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## **Exploring e-business strategies in China: Comparing internet pioneers and internet pragmatists**

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### **Summary**

China is experiencing rapid growth with respect to all types of e-business applications. This paper addresses how Chinese companies have developed or adapted e-business strategies. To this end, e-business enabled value creation is explored using an integrated framework that incorporates two strategic perspectives (the environmental view and the resource-based view). Nine in-depth case studies of leading Chinese companies are undertaken, across three distinct industries - housing development, manufacturing, and B2C retail. A further distinction is drawn between 'Internet pragmatists' and 'Internet pioneers'. The findings highlight some of the key characteristics of e-business strategy formulation, as well as how e-business value creation features differently between pioneers and pragmatists.

**Word Count:** 1,882

## **Exploring e-business strategies in China: Comparing internet pioneers and internet pragmatists**

### **Introduction**

The last decade has seen Chinese e-business develop at phenomenal rates. By the end of June 2013 China had the world's largest online population with over 591 million internet users, of which 464 million were accessing the internet using mobile devices (CNNIC, 2013) making it the largest internet population in the world (CNNIC, 2012). The acceptance of online shopping, as well as steady improvements to online payment methods has created a market in excess of 161 million online shoppers, with estimates as high as \$210 billion for revenues in 2012 and a compound annual growth rate of 120 percent since 2003 (McKinsey, 2013). The large-scale development of B2C in China in recent years offers promising opportunities for both Western and Chinese companies. Although renowned Western companies such as Amazon.com and Ebay.com have played important roles in the market, so far, the most successful players are the indigenous Chinese companies such as Alibaba.com and Taobao.com.

In the light of global financial crisis, IT executives are set to leverage both global and local IT opportunities to overcome global and local business challenges (Luftman and Zadeh, 2011). Research (e.g. Chen et al., 2007, Guo and Chen, 2005, Martinsons, 2002) suggests that Chinese companies use IT differently from their Western counterparts and Western models face some unique challenges in China because of a lack of e-business readiness and the socialist market system. However, little empirical research investigates how Chinese companies localise Western e-business models.

Many researchers suggest that dotcoms and established companies are facing different strategic imperatives (e.g. Porter, 2001) and require different competencies (e.g. Fahy and Hooley, 2002). However, little empirical research has been conducted to explain the details of the differences. This paper provides some of this empirical evidence from a study which presents an industry perspective on e-business enabled value creation. In order to address the gaps which have been identified, this research sought to answer two key research questions:

- (1) How have Chinese companies developed or adapted e-business strategies?
- (2) Are there differences between the two distinct groups: Internet pioneers and Internet pragmatists?

A subsequent objective of the study is to provide a framework for investigating e-business strategy and value creation.

## Research Background

The research investigated e-business enabled value creation within two distinct groups: Internet pioneers and Internet pragmatists. Internet pioneers are seen as visionary early adopters who have seized on the opportunities afforded for reshaping industries and creating significant strategic advantage (Fahy and Hooley, 2002). By contrast, Internet pragmatists are the more pragmatic early majority firms that have adopted e-business technologies to enhance their existing operations. (Fahy and Hooley, 2002).

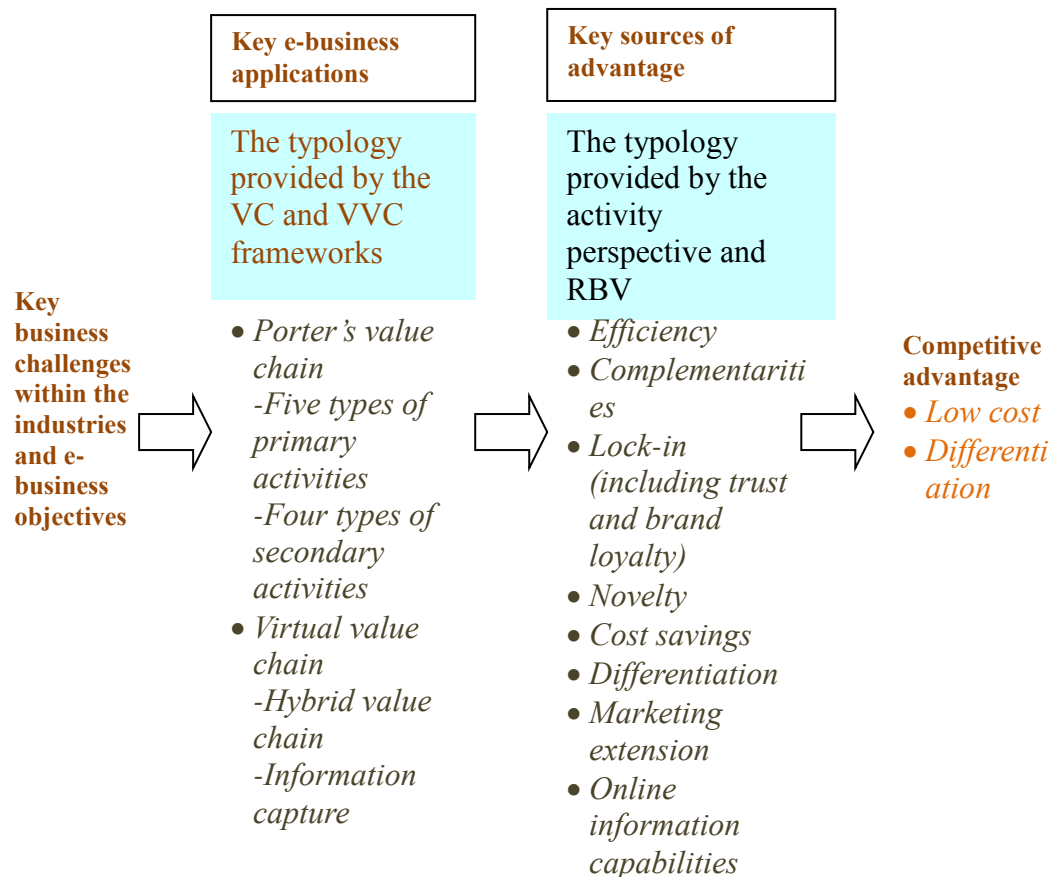
Based on existing theory, this paper takes an integrative approach to understanding e-business strategies, as this is believed to be more likely to capture the richness of e-business value creation. Amit and Zott (2001) contend that no single entrepreneurship or strategic management theory can fully explain the value creation potential in e-business. Barney (1995) suggests that creating sustained competitive advantage depends on the unique resources and capabilities that a firm brings to competition in its environment. Hence, a complete understanding of sources of competitive advantage requires the integration of internal resources and capabilities with environmental analyses (Barnes & Hinton, 2004).

The environmental based view suggests that the value chain is an influential concept for investigating e-business' impact on sources of competitive advantage (SCA) (e.g. Porter, 2001, Rayport and Sviokla, 1995, Amit and Zott, 2001, Phan, 2003). The role of the virtual value chain model applied to e-business is now well established with respect to environmental analyses (Rayport & Sviokla, 1995)

Likewise, the resource-based view (RBV) literature has become the most influential and cited theory to explain the internal sources of a firm's sustained competitive advantage (Kraaijenbrink et al., 2010). Of particular note is Barua et al.'s (2004) model which uses RBV to identify online information capabilities as a concept that:

*“addresses specific problems resulting from lack of information access, information asymmetry, and uncertainty” and allows a firm to “share tactical and strategic information with business partners, but also enable low-cost execution of customized transactions”* (Barua et al., 2004).

Therefore, in order to investigate e-business value creation, we propose a theoretical framework that links the value chain framework and resource-based view (RBV) perspectives:



**Figure 1:** The theoretical framework for investigating e-business value creation

## About This Research

This research was designed to include two basic groups: the internet pioneers and the internet pragmatists. These two groups form the basis for comparison in terms of e-business value creation. Meanwhile, this research set out to compare companies within and across industries. Three industries were chosen for this research: housing development, manufacturing, and e-commerce. Housing development and manufacturing industries are both key established industries in China while the B2C sector is the most active area in term of e-business applications. Within each industry, several leading companies were chosen to compare differences and similarities within that sector.

Potential cases had to meet the following requirements. Firstly, the cases should have actively applied e-business in their respective industry. Secondly, the cases should fit the conceptual categories of e-business applications namely Zwass's (1996) definition of e-business, Internet pioneers and Internet pragmatists and Timmers' (1999) business models. Thirdly, the cases were selected from three specific industrial

sectors in economically prosperous areas in Mainland China: the Yangtze River Delta, Pearl River Delta, Bohai Rim region and the national capital Beijing.

In the light of the research questions, primary data collection was carried out within nine case companies, following the case study research process proposed by Eisenhardt (1989). Semi-structured qualitative interviews were carried out with key managers responsible for e-business or information system management, as well as other general managers. Parallel with this primary data collection, secondary data was collected with the aim of understanding the companies' backgrounds, senior leaders' views on competitive advantage and e-business applications and corporate strategies. The main stages of analyzing transcripts of in-depth interviews involved the following: pattern search, identifying explanatory concepts, identifying central categories, building typologies, and re-evaluation.

## **Preliminary Findings**

All of the case companies are industry or market leaders in China. In the housing development industry, industry concentration and high profit margins provide opportunities for leading players. Meanwhile, intensified competition is eroding industry profitability. These changes require companies to gain competitive advantage through lower cost. Also, as customers have gained experience over time, they have become more brand-sensitive. Hence, cost control and brand-building are two key components of the case companies' strategies. As the manufacturing industry is at the stage of maturity, companies have narrower profit margins. Hence, they emphasize building brands, having competitive costs, and/or making strategic adjustments. As the EC-retailing sector is at the introduction stage, companies are experiencing high marketing costs and are focussing on increasing market share. Therefore, marketing cost is a key cost driver. E-marketing offers a cost-effective solution. Although the EC-online gaming sector is still enjoying high profits, companies lack skilled game developers resulting in strong bargaining power for global game providers and uncertainty in future company development. Hence, R&D capability is a key factor for these companies' sustainable development. Consequently, companies regard online communities and e-CRM as promising approaches to strengthen R&D innovative capability. In summary, cost control and brand-building are two key concerns shared by the case companies across industries. While strategic adjustment is a key success factor in the manufacturing industry, R&D capability is a key driver for sustainable competitive advantage in online gaming sector.

In order to manage the opportunities and the challenges facing the industries, the case companies have adopted some common strategies:

- Adopting expansion strategy either at national or global scale in order to achieve scale economies, and consequently to lower the cost;
- Improving operational efficiency;
- Taking the opportunities for globalisation (within case companies in manufacturing industry and e-commerce industry);
- Technological innovation (within the case companies in manufacturing industry and e-commerce industry).

Despite differences across industries, the case companies have commonly adopted some types of e-business applications (i.e. e-CRM, e-procurement, and B2C websites) although these e-business tools have been exploited at different levels.

The research found that Internet pioneers and Internet pragmatists have adopted different e-business strategies. The Internet pragmatists applied e-business to solve business challenges (e.g. improving innovation capability and operational efficiency by the manufacturers) and adopt advanced management concepts (e.g. the made-to-order model by Haier and the customer-centric concept by Vanke). The Internet pioneers used e-business as an innovative tool and a competitive weapon to reshape industrial structure. This finding supports Porter (2001) and Fahy and Hooley (2002)'s argument that dotcoms and established companies are facing different strategic imperatives and they should adopt different e-business strategies. In order to propose e-business strategies, both Internet pioneers and Internet pragmatists face the same strategic choice, especially with B2C applications: to be or not to be a first-mover.

Both of our case companies in the B2C sector (dotcoms, Internet pioneers) chose to be first-movers in their respective sector. They have both become leading players in their sectors and leading players in the Chinese B2C market. They are now reaping the rewards of early entry e.g. relatively low-cost of building brand identity and loyalty and seeking the historic opportunities. However, they are not the leading players in their markets. The best players timed their entry to the market a few years later, with a better offering including a better selection of products, better logistics and better customer services. Based on this analysis, we can conclude that first-mover advantages are not sustainable and dominant. However, seeking historic opportunities is a non-imitative source of competitive advantage. In the Chinese business context, as with other emerging economies, B2C readiness has played an important role in B2C applications.

In terms of the key e-business applications, online information capabilities (OIC) are the dividing factor between Internet pioneers and Internet pragmatists. Manufacturers and EC companies have actively built up their OIC. The housing developers are at an initial stage of realising information integration. Based on their OIC, manufacturers have achieved e-CRM (B2B). Currently, e-CRM (B2B), the channel management system is a key success factor for the Chinese manufacturers. By obtaining OIC, EC companies own the consumer relationship, whose lifetime value is often the value of the business. However, a common interest in obtaining OIC and exploiting e-CRM motivates Internet pragmatists (including property developers and manufacturers) to seek to learn rapidly from the experience of the pioneers.

## **Future Research**

Further thematic analysis of the case studies will be conducted. This will explore further differences between different industries' e-business strategies, identify key interventions in e-business management, and further test the integrative framework.

It would be interesting to further investigate how these companies will use their learning with e-business tools and strategies to further develop and strengthen their



current leading roles. There are already strong indications that the cost-competition approach of many Chinese companies is introducing disruptive business innovations into the global economy. Chinese e-business strategies may exhibit similar innovation in their next phase of development.

This research has revealed a distinct feature of e-business in China - approaching automation, informatization and e-business at the same. This feature is shared by companies in emerging economies and reflects the pressures to catch up with foreign incumbents. Hence, the theoretical framework and the key findings based on this research may be used as a basis for similar studies carried out in other emerging economies.

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