

# Market convergence and advertising standardization in the European Union

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## Abstract

In this study, we draw on industrial organization and institutional research to explore the relationship between market convergence and standardization of advertising programs. We argue that environmental isomorphism, which maintains that the external market environment is a principal driver of firms' institutional structures, places pressure on firms to adapt their organizational structures and strategies to changing institutional conditions. We propose that the convergence associated with European market integration will lead firms to emphasize three advertising strategies: creating a uniform brand image, appealing to cross-market segments, and increasing cost performance in advertising. Further, we hypothesize that these strategies will be associated with an overall tendency to standardize advertising strategy and execution. Results of a survey of managers of subsidiaries of Japanese and U.S. firms operating in the EU suggest that firms that believe the EU is converging are more likely to engage in these standardized advertising strategies. Additionally, our findings suggest that firms that seek to create a uniform brand image and appeal to cross-market segments are more likely to standardize their overall advertising programs. Finally, we find that firms' desire to create a uniform brand image is a function of their goal of building brand equity, regardless of the level to which markets converge. We draw implications for research and practice regarding firm responses to market convergence.

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“In the ruthless search for marketing efficiencies, increasing standardization of policies and procedures is *de rigueur* for the world's well known brands - and now even for the less familiar ones. If standardization in supply chain and logistics management have become an increasing factor in the day to day

business-side of operations, then so has the need to ensure that a company's often diverse and intricate marketing plans have a high level of across the board measurement and standardization”

(Michael Lee, Executive Director, International Advertising Association, personal communication, 2007).

## 1. Introduction

Economic integration among major world regions such as the European Union (EU), North American Free Trade Agreement (NAFTA) and the Association of South-East Asian Nations (ASEAN) has intensified pressures on multinational corporations (MNCs) to

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integrate their global operations. These agreements – and the harmonization of laws, regulations, and business practices they facilitate – have provided opportunities for accomplishing this integration through streamlining and consolidating operations and standardizing strategies. Bartlett and Ghoshal's (1989) seminal contribution highlighted the ongoing challenge among MNCs of how to manage the competing demands of global integration and local responsiveness. Since then, scholars and practitioners have wrestled with questions surrounding the conditions under which firms can standardize practices and products across their global operations and those for which they should substantially tailor their strategies to context-bound local conditions (Harzing, 2000; Johnson, 1995). One dimension of this challenge relates to firms' market strategies and in particular, the question of whether and how to standardize versus localize advertising.

Standardization versus localization of advertising messages has long been the subject of considerable debate. One of the central motivations for MNCs to standardize advertising is to seek a homogeneous image of the firm and its brand in multiple markets. It is widely believed that a uniform brand image across markets can enhance global brand equity (Cateora & Graham, 2004). Potential economic benefits related to cost savings are also believed to be an advantage of standardization, as is the ability to appeal to cross-market segments (Taylor, 2002). The trade-offs between these benefits and adapting to local tastes, preferences, and use conditions have received a great deal of attention from both academicians and practitioners.

However, the degree of progress made in understanding standardization of advertising has been questioned. Taylor (2002) argues that too often, prior studies have focused only on whether to standardize or to localize in a given market as opposed to which aspects of advertising can be standardized and under what conditions. There have been relatively few empirical studies that examine standardization of advertising from the perspective of advertising managers. An issue that remains largely unexplored is whether perceptions of the external market environment in which the MNC operates play a central role in determining whether firms implement standardized advertising.

The strategic management literature suggests that firms are likely to formulate their strategies in line with external market conditions (Venkatraman & Prescott, 1990). However, there is little evidence as to whether managers perceive environmental changes as drivers of their advertising strategy formulation. This study

attempts respond to that gap by examining the international advertising strategies of Japanese and U.S. firms operating in European markets, with a specific focus on issues related to the desirability and feasibility of standardized advertising. As a conceptual framework, we adopt the industrial organization (IO) perspective of strategic management theory which emphasizes environment-strategy coalignment. Our basic premise lies in the assumption that the convergence of the European Union (EU) Member States should act as a driver of companies' strategies.

In this study, we seek to contribute to the literature in three ways. First, we assess the level to which standardized advertising is practiced in Europe, and the motivations companies have for doing so. Second, we examine the thinking of U.S. and Japanese firms in planning advertising strategy for Europe; as such, we offer the possibility of examining whether general perceptions of the level of integration of the EU are similar. Testing a model on companies based on nations with distinct cultures allows for a stronger test of a generalizable model. Third, a general criticism of international advertising studies is a lack of theoretical framework. To address this question, our study proposes an environmental-strategy coalignment framework based on the industry organization. In doing so, we construct a latent-based causal model, which is examined via structural equation modeling. In focusing on the perceptions of U.S. and Japanese firms of EU market integration, we are able to offer a more robust test of our theoretical model. This examination allows us to assess whether EU markets have become similar enough to facilitate the implementation of more global marketing efforts by non-EU firms.

The remainder of the paper is organized as follows. We begin with an overview of EU integration and an outline of our theoretical framework. We then introduce our research model and associated hypotheses. Then, we present our methodology and results, and provide an interpretative discussion of those results. We conclude with identification of research and managerial implications, limitations, and suggestions for future research.

## 2. The impact of European integration on consumer culture

The current EU represents the culmination of years of effort toward greater European unity, dating back to the post-war period in which Europe had to rebuild itself (Cunningham, 2000). Over the years, the EU has gradually grown from an initial membership of 6–25 member countries by 2004. To ensure effective

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