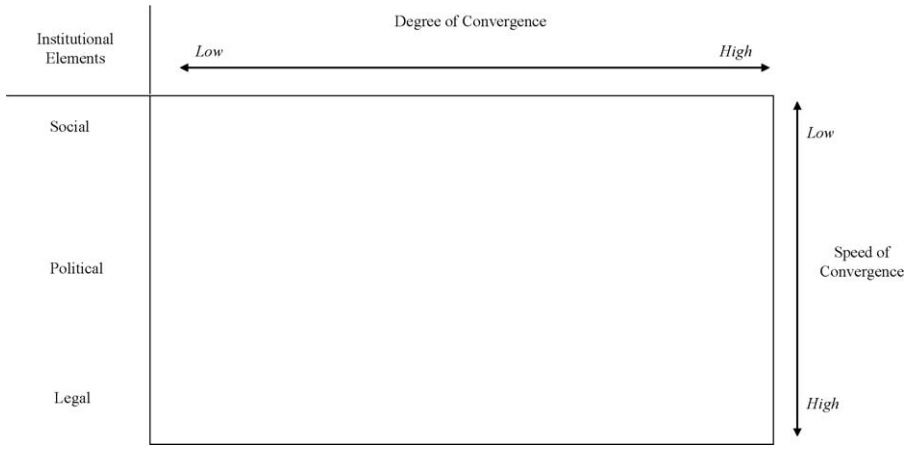

Fig. 1. Convergence of institutional elements.

importantly, the level of engagement of these agreements (e.g., political union, economic union, common market, customs union, free trade area).

When nation-states engage in a greater number of trade agreements, institutions become more connected, allowing for greater interaction, and exchange of ideas, be they cultural, political or legal. However, it is the movement of nation-states in level of engagement that increases the degree of convergence. Specifically, as a nation-state moves from a free trade area toward a political union, trade barriers fall, labor and capital begins to move more freely across nation-states, therefore allowing greater integration and market segment convergence. Increasingly levels of engagement define new mandates of convergence. The movement from a free trade area to a customs union (e.g., the Andean Community in 2003) requires the establishment of common external tariffs, therefore effectively setting price boundaries within the multi-country market, minimizing price arbitrage. As greater integration efforts are made, such as the Andean Community's movement toward a common market, the free movement of labor and capital increase interaction among government actors as well as citizens, thereby increasing market segment convergence. More of note, as nation-states move from a common market to a political union (e.g., as observed in the European Union), the enactment of a supranational government brings convergence to economic policy as well as the regulatory environment, inclusive of advertising rules, product standards, etc.

It is also important to recognize that the speed of institutional convergence is not occurring equally across nation-states (as evidenced by differing levels of frequency and level of engagement). For example, some nation-states, such as France, Italy and Spain have engaged in integration efforts of high levels of engagement, whereas other nation-states, such as Japan and Paupa New Guinea, while engaging in many different engagement agreements, have maintained relatively low levels of engagement (e.g., free trade agreements). Differences in the level of engagement across nation-states influence their speed of convergence. Furthermore, it is important to note that these variances are also a derivative of the institutional element examined (even when frequency and level of engagement are constant).

Whereas political and legal changes made to the institutional environment occur upon commencement (e.g., when the agreement has been signed into law), the speed at which social changes occur is much slower. For example, when looking at the United States and its engagement in integration efforts one can see that the signing of the North American Free Trade agreement presented some immediate political and legal changes (with immediate tariff reductions on most products), and other legal changes set to be phased in at latter pre-specified dates (e.g., 5, 10 or 15 years). However, when considering social elements, although Canada, Mexico and the United States have engaged in a substantially greater amount of trade, minimal convergence has occurred across these nation-states. Taken from an even more historic perspective within the United States, it can be argued that although the Northern and Southern States of America integrated after the civil war, cultural differences continue to exist almost 150 years later (these differences are observable in consumer product preferences, ideological positions on the role of government, etc.).

It is important to consider and incorporate differences in the speed of convergence when examining institutional elements influencing commercial activities. While political and legal changes can occur quickly and be enacted quickly (such as certification standards for products (e.g., Rosen & Sloane, 1995)), social aspects of market segments (e.g., the wants or preferences of a particular market segment) may converge at a much slower rate. Further, it is important for global marketing managers to recognize the separate institutional effects as convergence in political and legal institutional elements may provide a false sense of market segment convergence (when viewed in relation to social institutions).

1.3. Multi-level institutional analysis

While institutional economics has tended to conceptualize institutions at the country level, it is important to note that these elements are not confined to current political nation-state boundaries, nor do they only operate at a single unit of analysis. Specifically, each institutional element operates at multiple levels (see Fig. 2). For example, when considering political and legal institutional environments, three levels can be considered in relation to their eventual influence on market segment issues and hence resultant global marketing strategy implications. The rank order, based upon scope, includes global, regional and nation-state. At the highest order of aggregation is global integration. Global integration efforts include relatively weak organizational structures to more binding structures. For example, the United Nations imposes few binding accords upon its members, but engages in integration through such accords such as the United Nations Declaration of Human Rights, which sets forth a set ideology. Alternatively, the World Trade Organization (WTO) sets formal precepts regulating commercial activity among signatures (Lazer & Shaw, 2000; Rosen & Sloane, 1995). Through global agreements, specific market segments covered under such agreements can

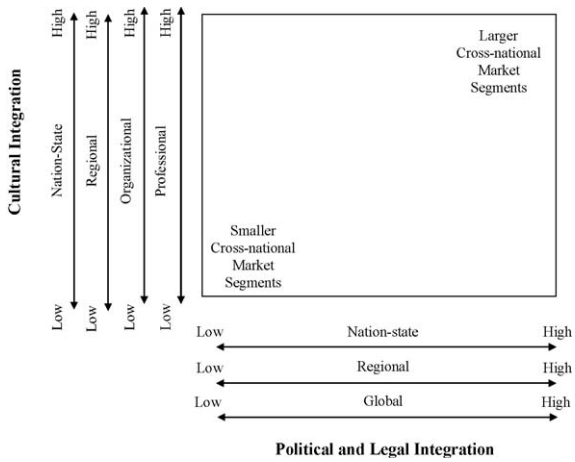

Fig. 2. Multi-level institutional approach.

experience levels of convergence. For example, the United Nations Declaration of Human Right provides an ideological foundation bringing forth commonality within members which can be operationalized in employment practices, product offerings, etc. The WTO provides for more binding political and legal institutional arrangements that set forth the convergence of business practices. Through the elimination of tariff barriers in goods and services across a wide range of products, firms are able to competitively engage in commercial transactions in the markets of WTO members. This has not only facilitated trade, but also increased consumer choice, reduced market prices and encouraged market growth. The increase in trade across nation-states has increased interaction among nation-states therefore facilitating convergence of business and consumer market segments (i.e., the exposure to similar product assortments, common information sources, etc., facilitates convergence of wants and desires).

A smaller scope of aggregation can be observed in regional agreements, often having the most direct impact on convergence given the greater ease of coordination with fewer members (when compared to the global level). In regional agreements, such the European Union, creation of large, cross-nation-state market segments can evolve (Ghemawat, 2003; Okazaki et al., 2007; Rosen & Sloane, 1995). Few would argue with the contention of the cross-nation-state convergence of many European countries since the signing of the Treaties of Paris and Rome. The re-unification of Western Europe under the mantle of the European Union has created significant opportunities for businesses due to the creation of cross-nation-state product standards, advertising regulations, currency, etc. While the European Union is not a single market, the increase in common standards has worked to facilitate larger, cross-national market segments for a wide range of business and consumer products. Many firms, such as T-Mobile and Dell Computers, currently offer standardized products to many Western European businesses.

Alternatively, isolationist approaches minimize convergence of market segments across nation-states. This can often be observed either through political decisions not to engage other countries in trade agreements, or in protectionist policies (e.g., tariffs, unique market standards), which in effect isolate the domestic marketplace. For example, China, through the employment of a number of trade constraining policies, has worked to minimize engagement (in respect to foreign producers and products) with the outside market (even though they have joined the World Trade Organization which has allowed them to export broadly). Restrictions on the manner in which the automotive industry operates in China (such as homologation standards, partnership requirements, import restrictions) have limited access to local consumer markets by foreign automakers, thereby limiting market segment convergence.

While understanding the multi-dimensional influences of political and legal institutional effects allows us greater insight, the social environment presents its own complexities. For example, in relation to culture, while many scholars employ culture at the national level, scholars note that within nation-state boundaries multiple cultures exist. For example, Kahle (1986) delineates North America into nine separate cultural groupings based upon differences in underling values. Further, Sirmon and Lane (2004) have decomposed national cultural influences in international business into national, organizational and professional (suggesting parameters of market segments for business offerings). Taken together these suggest a multi-dimensional decomposition of the cultural institution as an effective influence on market segments. This is of note as greater heterogeneity across levels decreases the size of cross-national market segments while greater homogeneity across levels increases the size of cross-national market segments. These conditions ultimately influence global marketing strategy adaptation and standardization.

2. Global marketing strategy implications

2.1. Marketing strategy-environment fit

Marketing strategy is a means by which firms respond to competitive market conditions. Although marketing strategy consists of many aspects, the operationalization of global marketing strategy in much of the extant literature has been brought forth via the four elements of the marketing mix, i.e., product, pricing, place and promotion, either examined as four components or as a unified approach (Cavusgil & Zou, 1994; Katsikeas et al., 2006). In fact, the marketing mix strategy to performance linkage has been one of the most widely investigated topics of global marketing research (e.g., Cavusgil & Zou, 1994; Katsikeas et al., 2006; Lages et al., 2008). However, although a great deal of research has been conducted in the area, the diversity of conceptualizations and performance measurements has led to inconsistent and contradictory findings (Aaby & Slater, 1989; Ryans et al., 2003). Katsikeas et al. (2006) conducted a meta-analysis of the empirical work on global marketing strategy to performance relationship and noted that inconsistent findings could be partially explained by strategy-fit relationships.

The environment-strategy framework theorizes that the co-alignment of strategy to environmental factors (i.e., fit) allows firms to operate effectively, thus enhancing performance (Child, 1972; Luo & Park, 2001; Xu, Cavusgil, & White, 2006). The foundation of the environment-strategy framework is in the literatures of strategic co-alignment (Astley & Van de Ven, 1983) and strategic choice (Child, 1972, 1997). The strategic co-alignment literature argues that the alignment between a firm's strategic profile and its external environment maximize operational effectiveness (Child, 1972; Venkatraman & Prescott, 1990). Under this perspective, operational effectiveness results from a congruence of relevant contextual and strategic factors whereas misalignments between environmental elements and firm strategy create barriers to operations, hindering effectiveness (Bourgeois, 1980; Venkatraman & Prescott, 1990; Xu et al., 2006). While a number of environmental factors have been brought forth in the prior literature to represent the environment, institutional economics provides for a structured and accepted approach, from which to investigate environmental influences on marketing strategy.

The multi-level analysis of the institutional environment, coupled with the dynamic view of institutional environments

can assist global marketing academics and practitioners in more clearly understanding the complexities they face as market segments converge globally (resultant from convergence leading to changes in preferences, thus making some extant market segments larger, others smaller, as well as creating new segments with new preferences). Exposition of marketing strategy at the aggregate marketing mix level does not provide the necessary detail for effective strategy development (Griffith, Chandra, & Ryans, 2003; Harvey, 1993; Ryans et al., 2008). For example, although Katsikeas et al. (2006) provide some clarity to the marketing strategy to performance relationship via the inclusion of fit, further clarity could be gained by the decomposition of marketing strategy standardization/adaptation at the marketing mix level (e.g., Cavusgil and Zou, 1994), or more appropriately, at the sub-marketing mix element level as suggested by Griffith et al. (2003), Harvey (1993), Okazaki et al. (2007), Ryans et al. (2008) and Wind (1986).

2.2. Decomposing global marketing strategy effects

Global marketing strategy has often been thought of as the marketing mix level due to the fact that it is through the marketing mix that global strategy is operationalized in the marketplace. One of the most well cited works in the area (i.e., Cavusgil & Zou, 1994) conceptualized and captured marketing strategy as product adaptation, promotion adaptation, support to foreign distributor/subsidiary and price competitiveness. Through the employment of the marketing mix level marketing strategy approach, researchers have been able to gain insights into how changes in marketing mix variables influence the firm's ability to increase overall performance (e.g., Lages et al., 2008). However, scholars such as Harvey (1993), Ryans et al. (2008), Wind (1986) and others, have cautioned that employment of the marketing mix as the unit of analysis, while providing some clarity (e.g., as opposed to a higher level of aggregation such as global marketing strategy (e.g., Katsikeas et al., 2006; Zou & Cavusgil, 2002) provides too high of a level of aggregation to be particularly effective for academic or practitioner actionability. Rather, these scholars suggest that academic and practical understanding of the necessity for adaptation of global marketing strategy elements should be conducted at the element level within each marketing mix component. Fig. 3, drawing from the influence of multi-level convergence effects on market segments presented in Fig. 2, addresses the global marketing strategy implications of convergence, each of which will be discussed in the following.

2.3. Promotion strategy

The feasibility of promotion standardization is reliant on the existence of homogeneous market segments across countries (Blackwell, Ajami, & Stephan, 1992; Okazaki et al., 2007). If "segment simultaneity" (Levitt, 1983) exists, it implies that consumers in the target market would react similarly to marketing stimuli and share common behavioral response patterns and preference structures (Harvey, 1993; Jain, 1989; Levitt, 1983; Okazaki et al., 2007; Ryans, 1969). If, for example, a firm approaches two widely divergent target markets with the same promotional elements, differences in institutional elements would necessitate adaptation of the firm's promotional program to effectively match the needs of the market segment. Alternatively, when cross-national market segments are larger, a firm can achieve the economic and administrative benefits of promotion program standardization. Given the complexities of the institutional environment, adaptation and standardization is not only determined by market segment needs, but also by political and legal issues pertaining to the acceptability of differing promotional approaches (e.g., comparative versus non-comparative, timing (as denoted previously)).

To enhance illustration of this issue, the promotional component of a firm's marketing strategy can be viewed in terms of Harvey's (1993) specification of five promotional elements to be considered when examining adaptation/standardization: (1) research and development, e.g., research to identify effective appeals within and across markets, (2) creative, e.g., development and execution of promotional idea, (3) media, e.g., channel selection, timing, (4) production, e.g., creation and execution of the promotion, (5) post-promotion research, e.g., evaluation of effectiveness of the promotion. This is not to suggest that the five identified elements are the only promotional elements that should be considered. These are exemplars suggestive of elements

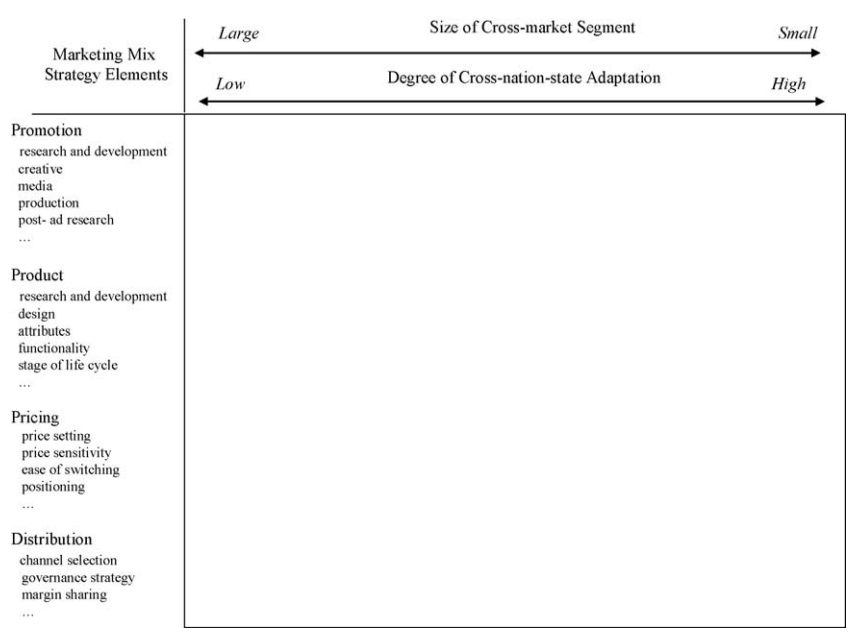

Fig. 3. Marketing strategy implications.

needing evaluation. A firm needs to understand its promotion program and identify the most seminal elements of that program to incorporate into the decision process (this is most important as firms engage in outsourcing of their promotional efforts as this would indicate provider selection criteria).

Once the elements applicable to the firm are identified, it is important for the firm to understand that each of the elements identified can be individually influenced by the institutional environment and therefore should be considered in isolation in relation to the standardization/adaptation decision. For example, Griffith et al. (2003) found differing environmental effects on two key elements of promotion strategy (i.e., message standardization and packaging standardization). As elements in the institutional environment converge, creating larger market segments that respond similarly to promotional stimuli, firms are able to decrease the degree of cross-nation-state promotional adaptation along certain promotional elements. For example, Okazaki et al. (2007) found that economic integration efforts in the EU brought forth advertising strategies with cross-market appeal. This complexity suggests that global marketing managers carefully address the influence of institutional elements on each of the promotional elements to determine optimal degrees of standardization and adaptation of each element.

2.4. Product strategy

Product strategy refers to the degree that a firm standardizes or adapts its products/services, inclusive of core and augmented product adaptations to customers' tastes, product quality or safety standards, etc. The effect of product adaptation on performance has been one of the most widely researched marketing mix strategies (Baalbaki & Malhotra, 1993, 1995; Jain, 1989; Levitt, 1983; Ozsomer & Prussia, 2000; Szymanski, Bharadwaj, & Varadarajan, 1993). For firms (e.g., Procter and Gamble, General Motors, Johnson & Johnson) serving dissimilar customer segments throughout the world, standardization may alienate foreign customers who might switch to another product better fulfilling their needs (Kotabe & Helsen, 2001). Firms engaging in product adaptation can meet cross-border differences of the needs and wants of the firm's target customers, thus increasing customer satisfaction and overall performance (Cavusgil & Zou, 1994; Kotabe & Helsen, 2001). However, institutional convergence along a social dimension is providing new opportunities for standardized product strategies due to the growth in the size of cross-national market segments resulting from greater exchange interactions.

The product component of marketing strategy necessitates aspects inclusive of, but not limited to, product related research and development, design, attribute development and functionality, and when engaging in market expansion, stage of the product life cycle (Dawar & Parker, 1994; Szymanski et al., 1993). However, this is not to suggest that the identified elements are the only product elements that should be considered, but rather they are suggestive of elements needing evaluation. Each firm should assess its core and augmented offerings determining the value producing elements in each market, thus gaining a better understanding of the key components of delivered value in the marketplace.

Once the elements related to the firm's product strategy are identified, the firm should work to understand how each of the elements is individually influenced by the institutional environment, setting the stage for the standardization/adaptation decision. For example, research suggests that when consumers use product elements as a cue to assess quality, they eliminate comparable features across products and focus on the remaining or unique features as the basis of their comparison (Houston & Sherman, 1995). However, cue usage can differ across markets. For example, Dawar and Parker (1994) demonstrated differences and similarities in importance rating in a variety of cues across nation-states. Forsythe, Kim, and Petee (1999) found that even when comparing two Asian markets (China and Korea), differences existed in the way consumers made use of both intrinsic and extrinsic cues. Cue utilization differences suggest the need for adaptation where cue usage similarity would be suggestive of opportunities for standardization. Through a careful examination of the cue and preference structure of the firm's market segments across nation-states, opportunities for economies of scale via standardization where social convergence has occurred can provide the firm leverage opportunities (e.g., in research and development), while differences in preferences (e.g., in aspects such as product features) argue for adaptation. This suggests that global marketing managers carefully address the influence of institutional elements on each of the product strategy elements to determine optimal degrees of standardization and adaptation of each element.

2.5. Pricing strategy

Pricing strategy in the context of this study refers to the standardization or adaptation of international pricing policies (Theodosiou & Katsikeas, 2001). Firms are able to ensure responsiveness to changing market conditions, competitive situations, and environmental forces, through the employment of an adaptive pricing strategy while minimizing issues of price arbitrage via standardization; when these strategies are under the control of the organization (Cavusgil, 1996; Myers & Harvey, 2001; Sousa & Bradley, 2008). The firm's pricing strategy is to some extent influenced by institutional elements, such as legislative or regulatory differences. For example, while some laws directly effect prices, e.g., retail price maintenance, price strategies across countries are also indirectly effected by regulations that influence product requirements, technical specifications, electric, weight and measurements, etc. (Cavusgil, Zou, & Naidu, 1993; Douglas and Wind, 1987). Supportive of this argumentation, Theodosiou and Katsikeas (2001) found that similarity in economic and legal environments stimulated greater pricing standardization.

It is important to recognize that pricing strategy, as with other marketing mix elements, consists of a number of elements. For example, pricing issues such as price setting, price sensitivity, ease of switching and positioning are all elements to a pricing strategy given that these issues are taken into consideration when determining price. This is not to indicate that these elements are the only elements that should be considered, but rather, as with the other marketing mix strategy elements, the firm should seek to identify those key elements with respect to its offering.

After the determination of the elements central to the firm's pricing strategy is identified, institutional influences should be examined to determine appropriate standardization/adaptation decisions. For instance, as institutional environments converge, economic conditions across nation-states move toward equilibrium (consistent with the theory of factor price equalization), thus providing a market segment in which price sensitivity within a market segment spanning multiple nation-states emerges and stabilizes. However, the simple convergence of economic conditions, which might be brought about by legal and political convergence, may not be resident in the marketplace at the social level, thereby still necessitating price adaptation within nation-state markets (i.e., even though economic conditions may create an apparent larger cross-nation-state market segment, it should not be confused with a true market segment where price utilize curves are identical). This complexity suggests that global marketing managers carefully address the influence of institutional elements on each of the pricing strategy elements to determine optimal degrees of standardization and adaptation of each element.

2.6. Distribution strategy

Distribution strategy has been a well-investigated area within the international marketing literature (e.g., Anderson & Gatignon, 1986; Bello & Gilliland, 1997; Solberg, 2008; Zhang, Hu, & Gu, 2008). Effectively structuring and governing the global distribution element of the firm has substantial repercussions of the firm's ability to compete effectively (Bello & Gilliland, 1997; Solberg, 2008). However, a myriad of issues come into play as a firm transcends its national boundaries. For example, differences in legal environments can constrain a firm's distribution options within a market. Similarly, contracting issues in distribution elements can create limitations of reparation for deviations from the contract governing the distribution of the firm's products and the manner in which the distribution arrangement can be resolved (Zhang et al., 2006). Thus, the firm's ability to develop a globalized distribution policy or even adapt to local changes can be hampered as evidenced in the China beer industry (Slocum et al., 2006).

The complexity of distribution policy necessitates consideration of issues such as channel selection (e.g., direct versus indirect), governance strategy (e.g., level of coordination), and margin sharing. These issues add greatly to the complexity of developing an effective distribution strategy for employment across or within country markets (Anderson & Gatignon, 1986; Bello & Gilliland, 1997; Slocum et al., 2006; Solberg, 2008). While these elements are important for the development of a distribution strategy, these are used solely for illustrative purposes, with the intention that a firm would engage in the discovery of the key elements of their own distribution strategy that should be considered in relation to determining standardized or adaptive approaches.

Once the distribution elements have been identified, the institutional influences on these elements should be examined to determine appropriate standardization/adaptation decisions. For example, Bello and Gilliland (1997) note that market volatility creates a unique adaptation problem with distribution strategy necessitating variance in governance strategies across markets. Similarly, legal constraints on margin sharing across markets can make development of a unified distribution revenue sharing strategy infeasible. However, often channel selection across similar markets in relation to channel legislation and social institutions allows for economies of scale leverage. Furthermore, consideration of the size of the cross-market segment generated today by converging institutional elements allows for the setting of international distribution strategy, while forecasts of future convergence allow for the framing of distribution strategy dynamism. This complexity suggests that global marketing managers carefully address the influence of institutional elements on each of the distribution strategy elements to determine optimal degrees of standardization and adaptation of each element.

3. Theoretical and managerial insights

The purpose of this study was to employ institutional economics to examine the factors influencing changes in market segments having implications for a firm's global marketing strategy. Calls in the literature for more theoretically founded investigations of global marketing strategy have resulted in theoretical development and application at the internal firm level (e.g., Lages et al., 2008; Morgan et al., 2004). However, as the issue of the appropriateness of global marketing strategy effectiveness has been found to be derived from issue of fit (e.g., Katsikeas et al., 2006), the need for theoretical treatment of context becomes important.

Institutional economics presents a manner in which a better understanding of the issue of global market segment convergence can be investigated. Wedel and Kamakura (1999) note that the goal of market segmentation is to identify those individuals who exhibit similar behaviors and therefore will react uniformly to marketing stimuli. Nowhere is this homogeneity more probable than when institutions converge. However, this study cautions managers not to oversimplify the environment but rather to think about institutions along multiple levels, each having a different influence on global marketing strategy elements and unique convergence rates. For example, the expansion of the European Union from 15 members to 27 members may have provided for a movement toward convergence on specific legal matters setting forth the parameters for commercial transactions, and hence leading to standardization of certain elements of a firm's global marketing strategy. However, making the assumption that the market can be viewed as a unified market culturally would be a mistake. We caution managers against the simplification of institutional environments into the least common denominator. Institutional economics provides us with a complex set of criteria to understand the influencing factors of our environment. Only through detailed investigation can greater insights be gained.

Furthermore, our model is dynamic in nature. People have for too long employed a static view of institutional markets in the investigation of global marketing activities. The importance of time and change need to be incorporated into our managerial decision models if a strong theoretical framework that can provide practitioner with guidance can be developed. Harvey, Kiessling, and Richey (2008) call for managers to use time as reference criteria. Akin to this approach is understanding time in the perspective of convergence. Convergence does not occur overnight. Even when laws are changed, therefore designating a specific date in which the operating environment has changed, the implementation and enforcement of said laws may have a considerable time lag. For example, although China has entered the World Trade Organization, its adherence to WTO policies and its enforcement of these policies have yet to be fully fulfilled as the writing of this work. Thus, strong market research is needed to identify when market segments have adjusted to institutional changes. The manner of measuring dynamic institutional convergence would be a fruitful area of study.

Furthermore, the decomposition of dynamic institutional elements has significant implications for those studying global marketing strategy. Performance enhancement is only achievable when marketing strategy fits the environmental context. However, their employment of a macro-level global marketing strategy adaptation/standardization construct subjugates the fundamental elements of marketing strategy, within each of the four marketing mix elements, therefore not allowing detailed insights necessary for the practicing manager. We contend, much as Ryans et al. (2008) and Griffith et al. (2003) have done, that scholars should focus on the elements of each aspect of the marketing mix when investigating the standardization or adaptation of global marketing strategy to provide more detailed insights into the dimensions where standardization benefits may be gained. For, as Dawar and Parker's (1994) universality of cue utilization across markets advanced our understanding of where gains could be made, only through the analysis of the individual elements of the marketing mix elements will academics forward an agenda that provides strong managerial guidance.

4. Limitations and research directions

These findings are significant because of their theoretic and managerial contributions to the understanding of marketing segment change and implications for global marketing strategy. While the study provides new insights, as with prior research, it has its limitations. The limitations will be addressed with directions for future research. First, it must be recognized that

the elements of institutional economics are intertwined. Interaction effects exist among the dimensions. These interaction effects were not conceptualized within this study as the purpose of this study was to provide a theoretical understanding of how institutional convergence was impacting market segment convergence. However, the issue of the interaction of institutional environments is very important as, at least to some extent, the interaction of institutional elements influences the speed of convergence. Theoretic and empiric work on the market convergence hypothesis attributed to institutional environment interactions could substantively advance our understanding.

This study is also limited by its central focus on macro-level institutional effects. As noted, each of the institutional environmental elements can be further decomposed. Many distinctive elements exist within the legal environment that may have unique implications for differing aspects of global marketing strategy. For example, differences in regulatory environment may create direct versus indirect effects (e.g., retail price maintenance creates direct pricing strategy effects, product requirements and technical specifications create indirect effects (Cavusgil et al., 1993; Douglas & Wind, 1987)). As such, further refinement in the detailed nature of each institutional environment could be examined to explore their effects on the elements of global marketing strategy. Advancement of this topic could lead to more actionable strategies for practitioners as well as an important area for academics (cf., Griffith, Cavusgil, & Xu, 2008).

The purpose of this study was to employ institutional economics to examine the factors influencing cross-national market segment development and implications for a firm's global marketing strategy. Although this area has received much attention, much remains to be learned regarding the intricacies of market segment convergence and global marketing strategy. This is particularly of note given that the focus here was on one element of global marketing strategy, i.e., marketing mix elements, and not on broader marketing strategy issues. Thus, a continued research effort is needed to more fully develop academic and practitioner understanding of "what elements" of a firm's institutional environment are facilitating market convergence and "how specific elements" of the firm's global marketing strategy should be adjusted (adapted or standardized) to enhance operational effectiveness.

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