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A Study of Cultural Effects on Building e-Business Strategy and Web Site Functional Development: A Case Study of Cyworld.com[1] in South Korea

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ABSTRACT

As with m-commerce in Scandinavian countries and DoCoMo in Japan, the development of Korean e-business is highly shaped by a specific cultural feature known as the *Yongo*-based relationship. Yongo refers to various forms of close relationship among people through ties such as blood relation, alumni at the same school, people born in the same region, and friends of the close referents. A number of companies have capitalized, with dramatic successes, on the importance of such relationships in Korea. Cyworld.com is one of the most successful *Yongo*-based e-business sites in Korea. Through a case study of Cyworld.com, we report how *Yongo*-based relationship affected strategic decisions and the functional development of Cyworld. Also being reported is how such relationship contributed to the success of Cyworld. We expect that the results of this case study provide a compelling example of the advancement of e-business models where a country is strongly influenced by cultural factors and support the insight that companies desiring a global presence must first understand cultural elements of the country and then develop their business strategies accordingly.

Keywords: e-Business, E-community, and *Yongo*-based relationship

1. Introduction

The Internet has dramatically changed the traditional forms of businesses by transforming business' physical boundaries, and introducing very efficient and effective ways of doing new business (Benjamin and Wigand 1995; Maruca 1999; Standing 2000; Williams and Cothrel 2000) and e-learning opportunity for enlarging organizational memory (Cross and Baird 2000; Hansen et al. 1999; Martiny 1998). Nowadays, the United States leads the world in nation-wide Internet accessibility by its citizens as well as exercising state-of-the-art technology within new business models (Economist Intelligence Unit (EIU) July 7th 2000).

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[1] http://www.cyworld.com/

Meanwhile, other countries are busy continuing to develop and experiment with their own business models and Internet infrastructures.

Each country has been following a path that is quite different from the US, while holding fast to their different cultural and technological backgrounds (Hofstede 1991; Triandis 1995). Scandinavian countries, for instance, show a very high infiltration of wireless cellular phones among their citizens (Jodian 1999). The most popular method of accessing the Internet in Scandinavian counties is via cellular phone, not via personal computer (PC), as in the US. NTT's DoCoMo[2] is extremely popular in Japan, which leads the world in wireless Internet technology (Tsuchiyama 2000). In these two countries, e-business models have evolved to reflect their specific cultures such as "Nomadic Culture" and "Small is Beautiful," and thus far, these business models have been very successful. Therefore, it seems to be very important to study a country's cultural and social background to clearly understand and predict the right trajectory of e-business models.

Korea is among the many countries where the Internet and Internet-related business growth outpaces the rest of the world. According to NSI's statistics, Korea currently holds the 5th largest number of ".com" addresses in the world and its .com growth rate is up to 169% per year (NSI June 2000). And, Korea's e-business sales are estimated to be $1.6 billion in 2000 (Korea Association of Information and Telecommunication (KAIT)[3] April 2000). However, the e-businesses of Korea have a specific feature not found in other countries, the prevalence of Yongo-based e-community sites.

Table 1. Top Ten E-Business Sites of South Korea and the United Status
(Alexaresearch.com, June 2000)

Rank	South Korea	Site Types	U.S.	Site Types
1	daum.net	Portal	msn.com	Portal
2	yahoo.co.kr	Portal	yahoo.com	Portal
3	iloveschool.co.kr	E-community	aol.com	Portal
4	lycos.co.kr	Portal	excite.com	Portal
5	naver.com	Portal	ebay.com	Auction
6	netian.com	E-community	go.com	Portal
7	hangame.com	Game	microsoft.com	Commercial
8	sayclub.com	E-community	altavista.com	Portal
9	ohmylove.co.kr	E-community	geocities.com	Portal
10	cyworld.com	E-community	iwon.com	Portal

As shown in Table 1(see the Appendix), five of the top ten ranked e-business sites of Korea are *Yongo*-based e-community sites, whilst eight of top ten ranked of the United Status e-business sites are portal sites (alexaresearch.com[4] June 2000)

How have *Yongo*-based e-community sites become so popular in Korea? What factors affect this specific situation? We could use a number of lenses for analyzing the success of the *Yongo*-based e-community phenomenon such as social, technological, and environmental

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[2] http://www.nttdocomo.co.jp/
[3] http://www.kait.or.kr/
[4] http://www.alexaresearch.com/clientdir/index.php

ones. In this study, we use the cultural lens, especially *Yongo*-based Korean culture that originates from Confucian culture. Throughout the case study of a representative *Yongo*-based e-community--Cyworld, we analyze how *Yongo*-based cultural features affect the strategic decision and functional development of Cyworld, and how such features contribute to the success of that site. We also report a number of insights, emerging from this study, that we believe are critical for the success of global business, epecially in the context of electronic commerce.

2. Cultural Background

As many previous studies have indicated (e.g., Hofstede 1980, 1991), the Korean society is deeply rooted in highly knitted social networks. Cho and Park (1998) described this phenomenon clearly:

> *Koreans like to build personnel relationships beyond the organizations to which they physically belong. These kinds of relationships are built principally on blood relations and graduation from the same school. Therefore, informal networks are well developed beyond work groups, and social activities occupy a great part of one's time (p.22).*

Triandis (1995) also indicated that Koreans highly distinguish in-group members from out-group members. In-group members usually communicate in a unique context and share a specific language (e.g., jargon) among themselves, whereby out-group members have difficulty comprehending the meaning of the in-group conversation and becoming a part of the established group. These types of blood and school-based relationships are referred to in the Korean language by the word "*Yongo*". The *Yongo*-based relationship originates from Confucian culture distinguished by human-based trust, loyalty, collectivism, and high-context communication (Chang and Chang 1994; Hofstede and Bond 1988; Martinsons et al. 1997). Koreans prefer mutual obligation and reciprocity through human relationship based on Confucius' teachings which emphasize a "trust relationship" among senior-subordinate, parent-son, and between friends (Reddings 1990). Korean peers should preserve their loyalty and have "the absolute respect to the seniors"(Chung and Ro 1979). In addition, Koreans have a strong, group-oriented (or collectivist) peculiarity, defined as "an individual's belief that collective or group interests should take precedence over individual self-interest (Van Dyne et al. 2000, p. 5)." It requires maintaining the harmony in groups, and finding the identity within a well-managed group (Kim et al. 1996). Koreans prefer high-context communication based on Confucius' teaching: "not to be talkative." High-context communication involves the use of implicit and indirect messages in which meanings are embedded in the person or in the socio-cultural context (Cohen 1991; Holtgraves 1997).

3. Research Methods

In this study, we performed a case study of a representative *Yongo*-based e-community site. We adopted the interpretivistic approach since cultural aspect is deeply rooted in the human behavior and thereby difficult to isolate explicitly the causality between the interesting variables using the general quantitative approach (e.g. questionnaire survey). The case study

is known to be useful when the researcher wants to reveal the causal relationship between implicit variables throughout his or her taking part in the real environment, sharing the feeling with the sample subjects and environment, thereby gathering the richer and more exact data (Lee 1989). Yin (1994) pointed out that "in general, case studies are the preferred strategy when "how" or "why" questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context" (p. 1).

We performed the study during a two-month span that included several interviews over the phone and in person, business reports, memoranda and historical data analysis. The detailed time allocation information for the research is shown in Table 2. As a matter of fact, this study benefited much from the Yongo relationship that some of the authors had with the leading managers at Cyworld. The direct and the phone interviews as well as access to the historical data were greatly facilitated by the relationship. Once the interview and data analysis was complete, the authors had several coordination processes to develop and finalize the results. Finally, the study results were sent to the top management of Cyworld and validated by them.

Table 2 Time Allocation Information of the Case Study

Methods	Frequency	Total Hours Spent
Direct Interview (Top management)	5 times	11 hours
Direct Interview (Employees)	3 times	6 hours
Phone Interview	5 times	4.5 hours
Website Review (Including other e-community sites)	--	12 hours
Business Report, Memo, and Historical Data Analysis	--	16 hours
Total		49.5 hours

4. A Case Study of Cyworld

Most of Korea's e-community sites started their e-business in the late 1990s and saw rapid growth. Even though Cyworld opened its doors in August 1999 when many e-community sites had already garnered the majority of the market share, it has made the fastest growing of all e-community sites. In addition, Cyworld fully covers representative features of the *Yongo*-based relationship, which are only partially supported by other e-communities.

The origin of Cyworld stems from the EC-Club (Electronic Commerce Club), a student club at the Korea Advanced Institute for Standard and Technology (KAIST). While the club members first developed *People Square*, a prototype for Internet community process development, five doctoral students decided to found a venture company that was grounded using a new and unproven e-business model in Korea. After elaborating on the functions of *People Square* to fit into the Internet environment, that venture company started by five doctoral students became *Cyworld,* which is short for "cyber world." Cyworld currently

retains a database of over 1.5 million members with a phenomenal growth rate over 200% per month (see the Appendix, Table 3).

Table 3. Major Statistics of Cyworld

FEATURES	FIGURE	FEATURES	FIGURE
# of Enrolled Members	1,500,000	# of Visitors Per Day	450,000
# of Groups(clubs)	19,000	# of Login Per Person a day	2.3
# of New Enrollment Per Day	5,000	Current System's Version	Ver. 2.0
# of New Members Enrolled to Groups Per Day	9,000	# of Employees	90
# of Postings within Group Sites	30,000	Expected Revenue (2000)	$3.6 mil.

Before starting the business, Cyworld management performed an extensive market analysis and found that there was a strong market demand for developing an e-community based on the needs of building *Yongo*-based relationship. They also found that by providing highly personalized services such as individualized GUI support, and an individualized contents provision, they could more easily attract new members.
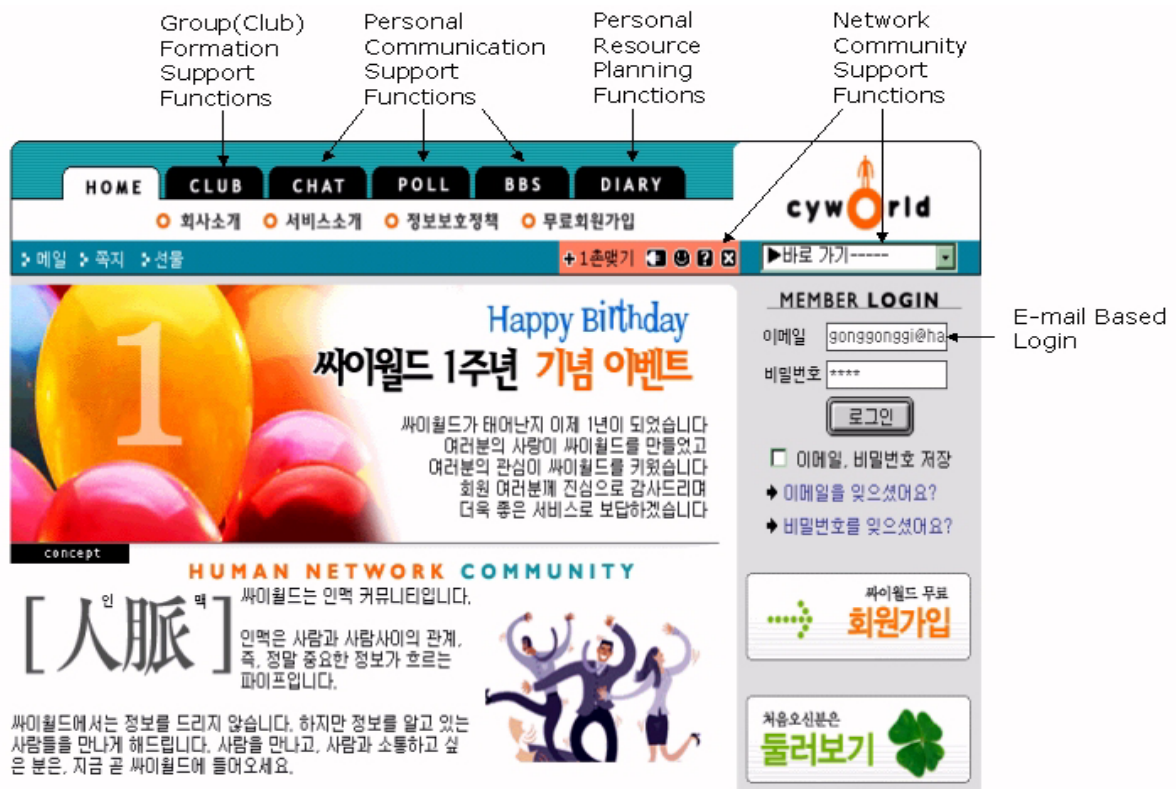
Figure 1 Main Screen of Cyworld

Based on that information, the management developed the business strategy that was characterized by two main goals. First, Cyworld acquired a large number of loyal members by providing a closely knitted virtual space to those members who wanted to share their information and membership through the diversified human networks developed within the

Cyworld. Second, based on the rich information stemming from its growing enrollment of members, Cyworld started its community-based e-business, incorporating the diversified e-businesses into its community environment. That is, Cyworld specified a business goal of providing members the dual opportunity for both community building and knowledge sharing, as wells as e-shopping at the same time and place. To achieve these goals, they developed a three-staged strategy. The first stage was to develop as large a member base as possible. The second stage was to maintain highly loyal members and to continuously enlarge the member base. And the third stage was to start the community-based e-business. Each stage in the strategy shall be explained in more detail further in this paper. As shown Figure 1, the main features of Cyworld are divided into four main parts: *Network Community Support, Group Development Support, Personal Resource Planning*, and *Personal Communication Support*.

The development of the main features of Cyworld was divided into three stages. Stage 1, the *Business Initiation* stage, can be characterized by the system development for building an e-community. During the *Business Development* stage, or Stage 2, the system development for providing the personalized e-community service becomes the main focus. The final stage, called the *Business Growth* stage, is distinguished by the system development for an e-community-based e-business support. On examining the history of the system's development, we discovered that *Yongo*-based relationship is pervasive in all of these stages.

4.1 Business Initiation Stage: The System Development for Building an e-Community

4.1.1 Business Strategy
The main goal of Stage 1 is to build up the site to attract as many members as possible. Cyworld management spent their efforts on two aspects, the strategic aspect and the system aspect. On the strategic side, the top managers of Cyworld applied an intrinsic motivation strategy to recruit its members. Since they assumed that participants want to build the trusted human networks available on the Internet, they would not be motivated by the extrinsic incentives (e.g., gifts, jackpots, airline tickets, or other monetary things) but instead by intrinsic incentives (e.g., relationship, loyalty, trust, warmness, group-oriented)[5]. On the system side, Cyworld decided to emulate other well-known e-community sites but also add more functionality. This is in contrast to building a site with a set of controls that are completely different from other sites with similar content and functionality. Cyworld recognized that its main target was not those with no experience with e-community sites but experienced web users who already had exposure to other similar sites. With that notion, Cyworld decided it was important to keep the main features of the e-community and not to make customers feel awkward navigating a new site. Enhancements of previous functions such as faster access speed, well-arranged content, and search engines with more functionality were included into the new Cyworld site, in addition to the same tried and true features. The strategy successfully invoked the e-loyalty (see Reichheld et al. 2000) from the members, and thereby Cyworld made a tremendous growth rate of new member enrollment of over 500% during the first several months of operation.

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[5] According to the self-determination theory, there is negative relationship between extrinsic motivation and intrinsic one (Deci 1999).

4.1.2 Major Features

Stage one is distinguished by the encouragement of the network community-oriented system development. That is, Cyworld developed its e-community to meet the member's needs for efficient and effective social network development. The features used to perform these operations can be divided into two categories: *network community support, and group formation support function*.

First, Cyworld provided a *network community support function* with two features: *people finding* and *people surfing*. The *people finding* function helps to find and connect people who graduated from the same school, who were born at the same region, and who are in same field of work. To make it work, a new member is required to put all relevant information when he enrolls for membership at this site. All user information is stored in the encrypted form using Cyworld's own crypto systems. The new member can then find people through utilizing a classified search engine. He can also post a message in a separate people-find section. The latter is more useful when the member does not have the exact information of the people whom he wants to find or when he wants to find groups of people.

On the other hand, the *people surfing* function helps to differentiate relationships among the members. As shown in Figure 2, a person can connect with the others who want to make a relationship. If they agree to create a relationship, they can reinforce their relationship based on the negotiated level of the relationship. In addition, if a person who has the relationship with me makes another relationship with others, I can automatically have a relationship one level further removed from them. Using this relationship building mechanism, the member makes differentiated relationships from 1st level relationships (most trustful) to 4th level relationships (least trustful). According to the level of a relationship with a counterpart, the amount of information each person gives and takes is different.

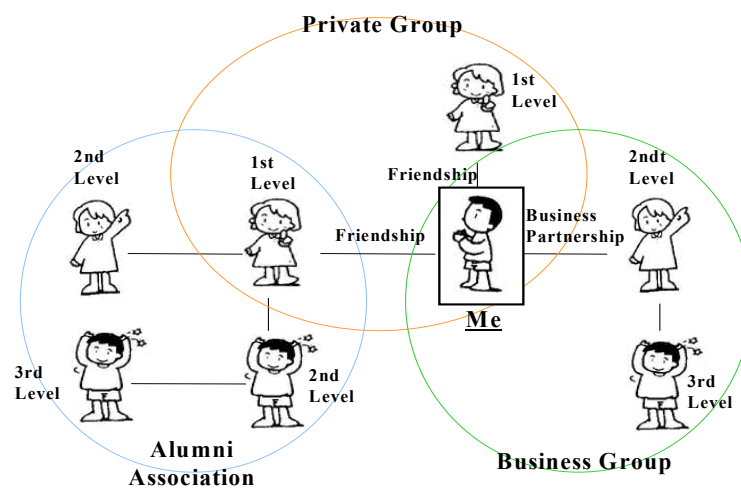Figure 2 The Operational Mechanism of People Surfing Function

These functions reflect well the needs of *Yongo*-based relationship among Koreans. To perform the work or solve individual problems, Koreans spend a lot of effort to find people who have a *Yongo*-based relationship with them instead of finding the solutions by themselves (Chang and Chang 1994). Even though the person whom they find is not directly

related to the problem solving, they make an effort to connect the stakeholders to solve the problems. *Yongo*-based relationship works heavily inside and outside organizations and also promote mutual trust and close relationships between organizational members. With so many ways to connect, key knowledge is selectively passed within inside social networks. If an organizational member wants to obtain secret information, first he must find and contact a person with whom he has some level of a *Yongo*-based relationship. The same rule applies to the outside organizational situation. Therefore, among Koreans, the person who has the broad and deep *Yongo*-based relationship is regarded as an able man. It is often customary in Korean organizations to have the top managers mainly deal with *Yongo*-based relationship. Often, these managers have effectively functioned as problem solvers among the organizations, and as contractors for major projects. From this viewpoint, Cyworld's network community support functions are well matched with needs of *Yongo*-based relationship building. Through the use of multi-dimensional *Yongo*-based relationship finding functions and differentiated *Yongo*-based relationship building functions, the members of Cyworld can easily figure out how to find, develop, and maintain their social relationships.

The second feature used to perform the community building operations is *the group formation support function*. This feature supports members by allowing a member to create his own group at the Cyworld club site as well as enroll in groups currently operating. The groups are made up of people who are university alumni of the same school, the relatives, or members who are from the same regions, work at the same companies, have similar professions, or are similar in age. This function contributes to the enormous success of Cyworld since it well reflects the high group-oriented nature of Koreans. The people of collectivist cultures consider the needs, values and goals of the group as more important than those of individuals (Gudykunst 1997). They are also sensitive to *in* and *out* group boundary (Triandis 1980, 1989), give more trust to in-group members (Yamagishi and Yamagushi 1994), and "family and other in-group members act as a cushion against possible losses"(Weber and Hsee 1998, p.1208). Their group relationship is strengthened between the people who share a history together, or closely shared cultural perspectives (Van Dyne et al. 2000), and "the stability and continuance of the groups are secure only if shared values of interests are present or evolve"(Delbecq 1981). Therefore, Koreans try to become a member of trusted groups and build strong relationships through frequent, reciprocal, emotional, and intimate interactions (Granovetter 1973). Similar to the physical world groups, members in the virtual world want to get involved in cyber groups and come to participate frequently in group activities. Currently, Cyworld has over 19,000 group sites, and over 9,000 people are enrolling in new and different groups everyday.

4.2 Business Development Stage: the System Development for Providing the Personalized e-Community Service

4.2.1 Business Strategy
In order to remain competitive against other new e-community sites that had popped up in the six months during Cyworld's tremendous start, Cyworld management needed more consideration of its strategy. Because resources were limited, taking the time to consider and refine its strategy was important for Cyworld's future. Cyworld had two strategic choices: one was to enhance network community support functions, and the other was to introduce

new community functions. While the former is very important and effective enough to retain previous members, the management decided to invest its resources to develop personalized community services since it can differentiate itself from other sites. This choice develops Cyworld's specific identity as an innovative e-business site. The purpose of this new strategy was to have Cyworld members feel that they are respected by Cyworld. The decision came from Cyworld's confidence in its technological competitiveness and its previous successful experience. At that time, they already had over 800,000 members.

4.2.2 Major Features

To reflect the strategic decision, the management built Version 2.0, which includes personalized e-community support service. The main reason behind developing this service was to meet the demand and generate the supply of the members' community services. Generating the supply is especially important because it works toward the goal of giving members the feeling of respect. In Korean culture, respect plays an important role in many situations. For example, although prices steadily increase, the typical Korean shopper is willing to pay the higher price if they perceive respect from the salesman. The new functions included in version 2.0 of Cyworld are distinguished by two distinct categories: *personnel resource planning (PRP), and personalized communication support (PCS).* The PRP function helps members to maintain loyalty to other members as well as achieve their respect. This function is derived from the concept of enterprise resource planning (ERP). As ERP optimizes business processes through connecting all major functions within an organization, PRP helps a member to optimize the management of his own human networks through providing personal secretary-like functions. For example, the *automatic notification* function can inform its user of significant days associated with the important people such as family members, friends, and coworkers. When a member's information like his or her phone number, company affiliation or address, changes, the *automatic information update* feature informs all the other members with whom there is a *Yongo*-based relationship. Additionally, several personalization services give the member a feeling of respect. For instance, it provides the member with a personalized user interface with his own biorhythm index, personalized mailing service, and the local weather and news information. It can also automatically identify a set of people likely to have ties with the member. Many studies (e.g., Kramer et al., 2000, and Manber et al., 2000) have shown the importance of the personalization service of e-business sites. It is all the more true of the Korean e-business because of the needs of Koreans to maintain respect and loyalty among their peers.

Cyworld version 2.0 also provides *personalized communication support* functions which include *bulletin board systems (BBS), chat rooms and poll systems.* The *BBS* lets users post opinions and questions on many different issues. The *chat rooms* support communication with interesting partners. Lastly, the *poll systems* help to obtain the general opinion of the community members in response to an issue posted by a member. These functions indirectly help Koreans to resolve problems caused by high-context communication. Koreans like to use aphorisms, allusions, and abbreviations during their usual communication and prefer incompleteness and negotiation tactics as opposed to the transactional and explicit approaches common to Western corporate businesses (Ko 1995). With such sophistication, it can be rather difficult to decipher the exact meaning of other users' expressions. To maintain informal means of solving business problems, by taking part in a chat room, or reading the messages posted on a BBS by the members of other companies, ages, and regions, Koreans

can better understand the implicit meaning of high level spoken and written languages used within groups (Holtgraves 1997; Triandis 1980).

4.3 Business Growth Stage: the System Development for an e-Community-based e-Business Support

4.3.1 Business Strategy
When Cyworld management developed its business strategy, they decided that the customer ground-building period would last until 2000. After 2001, the time would be right to start its community-based e-business. Cyworld has recently started its transformation for achieving its community-based e-business goal, and this transformation has two elements: organizational reconstruction for business diversification and the development of community-based e-business system. Not long ago, the Cyworld management reconstructed its organization's functional departments to cope with the new business environment. To make its business diversified, it recruited several new management-level experts who will take responsibility of the international business, multi-channel capable e-business technology development, and e-marketing. The company also reformulated its top management structure into the community of six managers. In addition, to grow as the worldwide e-community provider, Cyworld plans to found a joint venture with other Asian countries that shares the same Confucius culture. It is currently negotiating with a Japanese company to found a coalition company, and starting the sales of its systems and ideas to several more Asian countries. Finally, to grow as the community-based e-business leader, it plans to develop a new system that incorporates other e-businesses into its community. Cyworld has already finished the development of electronic secure payment systems, authentication systems, and e-CRM technology as of August 2000. It will be prepared to deliver multi-channel e-business services by 2001 by developing its communication technology to include PCS[6] phones, wireless devices, and pagers.

4.3.2 Major Features
Cyworld is developing more diversified *Yongo*-based relationship support functions since the success of e-community-based e-business heavily relies on the successful maintenance of the community. First, Cyworld is developing multi-channel connection services to provide its members with several ways to access e-community. A user can now access the system using a pager or a PCS device, but by the end of 2001 the user will be able to use many other wireless devices. In order to maintain the members' feeling that they are well respected by Cyworld, it has done its best to diversify its content by cooperating with many content providers to serve news, sports, arts, movies and many other services. It also plans to add GUI customization features to provide members more convenient ways to access the site and develop their own e-community. For example, a member can easily customize his own interface to include only the 1st level relationship information along with subscribed clubs, bulletin board systems, sports, and news contents. Based on more elaborate functions and the initiation of its community-based e-business, Cyworld expects its number of enrolled members to reach 12 million by 2004. Also, the number of its coalition companies will soon

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[6] PCS – Personal Communication Services usually implemented using a digital wireless device typically known as a cellular phone.

reach 150, and its sales volume will surpass $25 million dollars, making it the No. 1 e-business company in Korea as well as the top-ranked e-business company in the world.

5. Limitations

While we have shown that the cultural features provided the strong motive for the successful development of Cyworld and worked as the driving force of its success throughout this case study, the findings have limited generalizability because the study was based on a single case in a specific country. As Lee (1989) mentioned, a single case study makes it difficult to control observations, derive conclusions, allow for duplication, and allow for generalization. To overcome this limitation, great effort was made to carefully interpret the results of the case study by comparing Cyworld with other e-community sites' main features, history, statistical data and publications. Nevertheless its observations should be generalized with caution.

6. Implication and Conclusion

Throughout this case study of Cyworld, we carefully analyzed Cyworld's successful e-business model and its insight into *Yongo*-based e-community. We found that its huge success can be traced to the following three characteristics. First, Cyworld provides its members with both supply side and demand side services of e-community. By using the site, members easily identify, build, or join the human network to obtain useful or secret information. In addition, the members feel respected when they visit the site because it provides several kinds of personalized service functions. Second, Cyworld fully considers the diversified, *Yongo*-based relationship deeply valued in Korea. The top managers of Cyworld have a deep understanding of Confucius' cultural factors and carefully apply them during the development of its main functions. They made its site more attractive to its members by not focusing on any specific feature (e.g. school based or hobby based), but instead, built its web site to include all *Yongo*-based relationship support functions. Without the wide usage and support by its members, spurred by these functions, Cyworld would not be experiencing its unimaginable growth. Third, Cyworld applies appropriate member recruiting strategies, and builds technologically advanced web sites. Cyworld continuously applied the intrinsic incentive-based member recruiting strategy and maintained a minimum level of the commercial advertising as to not to annoy new members. In addition, Cyworld built its web site with competitive web-technology to resolve speed, memory, and graphical limitations while still allowing customers to effectively build their own human network. We expect that this study contributes by providing a compelling example where advancement of e-business structures, or e-business models of one country, is strongly governed by cultural factors. It also suggests that companies who want to extend their presence globally must understand cultural elements of the country and must develop their business strategies accordingly.

Table 4. The Summary of Business Strategy, Major Functional Features, and Yongo-based Relationship of Cyworld

Stage	Business Strategy	Major Features	Matched Yongo-based Relationship

Business Initiation Stage: e-Community Support System Development	- Intrinsic motivation-based member recruiting strategy - Improvement of the preexisting e-community features (e.g. speed, GUI)	- Network community support functions . people finding . people surfing - Group formation support functions	- Group-oriented (or collectivist) - Royalty
Business Development Stage: Personalized Community Support System Development	- Personalization service provision strategy	- Personal resource planning functions . automatic notification . automatic information update - Personalized communication support functions . BBS, chatting, and Poll	- High-context communication - Trusted human network-based problem solving
Business Growth Stage: Community-based E-business Support System Development	- Organizational restructuring for business diversification - Community-based e-business strategy	- M-commerce support functions . PDA, wireless or cellular phone, and pager . end user-driven site personalization function	- Integrated and diversified *Yougo*-based relationship

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