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Searching for Logistics and Regulatory Determinants Affecting Overseas Direct Purchase: An Empirical Cross-National Study*

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ABSTRACT

Cross-border e-commerce has been very successful in the last decade. Merchants and consumers have been encouraged to participate in e-commerce, including B2C or B2B. B2C is not limited to a domestic market anymore. Consumers across countries are interested in overseas direct purchases. They are willing to purchase products from major online shopping sites such as Amazon and eBay. We aim at gaining a better understanding of overseas direct purchases. Determinants of overseas direct purchases based on cross-national data are identified. Accordingly, we investigate logistics and regulatory determinants. Furthermore, external environments such as regulatory institutions and globalization are discussed in terms of overseas direct purchases. This study incorporates theoretical foundations into empirical findings. Specifically, the institutional theory and the resource-based view are applied to explain the internal and external determinants to increase overseas direct purchases. We conduct an empirical test using panel data for each country to identify the various determinants associated with overseas direct purchases.

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1. Introduction

Consumers can buy goods in various ways. They can purchase any product locally, paying sales taxes. Furthermore, consumers can make purchases during their trip across a border, paying the sales taxes that apply in that jurisdiction. The other way is to purchase products or services over the Internet (Ballard and Lee, 2007). The evolution of the Internet has simplified the way consumers all over the world engage in

commercial transactions. The Internet can encourage consumers to participate in domestic and overseas e-commerce by helping them in terms of searching, shipping, payment, etc. With the development of the Internet, e-commerce has spread widely around the world. According to Hartmann (2016), about one-third of all e-commerce is cross-border.

Cross-border e-commerce has been very successful in the last decade.

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Merchants and consumers have been encouraged to participate in e-commerce, including B2C or B2B, because new revenue models or methods could be created in domestic and overseas territories in terms of e-commerce. Cross-border e-commerce holds great potential in countries and regions that have similar geographic and cultural characteristics. One good example is the European Union (EU). According to Kawa and Zdrenka (2016), 15% consumers in the EU bought products from overseas sellers via e-commerce in 2014. This marked a 25% rise over the previous year. This percentage has been increased 25% in previous years (Kawa and Zdrenka, 2016). Heel et al. (2014) estimate that revenues of cross-border e-commerce could rise sharply to \$250 billion and \$350 billion by 2025 (from about \$80 billion today).

Another major market for cross-border e-commerce is China. According to Mooney (2016), China is expected to be a larger market than the U.S., Japan, Germany, France, and the U.K. by 2020. The volume of China's cross-border e-commerce is about 20% of its total import and export trading volume. The value of cross-border e-commerce is expected to cross \$1 trillion by the end of 2016 (Mooney, 2016).

Cross-border e-commerce can be classified into trade among businesses (global B2B) and transactions between consumers and businesses (global B2C). According to alexa.com, a website providing global e-business rankings, alibaba.com, ec21.com, tradeindia.com, and kompass.com are the major global B2B players (international business and trade category). Likewise, amazon.com and eBay.com are the dominant B2C players in cross-border e-commerce (shopping category). Besides amazon.com and eBay.com, taobao.com is another major B2C player in Asia. Taobao is a Chinese online shopping website operated by the Alibaba Group, which was established in 1998. At the 2015 World Economic Forum, Jack Ma, founder and CEO of Alibaba Group, said that he launched Alibaba with the mission of "helping small business conduct business easier" (Erickson, 2015). He stated that the initial step for Alibaba was B2B. However, he also mentioned that he wanted "Alibaba's online platforms to serve 2 billion consumers all over the world" (Erickson, 2015). In other words, Alibaba is not limited to B2B anymore. B2C, especially cross-border B2C, is now the main target market of Alibaba. The company uses Alipay, a payment platform for facilitating e-commerce transactions. Alibaba aims to be the most popular cross-border shopping destination. eBay, one of the global B2C majors, failed in the last decade amid low-cost competition from Alibaba (Flannery, 2014). According to previous studies and statistics, Asia will be the center of cross-border e-commerce, accounting for some 40% of total revenues by 2025 (Heel et al., 2014).

There have been various studies that have investigated the determinants and effects of e-commerce from consumer and merchant perspectives. In particular, studies comparing behaviors and characteristics of consumers regarding e-commerce have been typically conducted. The present study employs a different approach to identify the important determinants for increasing overseas direct purchases (ODP), which represent a type of cross-border B2C. This study also intends to empirically examine the external environments of countries to contribute toward developing ODP.

The study builds upon two theoretical foundations: the institutional theory and the resource-based view. These are representative theories in the domains of marketing and management. This study is designed to investigate the logistics and regulatory determinants to increase ODP at the country level. Theoretical foundations and previous studies are applied to show how the relationships between determinants and ODP are influenced by external environments such as globalization. Figure 1 below is a conceptual model of various factors associated with ODP. Specifically, four factors, namely connectivity leaning toward air transport, customs

efficiency, regulation quality, and globalization, are utilized to measure ODP in individual countries. Furthermore, the relationships between ODP and control variables (i.e., population, income, tariff, and IT infrastructure) are discussed.

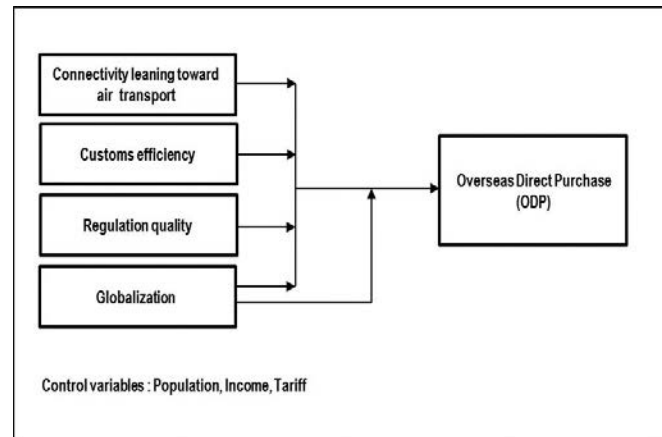


Fig. 1. Conceptual model of determinants to increase ODP

2. ODP in Cross-Border E-Commerce

ODP is gaining popularity around the world. Many consumers are likely to buy products or services from overseas via online merchants due to factors such as wider choice and lower prices. Electronic transactions through the Internet have made it easy for consumers to access retailers selling goods domestically or abroad. An important trend of e-commerce is cross-border transactions, which are based on selling products to overseas consumers (Kawa and Zdrenka, 2016). Despite the importance of online transactions via overseas-based retailers, there is no widely accepted definition to explain this activity. Previous studies and articles have used terms such as overseas direct purchases, overseas online shopping, cross-border online shopping, foreign direct online shopping, and cross-border e-sales. Of these, the term "overseas direct purchases" (ODP) appears to be the most reasonable definition for comparing it with online/offline and domestic/overseas transactions.

Global B2C websites such as Amazon and eBay are changing the way consumers all over the world purchase products or services. Consumers are not limited to their home markets. According to Hamel and Sampler (1998), "consumers are no longer hostages to geography" in terms of commercial transactions. Global B2C websites are facilitating buying and selling over the Internet around the world. Purchasing products via global B2C websites is not limited to only young people. Many Koreans are interested in ODP, mainly because the same model can be cheaper even after paying charges for shipping and customs. Remarkably, many products bought directly from overseas are manufactured by Korean companies such as Samsung and LG. Korean consumers can buy the same models (for example, televisions) at cheaper prices via Amazon rather than through domestic shopping channels (The Korea Economic Daily, 2014).

Levels of cross-border e-commerce vary greatly from country to country. There is a link between the level and the use of e-commerce that is different in each country. For example, while only 11% of Internet users in Romania engage in online commercial transactions, in the UK, the proportion is 82% (Okholm et al., 2013). The use of ODP varies,

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