E-Commerce between a European and a Chinese company

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ABSTRACT

With the rapid development of the Chinese economy in general, and Internet in China in particular, the scope for international bus iness cooperation is increasing. The paper presents an E-commerce case study between a listed Chinese Internet Service Providing company and a small Dutch IT company. The analysis employs a "fit" model, that addresses the following five fits: strategic, resource, cultural, organizational and technological. In this case it was mainly the strategic misfit that caused problems, which were aggravated by cultural issues.

Keywords : E-Commerce; international; strategy; cooperation; culture.

1. INTRODUCTION

In today's global economy, increasingly companies are seeking partnerships, such as strategic alliances to enter new markets, obtain new skills, and share risks and resources [1]. Especially the rapid development of Internet has speeded up the business cooperation process. Information and Communication Technology (ICT) is enabling organizations to be flatter, networked, and more flexible on a global level, and time and place are no longer the barriers in expanding businesses.

Since the Open-Door Policy adopted two decades ago, China has been one of the rapidest developing countries. The international business cooperation, especially the membership of WTO, has been the Government's priority to enhance its economic reform and to strengthen its position. Moreover, China has made great progress in Internet development during the past few years. With a population of over 1.2 billion, the total number of online users has reached an estimated 22.5 million by the end of year 2000. European-Chinese business cooperation has existed for a long time. The Internet has provided new ways and channels for organizations both inside and outside China to gain cooperative advantages and to create added value chains for a period as long as possible. Therefore, the study of how to sustain and expand those traditional international co-operations and business relationships is almost imperative.

This paper addresses the factors that affect E-commerce and E-communication between businesses in China and Europe. The next section briefly describes the fit model used to analyze the subsequent two cases. The conclusions discuss the difficulties involved in inter-cultural E-based cooperation.

2. FIT MODEL

The success of strategic relationships is driven by both structural elements and social elements [2], and the key issues are the fits between parties [3] [4]. The technology advances in ICT have permitted an increased flow of information across borders, and increasingly companies are moving to the so-called information-based alliances [5]. However, a company cannot move to the T-form (technology-based) organization overnight. It may appear to be a traditionally structured firm while some business functions have been replaced by the electronic version. A further step is the *virtual organization* that represents a new form of strategic alliance [6]. All arguments related to Virtual Organizations lie with redefining the internal structure [7] [8] [9] [10], and external (virtual) value-added partnerships [11] [12]. Here, our focus is directed towards external teaming-up. A Virtual Organization is defined as an electronically networked organization that transcends conventional organizational boundaries, with linkages which may exist both within and between organizations, to create new markets, offer new products/services (added value), or assure flexibility in responding to new market requirements [13] [14] [15]. Several influencing "fit" factors can be distinguished.

Strategic fit is the extent to which the partners' strategies, objectives and motives are mutually dependent and compatible, as well as whether the alliance is of strategic importance to the partners' competitive position. It is assumed that a successful alliance is only possible when the partners have similar objectives [16] [4]. *Technological fit* is, on the one hand the ability for adapting ICT, and on the other hand the degree of the difference between the product and production technologies of the partners. *Resource fit* requires that partners are willing and able to contribute the critical resources, assets and competences needed for the alliance's success. *Cultural fit* involves the individual corporate culture, industry culture, and national or ethnic culture, and these differences in culture influence three major aspects of management: business objectives, competitive approaches, and management approaches [17] [18]. The development of cross-cultural trust-based relationship is thus a key issue in inter-organizational information exchanges in the network era. *Organizational fit* is described as a situation in which the organizational differences do not hinder the functioning of the alliance, and in which the partners have a shared vision on the alliance design. Four factors were identified to determine the degree of organizational fit namely flexibility, management control, complexity, and trust [4].

3. ABC and XYZ

Company ABC is a small Dutch IT company. It has developed the E-commerce solution named ABC1/ABC2. ABC1 is a software program based on five simple and straightforward logical steps for users to place graphics, text and keywords on WebPages in a few minutes. ABC2 is a database used in combination with ABC1. In 1998, ABC realized that China could be a huge potential market for its products. Due to lack of the resources and experience, it needed to find suitable partner(s) to develop the market together.

XYZ is a Hi-Tech shareholding enterprise specialized in ISP operation and related technical support. By the end of 1999, its operations covered 108 cities in China with total assets US$ 240 million and 2,360 employees. Its main services include ISP, ICP, IPP, Intranet, and I-fax, etc.

The two companies agreed to market the ABC product into China market. Based on their agreement, ABC would develop the new product (ABC3) and transfer the technical knowledge to the new venture, while XYZ would provide capital for financing the operation equipment and office in Shenzhen. XYZ is responsible to attract potential customers by using its current business network. ABC3 is based on ABC1/ABC2 but the languages should be changed to Chinese/English. This cooperation was started in 1998, but several months ago both parties agreed to stop the cooperation.

The daily communication between the two parties is mainly via e-mail and fax. For ABC3 a new web-site was set up in China, and both partners can access the database. ABC3 is an e-commerce solution and all transactions can be done through the Internet. It means the venture can be a pure virtual enterprise in theory. Some problems of the communication process have been found, including:

- communication is mainly in English, implying that several Chinese people in XYZ cannot express their ideas and plans clearly;
- responses take too long: both parties only respond quickly when the topic matches their interest, and it causes an endless electronic discussion when one party is not interested;
- there is no confirmation item within the mail system, which causes confusion when the response has been delayed.

4. FIVE FITS

Strategic Fit

On the one hand, XYZ is one of the biggest Chinese Internet companies and it is part of a large conglomerate of companies operating internationally. It is aiming to become a powerful ISP player in China and the main business objective is similar to all Internet companies - getting more users and then go public. Therefore, XYZ sees the IP Fax and IP Phone services as its priorities for strengthening its position. XYZ also aims to enter the Western market. On the other hand, ABC is a small but innovative IT enterprise. Like other small high-tech firms, it also wants to grow rapidly, and the booming Chinese Internet market holds huge opportunities for ABC to achieve its dream. However, as it lacks the necessary resources and experience, it has to find a strong and suitable partner who can share the risk and provide efforts.

The product ABC3 is one of ABC's core competences; the success and quick market development and expansion in China is its business strategic priority. XYZ sees ABC3 as just one of the added service to its product package for the end users, and the marketing plan of ABC3 should be based on its own business strategy. In addition, XYZ does not recognize that ABC can be a major agent/bridge for its business and customers to enter the European market. Therefore, XYZ will not commit the expected efforts and resources to the project. The different viewpoints from the beginning have caused different expectations and many misunderstandings.

Technological Fit

For the application part of the e-communication, we assume there is no technical gap between the two parties and they fit with each other well because both companies are IT (Internet) based. However, the main communication language is English even though ABC also has Chinese writing/reading software. For the technological part of the product ABC3, ABC thinks XYZ lacks proper understanding of the product and the market from a technological point of view. XYZ blames that ABC keeps the source codes of the software package (property protection), hampering XYZ in solving problems of Chinese customers. However, the most important role - satisfy customers - has been totally forgotten in this case, and the result is that existing and potential customers are lost. It is difficult to assess how the technological fit with regard to ABC3 actually is as XYZ has not been involved in the development of the product.

Resource Fit

ABC is weak in financial power and in experience in China. As a consequence it cannot afford a working-team (*management and technical*) in China on its own and also it cannot invest more money for the promotion and marketing of its product. Therefore, it only can provide the technical base and limited resources (*people and money*) to the new venture, aiming to achieve a high market share and return in China's market as quickly as possible. However, all hopes depend on its partner's nationwide business network, and on the efforts and speed in marketing the ABC3 product.

XYZ's major business activities are in Guangdong province, and most of its customers are from this region. The offices in other regions are mainly part of the group's long-term business strategy and many of them are units cooperating with other parties. XYZ does not fully use its business network to market the ABC3 product into the complete Chinese market. Also, in some points, XYZ is big, but like most ISPs, it is also eager to attract more external financial sources to promote its new product package. Both parties are expecting the other side to provide the necessary resources to promote ABC3 but neither of them is willing to do so. The limited budget for the ABC3 project has resulted in a difficult and slow marketing process.

Cultural fit

As ABC is a Dutch company and XYZ is a Chinese firm they do not have a shared past. The development of a trust-based relationship is thus a key issue in the cooperation. In this case, the trust-based relationship has not yet developed between the two parties, especially from the side of ABC. It is common that the smaller party is in the weaker position when a cooperation is formed between small and big companies. The smaller one then uses a defensive strategy to protect its rights and position. Even though ABC has employed two Chinese staff, the language difficulty remains within the business cooperation. For example, the daily communication language used in emails and faxes is English, while English is neither ABC's nor XYZ's native language. More importantly, the Chinese involved in the communication process are not decision makers. Many Chinese are not eager to share information with others and may add their own points in communication. This causes a feeling to be communicating with the wrong person at the wrong position, leading to the endless dissuasion between the two parties without solving a problem immediately.

Organizational fit

The alliance design of ABC and XYZ is simple: XYZ takes most responsibility in providing the marketing and technical staff and ABC trains those staff in more details of the product. Therefore, XYZ takes a strong bargaining position compared with ABC. The bargaining position imbalance in the projects is due to inequality and the limited strategic fit between the two parties. In such a situation, there is a great chance the alliance will only yield advantages for one of the two partners, which will endanger the alliance's stability. Both partners want to stay in control of the situation, especially of the part that they contributed to the cooperation. Both parties have mentioned that the e-communication method has reduced the costs such as traveling, training, and maintenance significantly. However, face-to-face contact is still valuable for developing trust and mutual understanding. Also, the business methods that this cooperation uses do not match: the foreign partner expects quick returns based on its experience in Europe while the Chinese partner aims at the long-term.

5. CONCLUSION

In this case, the result of e-communication is not as good as it could have been even though both parties use this tool fluently. Neither ABC nor XYZ had expected the alliance to stand at such a situation. The communication has suffered from the fit factors described. The *strategic misfit* is the major cause of the failure alliance: for the Chinese partner the new product constituted merely an additional service for a limited segment of the market, while the foreign partner aimed at penetrating the Chinese market rapidly. No *technological gap* was found during the interviews even though both parties have blamed each other on this point. The lack of *resource fit* is caused by the strategic misfit, with both parties only willing to input the resources needed for their own interests. The *organizational fit* is limited; in particular the imbalance in bargain power has endangered the stability of the cooperation. *Cultural differences* continued to play a role, but were particularly persistent because of insufficient trust. This relates to the social, corporate, and individual culture in China, which is totally different from the Western world. Initially, the language problem is the most frequently mentioned factor. Therefore, Chinese speaking staff are employed to overcome that barrier to a certain extent. This definitely helps, but is not sufficient to compensate other misfits.

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