Electronic commerce in China: emerging success stories

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Abstract

Enterprises across the People’s Republic of China (China) seek to gain the benefits of electronic business, but very few of their electronic commerce (e-commerce) initiatives have been successful to date. A recent multiple case study examined some of the exceptions. This paper illustrates the distinctive nature of e-commerce with Chinese characteristics by profiling an online retailer, a traditional B2B intermediary, and an electronic marketplace or marketspace. Their key success factors were found to include the abilities to leverage core capabilities and to overcome institutional deficiencies through relationship building. The prospects for e-commerce in mainland China are related to the development of the rules and infrastructure that are fundamental to a modern market economy. © 2002 Elsevier Science B.V. All rights reserved.

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1. Introduction

Enterprises across the People’s Republic of China (China) hope to benefit from electronic commerce (e-commerce). Chinese managers have sought to learn from the experiences of dot-coms and Internet-enhanced business in the US and other developed countries. Concurrently, wise men and women from the West, often touting themselves as e-business consultants, have been eager to advise Chinese clients. Unfortunately, the results of their efforts to develop e-commerce in China are disappointing.

Admittedly, the deflation of the dot-com bubble exposed the difficulties of profiting from online ventures. However, the lofty expectations associated with the emergence of the new economy reflected a more sustainable belief in the commercial potential of the Internet. Even now, the steady if less spectacular growth of e-commerce continues in the US.

In contrast, an e-commerce conference in Hong Kong that sought to apply the US experience to China ended up being characterized as “the blind leading the bemused” [1]. Experienced business people across mainland China tend to dismiss those touting the Internet as feng zi or kuang ren, crazy and/or out of touch with reality. Meanwhile, a Fortune 500 chief executive has asserted that e-commerce in China was “hopeless” [2].

This pessimism in the Chinese context reflects the disappointing experiences of the vast majority who have ventured into e-commerce [3,4]. Commercial web sites in China, such as the leading portal and content provider, sina.com, the online book retailer, danggang.com, and the name-your-price site, lalasho.com, have experienced difficulties similar to those of their American counterparts—Yahoo, Amazon and Priceline, respectively. Even Chinese enterprises emulating the eBay business model, such as eachnet.com,
have been forced to branch into offline businesses to augment their sagging revenues. Meanwhile, the convenience of many online initiatives is questionable. For example, passengers wishing to use the online ticketing system of China Eastern Airlines had to live in Shanghai, buy a ticket originating from that city, use a credit/debit card from one particular bank, and then pick up their tickets at the airline’s downtown office.

1.1. Research focus, design and method

Amidst this gloom and doom, a few Chinese enterprises are starting to benefit from e-commerce. They have increased their market reach and/or share, improved their productivity and competitiveness, and have attractive rates of return on their e-commerce investment. A study completed in early 2001 examined these enterprises and considered the key factors behind their early success. Consistent with the emerging nature of the phenomenon and our interest in understanding the “how” and the “why”, a multiple case study design was used to study several of the early success stories in order to permit “replication” logic [5].

The unit of analysis was the e-commerce initiative at the enterprise level. Each case was treated as an independent experiment in order to confirm or disconfirm the emerging theoretical and conceptual insights. Data were collected using semi-structured interviews, observations, and assorted secondary sources. The primary data source was semi-structured interviews with individual informants. Key informants included managers and employees from the focal organizations and representatives from their major suppliers and customers. The sections that follow report on three of the emerging success stories with e-commerce in China: Mecox Lane, Li & Fung, and Asia Aluminum Holdings (AAH) (Table 1).

2. From mail order to online retailing

Mecox Lane was established in 1996 as one of the first mail order businesses in China. Despite taking its corporate name from a street in the Long Island, NY resort town of Southampton, the operations of the company are based in Shanghai—the heart of the Chinese dragon. Mecox Lane achieved steady revenue growth by offering a wide product line and nurturing a market that had no prior experience with catalogue shopping. It has reduced many Chinese consumer doubts about the notoriously shady business of mail order shopping by developing relationships with government agencies including the national postal service. Customers can order, pay for, and pick up their Mecox Lane purchases at the local post office.

Mecox Lane has engendered customer loyalty by assuring product quality and building a strong brand image. It has also overcome the financial challenges posed by a conservative credit granting system and a relatively small credit card population. Its first coup was to obtain a commercial loan from a banking industry that has habitually favored the state enterprises over private firms, and made decisions based on political criteria as much as on financial ones. Secondly, Mecox Lane persuaded the banks to provide facilities that enabled mail order customers to make credit card purchases.

In April 2000, Mecox Lane went online to augment its catalogue sales business. This new marketing and sales channel was able to leverage the company’s existing expertise, business processes and payment system. A full-page advertisement on the back page of Mecox Lane’s mail order catalogue kick-started its presence on the World Wide Web. Its web site exceeded a million registered hits and US$ 100,000 in online orders in its first month and revenues have continued to grow steadily over time.

<table>
<thead>
<tr>
<th>Company</th>
<th>Nature of business</th>
<th>Year established</th>
<th>Headquarters and operational base</th>
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<tr>
<td>Mecox Lane</td>
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<td>Aluminum extrusion and fabrication</td>
<td>1992</td>
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<td>Leader</td>
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Table 1: Profiles of the emerging e-commerce success stories in China
It was not so easy for Mecox Lane to assure government officials that its new marketing and distribution channel was legitimate. As an early entrant into the B2C e-commerce arena, the company went through a long and difficult process in order to get its Internet-based business model accepted by the state. Eventually, it convinced top officials of both the Shanghai municipal government and central government agencies that its online retailing venture was in the best interests of the local community and China overall. The value of cultivating relationships with the government became apparent when the bureaucrats shut down several online retailers who asked to be forgiven after starting up rather than obtaining the assortment of permissions beforehand.

In contrast to the specialization and outsourcing philosophy that is common in the US and other market economies [6], Mecox Lane handles almost every aspect of its business. In its early days, the firm contracted out the production of its mail order catalogue to an advertising company, but the results were disappointing. Now, it does its own production and is able to quickly modify its online catalogue. Mecox Lane now routinely photographs a new product, uploads the results onto its web site, and makes the product available for sale on the very same day that it is received from a supplier.

By the end of 2000, about one-third of Mecox Lane’s revenue had come from e-commerce and it had reduced its marketing costs significantly. For example, customer surveys are now much less expensive because they can be conducted online. Although e-commerce has cannibalized some of its mail order business, Mecox Lane doubled the revenues in 1999, and again in 2000.

The company is now enjoying the economies of scale and benefits from cross-selling synergies. In the absence of a better business bureau or other consumer protection agencies, Mecox Lane built up its business by gradually gaining the trust of mail order customers. Many of them followed the company online while new customers were attracted to Mecox Lane by word of mouth and advertising that has highlighted its guanxi, including friendly relationships with influential public agencies.

Along with another early entrant into online retailing, Beijing-based 8848.net, Mecox Lane pioneered cash-on-delivery services and worked with banking partners to enable credit card payment. Large and expensive items tend to be paid for with cash-on-delivery while smaller items are purchased with debit/credit cards and mailed to the customer.

Mecox Lane’s choice of Shanghai was no coincidence. The metropolis is mainland China’s financial and trading hub. By early 2001, it had over 12 million credit/debit card holders, 3 million Internet users, a million homes with PCs, and a modern telecommunication infrastructure based on fiber optics [7]. The Shanghai Commercial Value-Added Network was the first truly integrated e-commerce support system in China. As a part of the Golden Card Project [8], this online network already provides reliable credit/debit card transactions processing and settlement, but Hewlett-Packard and the Shanghai municipal government are now collaborating to further expand and upgrade the e-commerce infrastructure.

Mecox Lane monitored the development of online retailing in both the US and Hong Kong. It learned from the experiences of startups that initiated price wars against entrenched rivals. For example, AdMart in Hong Kong sold products below cost without having the economies of scale needed to sustain this low-cost provider strategy. In contrast, the price structure of Mecox Lane gives it a healthy profit margin. Moreover, the firm has differentiated itself by doing its own order fulfillment and providing superior customer service. In 1998, it made a large investment in a fully automated inventory control and fulfillment system. Mecox Lane subsequently developed an online transactions platform locally after products from US vendors were deemed to be unsuited for functional as well as political reasons.

Mecox Lane provides specific benefits to both producers and consumers. Few Chinese manufacturers are capable of shipping their goods directly to the end-users while consumers have a basic distrust of suppliers that they “do not know”. Mecox Lane responded to the concerns about trust by hiring and training more than 100 front-end staff who now work in three shifts to provide around-the-clock customer service. Parallel teams of service representatives are responsible for telephone inquiries and online communications.

Although well over 100 million Chinese now have a debit and/or credit card, the unlimited liability for credit card purchases and the lack of sales tax incentives for online purchases have limited their use. For
example, Dell Computer received less than 7% of its orders from China online versus about 40% of orders online in the rest of the world (Dell corporate web site, 2001). Mecox Lane has mitigated some of the inherent drawbacks of e-commerce with its focus on consumer trust, but its own surveys indicate that Chinese consumers remain very concerned about security issues (e.g. the reliability of encryption technologies) and legal issues (the enforcement of online commitments).

More than 20 million Chinese were regular Internet users in the year 2000 and about 80% of this group could be classified as having middle-class incomes [9,7]. Mecox Lane has a database of 4 million Chinese customers who have demonstrated the willingness to purchase at least one product without seeing or touching it. Although this number can be expected to grow as Internet use increases across the mainland China, it may be hindered by the lack of a rule-based system to govern commercial activities [10].

Could Mecox Lane become the Amazon.com of China? Although Mecox Lane has sold thousands of products to millions of customers, even its chief executive, Andrew Tsuei, has doubts. He says that “the Amazon.com business model will not work in China”. He supports the theory of relationship-based commerce by suggesting that B2C transactions over the Internet will continue to reflect “e-commerce with Chinese characteristics”.

Unlike Amazon, Mecox Lane benefits from the fragmentation of the traditional retailing industry in China. Instead of large companies with nationwide coverage such as Barnes & Noble and Sears, the offline competitors for Mecox Lane tend to be poorly financed, single store operators that are the final link in an inefficient, multi-tier distribution chain. Foreign giants like Carrefour of France, Wal-Mart from the US, and Metro from Germany may emerge as the toughest competitors for Mecox Lane as they create national retailing networks in China [11].

Mecox Lane has part of a B2C e-commerce market in China that total led US$ 20 million in 2000, but this is meagre compared to the B2B arena where revenues amounted to US$ 80 million [12]. The next two sections profile two of the emerging B2B successes in China. These cases suggest that leveraging and extending existing resources and relationships is not only a key to success for online retailing in China, but also for B2B marketspaces there.

3. A traditional business intermediary goes online

The highly fragmented nature of most industries in China has traditionally provided ample opportunities for intermediaries. Networks of small Chinese manufacturing enterprises have collaborated with each other and served as subcontractors to meet the needs of both domestic customers and large overseas buyers. Even after the rise of the Internet, long-established B2B intermediaries in China continue to thrive. In sharp contrast to the narrowing business scope of purchasing agents in the West [13], intermediaries in China tend to manage the complexity and integrate the activities among dozens of small manufacturing enterprises.

With revenues that exceeded US$ 2 billion in 2000, Li & Fung is the largest and most successful of these business intermediaries. The company was established in 1906 to export porcelain and silk from China. It is now headed by the grandsons of one founder and derives most of its revenues by supplying private-label goods, such as garments, fashion items, toys, and electronics, to clients like Abercrombie & Fitch, The Gap, and J.C. Penney. In recent years, Li & Fung has enhanced its market position by acquiring smaller industry rivals, including Inchcape in 1995 and Swire & Maclaine in 1999.

Li & Fung creates value by providing an array of supply chain management services. It takes on the responsibility for sourcing, product design, shipment, warehousing and letters of credit. As a trusted intermediary, it helps suppliers with marketing and buyers with procurement. One senior manager stated that a growing part of the company’s value proposition comes from ensuring that customers “get the quality they desire at a price that they can afford”. Li & Fung has invested huge resources over a long period of time to develop trust-based relationships with nearly 6000 suppliers. Most of these suppliers are located in China, but a significant minority is based in other Asian countries.

As the foremost of the traditional B2B intermediaries in China, Li & Fung has used IT selectively to improve its business activities. Much of the focus has been on increasing the efficiency of its internal operations and managerial processes that span across the small, customer-oriented units within the company. For example, an Intranet was introduced back in 1995
to link the company’s facilities and offices across the world. This internal IT application has significantly improved coordination and control.

In 1999, an e-commerce subsidiary, StudioDirect, was established to extend its reach to a new market segment—smaller buyers in western countries. Using the Internet, Li & Fung can aggregate its orders and achieve some economies of scale while continuing to offer some customization to each client. By December 2000, nearly 500 new buyers had been attracted to StudioDirect by the opportunity to obtain products such as shirts, shoes and home accessories with their own brand or label at an affordable price.

Li & Fung has also applied Internet technology to improve its communications with its long-standing customers. A number of secure extranet sites have been launched since 1997 to meet the needs of major customer groups. An increasing but still minor proportion of its sales orders are now taken over the Internet. Some parts of its product development and order fulfillment processes are also done online. According to one internal informant, these IT applications have reduced Li & Fung’s unit costs by nearly 10% and shortened its average cycle time from order to delivery by 12–15%.

Efforts are now underway to set up online mechanisms for negotiating the terms of a contract and monitoring customer satisfaction. Another service being launched is eSO. This electronic stock offer application will give Li & Fung’s loyal suppliers with an alternative channel for disposing of their overstocked merchandise.

Despite the assorted applications that are part of its e-commerce initiative, most of the value added by Li & Fung continues to stem from its decades-old relationships and intimate knowledge of manufacturing enterprises in China. Moreover, its ability to find the most appropriate combination of suppliers, and then to exert its influence on the factory owners, reserving production capacity and assuring output quality, is largely independent of the information technology it uses.

Several new ventures in China, such as ChinaTradeWorld, Meet China and Sparkice, have relied almost exclusively on the Internet as a means to link buyers and sellers. Perhaps the new competitor with the highest profile is Alibaba.com. Jack Ma, the founder of Alibaba views his web site as an electronic alternative to the trade fair. Business people can meet prospective partners in nearly 30 different virtual meeting rooms—each one specializing in a particular type of product or service. Although the site provides some information services, such as credit checks and shipping quotations, it does not have any online transaction capabilities. Therefore, Alibaba is an online meeting space rather than a marketspace.

Although the online upstarts in the China trade industry provide matchmaking services and, in some cases, online transaction capabilities, disintermediation by the Internet does not appear to be a serious threat to the business of Li & Fung. It would be very difficult for a dot-com venture to replicate the customized and personal services that this traditional intermediary provides.

US style B2B exchanges face some unique challenges in China. An online trading platform by itself has limited value to both Chinese suppliers and overseas buyers. Even with commodity products, payment and delivery issues must be addressed. With most goods and services, there are concerns about detailed requirements, quality and consistency, required down payments and credit terms, and how long it will take from ordering to delivery. Unfortunately, would-be electronic matchmakers in China have been hampered by an underdeveloped infrastructure and the limited amount of existing business services that are available to support online transactions. Nevertheless, at least one B2B marketspace in China has emerged as an early success story [14].

### 4. Building a B2B marketplace

i-Metal was founded in March 2000 by AAH, which at the height of the dot-com hyperbole had changed its name temporarily to Global Applied Technologies Holdings Limited. AAH operates China’s largest aluminum extrusion and fabrication business and is listed on the Stock Exchange of Hong Kong. Pure aluminum is a commodity traded globally by metal producers, industrial users, traders and financial industry players.

China is already a large producer and consumer of primary aluminum, with net imports equal to about 20% of its domestic consumption. Although the aluminum industry in China has tremendous growth
potential, it differs from the west in terms of who competes and how they compete. According to government statistics, the top 10 aluminum companies in China control only 30% of the domestic market compared to a 70% share of the US market for its 10 leading firms. The fragmented market has impeded supply chain efficiency and encouraged the presence of intermediaries to consolidate procurement. Moreover, domestic competition is based primarily on price rather than product quality, only a few firms meet export standards. These industry features favor the development of a B2B marketspace to expand market reach, to reduce marketing costs for suppliers, to reduce procurement costs for buyers, and to increase supply chain efficiency.

Nanhai, a city in Guangdong province near Hong Kong, is the hub for aluminum extrusion in China. It is home to 8 of the top 10 producers and 380 of the top 1000 aluminum extrusion firms registered in China. Since AAH has traditionally provided many services to the aluminum industry in Nanhai, its development of a marketspace may be seen as a logical extension of its existing business scope.

After initially considering the Internet as a potential new channel for marketing and sales, AAH decided to go beyond a simple on-line meeting place for potential suppliers or buyers, and to create an online trading platform that offers a wide range of bundled services. The platform handles trades of aluminum futures contracts on the Shanghai Futures Exchange, the physical metal using a B2B exchange model, and standardized finished products, including extrusions, using a B2B catalog model. Buyers and sellers can also access real-time market data for both the Shanghai Futures Exchange and the London Metals Exchange. Most of the services are offered in three different scripts—traditional Chinese (used by the overseas Chinese), simplified Chinese (used in mainland China), and English.

More significantly, AAH has created business partnerships with domestic banks, logistic firms, and warehoused management firms to provide a real-time electronic payment and settlement system, transportation services, and both bonded and non-bonded warehouse services. i-Metal is seeking to add value in this fragmented industry by establishing standards for both the technology platform and data exchange protocols. The development of value-added services is seen as an attractive means to develop a sustained competitive advantage.

Given the groundbreaking features of this marketspace, it is not surprising that i-Metal faces many design and implementation challenges. Similar to Mecox Lane, it had to prod the banking industry to enable the electronic transfer of funds. i-Metal.com worked with one of the four main Chinese banks to create a banking product called the Internet commerce debit card. Even then integrating the web site’s trading platforms with the legacy systems of banks and brokerages on the Shanghai Futures Exchange required 3 months of intensive and often frustrating work. The arrangements necessary for this interfacing would have been impossible unless the founder of AAH had a strong network of personal relationships in the local business community. The real-time funds transfer system now allows i-Metal users to quickly execute transactions in response to market changes.

The online trading platform for physical aluminum presented additional challenges. Unlike the well-developed rules and policies for trading futures on the Shanghai exchange, the online trading process for physical goods had to be developed from scratch. i-Metal ensured the integrity of the trading process by requiring both buyers and sellers to pay a 10% deposit. Here again, banks were coaxed to develop the capability to freeze funds in their accounts pending the conclusion of the transaction. i-Metal also helped to gain acceptance for collateral loans for commodities trading in China. In essence, i-Metal set out a conduct code for B2B marketspaces while encouraging Chinese banks to modernize. This should benefit businesses across China even as i-Metal seeks to capitalize on its first-mover advantage.

Security was another design issue for the i-Metal marketplace. It is addressing external threats by collaborating with China Telecom (a state recognized authority in this area) to introduce digital certification. However, in contrast to the West, Chinese firms are also very concerned with internal threats. In response, i-Metal has implemented multilevel security mechanisms into the marketspace so that only authorized staff can execute trades and transfer funds. i-Metal plans to incorporate bonded warehousing services into its marketspace design. This should increase market liquidity by enabling domestic buyers to purchase small quantities of metal that are physically located....
in Nanhai. With a bonded warehouse, the international suppliers of ingots need not pay duty until the metal is actually sold.

i-Metal is seeking to implement the system for trading of physical metals and to expand into the online trading of finished extrusions. Success with these efforts would make i-Metal a vertical B2B marketspace that provides an online trading platform for aluminum products ranging from primary materials (in the form of futures contracts and ingots) through finished extrusions. Consistent with a distinctive and deeply-embedded characteristic of Chinese business [15], the marketspace design provides a single contact point for a range of industry services, but avoids higher-level business process integration.

i-Metal is envisioned to be a comprehensive services supplier akin to Li & Fung rather than just an online trading platform. The decision to include brokerage, logistics, and warehousing partners in the marketspace design results directly from this vision. i-Metal is seeking to capture the benefits of a network effect to become a dominant provider of online business services, first for the aluminum industry and perhaps subsequently in other industries.

5. E-commerce success in China

Reports on e-commerce development in the US and other western countries tend to focus on reduced overhead costs and increased convenience as a result of more transparent information and pressures for changes in industry structure such as market distintermediation and supply chain integration. The fundamental premise is that faceless market transactions enabled by e-commerce will improve economic efficiency and the quality of life.

Businesses across China have applied IT to improve their internal coordination and control [16]. However, retail and B2B applications using Internet-based tools and other IT applications tend to be less common and less successful. The rare cases of e-commerce success in China tend to resemble electronic networks, with co-operation among complementary product/service providers, more than electronic markets [17]. The emerging success stories have responded to institutional deficiencies by developing or leveraging relationships based upon trust and mutual benefit. These connections have enabled them to overcome regulatory, financial and logistics issues (Table 2).

Decades ago Deng Xiaoping insisted that the economic reforms in China represented the implementation of socialism with Chinese characteristics. A similar adaptation of a foreign concept to the circumstances in China is now evident. Mecox Lane, Li & Fung, and i-Metal may be seen as exemplars of e-commerce with Chinese characteristics. These three emerging success stories have chosen to focus on providing value-added intermediary services. Rather than displacing existing middlemen, and thereby achieving a disintermediation of the market, they are using the Internet to enhance the efficiency and creativity of the market by developing new or improved services.

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<th>Relationship</th>
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<td>Government</td>
<td>Authorization for online retailing</td>
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<tr>
<td>Banks</td>
<td>Credit card payments</td>
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<td>Post office</td>
<td>Product distribution</td>
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<tr>
<td>Thousands of suppliers</td>
<td>Ability to attract online customers</td>
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<td>Large customer base</td>
<td>Online segmentation/customization</td>
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<td>Government</td>
<td>Authorization for online trading</td>
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<td>Banks</td>
<td>Credit and collateral services</td>
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<td>Delivery service providers</td>
<td>Transport of traded aluminum</td>
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<td>Warehouse owners</td>
<td>Warehousing of traded aluminum</td>
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<td>Telecom services provider</td>
<td>Online security for trading platform</td>
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Mecox Lane and i-Metal in particular have worked with national-level partners to develop support services for their marketspaces. As first movers in designing these services, this pair of case-studied enterprises could serve as reference models for future national standards or policy reforms. Both of them have deliberately designed support services that follow international standards in order to prepare the marketplace for China’s entry into the World Trade Organization (WTO). Significantly, their business partners have not been required to formalize or redesign their business processes or to share management information. Even these precursors to supply chain integration remain the exception rather than the norm in Chinese economies [18].

The e-commerce activities in China face a common uncertainty: regulation and interference by the state and its officials. Many online business activities, and particularly those involving foreign partners and business networks, are tightly monitored and controlled by government agencies. For example, the online brokers of securities and commodities in China are prohibited from discounting their commission rates. More generally, the overlapping authority of state agencies and the arbitrary enforcement of enacted laws has shaped the development of e-commerce in China.

There is little doubt that the Communist Party needs China to flourish economically. Anything less would imperil social stability, undermine the party’s legitimacy, and consequently threaten its monopoly on political power. The Communist Party leaders also appear to recognize that modern technologies, including the Internet, are essential for economic progress [19]. The Government Online project represents an effort to lead by example and it has improved Chinese government transparency. However, the web sites of public ministries and agencies linked to www.gov.cn tend to fulfill a broadcast function, providing basic information and touting recent achievements, rather than offering online services to Chinese citizens.

Moreover, some powerful and privileged interests in China are resisting the transition to e-commerce. The Internet has already undermined the Chinese Communist Party’s monopoly on “public” information. Nevertheless, the government continues to expend vast resources to suppress online dissent and to regulate what its people see and do on the web. Excessive state oversight has raised concerns about the confidentiality of online transactions while ambiguous laws make it difficult to authenticate users or to confirm transactions that would avoid repudiation.

Improvements in the environment for e-commerce may be expected as China continues its domestic reforms and joins the WTO. However, a key question can only be answered over time: how (and how quickly) will Chinese business and society change as the faceless world of e-commerce penetrates its economy?

6. Conclusions

The trials and tribulations of dot-com firms and online ventures by traditional firms all over the world demonstrate the difficulty of doing business on the Internet, and especially doing it profitably. Nevertheless, the development of e-commerce in the US (and other modern market-based economies) has been stimulated by the presence of convenient and inexpensive Internet access, well-developed on-line payment and physical transportation systems, and many affluent consumers. Perhaps most importantly, these market-based economies have comprehensive, impartial and enforceable rules to govern market transactions.

Traditional commerce, both at the retail level and between companies, remains comparatively inefficient in mainland China. However, the environment for e-commerce is also very challenging. The personal nature of business relationships, the informality of information, and the lack of separation between political and economic actors are among the factors inhibiting and shaping the development of B2B e-commerce in China. Meanwhile, Chinese consumers, who have no tax incentives to shop online and little legal recourse if the transaction goes wrong, will be reluctant to abandon traditional marketplaces where they can enjoy a social experience and engage in time-honored rituals such as haggling or asking for special deals.

The business environment in China, and specifically an underdeveloped set of business rules [10], has encouraged distinctive forms of e-commerce with Chinese characteristics. Each of the profiled success stories used the Internet to create or extend a competitive advantage by building upon its core competencies. To be specific, Mecox Lane is leveraging the marketing expertise and order fulfillment capabilities
from its successful mail order business model; Li & Fung has gone online to reinforce its knowledge of and relationships with thousands of suppliers across China; AAH has made use of its market leadership position to modernize the aluminum industry’s supply chain with its i-Metal venture. Given the enduring nature of Chinese relationships and the fragmentation in their industries, each profiled venture is expected to enjoy a significant first-mover advantage.

In mainland China, e-commerce may not only enhance efficiencies at the firm or supply chain level, but also serve as a catalyst for hastening the development of the fundamental rules and infrastructure needed for market-based commerce. Although the Chinese government aims to promote IT-enabled economic development, its Internet policies have the potential to inhibit business innovation. It remains to be seen how e-commerce will develop in China and what role it will play in the economic development of the world’s most populous country.

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