The Digitization of Business in China

Exploring the Transformation from Manufacturing to a Digital Service Hub

Edited by
Young-Chan Kim and **Pi-Chi Chen**
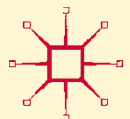
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Introduction: Business-to-Business Marketing in China: Digital or Traditional?

Jonathan Cooley

1.1 Introduction

Overlapping the Industrial Revolution and the Information Age, our new digital-world provides increasingly unfettered trade and the ability for people, businesses, and countries to connect and collaborate. The history of globalization continues to repeat itself. As Friedman notes regarding today's globalization, "the defining measurement of the globalization system is speed—in commerce, travel, communication and innovation" (Friedman 1999, p. 10). From the competition of the first tribes to that of cities, then of competing nations, and finally from the competing nations, we now see individuals competing globally. Friedman further writes that "the force that gives [digital globalization] its unique character

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is the newfound power for *individuals* to collaborate and compete globally" (Friedman 2006, p. 10).

Like Captain Kirk on the Starship Enterprise in America's *Star Trek* TV series, the modern promise of globalization—and its inherent downsides—will take us where no human has gone before, faster than ever before: "Take us to warp speed eight, Scotty" (Roddenberry and Lucas 1969, p. 2).

There are many facets of business-to-business (B2B) marketing. When one combines this with foreign cultural and marketing message differences for cross-border marketing, the challenges for research become many. An initial literature review focuses on challenges for B2B marketing in China by Western (American) firms, specifically through online marketing strategies, techniques, and e-commerce.

The Internet's promise of enhanced communication, new digital marketing tools, and new techniques to reach customers has provided an evolving environment (Aberdeen 2012). After several years of Internet e-commerce history, professionals and academics can now explore its efficacy and postulate its future prospects.

1.2   Literature Review

To analyze the relevant literature for business-to-business (B2B) online marketing in China, the analysis first reviews existing research and reports for Internet trends in China overall including Internet use, adoption rates, demographics, and customer responses. Many of these trends come from business-to-consumer (B2C) data; however, they may or may not act as a general proxy for B2B trends which are explored in a later section of the chapter. Next, the review highlights key B2B marketing trends and techniques, focusing on the B2B online marketing segment. Finally, the analysis summarizes the available literature and research to consider the implications for Westerners marketing in China. It concludes with future areas for academic research. To review successful outcomes of Internet global marketing on the whole—although a critical component of this topic—is beyond the scope of this chapter.

The academic literature has not kept pace with the rapidly evolving Internet marketing changes and challenges throughout the world and

especially in China. The ability for American researchers to read studies that may exist only in Mandarin and the dearth of English-based research limit a literature review, perhaps seriously. While this literature review has relied on professional and popular literature as well as academic publications, original independent research was later conducted in China and is briefly summarized at the end of this chapter.

1.2.1 Major Internet B2B Marketing Issues

Five major issues emerge in the literature for Internet and e-commerce marketing, many of which appear similar between B2B and B2C issues. These five, including representative authors, are as follows:

- the Internet has created new communication and collaborative tools for marketing (Sarkees 2011);
- Internet adoption rates and e-commerce trends are important market performance measures (Ambler and Xiucun 2003; Eid et al. 2002);
- investments in online marketing and e-commerce—including both employee time and money—are important and must be reviewed with other traditional marketing tools (Harrison and Hedley 2010, n.d.; Wang and Song 2011);
- trust is a major issue for both B2B traditional and Internet marketing approaches and e-commerce transactions (Chen and Dubinsky 2003; Chong et al. 2011; Gao et al. 2010); and
- marketing messages must be tailored to the local culture (Nantel and Glaser 2008; Madden 2011).

One of the most substantive literature reviews for studies of B2B in China was by Wang and Song (2011). These authors reviewed 23 mainstream management and marketing academic journals from 1990 through 2009 which focused on three business and marketing research areas:

- How do extant business marketing theories apply to China?
- How do applicable theories apply across cultures?
- What are the unique Chinese marketing characteristics?

Most of the articles are theoretical although the research may employ various empirical methodologies—surveys (55% of the articles), secondary data (16%), and case studies (10%).

An often cited fundamental work models users' computer adoption rates (Davis et al. 1989). It is an important concept, recognizing that user resistance to new technology affects adoption rates which in turn affects the success of both the technology and companies attempting to utilize the technology.

Perceived usefulness had a strong correlation to people's intention to use computers. Ease of use had a small effect on intention and subsided to negligible over time. Consistent with much of the current literature, Chaffey and others (Eid et al. 2002) argue that Internet adoption rates and performance are unique from other business dynamics and Internet strategies must be treated separately. Niu et al. (2012), as well as Wang and Lestari (2013), argue that the Internet is very relevant when entering new markets and, therefore, extensible to actual user intention, especially in emerging countries (Cina and Chen 1999; Chong et al. 2011; Harrison and Hedley n.d.).

Critical success factors include trust in e-commerce transactions (a recurring theme) and e-commerce adoption rates suggesting new marketing measures, opportunities, and critical success factors in B2B marketing in China (Casella 2007; Chong et al. 2011; Eid et al. 2002; Nielson 2011). Recognizing the need for tailoring the marketing approach and content in foreign cultures—and then implementing those changes—are also critical factors (Chong et al. 2011; Eid et al. 2002; Hofstede 2001; Schulze 2012).

1.2.2   Internet in China: Penetration and Demographics

Concurrent with Asia's GDP growth from 1990 forward, growth in investments in Informational Technology (IT) infrastructure has a positive correlation. With improved infrastructure, growing government support, and enhanced developer and user access, Internet use in China began to grow rapidly in the late 1990s (IDC 2009). By 2009, the Chinese IT market growth rate was 9.1%. Only India had a similar growth rate of 10% with the US and Japan's growth at 0.9% and 1%,

respectively. These growth statistics, however, may be deceiving as both Japan and the US already had significant IT infrastructure. Rapid additional growth in Japan and the US, therefore, had slowed.

A substantial body of literature documents the rise of China's e-commerce; however, much of this appears in professional and industry articles (CNNIC 2013, 2010, 2006; IDC 2009; iResearch 2009) with little from the academic literature. For example, from 2000 through 2009, the number of Internet users grew from only 22.5 million to 338 million respectively or 25% of the Chinese population (CNNIC 2010) and is estimated at over 600 million at the end of 2013 (CNNIC 2013), twice the population of the US.

Reviewing this data, however, one must question if these are unique users or unique devices. The data source is across all Internet access methods and 73% of access was via mobile devices in 2013; therefore, mobile and desktop users may be counted more than once. Revenue growth may be more telling. As of 2012, total online sales reached ¥ 800 billion (¥ is RMB Chinese Yuan) or approximately $100 billion USD, of which approximately 37% were B2B transactions (Chan 2014; iResearch 2009).

When looking at online Internet users' (netizens) demographics, we see that this population has been trending with an equal proportion of men and women (50:50) with 60% of these users between the ages of 20 and 50. As demonstrated in Fig. 1.1, for Internet e-commerce sales demographics, netizen buyers use the Internet 75% of the time and friends/family 50% of the time as their primary resources for reliable product information. Friends and family are typically considered word-of-mouth (WOM) advertising in marketing and today WOM is reflected in online communities, social media and viral marketing (Silverstein 2013). Traditional marketing vehicles such as TV, advertisements, and company-sponsored activities each represent less than 10% of netizens' information resources.

Chinese netizens use social media sites disproportionally compared to the rest of the world, with Chinese social media and community sites such as Dianping, Renren, Sina Weibo, QQ, 51, Wechat, or Baidu used by 91% of netizens (Chiu et al. 2012). Many Chinese buyers and technical staff evaluate products and services over the Internet through social online communities, blogs, and forums (Sonmez 2006). Reflecting Chinese Internet statistics for social media use, Alibaba—the world's

Bar graph showing primary information resources for Chinese netizen buyers:

- Internet — 70.5%
- Friend or Relative — 52.6%
- TV — 9.2%
- Magazine Ads — 8.0%
- OutdoorAds — 5.3%
- Newspaper — 5.2%
- Enterprise Activity — 0.5%
- Radio — 0.4%

% Netizens   0%   20%   40%   60%   80%

■ % Netizens; Multiple Preference Responses; Total > 100%
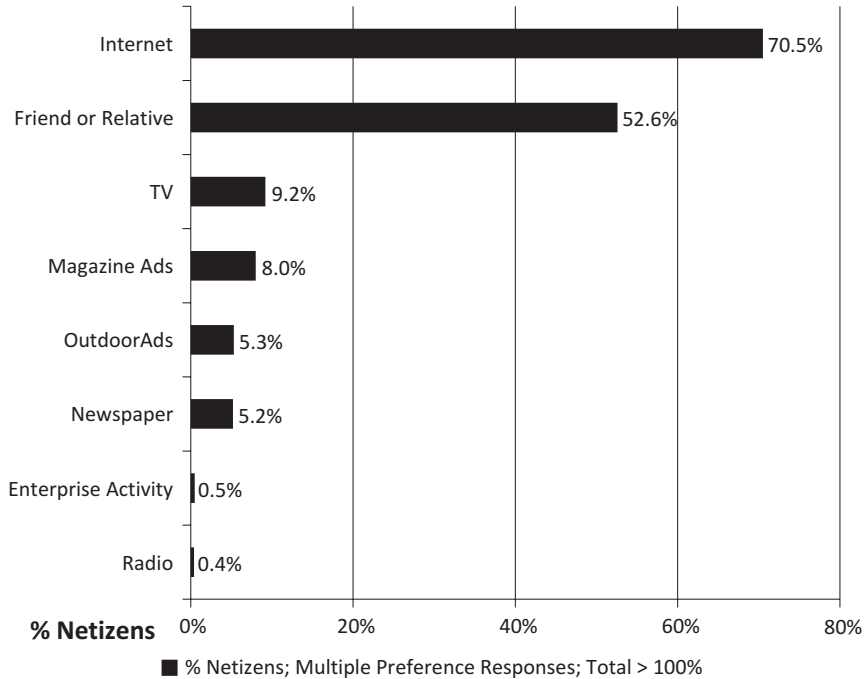
Fig. 1.1 Bar graph showing Chinese netizen buyers' primary information resources. (Source: Adapted from CNNIC 2008: Statistical Report on Internet Development in China, p. 29)

largest B2B e-commerce site—includes a forum site to facilitate communities and transactions (Zhao et al. 2008).

Of the netizen e-commerce buyers, 85% have post-high school degrees; therefore, these buyers represent a fairly educated group within China (CNNIC 2010). On the whole, these Internet demographics hold implications for B2B marketers in China.

Many authors (Cina and Chen 1999; Chong et al. 2011; Eid et al. 2002; Harrison and Hedley 2010) suggest that these Internet and netizen trends are important to online B2B e-commerce for several reasons. First, online buyers between the ages of 20 and 40 with an advanced education will continue to move into responsible roles as employees influencing or directing B2B business procurement, utilizing the Internet and B2B e-commerce more frequently. Second, web-based content and information is lower in cost and has a higher propensity to provide a company

with a positive image and with greater influence on buying decisions over traditional TV and print media advertising. The literature generally agrees that traditional TV and print media marketing channels are less trusted in China (Pollay et al. 1990). Finally, iResearch (2009) argues that using online e-commerce B2C trends as a proxy for B2B activity is reasonable as 37% of all online revenues are B2B, and e-commerce for both B2C and B2B purchases has similar buyer transaction trust concerns.

1.2.3   B2B Marketing Trends and Techniques

In a survey of 1700 B2B Western marketers, Doyle and Balegno (2012) found that these marketers' primary goals are to generate quality marketing leads and convert those leads into customers. These goals were ahead of branding, company reputation, or target market awareness. The authors also measured respondents' perceived marketing effectiveness (i.e., lead quantity and quality) of various marketing channels and investments using a modified Likert scale. Findings indicated that marketers ranked website utilization (50%), virtual events/webinars (43%), email marketing (40%), Internet search engine optimization (SEO, 36%), and telemarketing (35%) as generating the most effective results. Between 2010 and 2011 during the worldwide economic slowdown, however, marketers perceived a significant drop in the perceived effectiveness across all media channels (Doyle and Balegno 2012).

Given this information (Fig. 1.2), marketing continues to invest budgets, personnel, and media primarily in traditional trade show marketing with Internet-based website development (21% and 16% respectively). Fewer investments were made in other Internet-based marketing methods such as email marketing (13%), paid search (13%), or virtual events/webinars (7%). Traditional print advertising and direct mail still receive a substantial proportion (22%) of marketing budgets (Doyle and Balegno 2012). Of course, this data will vary by industry, but the overall trends are important when Western companies consider marketing investments in China.

The resource focus by these Western marketing departments (Fig. 1.2) is incongruent with the perceived channel effectiveness for China (Fig. 1.1). Websites are important, but Internet-based content,
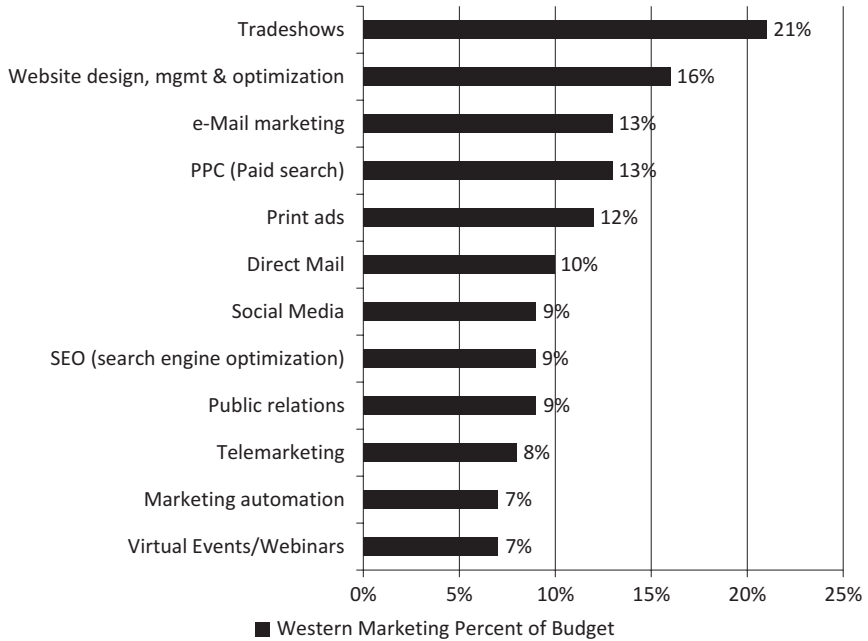
Fig. 1.2 Bar graph showing Western marketers' percent of marketing budgets invested in each market tactic category including direct costs, personnel, and media. (Percent totals are averages from each respondent, so total is greater than 100%. Source: Adapted from Doyle and Balegno (2012))

social media, online community, SEO, and public relations approaches are more important in China than traditional media in the B2B customers' purchasing proclivity (CNNIC 2010; Harrison and Hedley 2010, n.d.). Chinese e-commerce and netizen characteristics for B2B marketing require different Internet strategies and tactics than currently found in Western marketing (Nielson 2012; Eid et al. 2002; Wang et al. 2012).

1.2.4   B2B American Marketing in China

The available academic and professional literature tends to concur that cross-cultural marketing has unique requirements for online marketing and e-commerce. This has important implications for online B2B mar-

keting in China by American and Western companies. The traditional implications of the 4Ps of Price, Product, Promotion, and Place still apply; however, there is general consensus that a company's reputation, experience, and customer relationships are also critical success factors in B2B Chinese markets (Ambler and Xiucun 2003; Chong et al. 2011; Dunn 2007; Eid et al. 2002; Harrison and Hedley n.d.; Ewing et al. 2010; Gao et al. 2010). Therefore, the basic questions of marketing apply—market to whom, where, when, and how? And in China, experience has shown the "how" is critical. One may posit that the B2C market—which has been studied extensively—will provide some insights into the B2B markets.

Lessons from B2C: Marketing to Whom?

The target netizens use the Internet as a major source of obtaining detailed product information, user opinions, and referrals. Based on the data, they are probably between the ages of 20 and 40, educated, and equally men or women. Studies indicate that netizens had reached 338 million in 2009 (CNNIC 2013). A study by iResearch (2009) indicates that online shopping penetration was 88 million or 27% of the online population. More recent studies project much higher online shopping penetration. As of 2013, 302 million unique netizens completed e-commerce transactions for a 49% use rate (i.e., penetration), and that penetration is projected to rise in the next three to five years (CNNIC 2013; iResearch 2013).

Lessons from B2C: Marketing Where?

Looking at the data in Table 1.1, the top three areas with the greatest number of netizens are in the provinces/administrative areas of Guangdong, Zhejiang, and Jiangsu with Shanghai ranking sixth and Beijing with the smallest number. Table 1.1 has been sorted to rank the number of online customers—those actually purchasing products or services through e-commerce. One will note that Shanghai and Beijing are now in the top five. When this data is ranked for conversion of netizens

Table 1.1 Online 2008 Netizen data and conversion to online buyers

Ranked by number of online customers				
	Number of netizens (millions)	Number of online customers (millions)	Online shopping penetration rate (%)	Conversion rate users to buyers (%)
All China	338.00	87.88	26.0	26.0
Guangdong	**45.54**	9.18	20.2	20.2
Shanghai	11.10	7.46	67.2	67.2
Zhejang	**21.08**	7.29	34.6	34.6
Jiangsu	**20.84**	7.06	33.9	33.9
Beijing	9.80	6.40	65.3	65.3
Shandong	19.83	4.10	20.7	20.7
Hubei	10.50	3.15	30.0	30.0
Sichuan	11.03	3.15	28.6	28.6
Hunan	9.99	2.52	25.2	25.2
Fujian	13.79	2.08	15.1	15.1
Ranked by conversion rate				
All China	338.00	87.88	26.0	26.0
Shanghai	11.10	7.46	**67.2**	**67.2**
Beijing	9.80	6.40	**65.3**	**65.3**
Zhejang	21.08	7.29	34.6	**34.6**
Jiangsu	20.84	7.06	33.9	**33.9**
Hubei	10.50	3.15	30.0	**30.0**
Sichuan	11.03	3.15	28.6	28.6
Hunan	9.99	2.52	25.2	25.2
Shandong	19.83	4.10	20.7	20.7
Guangdong	45.54	9.18	20.2	20.2
Fujian	13.79	2.08	15.1	15.1

Source: Adapted from CNNIC (2010, p. 11, p. 32) and iResearch (2009, pp. 26–27)

to buyers (i.e., conversion rate), Shanghai, Beijing, Zhejiang, Jiangsu, and Hubei are the top five. Given that online buying behavior is a proxy for B2B buying behavior (iResearch 2009), this suggests that B2B e-commerce marketing should target these areas first for the greatest number of qualified leads with a propensity to purchase online (Cina and Chen 1999; iResearch, Harrison and Hedley n.d.).

Contrary to these suggestions for B2B online market entry, the literature provides some contrarian market entry strategies for China (Niu et al. 2012; Wang and Lestari 2013); however, most of the empirical literature is currently through case studies (Enright 2005; Hexter and

Woetzel 2008; Ramaswami 2007). Arguments support various target market and branding approaches to the China market (Smith 2000; Madden 2011; Wang and Lestari 2013).

For example, alternative strategies suggest foreign companies enter China markets through Tier 2 or Tier 3 cities. Chinese cities are usually ranked by tiers (Tier 1, 2, 3, 4 or 5). China has 127 cities with populations greater than one million and 21 cities greater than five million (NBSC 2012). A city is typically classified by economic development, GDP, per capita GDP, transportation, and historical or cultural significance (Nexus-Pacific 2013). The literature generally agrees that today, only the big four are Tier 1 cities—Beijing, Shanghai, Guangzhou, and Shenzhen. Tier 2 cities—of which there are over 60—are represented by Tianjin, Chongqing, Chengdu, Wuhan, and Xiamen. Fourteen of these Tier 2 cities purchase 54% of American-made imports (McMillan 2011; Mullich 2011), so represent significant American markets.

Early studies of Internet marketing opportunities and B2B e-commerce were often pessimistic, suggesting that the Chinese Internet infrastructure and issues would preclude rapid adoption and growth (Cina and Chen 1999). Current studies and actual results, however, indicate that China's infrastructure progressed sufficiently to become the largest e-commerce market in the world in 2013 with $300 billion USD of e-commerce sales (B2B and B2C combined), surpassing the $252 billion in the US (iResearch 2013; Millward 2013; Jingting 2013; Sabrina 2014; Sida 2014).

Alibaba (www.alibaba.com) is the largest e-commerce site in the world (primarily for B2B transactions but now includes TaoBao for B2C as well). There are also a number of other established B2B e-commerce sites. Table 1.2 provides a list of the top grossing sites as of 2011 (China Internet Watch 2011). Ever changing, for the B2C retail sector by 2016, the retail list in ranked order included JD, Tmall, YHD, vip.com, Amazon, Suning, Jumei, Xiaohongshu, sfbest.com, and Feiniu (China Internet Watch 2016). In B2B e-commerce the ranked list included Alibaba (48%), Global Sources (27%), JQW (6%), with others at 5% or less including DHgate, Hc360, Made-in-China, Toocle, Mysteel, and GMC, and these will undoubtedly continue to change (iResearch 2016). Little is found in the academic, professional, or popular literature

Table 1.2 Top grossing 2011 e-commerce B2B and B2C websites in China

B2B	B2C	
Top 10 website platforms	Top 7 website platforms	Top direct product marketing websites
Alibaba	TaoBao (Alibaba)	Hadou—*Food*
HC360	360Buy	Jiaxing (JXSZZ)—*Food*
Made-in China	Amazon/Joyo	Markfairwhale—*Clothes*
Globalsources	Dangdang	Uniglo—*Clothes*
Tootoo	M18	Praxis*Language*
Diytrade	Vancl139 Shop	Ctrip—*Travel*
China	Redbaby	Gadozi—*Womens' Bags*
Yidaba		PGMall—*Womens' Bags*
Unsbiz		
Mysteel		

Source: Adapted from China Internet Watch (2011). http://www.
  chinainternetwatch.com/3674/top-10-china-b2b-platform-q2-2013/

regarding platform strategies for foreign multinationals marketing in China, although many studies and case studies have been completed about Alibaba.

Lessons from B2C: Marketing What?

Unique platforms exist for individual industries or products for both B2C and B2B e-commerce (Table 1.2). With the exception of the B2B Mysteel, industry-focused platforms do not appear in the top ten revenue sources (China Internet Watch 2011). This does not mean that such platforms do not exist. Data from the literature suggests that certain industries are more popular for e-commerce than others. Table 1.3 lists these, ranked by netizen to buyer conversion rates.

The studies by iResearch (2016, 2013, 2009, 2004) suggest key industries for companies to target for both B2B and B2C markets. This Table and iResearch reports suggest that companies approaching B2B markets in China would find the top-ranked industries for netizen to buyer conversions the most amenable to online e-commerce and those near the bottom, less inclined. In a search of the literature, however, no accompanying or supporting research or professional literature was found and is an area for future strategic and marketing research.

Table 1.3 Ranked categories of items purchased online by percent

Items	Purchased by % of online buyers
Apparel, accessories, and footwear	57.1
Books, CDs, and DVDs	46.0
Cosmetics	40.6
Electronics (Cameras, MP3)	35.4
Rechargeable cards for games and cell phones	32.1
Home decorations	29.2
Cell phones and electronic accessories	27.4
Gifts and toys	24.7
Computer, laptops, and hardware	23.0
Home appliances	22.1
Jewelry, watches, accessories, and glasses	20.3
Foods	19.7
Maternity and baby products	11.5
White goods	2.9
(fridges, washing machines, and air conditioners)	
Others	2.0

Source: Adapted from iResearch (2009)

Lessons from B2B Research: Marketing How and When?

In-depth interviews were conducted with 100 Chinese owners and company purchasers (Harrison and Hedley 2010). Both large and small company owners and purchasers were included to determine how these Chinese companies prefer to be targeted and developed as potential customers of other companies. Figure 1.3 provides a graphical example of the results.

The authors note that the perception of the Chinese is that Western marketers tend toward less personal communication (i.e., trade shows, email, and websites).

Email was by far the most used communication vehicle for Chinese companies doing business with Western companies; however, personal contact is also critical (Gao et al. 2010; Harrison and Hedley 2010, n.d.) The concept of *guanxi* remains critical in Chinese relations and to those doing business with Chinese companies. (Dunn 2007; Fang 2006; Gao et al. 2010; Harrison and Hedley 2010). Although foreign to many Westerners, it is the basic concept that humans prefer to do business with people they know and trust. It is not a substitute for quality products that
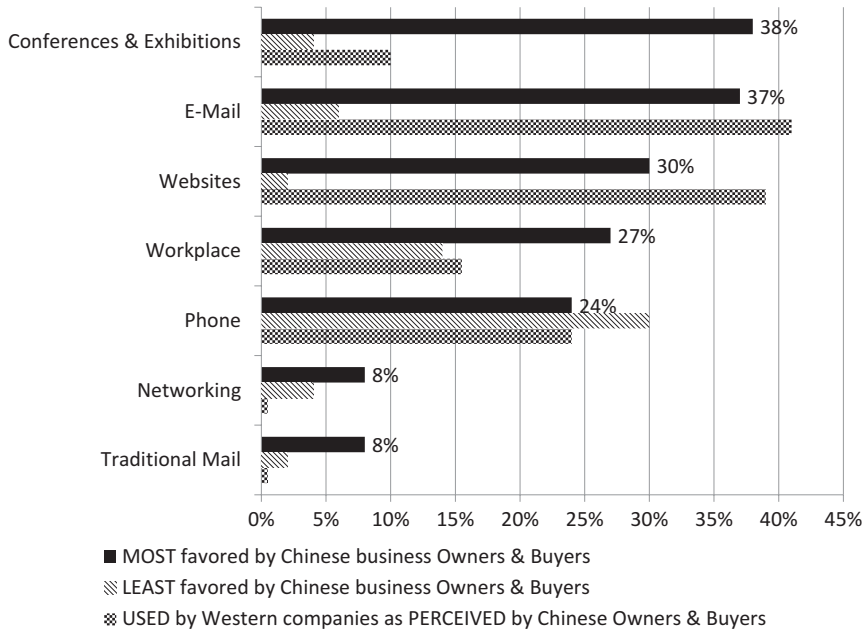
Fig. 1.3 Bar graph comparing responses by Chinese business owners and purchasers regarding preferred business contact methods and their perception of those they experience from Western companies. (Source: Adapted from Harrison and Hedley (2010, n.d., p. 4))

fit the customer needs, delivered on time. Guanxi is sometimes overstated or viewed as some form of non-ethical or corrupt practice, but building strong relationships is important in any Chinese market. Western companies tend to become frustrated with the length of time these relationships may take and the long sales cycles and negotiations involved. Several authors point to Western tendencies to focus on existing product solutions without listening and tailoring to customer needs while being inflexible to negotiate. Unfortunately, some of this occurs due to companies' policies and procedures. (Dunn 2007; Fang 2006; Gao et al. 2010; Harrison and Hedley 2010, n.d.).

Within the past few years and the rise of Alibaba, new focus has emerged in the literature regarding B2B e-commerce markets. In these analyses, the literature coalesces on three unique Chinese intangible

characteristics—trust, education, and presence. Zhao et al. (2008) identify four factors commonly echoed in other studies. Key success factors for Chinese e-commerce include:

- Reduced costs of sourcing and partnering
- Reduced transaction risks—financial, delivery, frauds, and fakes (Trust)
- Provided third-party company creditability (Trust)
- Provided access to creditworthy payment and receipt sources and processing (Trust)
- Personalized and customized services

Trust

Alibaba was founded in 1999 by a Chinese citizen, the now famous Ma Yun or "Jack Ma" as he is widely known to Westerners. As of 2012 it consisted of eight separate e-commerce platforms with over 56 million users with $4.1 billion in 2012 revenues. Alibaba users distribute to and from China and countries worldwide (Smith 2000; *Economist* 2013; Zhao et al. 2008). Alibaba achieves that through four electronic and customer service initiatives—Ali-assistant, Ali-college, Ali-forum, and TrustPass. These are categorized by process as noted below:

1. The Information Stage: high reach, in-depth information (Ali-assistant; Ali-college. Ali-assistant and Ali-college help customers learn how to register and use Alibaba)
2. Negotiation Stage: match-qualified registered buyers and sellers with collaborative tools (Ali-forum facilitates negotiating collaboration)
3. Payment Stage: secure and flexible (TrustPass)
4. Fulfillment / Delivery Stage: with financial recourse for lack of fulfillment by either party (TrustPass)

As China did not yet have significant third-party credit card providers, banks and financial institutions have filled this role to date. As of 2008, 50% of transactions were completed through a third-party payment platform (e.g., TrustPass or others), 21% through online banking,

and almost 23% by cash on delivery or bank transfer (iResearch 2009). Additionally, China has a weak national distribution system. Companies such as FedEx or UPS have been prevented from participating in China's national buyer-seller distribution chain, although both are actively involved in China's international distribution (iResearch 2009).

Those companies that participate as sellers in the Alibaba platform, or any of the e-commerce platforms, have certain marketing challenges. Small and medium size enterprises (SMEs) with limited marketing resources have even greater challenges. Many studies conclude that critical success factors in B2B marketing in China, both company size and brand image, matter. Developing trust through the company's reputation and leveraging Internet content marketing are critical (Sonmez 2006). A global survey report of 527 business executives by the *Economist* notes that "Misunderstandings rooted in cultural differences present the greatest obstacle to productive cross-border collaboration" (*Economist* 2012, p. 1). Additionally, the report concludes that most companies understand the need to improve cross-border communications but are not making the investment or doing enough to improve.

Companies must be able to leverage the Internet social media and WOM (Chen and Xie 2008) while maximizing acceptable communication channels (e.g., phone, email, visits, and relationship building events). Finally, Western companies and marketers must recognize the cultural differences: Chinese managers ascribe importance to seller and buyer behavior and intermediate processes rather than performance alone. (Ambler and Xiucun 2003; Chiu et al. 2012; Chong et al. 2011; Dunn 2007; Eid et al. 2002; Ewing et al. 2010; Harrison and Hedley n.d.).

Given that the Internet is a major source of online purchasing information, website development in the native language and cultural norms can have a dramatic impact on successful perceptions. Slow website download speeds will probably lose a netizen's attention. Servers must therefore be located in or near China (e.g., Hong Kong) to avoid the intercontinental Internet trunk traffic delays (Nantel and Glaser 2008). As noted, approximately 70% of Internet access in China is through mobile devices. Websites and Internet media must be compatible. Social media content is important. Harrison and Hedley (n.d.) point out that

92% of China's netizens use some form of social media or posting and forum platforms. Even Alibaba—China's most popular and the world's largest B2B e-commerce Internet platform—provides a collaborative online forum for customer interaction.

The Cross-Cultural Power of Symbols

Li and Shooshtari's (2007) research looks at cultural implications through more current reviews and lessons from the advertising campaigns of Nike and Toyota. While not focused on digital marketing, the results apply to the use of language and its contextual meanings to the Chinese population. Using an older example, Marlboro cigarettes have been marketed in China for decades in its three-character-Chinese name, *Wan bao lu*—translated, this means "a road that leads to ten thousand treasures." Its favorable Chinese imagery is so profound by the ideographic nature of the Chinese language that the logical link between smoking and its health hazards is buried.

Focusing on more current examples of Chinese imagery and two marketing campaigns—Toyota's 2003 and Nike's 2004 ad campaigns—Li and Shooshtari (2007) make the case.

In one Toyota TV advertisement, two Chinese stone lions salute the Prado four-wheel drive as it passes with the marketing slogan, "Prado – You Can't Help Respecting It." In another ad, a Land Cruiser tows a stalled Chinese-made Dongfeng military lorry in a mountain wilderness. Both were panned on social media and later banned.

Nike's banned television advertisement showed NBA star LeBron James battling and defeating a cartoon kung fu master with two additional women in traditional Chinese attire and a pair of dragons (considered a sacred symbol in traditional Chinese culture). It was apparently intended to breakthrough the clutter and noise of the market and attract attention. It did. Chinese authorities said it insulted national dignity.

Case examples (Li and Shooshtari 2007) indicate that these symbols are highly relevant in the minds of the Chinese people and they share attitudes toward the uses of them. Improper uses by "outsiders" (foreigners and even those Chinese from other cities or provinces) would invite

serious questioning of the user's intentions, motivations, and goals, particularly if the cultural symbols are projected as inferior to the speaker's cultural symbols. Locals are less forgiving of any misuse of their cultural symbols by the foreign user, even if the foreign user has good intentions in an attempt to be sensitive to the local audience.

Fallows (2010) provides plentiful—and often humorous—examples of foreigners' use and understanding of Mandarin while Charles Lee (2003) notes its implications in business issues as minute as how product sales discounts are different between East and West. In the East, discounts are promoted as part of the whole—for example, an 80% price. However, in America, the price would be fractional—in this example, a 20% discount. Lee notes that even basic business numbers and counting provide confusion. Americans use hundred, thousand, hundred thousand, million, and billion. Chinese use hundred, thousand, "ten thousand, "one hundred ten thousand," and "one hundred million." Therefore, "1 million" in the Western world is "1 hunderd ten thousands" in China!

Marcus Lee (2007) extends the discussion of cultural attitudes pointing to the provincial regions of China. He notes that, although each province has many characteristics in common, each is also known for specific strengths, just as in America when we think of the movie industry in Hollywood or entrepreneurs and breakthrough technologies from Silicon Valley.

1.3   Literature Review Conclusions, Future Study, and Limitations

1.3.1   Conclusions

Available studies in the literature appear to agree; Western companies utilizing online marketing in China must adapt to acceptable Chinese marketing norms, focus on company reputation, contain a high degree of social media content, and localize their online presence. Investments in traditional media are not as effective as traditional Western marketing

performance measures might suggest in Western markets. Reliance on company and product/service websites or B2B online e-commerce platforms is also not enough. B2B marketing in China must be combined with high-touch sales and marketing to effectively reach and convert potential B2B buyers (Ambler and Xiucun 2003; Casella 2007; Cina and Chen 1999; Gao et al. 2010; Harrison and Hedley n.d.). The studies of Alibaba act as a proxy model for successful B2B online e-commerce. Alibaba, however, is an e-commerce platform and not necessarily prescriptive for companies' market entry or marketing strategies in China.

In general, the concept of B2B marketing is not as widely recognized within China as it is with more mature Western marketing professionals; however, multinationals operating in China must recognize that traditional Western marketing models must be modified. This must be reflected in marketing departments' investments in Internet-based nontraditional media and content, the building of company reputation and brand value, and should contain mechanisms for high-touch relationship marketing applied consistently over a long period of time.

1.3.2 Future Research

The Internet marketing landscape continues to change rapidly, and that is especially true in China. The academic rigor required for collection, assimilation, and peer-reviewed publication has a difficult time keeping up with the current online environment. Future empirical marketing research for cause-and-effect results may help shed light on building and testing new theoretical, Internet-based marketing models based on extant customer and cultural behavioral research. The existing academic body of literature has continued to deal with traditional Western marketing models which in itself may be a constraint as pointed out by Hofstede in his seminal 1988 article (Hofstede and Bond 1988) and subsequent body of work on cross-cultural values, "the values dimension associated with … East Asiatic cultures …took the Chinese Value Survey ['CVS']—an Eastern instrument—to identify this dimension." Western academics may be unable to identify uniquely Eastern value dimensions without help. Conducting research with other cross-cultural academic researchers

may lead to broader, more inclusive research and results. This quote helps summarize the Chinese perception of Chinese marketing research, "the field of Chinese management research direly needs more theory-building studies and less pure application of Western theories" (Tsui 2006, p. 5 as cited by Wang and Song 2011).

1.4   B2B Empirical Analysis for Digital Marketing: Age, Education, Prior Buying Experience, Gender, and Cultural Differences

While extant B2C research for online marketing may provide a reasonable proxy for understanding the B2B online markets, one must question their validity. As an initial step to that end, original B2B survey research was completed in Jiangsu province in 2016 for age, education, and B2B purchasing agents' prior experience purchasing from US companies. An attitude survey provided in Mandarin was used to collect survey responses. Resulting data sets were then analyzed to determine whether significant differences exist between a Chinese B2B buying agents' positive attitude to unsolicited Internet marketing and the buyers' age, education level, or prior experience purchasing products/services from US companies. Although gender influence was not a focus of the original research, one must anticipate a potential influence in survey results (Miles and King 1998). Finally, agents' preferences to marketing solicitations were also compiled and explored.

Closed-end questions used Likert and frequency scaled answers to provide ordinal values. These were analyzed with t-tests to determine whether significant differences existed between group variables. Pearson's r and Spearman's rho analyses were completed to determine potential correlations.

For purposes of producing quantitative comparative data, survey questions were characterized into six aggregated statistical groups of which the last four are indicative of purchasing agents' attitudes including:

- respondent qualifying questions (set A);
- demographic information (set B);
- two sets of questions to measure frequency and comfort using the Internet use for business purposes (sets C and D);
- four sets of questions to measure marketing channel attitudes (sets E, F, G, and H);
- two sets of questions to measure buying experience with US companies (sets I and J); and
- one set of questions to measure purchasing motivations including potential personal benefits reflected by Chinese corruption issues.

These categories then provided the data constructs upon which analyses were conducted. Results, analyses, and discussion were divided into four categories—descriptive statistics, quantitative testing of the hypotheses, factor analyses, and inferential statistics (Cooley 2016). This chapter presents and discusses only the results of that study.

1.4.1   Job Function

All respondents participated in researching B2B companies and products. Forty-five percent indicated that their primary responsibility was purchasing—administrative (7.1%), purchasing agent (7.7%), purchasing manager (7.1%), purchasing director (4.5%), vice president (0.6%), or president/CEO/business owner (11.5%). Both men and women were represented in each job category, while women slightly outnumber men in administrative positions (Fig. 1.4).

Of all 18 industry categories explored, 16 were represented; real estate leasing and mining were not represented. Of the 18 industry categories, 28% were from manufacturing, 21% from financial industries, and 8% from health and welfare industries. The balance of represented industries were each less than 7% of respondents.

Internet Use One hundred percent of respondents utilize the Internet and 87.2% utilize it more than two hours per day. Over half (58.3%) utilize the Internet for four or more hours per day regardless of age or job
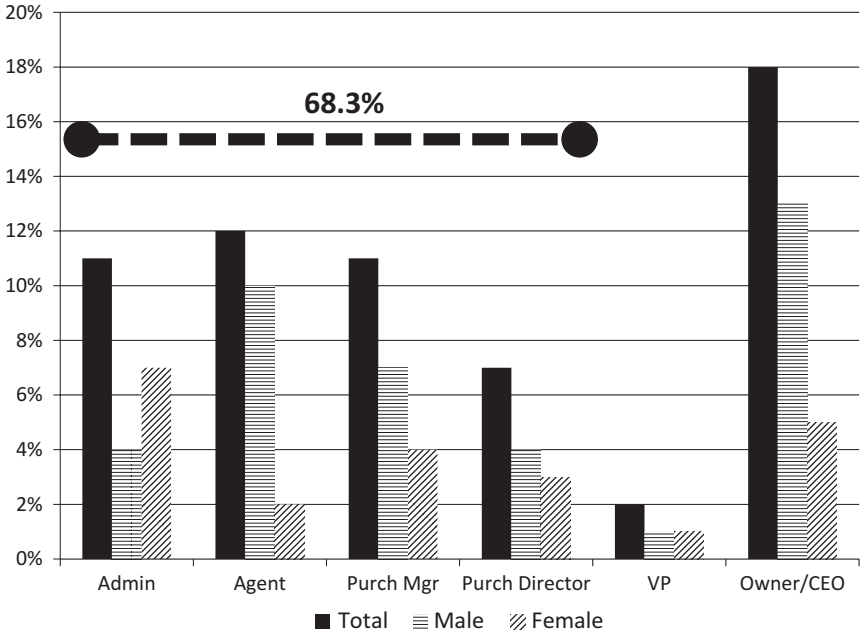
Fig. 1.4. Survey respondents with purchasing job roles (male = 65%, female = 35%)

function. While 90% of respondents' companies utilize the Internet to purchase products, 69% purchase products from US companies occasionally or more frequently with 63% of companies using the Internet for such purchases.

Internet Research Ten questions identified how often respondents utilize traditional or Internet resources when researching companies or products (Always = 1, Never = 5). Of all respondents, 84.6% utilize traditional sources occasionally or more often and 48.6% utilize traditional sources frequently or always. In comparison, 90% utilize Internet sources occasionally or more often and 58.7% utilize the Internet frequently or always.

Of respondents, 9.4% always utilize traditional research sources compared to 16.2% who always utilize Internet sources. For those using a source frequently or more often, 48.6% utilize traditional sources compared to 58.7% who utilize Internet sources.

Internet Comfort and Skill The survey asked the purchasing agents' self-perception of their ability to use the Internet for personal and business purposes. It makes statements such as "I consider myself good at using the Internet…" The Likert scale included five categories ranging from 1 = Strongly Agree to 5 = Strongly Disagree. Utilizing the aggregate of both questions, 90% of respondents reported they were comfortable and good at using the Internet for company or product research and purchases (Fig. 1.5).

1.4.2 Age

Respondents' ages were from 21 to 66 with an average of 33.6 years. An independent samples t-test was conducted to test for a significant difference in Internet channels for three younger agent groups 21–35 years of age and six groups 36 years of age and older. No significant difference was found between the groups.
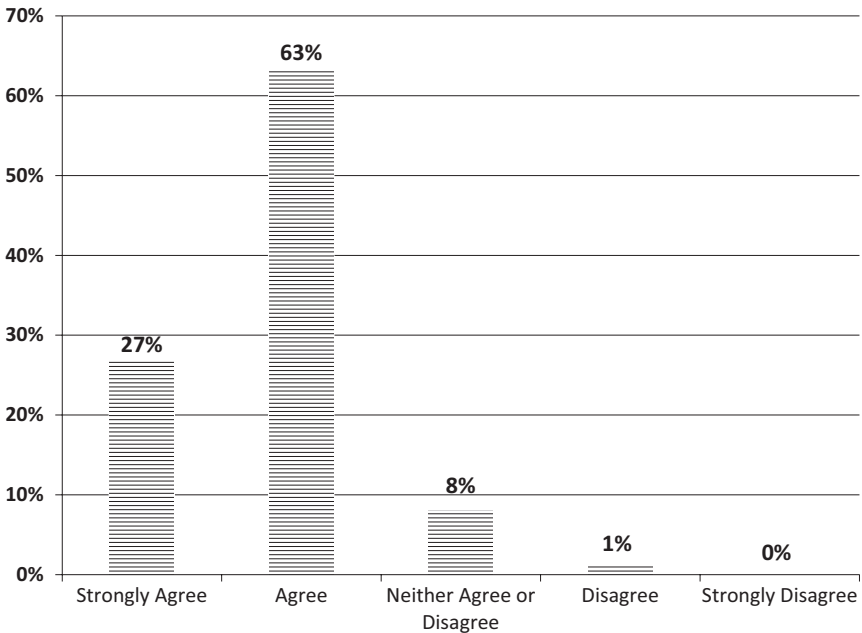
Fig. 1.5 Respondent is comfortable and skilled using the Internet (aggregate)

Another goal was to explore the strength of any associations with age for each variable. A Pearson correlation was conducted as were linear regressions for age and each of the five Internet marketing channels—company emails, emails from a company's person, emails from a friend of the agent, webinars, and social media platforms. Pearson results indicate that there is a weak negative association between age and each of the Internet marketing channel variables, but none of them were significant ($p > 0.079$, range $= > 0.079 < 0.909$) and any correlations may be the result of a chance finding. As a result, a multiple linear regression was considered but not conducted. In any event, a linear regression indicated that age would represent less than 2% of the variation seen in any one Internet attitude variable.

A final research goal may have been to establish a predictive linear equation for the data set tested; however, predictive linear equations are generally not recommended for Likert and similarly valued attitude tests (Lovelace and Brickman 2013). The focus of this exploration was knowing that a statistically confident positive or negative association exists between individuals and their attitudes.

Additional Age Insights There was no significant difference for the Aggregate Marketing Contact Attitude: Internet Channels between the age group 21 years of age to 35 and the age group 36 years of age and older; $t = -0.377$, $p = 0.706$. There was a weak negative association between age and each Internet marketing channel among the age groups, but it was not significant.

1.4.3   Education

The survey sample is a highly educated group with 98.1% who have completed a bachelor's or postgraduate degree. Bachelor's degrees represented 76.3%, Master's degrees 19.9%, and doctoral degrees 1.9%. Although the Spearman association test conducted indicated that no significant association between education level and Internet attitudes, it did not distinguish between any two groups of higher education and each marketing channel.

A Spearman rho correlation was conducted for education and each of the five Internet marketing channels. The Spearman results indicate that there is also not a significant association between the level of education and any one of the Internet marketing channel variables ($p > 0.231$, range $= > 0.231 < 0.973$), and any correlations may be the result of a chance finding. Again, multiple linear regression analysis was considered but not conducted as a result of the Spearman test results. Simple linear regressions were conducted but also not significant for any of the five Internet channels—company emails, emails from a company's person, emails from a friend of the agent, webinars, and social media platforms. In any event, the linear regressions indicate that the level of education would represent less than 1% of the variation seen in any one Internet attitude variable.

To isolate and test education groups, an independent samples t-test was conducted to compare the Aggregate Marketing Contact Attitude: Internet Channels between two groups—an agent group with high school education through bachelor's degrees (attitude $M = 2.359$, SD = 0.531, $n = 122$) and an agent group with postgraduate education of Master's and doctoral degrees (attitude $M = 2.206$, SD = 0.620, $n = 34$). The t-test results indicated that there was no significant difference in attitudes between the two groups ($t = 1.432$, $p = 0.154$).

Additional Education Insights Spearman results indicate that there is not a significant association between the level of education and any one of the individual Internet marketing channel variables. Even if significant, the R-squared indicates that level of education would represent less than 1% of the variation seen in any one Internet attitude variable. When placed into two groups—agents with high school education through bachelor's degrees and agents with postgraduate degrees beyond bachelor—there also was no significant difference.

1.4.4   Agents' US Buying Experience

The independent t-tests established that those agents with prior occasional or frequent experience purchasing products from US companies have a significantly more positive attitude toward the aggregate measure

of Internet marketing channels; however, this did not provide a detailed view of any one specific marketing channel for additional insights.

A Pearson's correlation was conducted to determine whether a significant attitude relationship exists for traditional or Internet marketing channels between those agents with US buying experience and those without such experience.

A Pearson correlation test was also conducted for each of the 12 Marketing Contact Attitudes to create a more granular view and explore potential underlying variable relationships not reflected in the aggregate measures. A multiple linear regression analysis was also considered. Those respondents who responded "Do Not Know" whether they or their company had prior experience were eliminated from this analysis.

Pearson's r correlation and R-squared results for agents in the two groups—those With US Buying Experience and those with No US Buying Experience—correlated with the 12 variables. A significant positive relationship exists between the agents With US Buying Experience and conference and phone call marketing channels ($p < 0.05$). No significant association exists between those agents with no prior experience and any one of the Internet marketing channels ($p > 0.05$). No additional linear regressions were conducted for these groups.

Additional US Buying Experience Insights The Pearson correlation with aggregate Internet attitude was significant for agents with prior US buying experience ($r = 0.248$, $p = 0.037$), but not for agents without such experience ($r = -0.016$, $p = 0.903$). A significant positive relationship exists between those agents with prior US purchasing experience and both conference and phone call marketing channels ($p < 0.05$), but the R-squared indicates that this would represent less than 8% of any such variation (conference = 0.078, phone call = 0.068).

1.4.5   Gender

Anticipating a potential influence of gender in the survey sample and results for Internet use or attitudes (Miles and King 1998), the survey sample was first reviewed for gender distribution by age (Fig. 1.6). The
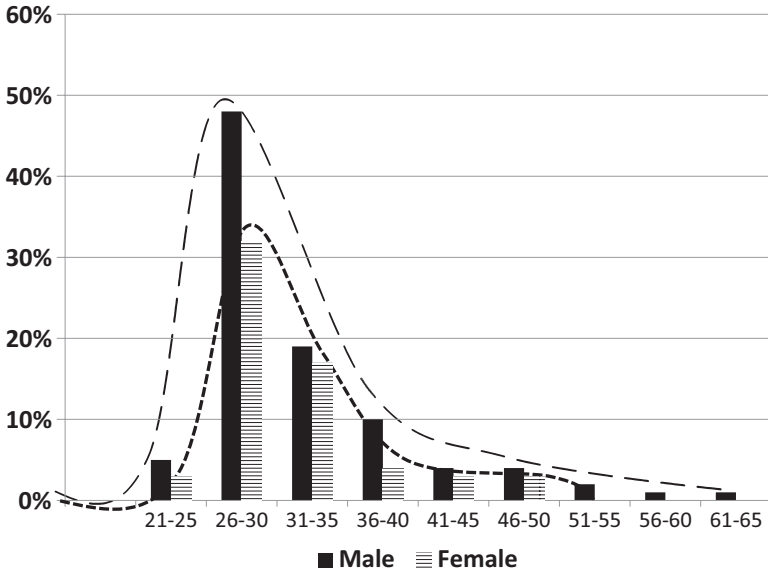
Fig. 1.6 Distribution of age groups by gender (M = 2.72 = 33.6 years, SD = 1.26)

male:female ratio of the sample is 60.3% male and 39.7% female. Both genders fit the general normal survey distribution across all ages.

Next, the survey sample was described for Internet use and attitudes. Although Internet use worldwide and in China is typically 50% male and 50% female (Wästlund et al. 2001), it may not necessarily reflect each gender's self-perceived comfort and skill using the Internet. Gender data was tabulated for comfort and skill using the Internet; 93% of males agree or strongly agree they were comfortable and good at using the Internet compared to 87% of females (Table 1.4).

Finally, results were compared for male and female attitudes toward traditional and Internet product research and marketing channels although no additional correlation analysis was conducted (Fig. 1.7).

Gender Insights Respondents' gender appears normally distributed by age within the survey sample. Gender differences in self-perceived Internet comfort and skill do not appear to vary greatly. Although significance was not established, females may hold more negative attitudes

Table 1.4 Aggregate measure for comfort and skill using the Internet for company and product research by gender[a]

Comfortable and skilled using Internet by gender (aggregate percent measure)

Gender	Strongly agree Percent (%)	Agree Percent (%)	Neither agree nor disagree Percent (%)	Disagree Percent (%)	Cumulative total Percent (%)
Male	69	59	46	50	60.3
Female	31	41	54	50	39.7
Grand total	**100**	**100**	**100**	**100**	**100.00**
Percent by gender					
Male	31	62	6	1	100
Female	21	66	11	2	100
Cumulative percent total					
Male	31	93	99	100	
Female	21	87	98	100	
Cumulative percent total (reverse)					
Male	100	69	7	1	
Female	100	79	13	2	

[a]Aggregate measure is the mean of the means for survey questions 9 and 10
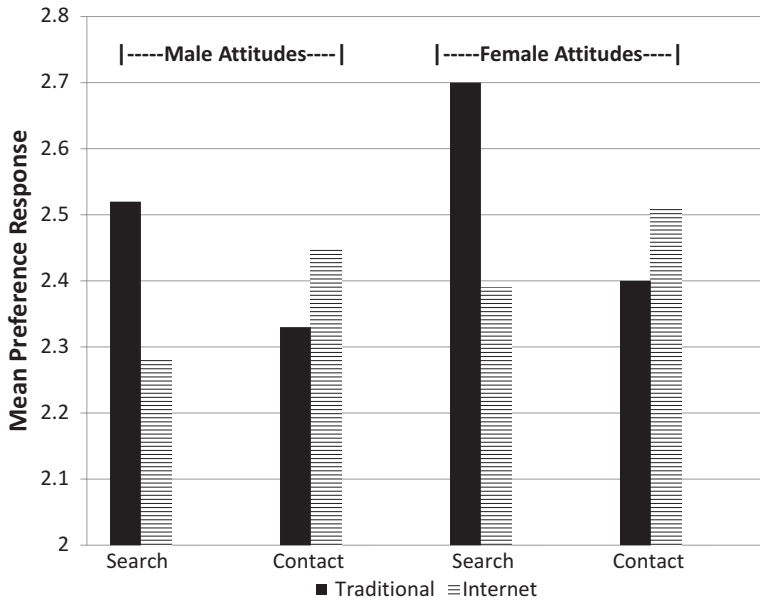
Fig. 1.7 Comparison of search and marketing solicitation contact channels by gender. (Mean Attitude Response for Strongly Agree = 1 to Strongly Disagree = 5)

toward product searches in both traditional and Internet channels and marketing solicitations through either traditional or Internet channels.

1.4.6 Cultural Differences

Nike & Toyota and the Power of Symbols

Li and Shooshtari's (2007) research looked at the cultural implications through more current reviews and lessons from the advertising campaigns of Nike and Toyota. The use of language and its contextual meanings to Chinese were explored.

Advertising campaigns by both Toyota and Nike were both banned by the Chinese government in response to consumer outrage and insults to Chinese national dignity. These ads were the first non-Chinese commercials to be banned by Beijing since China's entry into the WTO (World

Trade Organization). Prior to these ads, both Toyota and Nike had been praised for ads reflecting Toyota's ads with perceived respect for the Chinese cultural heritage and Nike's ad for understanding why Chinese are proud.

Li and Shooshtari (2007) provide research literature exploring the multi-ethnic Chinese culture and the challenges and ability of the multinational corporations (MNCs) to communicate accurately, effectively, and without offense. One example focuses on the use and results of controversial advertising—inappropriate in the culture and mind of the Chinese—as a marketing strategy to breakthrough the advertising clutter. The main theme of the Shooshtari's (2007) argument is a culture-specific socio-linguistics perspective. They posit that businesses that advertise in China using Chinese characters must pay special attention to the Chinese reception of their ideographic codes.

Case examples (Li and Shooshtari's 2007) indicate that some symbols are highly relevant in the minds of the Chinese people and they share attitudes toward the use of them. Improper uses by "outsiders" (foreigners and even those Chinese from other cities or provinces) would invite serious questioning of the user's intentions, even if the foreign user has good intentions to be sensitive to the local audience.

Li and Shooshtari (2007) further posit that incongruent cultural views of consumers and marketers, a lack of historical sensitivity, and different levels of social communication between the companies and their audience produced the offensive result. In all, between December 2003 and May 2005, four ads were pulled by Chinese regulatory institutions after tens of thousands of protest messages on major Chinese websites.

The authors agree with the literature themes; at issue is the general lack of understanding of written language and cultural symbols by MNCs advertising in China.

While Charles Lee (2003) notes cultural implications in business, Marus Lee (2007) extends the discussion of cultural attitudes pointing to the provincial regions of China. Each province is known for specific strengths, just as America's Hollywood represents the movie industry or Silicon Valley represents breakthrough technologies. As also noted by Fernandez and Underwood (2009), regional differences in China affect

B2B purchases. Products and services selling well in Shanghai do not necessarily translate to Suzhou, only 45 minutes away by high-speed rail or two hours by car. "'Able to spend' doesn't mean 'ready to spend'" (Fernandez and Underwood 2009, p. 4).

1.4.7 Marketing Solicitation Contact Attitudes

Respondents were asked 12 survey questions responding to the general question, "Indicate whether you agree or disagree with the following statements about yourself: When you are first approached by a company to purchase their products or services, indicate how you like to be introduced" (Strongly Agree = 1 to Strongly Disagree = 5). Each statement addressed traditional or Internet-based marketing channels (Table 1.5).

Marketing Solicitation Contact Attitude Insights This data was then ranked by positive or negative preferences without distinguishing between traditional or Internet channels. The results provide a view of purchasing agents' marketing channel preferences, both positive and negative, for traditional and Internet marketing channels, as well as in rank order without distinguishing between channels (Table 1.6).

All surveyed Chinese purchasing agents across differing age and education levels are facile utilizing the Internet, and all respondents use the Internet for researching companies and products. They all also continue to employ traditional sources. There does not appear to be any significant Internet diffusion, adoption, or use obstacles for marketing B2B products to potential customers in China. Hypotheses testing confirmed there were no significant associations between age or education levels and attitudes toward Internet marketing solicitations.

Some findings, however, indicate that those agents with prior experience purchasing from US companies hold a significantly more positive attitude toward solicitations from US companies than those agents without such experience. This group was more inclined to accept contact

Table 1.5 Solicitation preference attitudes for traditional and Internet marketing channels

	Marketing Channel	Preference attitudes				
		Strongly agree (%)	Agree (%)	Neither agree nor Disagree (%)	Disagree (%)	Strongly disagree (%)
Traditional channels	Through a friend	18.6	67.3	12.8	0.6	0.6
	By a personal visit	5.1	34.6	37.8	16.0	6.4
	At a networking event	5.1	60.3	30.1	3.8	0.6
	At a conference	6.4	59.6	29.5	3.2	1.3
	At a trade show	6.4	54.5	31.4	6.4	1.3
	By a phone call	7.1	48.1	28.2	14.7	1.9
	By direct mail	9.0	57.7	28.2	3.2	1.9
Internet channels	By a Friend's email	9.6	60.3	24.4	2.6	3.2
	By a personal email from a company person	5.1	34.6	37.8	16.0	6.4
	By a company email	9.6	51.9	29.5	7.1	1.9
	Through a social media platform	9.6	50.0	30.1	8.3	1.9
	Through a webinar	7.1	59.5	23.7	6.4	3.2
	Percent of respondents 100.0%	**8.2**	**53.2**	**28.6**	**7.4**	**2.6**

Table 1.6 Ranked solicitation preference attitudes for traditional and Internet marketing channels[a]

Marketing channel	Positive attitude		Marketing channel	Negative attitude	
	Count	%		Count	%
Through a friend	134	11.7	By a phone call	35	18.8
By a Friend's email	109	9.5	By a personal email from a company person	35	18.8
By direct mail	104	9.0	At a conference	26	14.0
Through a webinar	104	9.0	By a company email	16	8.6
At a conference	103	9.0	Through a social media platform	15	8.1
At a networking event	102	8.9	Through a webinar	14	7.5
By a company email	96	8.3	At a trade show	12	6.5
At a trade show	95	8.3	By a Friend's email	9	4.8
Through a social media platform	93	8.1	By direct mail	8	4.3
By a phone call	86	7.5	At a networking event	7	3.8
By a personal visit	62	5.4	By a personal visit	7	3.8
By a personal email from a company person	62	5.4	Through a friend	2	1.1
	1150	100.0		186	100.0
Percent of total responses	**86.1%**			**13.9%**	

[a]Aggregated data. Percentages are relative to total responses

through personal marketing channels such as phone calls, emails from a person at a company, or personal visits. Additional Pearson association analyses indicated that both conferences and phone calls are significantly important channels for this group.

For those agents without such prior experience working with and purchasing from US companies, relationship marketing channels are more important and marketing through personal channels (e.g., email, phone calls, visits) may be received with negative reactions and may be detrimental.

1.5   Conclusions

The central underlying research question of this study was: When US companies contact B2B Chinese companies as prospective new business customers, do the prospective Chinese customers prefer traditional marketing approaches or newer Internet marketing approaches? For the Tier 1 and Tier II areas of this study, the answer appears to be a qualified "Yes." Although confusing, it can be concluded that both traditional and Internet approaches are important; however, less personal marketing channels for initial marketing solicitations currently tend to be received with more positive attitudes. If a personal relationship has been established, more personal solicitations are effective.

The common thread in the results suggests that those Chinese purchasing agents who US companies can initially contact through one traditional channel tend to be more receptive to other traditional marketing channels. Similarly, Chinese purchasing agents who can initially be contacted through an Internet channel tend to be more receptive to other Internet marketing channels. Relationship marketing through purchasing agents' friends or trusted business associates appears most effective. This study suggests that the avenues for US companies to initiate those relationships include webinars, participation in conferences, networking events, tradeshows, and social media.

While it was well known that China has the largest number of netizens in the world and the largest e-commerce platform (Alibaba), few studies have explored how this translates into Chinese B2B markets and its marketing channel attitudes. As noted in the literature review, four trends exist. One could anticipate the three factors of evolving communication changes, rapid Internet adoption rates, and the need for adapting to Chinese cultural norms. The fourth trend, trust and its effect on e-commerce and business attitudes, were expected given the concepts of guanxi and proved to remain an important ingredient in marketing solicitations.

The cultural and business leap in China has been rapid and changed everything in China since the introduction of the Internet in 1995. Based on the earlier US pilot study conducted and as a practitioner with business

experience in the US and China, this research inherently assumed China would display similar marketing attitude profiles as found in the US and reflected in the hypotheses:

- younger and more educated business people tend to use the Internet more frequently;
- younger and more educated business people who use the Internet frequently would be more positively receptive to Internet marketing channels; and
- those business people with prior exposure to working with foreign companies would be more positively receptive to solicitations from companies of that foreign country.

While the third assumption holds true in this research, findings indicate that the first two assumptions are not true in China. This was a surprising result as a practitioner and causes one to consider how new technologies such as mobile and Internet communications affect marketing in any country that did not have existing, traditional communication and transportation infrastructure.

The author believes this quote summarizes a Chinese perspective of Western business people:

> [Westerners] don't understand Chinese culture. Their technology and quality check system are mature and comprehensive, and they are professional in their field and everything they do. They are polite, but that is not enough. We'd like to invite them to join our supper after finishing working, but they can't understand and will go back to the hotel directly. (As cited by Harrison and Hedley n.d., p. 13)

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Part I

Digital Business as a Social Networking Tool

2

China's Online Peer-to-Peer (P2P) Lending Platforms

Michelle W. L. Fong

2.1   Introduction: China and Information & Communication Technologies

When China leapfrogged to wireless communication technologies from its traditional landline technologies, it was making a fundamental move towards cultivating its digital connection with the expanding digital global economy. E-commerce has now become a central element in economic growth in several countries, including China, and in the expansion of world trade. China's adoption of advanced technologies has paid off in certain aspects, and it is now the largest online market in the world and a prominent player in e-commerce. iResearch, a Chinese consulting firm, reported that e-commerce sales in the country grew 21.2% in 2015 to 16.2 trillion yuan (Xinhuanet 2016a). China has 688 million online users in 2015, of which 620 million (90%) used mobile phones to go online (China Internet Network Information Center 2016), and it has one of the highest mobile phone penetration rates for smartphones,

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which are increasingly becoming a dominant access mode to the Internet, spelling an even greater growth potential for e-commerce. The adoption of advanced technology and involvement in the e-commerce era have also bred home-grown e-commerce participants such as Alibaba, JD.com Inc., and Tencent Holdings which have become well-established names in the international online industry.

The development of e-commerce is not confined to Chinese urban locations. Rural authorities reportedly have been helping farmers embark on online trade to sell their agricultural produce and create local job opportunities for rural villagers so that they do not have to look for employment in faraway cities and be separated from their families (Larson 2014; Wang and Shi 2016; Xinhuanet 2016a; Lui 2016). The Chinese government recognises that engaging rural areas in e-commerce could provide a potential means of alleviating poverty for the farmers. In 2016, it sought to assist the development of rural economies by striking an agreement with one of the country's biggest online trading platforms, Alibaba, to officially roll out the implementation of e-commerce in more than 300 rural areas (Xinhuanet 2016b). This project aims to help farmers optimise their agricultural sales and improve logistics, and to support their online entrepreneurial activities. It has major ramifications both for people earning their livings in rural areas and for consumers in those areas. Online shoppers from rural areas are no longer disadvantaged by limited product choices, inflated prices and shoddy quality from widely dispersed or remotely located traditional bricks-and-mortar stores. E-commerce and wireless technology have enabled them to shop for better quality items at more reasonable prices and make choices from a wider variety of products. The integration of rural businesses into the digital economy also extends a competitive retail market structure from the cities to the rural areas that have been traditionally characterised by a less competitive (or non-competitive) market structure. The potential of rural participation in e-commerce has become progressively more significant over the years; online sales agencies report that their online sales in rural areas have been growing more rapidly than in urban areas (Jing 2014). The intention of Chinese mobile carriers (China Mobile, China Telecom and China Unicom) to aggressively compete for the rural market for their wireless business segment and the proliferation of cheaper handsets produced by domestic smartphone manufacturers such as

Coolpad, Lenovo and ZOPO (Woo 2015) suggest further accelerated growth in online sales to rural areas. If carefully crafted by government support and policies, the integration of rural businesses into the digital economy may produce a meaningful urban-rural partnership that promotes greater equity in income distribution.

Prior to the availability of wireless communication technologies, China had been struggling with costly landline installation in an attempt to provide expansive telecommunication coverage to support economic development, particularly in rural areas. This cost barrier has actually turned out to be the greatest advantage for China in technology adoption. Areas without landline telecommunication coverage, or those disadvantaged by outdated landline telecommunication technologies in need of replacement, can now leapfrog to the latest wireless communication technologies, which are cheaper to install. The adoption of latest wireless technologies by these relative latecomers to the Information & Communication Technologies (ICT) revolution has actually transformed retail markets, opening up unprecedented opportunities for its national and domestic companies, as overseas businesses yearn for a slice of the growing online Chinese market. Despite China's rapid growth in e-commerce, there have been disconcerting developments in the trajectory of this growth. The electronic trading landscape has brought about changes in content delivery methods, new and innovative business models, and new digital intermediaries which have left the Chinese government striving to keep pace by introducing and reforming legislation and regulations to safeguard the interests of consumers, investors and the economy (particularly against unscrupulous and/or illegal operators and fraudsters). One of these areas is the online peer-to-peer (P2P) lending platforms operated by unregulated online intermediaries, which bypass and undermine the country's central financial system.

2.2   China's Online P2P Lending Industry

China's online P2P lending industry first emerged in 2007 and grew at a frenetic speed between 2012 and 2015. This industry has been operating in the shadow of the banking industry since its emergence. The lack of

market entrance thresholds, sound regulations and regulatory oversight led to an unreined and rapid proliferation of online P2P lending platforms. The majority of these platforms operate on a standalone basis and hence are not affiliated to any authorised banks or financial entities, and they themselves are not considered as financial entities sanctioned by financial regulators. Figure 2.1 shows the increasing number of online P2P lending platforms between 2010 and 2015. The yearly growth rate in online P2P lending platforms was about 400% in 2012 and again in 2013, 197% in 2014 and 165% in 2015. Although there has been no verifiable data on the amount of online P2P loans, reports have estimated it to be between US$20 and US$40 billion in 2014 (Deer et al. 2015) and surging to at least US$150 billion in 2015 (Zhang 2015) with optimistic annual growth predictions of US$83 billion per year (Bloomberg News 2014). However, the number of new platform entrants to this
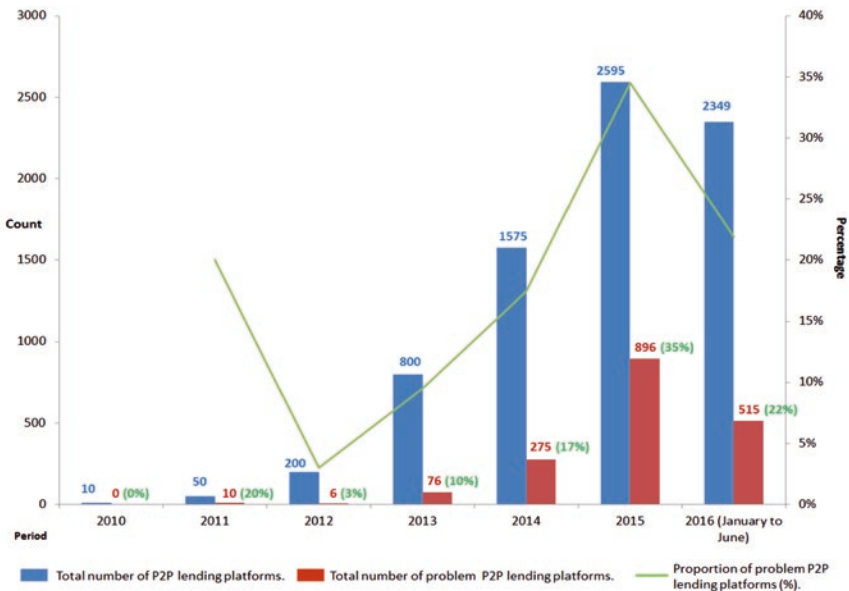
Fig. 2.1 Total number of online P2P lending platforms, total number of problem online P2P lending platforms, and the proportion of problem platforms (as a percentage of total online P2P lending platforms). (Source: www.yingcanzixun.com and www.wdzj.com, 2017)

industry started to taper in 2016 when the Chinese government introduced tight laws and rules for regulating online P2P lending platforms. This was evident by the 80.4% decrease in the number of new online P2P platforms entering the industry between January and June 2016, as compared to the same period in 2015 (Wang 2016a).

A disconcerting development in the online P2P lending industry has been the increasing number of 'problem platforms' over the years as shown in Fig. 2.1, 3% of the online P2P lending platforms were in trouble in 2012, 10% in 2013, 17% in 2014 and 35% in 2015. Their problematic nature can be attributed to their lack of experience in managing such businesses, their mismanagement and/or their fraudulent practices. The Chinese government has only recently begun proactively purging and deterring these problem platforms from entering the online P2P lending industry. These constraints will be discussed later in this chapter.

Online P2P lending platforms are intermediaries and not financial institutions. They should act as agents (or intermediaries) by providing such online services as matching lenders directly with borrowers, assessing borrowers' creditworthiness and collaterals and collecting information on borrowers and lenders. They are essentially platforms offering financial services, and their main sources of revenue should generally come from registration and service fees charged to potential borrowers for posting, matching and processing their loan requests on the platforms' websites. Due to a lack of legislative clarity and proper regulatory supervision, many of these online P2P lending platforms have been taking on a role beyond the scope of an agent or intermediary (People's Bank of China Institute of Finance 2015; Lingyi 2016). Although there were no explicit rules and regulations that directly governed P2P behaviour prior to July 2015, the raising of funds from the public, capital pooling and the provision of guarantees on investment returns by unqualified and unauthorised entities or individuals are all activities deemed illegal and punishable as criminal acts, according to State Council Act [1998, No. 247] issued in July 1998 (The State Council of the People's Republic of China 1998), CBRC's announcement [1999, No. 41] in 1999 (CBRC 1999), and The Supreme People's Court of the People's Republic of China in its interpretation [2010, No. 18] on illegal fundraising and financial fraud

in November 2010 (The Supreme People's Court of the People's Republic of China 2010). In spite of these legislative and regulatory constraints, many P2P platforms were offering a range of high-yielding investments such as insurance and wealth management products, raising funds for private interests (other than investment projects promised by the platforms) and making illicit gains through illegal profit arbitrage by exploiting the interest spread between the high lending interest rates to borrowers and lower investment return rates to lenders. Because these wayward P2P platforms have operated largely in the shadows and without transparency, any culpable behaviour running afoul of these laws has only tended to become obvious to the public and government when they have started to fail or collapse and become problem platforms.

One of the reasons behind the phenomenal increase in the number of online P2P lending platforms has been their exceedingly low business start-up costs. The cost of purchasing an online website template for setting up an online P2P lending website can be less than 1000 yuan (US$156) (Wangdaizhongxin 2014). However, off-the-shelf software with do-it-yourself (DIY) open-source content is vulnerable to hacking and cyberattacks (Wang 2015). Many of the online P2P lending platforms are standalone business operations and have lacked the experience, resources or setup to secure data and operation against cyberattacks (People's Bank of China Institute of Finance 2015).

Another reason for the rapid influx of entrants into the online P2P lending industry is that business entrants can easily set up an online P2P lending business with a minimum registered capital of 30,000 yuan (US$4700). Unlike the constraints on banks and financing companies, there were no specific laws or regulations pertaining to an online P2P lending platform's legal identity, role and business entry requirements prior to July 2015 (Huang and Deng 2015). For example, the China Banking Regulatory Commission (CBRC) establishes minimum registered capital requirements for financial entities under its jurisdiction; the minimum registered capital for an automobile financing company is 500 million yuan (US$78 million) and for a financing guarantee company five million yuan (about US$730,000). However, there was no such requirement for online P2P lending platforms. Furthermore, the industry classification code also failed to clearly define the nature of a P2P

business or the scope of its business operations. With no clear specification and requirements, the online P2P lending platforms largely registered their businesses under the industry classification of investment advisory and information technology development companies (outside the immediate jurisdiction of the CBRC) for which the minimum registered capital is 30,000 yuan (US$4700). Moreover, the description of the nature of business provided by a platform when registering its business could turn out to be markedly different from its actual online P2P lending operations (People's Bank of China Institute of Finance 2015). It has been estimated that fewer than 10% of all online P2P lending platforms had registered capital of more than 50 million yuan (Yue 2015).

Many platforms are also highly geared in leverage as they usually have limited registered capital, relative to aggregate loans. Currently, a significant number of the biggest lending platforms have started their business operation at initial leverage capacity much larger than their registered capital. For example, 'renrendai.com' started with registered capital of one million yuan in 2013 and handled, on average, loans sized up to 80 times its registered capital in the same year. It subsequently increased its registered capital size to 100 million yuan in 2014 as a result of its business expansion (Sheng and Ng 2016). As there is no regulatory stipulation on the maximum leverage for online P2P lending platforms, some of them are operating at leverage ratios ranging between 10 and 20 times their asset values (Barreto 2016) which even exceeds CBRC's allowable maximum leverage ratio of 10 times the asset value for a financing guarantee company. The high leverage business practices of online P2P lending platforms pose a systemic threat to the liquidity of this financial segment.

A major inadequacy in the online P2P lending industry is that these platforms do not have access to the central bank's information database (nor support from credit information bureaus) to prudently access the credit risk of borrowers. In early 2013, Shanghai Credit Information Services Co., Ltd (a subsidiary of the Credit Reference Center, which is affiliated with the People's Bank of China) established a unified national personal credit information system known as the Network Financial Credit System (NFCS) for the P2P industry. This system was developed independently from the central bank's credit information database, and

the two systems are not interconnected. The NFCS is designed to collect and share information on borrowing and lending undertaken over P2P platforms, including basic user particulars, loan application information and loan provision and repayment information. Membership of the NFCS is voluntary and free of charge for P2P platforms and offers them the opportunity to upload information that they are willing to share with other members. In January 2015, about one-fourth of online P2P lending platforms signed up for membership of NFCS. However, the scope of information in this system remains limited, as members are more willing to upload information on their blacklisted default borrowers than on all their borrowers and lenders (Twenty-first Century Business Herald 2015; People's Bank of China Institute of Finance 2015).

2.3   Borrowers of Online P2P Lending Platforms

There are two types of borrowers who traditionally find it hard to obtain financing support from the traditional Chinese banks: firstly, private individuals who are consumers in need of short-term funds for events like medical emergencies, auspicious celebrations such as weddings, or car or property purchases; and secondly, private small and medium enterprises (SMEs) seeking funds for working capital and business finance. The Chinese banking system has traditionally preferred lending to big players such as state-owned enterprises and public-owned enterprises, rather than such borrowers (Fong 2011; Chong et al. 2013; Wonglimpiyarat 2015). Prior to the emergence of online P2P lending platforms as alternative sources of financing, these borrowers generally relied on informal sources of financing such as family, friends and illegal credit entities, many of which charged borrowers exorbitant interest rates.

Online P2P lending websites offered accessible credit and loans for private individuals and SMEs, as compared to borrowing from the traditional banking channel. Thus, borrowers of online P2P lending platforms have tended to be those excluded by the state-dominated banks. SMEs may also find themselves excluded by smaller Chinese city banks because their loan size is too small for such banks to provide. For example, the

average loan size issued to SMEs by a comparatively small Chinese private bank such as Minsheng Bank was 52,000 yuan (US$8125) in 2013, and a 1600 yuan (US$250) short-term loan sought by an SME would be well below its threshold (People's Bank of China Institute of Finance 2015). On the other hand, this SME would be able to borrow such a small loan through the online P2P platforms. However, borrowers generally have to pay higher interest rates on loans obtained through online P2P lending than on loans from traditional banks because of these enterprises' lower credit standing. The average borrowing interest rate charged by online P2P lending platforms was about 18% in 2015 (Chen and Ye 2016) whereas the banks' rates are normally 8.34% for an SME with relatively good credit standing. However, not all SMEs are able to enjoy this seemingly lower borrowing interest rate from the banks. SMEs generally borrow from the banks at a variable interest rate higher than the benchmark interest rate by between 20% and 40% (Ba 2013). For example, if the benchmark interest is 5%, an SME may be borrowing at the variable rate of 6.5% (30% higher). The SME may also be required by the lending bank to engage a non-banking financial company as a guarantor for the loan, which commonly involves a payment of guarantor fee by the SME, ranging between 2% and 3% of the bank's loan interest rate (Wang 2016b). In addition, the same bank may also require the SME to lodge a security deposit, ranging between 10% and 20% of the loan value, in an escrow account, meaning that only 80% to 90% of the loans are actually accessible to the SME while it has to pay interest on the entire loan amount (Ba 2013; Li and Zhong 2014; Xu 2015; Wang 2016c). These requirements increase the borrowing costs for the SME, possibly to an amount equivalent to the borrowing rate charged by online P2P lending platforms (Xinhuanet 2014). Indeed, the aggregate borrowing cost for a bank loan could be even higher in situations if the financial guarantee company charges additional fees such as loan consultation fees and/or loan assessment fees.

Hence, online P2P lending platforms may turn out to be a less costly alternative source of financing for borrowers who need a short-term loan but do not have the creditworthiness to borrow from banks. Borrowing through an online platform may be cheaper than loans taken from other private lending channels which charge an average interest rate of around

23%. However, borrowers from online P2P lending platforms and other private lending sources still have to exercise vigilance in these shadow segments because online P2P lending platforms have been known to charge interest rates as high as 30%, and other private lending channels as high as 50%. Interest rates on P2P loans are not dictated by the credit standing of the borrowers, because of a lack of information on their credit history, but this is largely based on the duration of the loan. The problem of asymmetric information in these informal financial systems has resulted in online P2P platforms providing guarantee services to their investors by promising them a guaranteed rate of returns on the funds loaned via the platforms (Li et al. 2016).

Loans obtained by borrowers through these online P2P platforms are largely unsecured short-term loans, ranging from one day to three years, and generally do not require upfront collateral (Huang and Deng 2015; Li et al. 2016). SMEs are increasingly turning to online P2P lending platforms for working capital and business financing, not only because of the relative ease of access to credit or loans, but also because of the normally short processing time for loan approval (as short as one or two days) through this source of borrowing. SMEs have lamented the long processing periods involved in their application for a bank loan, which generally translates into high transaction cost of borrowing or opportunity cost for them. Banks have often taken two to three months to process a loan application from an SME and then ultimately rejected it, resulting in lost business opportunities for the applicant. Not surprisingly, such long processing times do not make the banks the priority source for these enterprises seeking funds.

On the other hand, the banks are also restricted by their yearly loan quotas, set for the purpose of ensuring that excessive credit is not created within the economy. A substantial proportion of these loan quotas traditionally has been allocated to the banks' preferred customers (state-owned and public-owned enterprises), leaving limited funds for loan extension to SMEs. The Chinese government and its regulator CBRC have long recognised that SMEs play an important role in China's economic growth and make a substantial contribution to employment and productivity. In 2015, there were more than 20 million registered SMEs in China, providing more than 80% of urban employment. These formal SMEs earned

64.5% of the total profit attained by all industrial enterprises and contributed 49.2% of fiscal and tax revenue (Ministry of Industry and Information Technology 2016). The Chinese government has also acknowledged that these SMEs continuously face bottlenecks and obstacles in seeking finances from the traditional banking channels. The government's persistent encouragement to its banks to increase the extension of loans to SMEs and the CBRC's explicit guidelines on banks' minimum loan size to SMEs have resulted in an annual increase of 14% in the number of SMEs successfully borrowing from banks in 2013. However, the proportion of this lending to SMEs in 2013 was only 22.5% of the aggregate loans for business financing in the banking system (CBRC 2013). Although this proportion increased to 24% in 2014 (PYMNTS 2015), banks have remained cautious in lending to SMEs.

The obstacles, bottlenecks and costs of obtaining a bank loan have kept SMEs away from the banks; a survey of SMEs in 2014 (China Household Finance Survey 2014) showed that 48.4% of SMEs already held the perception that they would not be successful in obtaining loans from the banks. Some of the main reasons given by SMEs for being pessimistic about obtaining loans were 'not familiar with credit or loan officer', 'no one is willing to be my loan guarantor', and 'unable to provide collateral for obtaining loan'.

Borrowers seeking funds through online P2P lending platforms can register online with them. Because online P2P borrowings are largely informal activities (although there are fully registered banks branching out with web-based, short-term lending services), these platforms do not have access to the central bank's credit information database (credit information bureau) to prudently assess the credit risk of potential borrowers. The platforms assess the borrowers' credit standings based on documents furnished by borrowers themselves rather than archived information from a central database or independent sources. The ratings used to assess the creditworthiness of potential borrowers are not the same as the ratings used by an external credit rating agency and also vary between different online P2P lending platforms in the industry. The credit assessment undertaken by a platform on a borrower and the requested loan amount are posted on the platform's website for lenders' bidding. Lenders are addressed as investors on many P2P lending websites and the lending

transactions are marketed as investment by these sites, some of which use free gifts and cash giveaways to further attract lenders. If there are competing bids from lenders for the same listed loan request on a platform, the bid with the lowest interest rate will be the winning bid and a loan contract is then established between the borrower and lender through the platform. If there is not enough bidding from lenders to reach the targeted loan amount within a prescribed time limit, the borrower fails in his or her request for a loan. Many platforms also adopt capital pooling, via which lenders may bid for part of the requested loan amount, resulting in a borrower's loan comprised of funds from several lenders, maybe even with varying terms of investment maturity, which requires prudent practices on the part of these platforms in managing liquidity and its risk. Liquidity shortages and mismanagement of liquidity positions can trigger the collapse of a highly leveraged platform.

2.4   Lenders (Investors) of Online P2P Lending Platforms

Lenders (investors) are attracted by the higher rates of return on investment promised by the online P2P lending platforms and also by the greater flexibility of pre-mature withdrawal of funds generally allowed by these platforms, as compared to banks. In addition, these lenders can invest as little as 50 yuan (US$7.80) through these platforms, whereas banks' wealth management product generally requires a minimum investment amount of 50,000 yuan (Huang and Deng 2015). About two-thirds of the online P2P lenders are small investors who invest less than 10,000 yuan (US$1560) (Yingcanzixun and Wangdaizhijia 2015, 2016). Some lenders have even resorted to cash advances on their personal credit cards for online P2P lending, in order to accrue arbitrage profits (Guangzhou Daily 2015). Credit cards may require the balance to be repaid in full after a grace period of 30 to 50 days during which finance (including interest) charges do not accrue on purchases. Some credit cardholders seek to take advantage of this interest-free grace period by obtaining funding to invest in lending transactions of shorter or matching period durations at online P2P lending platform, thereby earning

high returns at zero borrowing interest rates during the grace period granted by their credit card issuing banks. The intended investment strategy of the cardholders is that when the short-term loan (made through the online P2P lending platform) is due, they will receive payment from their borrowers to pay off the amount advanced from the credit card within the grace period. However, the CBRC banking regulations stipulate that credit card borrowings must be solely for consumption purposes, not for production and investment (CBRC 2012). Because these cardholders have used third-party payment platforms (to avoid detection of unauthorised use of borrowings on their credit card) to transfer cash advances taken on their credit card to the online P2P lending platforms, it is difficult for credit card issuing banks and the banking regulator to monitor and identify credit card borrowings used for non-consumption purposes (in this case, lending to a borrower via online P2P platforms) because there is no distinct business classification code identifying online P2P lending platforms from other registered general businesses (Guangzhou Daily 2015, April 8). What these cardholders are looking for is a quick and easy return and they usually do not realise the high risks involved in such an investment strategy. Both parties to the online P2P borrowing and lending transactions might have poor quality standing as borrowers and lenders. If the borrower defaults on loan repayment, the investor (lender) will be left in the cold, having to pay the high-interest rate charged by the credit card company on the amount owed (Guangzhou Daily 2015, April 8). For example, the average interest rate on credit cards in 2015 was about 18% which is higher than the average interest rate of 13% investors expect to receive from investing through online P2P lending platforms if there is prompt payment and no foul play. This has repercussions on both the credit cardholders and the credit card issuing banks in the formal financial system. The risk could even be further intensified for lenders who unknowingly lend their money to online P2P websites that operate 'Ponzi schemes' in which funds obtained from new investors are used to pay off existing investors in a continuously growing, and ultimately unsustainable, pyramid type of structure. Ezubao, an online P2P lending website founded in 2014, was reportedly China's biggest Ponzi scheme operator (Xinhuanet 2016c). It had 207 physical outlets in China giving an impression of operating a genuine business and

generating a sense of trust among investors through its extensive physical business presence. The minimum investment amount accepted from lenders by Ezubao was as low as one yuan (about US$0.16) with no restriction on early fund withdrawal. Its promised rates of investment returns to lenders were between 9% and 14.6% higher than the 2% rate of interest earned on bank deposits or the 6% earned on offline wealth management products (Bloomberg News 2015; Walker 2016). It also embarked on an aggressive advertising campaign to recruit investors. Unbeknownst to the 900,000 investors who took up more than 50 billion yuan (US$7.8 billion) within a one-and-a-half year of the platform's establishment, senior management was pocketing lenders' money to fund an extravagant lifestyle instead of putting these funds into investment projects specified on the company's website as generating returns to the investors. Ninety-five per cent of investment projects posted by this platform were non-existent. Esudai is another online P2P platform being investigated by the Chinese government, following the Ezubao saga. This platform was founded in 2010 and allegedly raised about seven billion yuan (US$1.09 billion) from 330,000 investors. On 3 August, 2016, the local police department in Huizhou, Guangdong Province, announced it had arrested the founder for illegal business operation, unlawfully accepting deposits of 26 million yuan (US$4 million) from the public and making an illicit gain of four million yuan between January 2014 and May 2016 (Yan 2016).

2.5   Problem Platforms

The unreined and rapid proliferation of online P2P lending platforms due to the absence of market entrance thresholds, regulations and regulatory oversight has primarily resulted in three types of problem platforms: fraudsters using online P2P lending platforms to fleece investors of their money, errant individuals or businesses establishing online P2P lending platforms to source funds for internal financing, and genuine online P2P lending platforms that are simply inexperienced in risk management and liquidity management. These problem platforms under financial stress or engaged in fraudulent practices are becoming a significant threat to the

development of this fledgling industry. The banking regulator, CBRC, raised its concerns over the potential risk posed by wayward and failed online P2P lending platforms in its notice issued on 16 September, 2011, to financial institutions under its jurisdiction (banking regulatory bureaus, policy banks, state-owned banks, joint-stock commercial bank and postal saving banks). It cautioned them to take precautionary measures and implement risk management strategies to prevent P2P lending risk from spreading into the formal banking sector (CBRC 2011). In this notice, the banking regulator attributed the ease of P2P lending platforms engaging in illegal financial activities such as unauthorised acceptance of savings from the public, granting of loans and illegal fundraising activities to the low market entrance threshold and the lack of sound external supervision. It highlighted the lack of clarity surrounding online P2P lending platforms' identity and role, and their jurisdictional framework. In addition, it called attention to the business risk associated with P2P lending, citing the weak IT security setup of P2P lending platforms and their inability to access a reliable credit information system for risk management and control. It also cautioned that wayward P2P lending platforms can inflict harm onto society and the formal banking system through criminal activities such as deception and money laundering, and the misrepresentation of their partnership alliances with sanctioned banking institutions. Furthermore, it stressed the high credit risk and low loan quality associated with the P2P lending business model, based on evidence from foreign countries. Lastly, the CBRC alerted its financial institutions to the potential risk of P2P lending inflating property prices. In retrospect, the CBRC's notice can be seen as a premonition of forthcoming trouble associated with problem platforms in the online P2P lending industry.

Along with the rapid growth of online P2P lending platforms between 2012 and 2015, the number of problem platforms and failed platforms naturally increased over the subsequent period. It has been reported that the average business lifespan of problem platforms are about eight months (Xinhuanet 2016c). A survey conducted in February 2016 by Lingyi Research Institute (Lingyi 2016) found that 30% of these problematic platforms had a business lifespan of less than 100 days, at least 50% of them less than 300 days and 20% more than a year. In addition, a major-

ity of problem platforms were of small to medium size. Forty-nine per cent of the problem platforms had registered capital of less than ten million yuan (US$1.6 million) and 84% had less than 50 million yuan (US$7.8 million) (Xinhuanet 2016d). Although the number of new online P2P lending platforms in the first half of 2016 shows a decline (due to the active introduction by the government in 2016 of regulations and guidelines for tighter supervision), the percentage of problem platforms identified during this six-month period is already more than half of what occurred throughout 2015.

According to Yingcanzixun and Wangdaizhijia (2015, 2016), there were several reasons for failed platforms:

- business closure or demise/bankruptcy of the platform (8% of total number of platforms in 2014, 15% in 2015 and 43% in the period between January and February 2016);
- difficulty in withdrawing funds at prematurity or maturity (44% of total number of platforms in 2014, 29% in 2015 and 14% of firms in the period between January and February 2016 were exposed to these problems);
- management or staff absconding with investors' funds (46% of total number of platforms in 2014, 55% in 2015 and 42% in the period between January and February 2016 had these problems).

Figure 2.2 shows the average losses suffered by an investor who had been exposed to problem platforms in 2014, 2015 and the first two months of 2016. The average loss per investor as a result of problem platforms was about 91,818 yuan in 2014, 49,213 yuan in 2015 and 25,938 yuan between January and February 2016 (Ma 2016), respectively. The total losses caused by these failed platforms constituted about 5% of the aggregate loan amount brokered through online P2P lending platforms in 2014 and 3% in 2015. The percentage of investors who suffered losses as a result of these platforms was about 5% of total investors in online P2P lending platforms in 2014 and 2% in 2015 (Ma 2016).

Figure 2.3 shows that the number of lenders (investors) and borrowers has quadrupled in growth every year since 2013 at an average ratio of two lenders for every borrower. Despite this growth, the average amount of
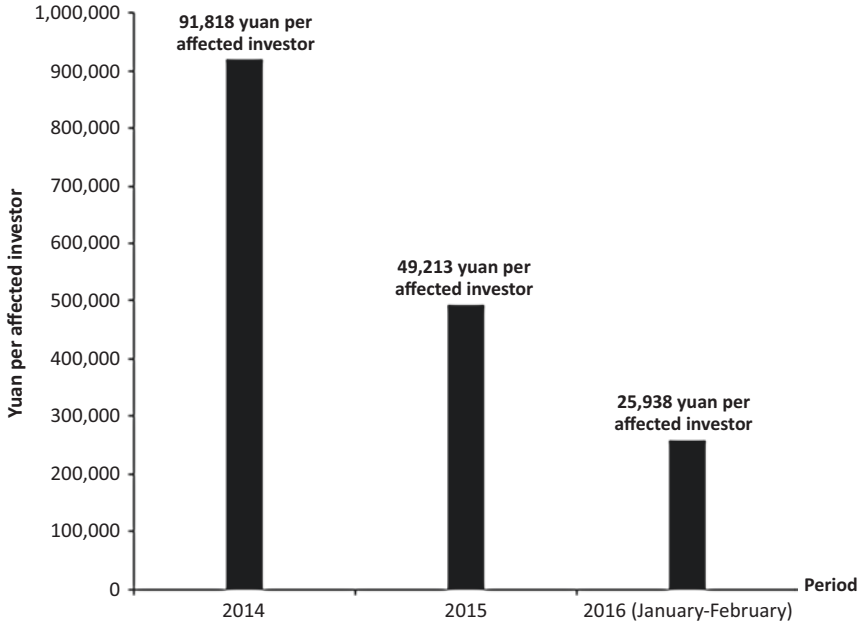
Fig. 2.2 Average amount of loss (in yuan) suffered by each affected investor of failed online P2P lending platforms. (Source: Ma (2016))

loan per investor (transacted through the online P2P lending platform) decreased annually by about 50% and 23% in 2014 and 2015 respectively suggesting either that investors have become more cautious and are lending less or that investors with less private savings are turning to these platforms for higher rates of return on investment. Correspondingly, the amount of loan per borrower has also decreased annually by about 43% and 15% in 2014 and 2015, respectively. Although there has been a decrease in lending and borrowing amounts over online P2P lending platforms, as well as a decrease in average loss per investor suffered in 2015 compared to 2014, the average loss suffered per investor in the first two months of 2016 was 25,938 yuan, already about 53% of the average amount suffered by each investor in the whole of 2015. The magnitude of this loss is largely attributed to the demise of Ezubao, China's biggest online P2P lending platform. As there is no official information on the actual extent of loan default and bad debts accumulated within this
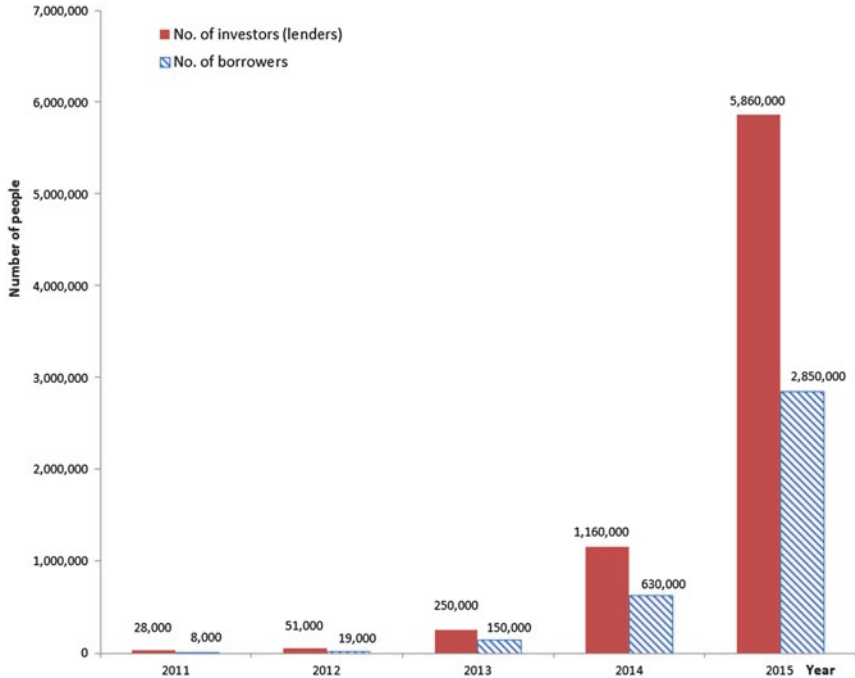
Fig. 2.3 Number of investors (lenders) and borrowers of online P2P lending platforms between 2011 and 2015. (Source: www.yingcanzixun.com and www.wdzj.com)

shadow industry, because the online P2P lending platforms, unlike registered financial institutions are not obligated to disclose any business information or performance figures (Lingyi 2016), the number of affected investors and their average losses may become higher as more platforms collapse or as more problem platforms are uncovered.

In terms of investors recovering their investment funds through the legal process, it has been observed that only 2% of such cases pursued through China's court system succeeded in getting a full restitution of the investment amount (Economic Information Daily 2016). Eighty per cent of the affected investors were unsuccessful in getting any form of restitution through the courts and suffered total losses. Those who were awarded partial restitution were generally able to claw back less than 40% of their investment (Economic Information Daily 2016). The risk of

investing through online P2P lending platforms appears to be inordinately high.

2.6   Financial Literacy of the Investors (Lenders)

A global survey on financial literacy across 148 countries conducted by Standard & Poor's Rating Services in 2014 found that only 28% of adults in China are financially literate (Klapper et al. 2015). This means that approximately one in four adults possess an understanding of basic financial concepts, while three in four do not. Individuals lacking in financial literacy skills can incur high debt, illiquidity, bankruptcy and mortgage defaults which can become a significant burden and potentially a financial disaster to their livelihoods (Klapper et al. 2015). In the Chinese online P2P lending segment, borrowers with low creditworthiness and low financial literacy pose a big risk to investors (lenders) in the absence of a reliable credit information system that is capable of detecting such borrowers. Lenders may also be unaware that their investment is being handled by inexperienced management because their investment platforms either did not provide this important background information or falsified it on their websites. Reportedly only 23% of the problem platforms in 2016 revealed information about their founders, and a majority did not have a finance background (Xinhuanet 2016d).

A borrower can also obtain loans from multiple standalone platforms without being detected, as these platforms do not share information with one another. The investors (lenders) of online P2P lending platforms, on the other hand, are generally blinded by the high rates of return promised by the online P2P lending platforms and their ignorance of the high risk associated with such platforms and types of borrowers within this informal financial system. These investors tend to employ a herd-mentality investment strategy, in which individuals mimic the actions (rational or irrational) of a large group, even though many of these platforms do not have financially sound business models. The company operating the online P2P lending platform does not lend its own money and the entire lending risk is shifted to the investors. In addition, many online P2P

lending platforms breached the laws by providing false guarantees of investment yields and/or misrepresenting the risk to their investors. Investing in P2P lending platforms is likened to walking on a landmine, as investors with low financial literacy may unwittingly invest in fraudulent or problematic platforms.

2.7   Initiatives and Precautions for Self-regulation

In the absence of a sound regulatory and legislative framework to protect investors of online P2P lending platforms, a number of professional peak bodies have taken the initiative in establishing self-regulatory measures for the industry (Dong 2016) since 2013. They include the China Guarantee Association, the China Association of Microfinance and the Shanghai Online Lending Industry Enterprises Alliance (Huang and Deng 2015). In addition, initiatives have been undertaken at the local government level to prevent unsound practices and illegal activity in the industry (Huaxia 2016). For example, the registration of Internet-based finance platforms has been halted in Shenzhen and Shanghai, and Beijing's local authorities have also suspended the registration of 'investment' businesses ahead of further scrutiny. In Chongqing, a public notice was issued designed to minimise the risk associated with standalone online lending, particularly focusing on online P2P lending and investment. There has also been much online discussion among observers and commentators on how to identify existing or potential problem platforms. There have even been suggestions that platforms promising above 18% investment returns are likely to be problem platforms (http://bbs.wdzj.com/thread-841765-1-1.html; http://www.p2peye.com/thread-806644-1-1.html). Observers and commentators have identified the following characteristics as indicators of existing or potential problem platforms (Huaxia 2016; Xinhuanet 2016d):

- **Platform website**
  A problem online P2P platforms tend to have is poor attention to detail and presentation, such as texts peppered with inconsistencies,

errors in expressions and poor command of Chinese language, which serve as a warning signal that the platform lacks professionalism and credibility and is potentially a problem platform. In addition, problem platforms generally lack clarity and transparency in the information on their webpage. Founders and senior company executives in smart business suits or attire may be featured on a platform's website, but little or no information is provided on the background of these individuals. Even if there is information provided on their work experience or education, it would bring into question their financial ability and experience. Information and announcements posted on these platforms' websites are often fake or misleading, such as fictitious contact details or guarantees to investors of investment returns, which is in breach of regulations.

- **Unusual behaviour of platform**
  Problem platforms may be making relentless requests to investors for short-term lending and/or accepting small investments. Alternatively, they may stop requesting investments for a long period of time citing platform re-structuring as the reason for their inactivity. There may also be a sudden huge hike in investment yield or the promise of expensive gifts to entice lenders.
- **High number of defaults on repayment of loans**
  Another sign of a problem platform is a long delay in honouring cash withdrawal (the average time for a cash withdrawal transaction through a healthy platform is two days) or pre-mature redemption of investment on loans that the online P2P lending platform helped facilitate.

Although the above indicators are offered with the laudable aim of cautioning investors, they are insufficient in themselves for the purpose of self-regulation within the fledgling online P2P lending industry in a country whose population has a low financial literacy rate. The well-meaning intention behind these suggestions can be counterproductive if genuine online P2P lending platforms are unfairly shunned by investors, or if overly cautious investors press for the withdrawal of their funds at the slightest hint of negative rumours. Such scenarios can lead to more platform collapse, thereby generating further instability in this informal financial system.

2.8   Laws and Regulations

The online P2P lending industry has functioned with little or no effective formal or explicit regulation for approximately nine years since 2007, and without a formally appointed regulator until 18 July, 2015. The rapid growth of the online P2P industry has certainly not been matched by the speed in the development of an overarching national regulatory framework and the appointment of a prudential regulatory body for the industry. Zhang (2015) and Jingu (2016) attributed the lag in this development to financial regulators' need for more time to observe and understand the characteristics of this new mode of financing before promulgating an effective solution. On the other hand, Li et al. (2016) ascribe the delay in identifying a formal regulator to 'regulatory aversion' (p. 170) in that no one institution is seriously committed to cleaning up the distortion and disorder in the industry.

   Nevertheless, the Chinese government does face a huge challenge in drafting rules to regulate online P2P lending. It does not want new laws to stifle the growth of this industry because of its importance as a source of financing to SMEs. In the UK, online P2P lending has become an alternative source of financing for SMEs (Milne and Parboteeah 2016), and it is seen as important for China to emulate this development, because P2P lenders are almost the only financial entity still willing to lend to SMEs in China. However, money borrowed through online P2P lending platform has been associated with shares and property speculation and investment in Chinese markets. A worrying trend has emerged, whereby people who have been unsuccessful in borrowing from traditional banks due to a lack of creditworthiness are turning to these platforms for the down payments on their homes and investment purchases. Online P2P lending platforms have been blamed for contributing to the stock market crash in 2015 and inflated housing prices over the years in major cities such as Beijing and Shanghai (Luo and Ganguly 2015; Walker 2016). Unrestricted debt-fuelled trading and an informal financial system that embraces unqualified borrowers can generate excessive credit and instability, with unmitigated negative spillover effects onto the formal financial and economic systems. The opacity of online P2P financial transactions

constitutes a major concern to the regulator of the formal banking system as P2P platforms are entities of the country's shadow banking system and do not register with local financial regulators. Therefore, they are not subjected to disclosure requirements on borrowers' information or rate of loan repayment default, which can be a breeding ground for bad debts and financial criminal activities (The Sydney Morning Herald 2015; People's Bank of China Institute of Finance 2015). The lack of a credible, systemic credit-sharing information system on the credit history of individuals and enterprises may further exacerbate the situation, as one can simultaneously and covertly borrow from different online P2P lending platforms.

The 'Guiding opinion on promoting the healthy development of Internet banking' jointly developed by ten high-level Chinese state authorities (including the central bank, regulators and supervisory bodies) was formally released on 18 July, 2015 (The People's Bank of China 2015). This document contains relatively comprehensive guidelines outlining clearer legal parameters that had been opaque in the past for the online P2P lending industry. It serves as a guide for developing detailed regulatory rules to be implemented in the future. In this document, the CBRC has been formally identified as the regulator of the online P2P lending platforms and responsible for establishing regulations for this industry. It explicitly specifies that online P2P lending platforms are simply information intermediaries and must not provide guarantee services nor engage in capital pooling. It also identifies the need for cooperation between traditional financial institutions and online lending companies in the establishment of information infrastructure, such as big data and credit information systems. The traditional banks are particularly cautious in dealing with small- and medium-lending platforms, a reflection of their traditional stance towards SMEs. These banks are likely to be more resistant to cooperating with standalone small and medium online P2P lending platforms which are not affiliated to their organisations. This resistance is reflected in the difficulty of small and medium platforms trying to fulfil one of the guidelines in the 'Guiding opinion on promoting the healthy development of Internet banking' which requires P2P platforms to appoint registered financial institutions as their fund custodian in which borrower and lender funds must be held in custodial

accounts. According to estimates by Yingcan in July 2016, only 2% of the 2400 operating online P2P platforms in the industry have actually abided by this guideline and formally linked up with banks as their fund custodian (Internet Finance 2016). One reason why P2P platforms have been slow in linking up with banks as their fund custodians was that the traditional big banks prefer to deal with large creditworthy P2P platforms. Small- and medium-sized platforms have to turn to the smaller financial institutions such as joint-stock banks and city commercial banks (largely originated from urban credit cooperatives) to set up this required business process. The findings of Chong, Lu and Ongena's (2013) study on the effect of different types of Chinese bank on credit constraints faced by SMEs suggest that city commercial banks and joint-stock banks are more oriented towards supporting SMEs than are the large traditional banks. However, appointing banks as fund custodians for online P2P lending businesses may serve to provide transparency in the flow of funds but does not guarantee the safety of investors' outlay. For example, a problem platform by the name of 'ahfex.com' (aka Hui Jing Suo) was charged for illegally accepting deposits from the public even though it had appointed Huishang Bank, a city commercial bank, to be its fund custodian (Zhong Jing She 2016).

Following the release of the 'Guiding opinion on promoting the healthy development of Internet banking' document that provides clarity on the identity and role of online eP2P lending platforms and designates a specific regulator for this industry, further new laws and regulations are emerging. The officially appointed regulator, CBRC, is currently establishing detailed regulations pertaining to the registration of P2P lending companies, third-party depositories and the management of P2P clients' money, as well as mandating product information registration and disclosure protocols. In August 2016, it released its rules for online lending intermediaries with explicit reference to P2P lending platforms, thus providing further clarity on their role (CBRC 2016). These rules generally align with the legal parameters set in guidelines released on 18 July, 2015. Online P2P lending platforms are banned from offering insurance, wealth management and other high-return, alternative-investment products and must limit themselves to online matchmaking services between lenders and borrowers. They are also prohibited from activities associated

with providing guarantees for any loan that they facilitate, pooling investors' money to build their own capital reserve for in-house projects, and taking deposits or raising funds from the public. Loan limits are also established to prevent individuals from relentless borrowing through multiple standalone lending platforms. The rules stipulate that an individual can borrow a maximum of 200,000 yuan (US$31,250) through any one P2P lending platform, and no more than an aggregate of 1 million yuan (US$156,250) from different platforms. The limit for corporate borrowers is five times that imposed on individuals, namely 1 million yuan through a single platform, and 5 million yuan in aggregate from different platforms. Though the new regulations took effect immediately, CBRC allowed a grace period of 12 months for the platforms to adjust their practices.

In line with the CBRC's new rules, new legislation was also issued by The Supreme People's Court of the People's Republic of China to provide clearer constraints on P2P lending platforms' loan interest rates. In 1991, a Supreme People's Court of the People's Republic of China ruling permitted private lenders to issue loans at an interest rate higher than the banks' but not exceeding four times the interbank rate. Otherwise, the private lenders would not be able to pursue restitution from a defaulting borrower through the court for repayment of the portion of accrual interest above that limit (Huang and Deng 2015). This legislation was superseded in 2016 when the Supreme People's Court of the People's Republic of China explicitly identified the limit on loan interest rates as a percentage in a new law. Under the new law, the court will support lenders in pursuing repayment of loan capital and interest from default borrowers if the annual interest rate on the loan is below 24%. For annual loan interest rates exceeding 36%, the portion of this interest rate in excess of 36% is considered contractually ineffective by the court and borrowers may be able to pursue its reimbursement from the lender through the court.

The Chinese online P2P lending industry is entering a new era in 2016; the Chinese government wants stringent requirements and laws to be enacted and tight regulations and supervision to be enforced. The aim is to establish order in this industry before it is too late, particularly in purging illegal or errant platforms, or deterring such platforms from entering the industry. The industry is expected to experience an exodus of

unsustainable platforms as their business scope becomes narrower under the new rulings. By explicitly confining online P2P lending platforms to an intermediary role, this new regime will force the exit of platforms which are unable to cover their business costs and expenditure from revenue earned on intermediary services. The need to ensure continuing stability in the country's financial system and the healthy development of an alternative financing source for SMEs constitute significant impetus for cleaning up wayward and non-performing platforms. Additionally, concerted efforts, particularly from the Chinese government, are also crucial for establishing a sound framework and infrastructure that maintains and improves market integrity, including a comprehensive credit information system, shared by all financial institutions and entities, to enhance risk management and control, and a strong cooperation between online P2P lending businesses and financial institutions regardless of their respective sizes.

2.9   Conclusion

China's fortuitous opportunity to leapfrog technology has created the pathway to adopt innovative business models and new digital intermediaries. A financial innovation, enabled by information technology, has spawned a new financial segment in this emerging market economy, and also offers an alternative method of borrowing money or financing for individuals and SMEs. However, the Chinese online P2P lending industry has operated in the shadow of the formal financial system with little or no effective formal or explicit regulation for approximately nine years since its emergence in 2007. The absence of market entrance thresholds, sound regulations and regulatory oversight has resulted in the growth of unruly online P2P lending and high loan repayment delinquencies, generating high risk in this shadow industry with potential spillover effect onto the formal financial system. In addition, the absence of a reliable credit information system for detecting participants of low creditworthiness and unreined borrowing behaviour can aggravate the risk in the fledgling online P2P lending industry.

In July 2015, concerted efforts were made by high-level Chinese state authorities to produce a clearer legal ambit for online P2P lending and the industry, setting out directions and guidelines for the development and enactment of new laws and regulations to ensure the healthy development of this new financial segment. Besides new laws and regulations that provide clarity for the industry, government support and cooperation among financial institutions and entities are important elements in building a reliable and secure infrastructure that is crucial for managing and controlling risk. China's online P2P lending platforms are not expected to replace traditional banking channels, but are financial intermediaries with a promising potential in addressing the financing vacuum long faced by SMEs. Moving the online P2P lending industry segment out of the shadows and making it more transparent is of crucial importance for nurturing an alternative financing source for SMEs and for promoting general economic development.

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3

The Key to Non-Profit Crowdfunding Through Internet Social Media

Peng Gao

3.1   Introduction

Recently non-profit crowdfunding has become more popular than business crowdfunding in people's daily life in China. With user-friendly apps and websites, everyone can start or participate in a non-profit crowdfunding project theoretically. Almost every few days, a person will receive an Internet link to a non-profit crowdfunding project in his or her friendship circle, either in the form of a promotion or a friend's recommendation. The popularity of non-profit crowdfunding originated from the special social and economic circumstance of China, as well as the development of IT technology. However, as non-profit crowdfunding prevails in the public and benefits the masses, it causes a series of problems as well. Here we will probe into how non-profit crowdfunding platforms survive the competitive crowdfunding market and how they could potentially achieve greater and healthier development in the future.

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Non-profit crowdfunding is in nature a special category of the well-known crowdfunding system. Crowdfunding, as a form of crowdsourcing and of alternative financing, is the practice of funding a project or venture by raising money contributions from a large number of people. In 2015, it was estimated that over US$34 billion was raised in this way (Daze Info) worldwide. By 2015, 11.4 billion yuan ($1.65 billion) had been raised through crowdfunding platforms in China. The World Bank forecasts great crowdfunding growth potential in China, estimating that it will be worth $50 billion by 2025—52% of the global total (China Daily, 2017). The crowdfunding model is generally based on three types of players: the project initiator who proposes the idea and/or project to be funded, individuals or groups who support the idea, and a moderating organization (the platform) that brings the parties together to launch the idea (Ordanini et al. 2011).

During recent years, especially with the popularity of the Internet as well as the development of social media, non-profit crowdfunding has been widely used by people who are in need. At the very beginning, when crowdfunding came into being, it had been widely used in start-up enterprises. People who had hoped to start their own business but lacked the sufficient funds started crowdfunding projects to collate the necessary funding. And the people who invested in such crowdfunding projects also hoped to benefit from the project. Hopefully, it would result in a win-win situation. Unfortunately, unexpected things often happen in such cases. Despite the promises and the plans that are listed in the vivid descriptions of the industrial crowdfunding projects, start-up enterprises suffer a higher possibility of failure. In contrast, it seems that the non-profit crowdfunding has no pressure to succeed since the investors demand no returns. Data further shows that the non-profit crowdfunding projects enjoy a relatively higher possibility of success especially in China (China Daily 2016). Here we try to identify the key elements determining the fate of non-profit crowdfunding projects, such as the criteria that renders a project a success or failure while seeking to examine the reasons for its survival, through online surveys on the projects approved by the Qingsongchou (means "an easy way to get funding") platform, with the hope of presenting constructive suggestions for the successful launch of a non-profit crowdfunding project.

The Qingsongchou platform is run by an Internet company, founded in 2014 who now have more than 124 million valid registers, accomplished more than 1.54 million projects, who have been donated to more than 250 million times. Statistics of the platform show that almost 80% of crowdfunding projects are not profit-based, the majority of which are related to medical treatment for rare diseases, critical cancers, or tragic accidents (Qingsongchou website 2017). In contrast, in China, serious business crowdfunding projects are not as popular as in some other foreign countries. The *Securities Daily* revealed that only 93 of 300 equity crowdfunding platforms survived by the end of June 2017, which indicates that the business crowdfunding platform has suffered from a storm of bankruptcy instances. In order to investigate the development of nonprofit crowdfunding in China, we should first dig into the literature review.

3.2 Literature Review

3.2.1 An Overview of Crowdfunding

There are thousands of articles, papers, critics, and book chapters focusing on the subject of crowdfunding. Crowdfunding, also widely known as crowd-based fundraising, crowdsourcing, and cloud-funding, is a way of collecting money from others by selling them a promising project. In general, crowdfunding can be divided into two types: profit-based crowdfunding and non-profit crowdfunding. Usually, a profit-based crowdfunding project promises all donators beneficial returns to a certain degree. It presells an idea or abstract product for a certain amount of money to potential investors. Then, investors will get returns as promised earlier if the project succeeds. Alternatively, some scholars classify crowdfunding into four different types: equity-based crowdfunding, reward-based crowdfunding, debt-based crowdfunding, and donation-based crowdfunding (Laurence 2017). The equity-based crowdfunding is the most popular crowdfunding in use today, which distributes equities to people or organizations according to the amount of their investment. The

project starters and all the investors alike share the risks of the project. The reward-based crowdfunding is to give rewards to people or organizations during or after the success of the project. The debt-based crowdfunding is to establish a debtor–creditor relationship between the project starters and investors. Legally, the investors can get their money back whether the project is a success or failure. The donation-based crowdfunding, in nature, refers to the non-profit crowdfunding.

Studies of profit-based crowdfunding almost cover all aspects of the subject because of its popularity in society, such as the theoretical analysis, the practical research, and certain specific aspects of the subject. With the developments in IT and the Internet, many scholars focus on the platform crowdfunding on the Internet and conduct a series of empirical studies based on data from various fundraising platforms. Belleflamme et al. (2015) described the crowdfunding sector and summarized the features of this rapidly developing sector and explored the economic forces at play. Besides, they elaborated on cross-group and within-group external effects and asymmetric information on crowdfunding platforms. Wessel et al. (2016) studied the effects of non-genuine social information on consumers' decision-making in the context of reward-based crowdfunding and found that Facebook Likes had a very short-term positive effect on the number of backers funding the respective crowdfunding campaign. Hui Yuan et al. (2016) designed a novel text analytics-based framework that can extract latent semantics from the textual descriptions of projects to predict the fundraising outcomes.

3.2.2   Studies of Non-profit Crowdfunding in China

As for the non-profit crowdfunding, scholars have paid less attention to relevant studies. When using the keyword "crowdfunding" to retrieve research articles from the China Academic Journals Full-text Database of China National Knowledge Infrastructure, 2231 results appear, respectively:3 in 2012, 29 in 2013, 296 in 2014, 765 in 2015, 806 in 2016, and 330 in 2017. In contrast, the keyword "non-profit crowdfunding" only produces 28 results, respectively: 1 in 2014, 5 in 2015, 11 in 2016, and 11 in 2017.

Related studies mainly fall into two fields. Similar to the researches on profit-based crowdfunding, the first field of non-profit crowdfunding is more about the empirical studies of non-profit crowdfunding based on data from crowdfunding platforms. Pitschner and Pitschner-Finn (2014) compared funding performances of profit-based and non-profit crowdfunding projects based on data from approximately 50,000 crowdfunding projects and found that non-profit projects were significantly more likely to reach their minimum funding goals and that these projects received more money from the average funding providers. Meer (2014) used data from online platforms and concluded that an increased price of giving resulted in a lower likelihood of a project being funded. They examined the effect of competition on giving and found that increased competition reduced the likelihood of a project being funded. Jingping Xu and Zhao (2016) focused on the Chinese charitable crowdfunding sector and explored the current development of this sector, including the basic operational structure, the coverage, and the classification. They also summarized the advantages and disadvantages of charitable crowdfunding and put forward suggestions for further development in the future. Aiping Gou and Tian (2016) seized all data of successful public service projects in the Zhongchou (means "crowdfunding") network until 22 June, 2016, through the crawler software and found that the different nature of public service projects in the process of raising the funds have a different advantage, and through the simple correlation analysis using Statistical Package for Social Sciences (SPSS), found some related factors and non-related factors that affected the ability to raise funds through crowdfunding the public service, the influence of the transparency of project information, and the ways of return and the degree of concern given to a public service project.

The other studies focus on the theories, rules, and legal and moral issues of non-profit crowdfunding. Xiaoling Xu (2016) believed that with the unprecedented opportunities produced by charitable crowdfunding, it also results in inevitable challenges to organizations and institutional risks. Chen Zhou (2016) explored the legal issues concerning charitable crowdfunding and proposed constructive suggestions for the development of Chinese charitable crowdfunding, such as developing the specialized law of charitable crowdfunding or improving the supervision as well as the management system. Shi Wang (2016) analyzed the

classification of social medial non-profit crowdfunding as well as the characteristics and explored the prominent problems in non-profit crowdfunding for the sake of healthy communication in social media non-profit crowdfunding.

(1) The definition and types of non-profit crowdfunding

For now, there is no universal definition of non-profit crowdfunding. As there are various terms with similar meanings, in different papers it may be named differently, from non-profit crowdfunding, non-interest crowdfunding, to charitable crowdfunding or research-oriented crowdfunding. In nature, these names have one aspect in common, that is, no potential profits are expected. Besides, they all refer to one kind of crowdfunding. Therefore, we can define the non-profit crowdfunding as a series of activities by which the initiators try to collect money from donators without promising returns but with charitable or scientific purposes. Internet social media usually plays a role in bridging the initiators and donators. Unlike the general crowdfunding model, we believe that the main actors of non-profit crowdfunding should be the initiators, donators, and Internet social media users.

(2) The types of non-profit crowdfunding

Different classification criteria result in different types. Theoretically speaking, non-profit crowdfunding projects could be launched by both organizations and individuals. However, in China, if an organization wants to perform fundraising online, the organization must meet specific requirements and get an official approval for collecting money from others, which is a complex process one that is difficult to succeed in. Therefore, most of the crowdfunding platforms in China only permit individual crowdfunding activities online. According to the specific purposes of non-profit crowdfunding projects, we divide it into four types: incident-based non-profit crowdfunding, art-based non-profit crowdfunding, research-based non-profit crowdfunding, and start-up non-profit business crowdfunding (Table 3.1).

The incident-based crowdfunding mainly focuses on the individual or organizational charity, such as family disasters or public welfare. In China, the incident-based crowdfunding has developed rapidly in recent years,

Table 3.1 The types of non-profit crowdfunding projects

Types	Reasons for crowdfunding	Initiator	Proportion
Incident-based	For medical treatment	Relative or friend of the victim	80% above
Art-based	Solo show or advertising to be popular	Artist	About 3%
Research-based	Interest-motivated and non-profit scientific research	Scientist	About 2%
Start-up business	New and untraditional business	Somebody with new ideas	About 15%

Source: adapted from Qingsongchou platform: by the end of 2016

which significantly fill up the empty of public welfare since in China the public welfare does not cover all medical treatments, especially in rural areas. Previously when people in poverty got sick or suffered from an unexpected disaster, he or she had to borrow money from their relatives or friends to get treated in order to recover because the public welfare fails to cover all expenses, especially for farmers in rural areas. It is difficult, both spiritually and physically. Data shows that the number of incident-based crowdfunding projects is increasing since the creation of the Qingsongchou platform, which accounts for about 80% of the total number of non-profit crowdfunding projects on the platform. Although the incident-based crowdfunding helps in many ways, it does cause many disputes over moral issues as well as other social problems.

The art-based crowdfunding focuses on an art idea or action, which usually is initiated by an artist who is pursuing a certain art achievement but is without sufficient financial support, such as a public show or a short movie. Sometimes, the art-based crowdfunding may be used as a promotion method, by which the initiator not only gets financial support from the crowd but also gains popularity. Under certain circumstances, the initiators of art-based crowdfunding prefer gaining crowd popularity and attraction from an art-based project in comparison to monetary gain obtained from the crowd.

The research-based crowdfunding system is designed to support certain scientific research which fails to or could not get financial support from the government and/or corporations. In a sense, it does not mean the research

is not important as scientists usually believe that their research is valuable and useful. Rather it is not in line with the current trends concerning government and corporate investment. The scientists, however, hope to continue and further their studies by themselves, even without financial backing from companies or the government. Therefore, they seek financial support from the crowd through the research-based crowdfunding project. To a respectable degree, the money they collect through the project must not only benefit the continuous scientific research but also indicate the progress and gain the approval of the people who funded the research.

The start-up business crowdfunding only accounts for a small percentage of non-profit crowdfunding projects. Actually, most business crowdfunding projects choose to promise returns to investors in order to gain financial support. Therefore, non-profit business crowdfunding is not as popular as profit-based business crowdfunding for obvious reasons. In a sense, the non-profit crowdfunding business model is regarded as an unusual way to start up a business. No investors are interested in a project without expected revenue and profits. Therefore, non-profit start-up companies usually target donors who voluntarily donate disposable income and who are without the expectation of capital gain.

The art-based, research-based, and small start-up business crowdfunding projects are not as popular as the incident-based non-profit crowdfunding projects in the given platform. The respective three types of non-profit crowdfunding projects account for only 20% of the total number when concerning non-profit crowdfunding projects on the platform and other crowdfunding platforms share the similar proportion.

3.3   An Introduction to Non-profit Crowdfunding in China

In recent years, non-profit crowdfunding has evolved into a specific mode, by which a lot of non-profit crowdfunding projects have been approved and carried out through different social media platforms, such as Sina, Tencent, Sohu, Alipay, Taobao, Qingsongchou, and so on. Technically, anyone can reach out for financial assistance or participate in a non-profit crowdfunding project online. According to the "China Non-

Profit Crowdfunding Development Report 2015", 873 non-profit crowdfunding projects were launched in 2015 and a total sum of 34,330,000 yuan was collected. Most non-profit crowdfunding projects have a target of no more than 50,000 yuan. Here, we use the Qingsongchou platform as an example to understand the definition, types, characteristics, and practice of non-profit crowdfunding in China.

As a well-known crowdfunding platform, the Qingsongchou platform is quite different from other crowdfunding platforms, such as Kickstarter, Indiegogo, and so on. There are mainly three types of crowdfunding projects listed in the Qingsongchou platform: presell fresh crowdfunding projects (mainly focusing on agricultural products, private dishes, snacks etc.), aspirational activity crowdfunding projects (such as small start-up business, films and books, art and design, smart hardware, entertainment and performance, comic games etc.), and mini love crowdfunding projects (giving small donations to people who suffer tragic accidents). Before we explore the key influencing factors that determine the fate of non-profit crowdfunding projects in the Qingsongchou platform, we first try to define "non-profit crowdfunding" as well as its various types.

3.3.1 The Characteristics of Non-profit Crowdfunding in China

Non-profit crowdfunding is similar to profit-based crowdfunding in many ways since they share the same operating process in nature. They all need initiators who produce or start the original idea, the platform by which the project will be known and through which the money will be collected, deciding whether or not the crowd will give money for profits or for free. The platform, as the project manager and the supervisor of the cause, will get a portion of the total money collected as a form of commission or service fee (Table 3.2).

Promising No Profits

Unlike other crowdfunding projects, the non-profit crowdfunding initiative promises no profits, which theoretically makes it more difficult to

Table 3.2 The comparison between non-profit crowdfunding projects and profit-based crowdfunding projects

Comparison	Initiatives for crowdfunding	Management fee (%)	Relationship between the initiator and contributors
Non-profit crowdfunding	Incident, art show, scientific research, small start-up business	0–2	Loose, usually one-time connection
Profit-based crowdfunding	Serious business	2–5	Long-term relationship

Source: adapted from Qingsongchou platform: by the end of 2016

attract people's attention and gather money. However, the facts disapprove the theory. Especially during recent years, with the fast growth of crowdfunding projects, the non-profit crowdfunding alternative has experienced greater success in actualizing their respective funding goals. Therefore, the "non-profit" option may, perhaps, not be a disadvantage but rather an advantage when it comes to crowdfunding projects. For profit-based crowdfunding projects, the essence is to effectively sell an individual idea and to convince people to invest, which is not an easy task. In contrast, the non-profit crowdfunding projects should make sure the information about the projects is real, which is not difficult at all in essence. It is the truth rather than the profits that help to collect donations.

Friends and Relative Circles Matter

For the success of non-profit crowdfunding, it is the friends and relatives circles that really matter. The profit-based crowdfunding option can use the promise of potential profits to attract investors, while the non-profit crowdfunding must focus on the initiators' friends and relative circles and friends and relatives' friends and relatives circles. If the initiator is a well-educated person, the non-profit crowdfunding may enjoy a higher probability of achieving the funding goal. The initiator's educational background will serve as a solid foundation in forming such friend and relative circles as well as a guarantee for the virtue of the funding, to a

certain degree. The old classmates and friends can help to confirm the authenticity of the information about the crowdfunding, which makes the project more reliable and trustworthy, thus attracting more donators. The classmates and friends of the initiator further enlarge the source of the donators by spreading the news to their classmates and friends. By this way, it knits a net, in which people feel a form of connection to the initiator to gain their backing.

Pocket Money Donations

In non-profit crowdfunding, the project initiator should not expect a certain big donation from one or several donors. The success of a non-profit crowdfunding project lies in the quantity of donators. A profit-based crowdfunding project may achieve their financial goal by reaching several investors who see the opportunity of the project and hope to join in, which may never happen for a non-profit crowdfunding project. A non-profit crowdfunding promises no profits, which is precisely the reason for it hoping that people give it donations. Therefore, every donation may be smaller in size, which is completely reasonable. Indeed, it is far easier for people to give up their pocket money rather than withdrawing serious money from their bank accounts. Should all donations collate together, however, it would nonetheless be of significance.

3.3.2   The General Practice of Non-profit Crowdfunding on the Qingsongchou Platform

Non-profit crowdfunding is quite common in various crowdfunding platforms. Some of these platforms are specialized for crowdfunding projects, and some are just an affiliate function of other Internet companies or mobile applications. Under either condition, they work the same way.

To start a charitable crowdfunding project, firstly, an initiator, the victim of a case or a relative or friend of the victim, registers in a crowdfunding platform that he or she is familiar with or feels comfortable with and describes the facts and explains why he or she needs to initiate the crowdfunding. In order to pass the primary checking from the platform, the

initiator must present proof of the facts described in the project. Secondly, the platform needs to operate a superficial check on the project, mainly focusing on the identity of the initiator, the connection between the facts and the given proofs, and the availability of necessary digital information. Usually, this is only a routine check. The platform does not take full responsibility for ensuring the authenticity of the crowdfunding project. Only if the platform goes through the checking process, it is thought to have fulfilled its duty. Thirdly, the initiator and the platform try to promote the project online. For the initiator, the most common promotion is to release the information about the charitable crowdfunding through social media applications. Perhaps some of the initiators' friends and relatives have already known about what happened—what has caused the crowdfunding to begin. They can help to confirm the truth and make the project more reliable and trustworthy.

Qingsongchou is a Chinese crowdfunding platform, which was founded in September 2014 and soon became popular in the Chinese crowdfunding field. It has launched "the crowdfunding space", "the promise crowdfunding – firm-based crowdfunding solution", and other well-known programmes. Gradually, it has evolved into a non-profit platform mainly based on its social media presence. The majority of its crowdfunding projects have a close connection with people's daily lives, benefiting a lot of people in many ways. Currently, the Qingsongchou platform has collected more than 124 million registered users, and launched more than 1.54 million projects, obtaining more than 250 million donations to this date. Specifically, on the Qingsongchou crowdfunding platform, the non-profit crowdfunding starts from the application of the fundraiser, who must present on the platform the original documents that prove his or her identity, the purpose of the crowdfunding, and the authentic situation. After a superficial check on the availability of all the necessary documents, the platform will approve or disapprove the project. With approval, the projected starter can promote and advertise the project through any form of Internet media. There has already been a solid business connection established between the Qingsongchou platform and WeChat, which is the most popular app issued by Tencent, one of the most successful Internet companies in China (Fig. 3.1).
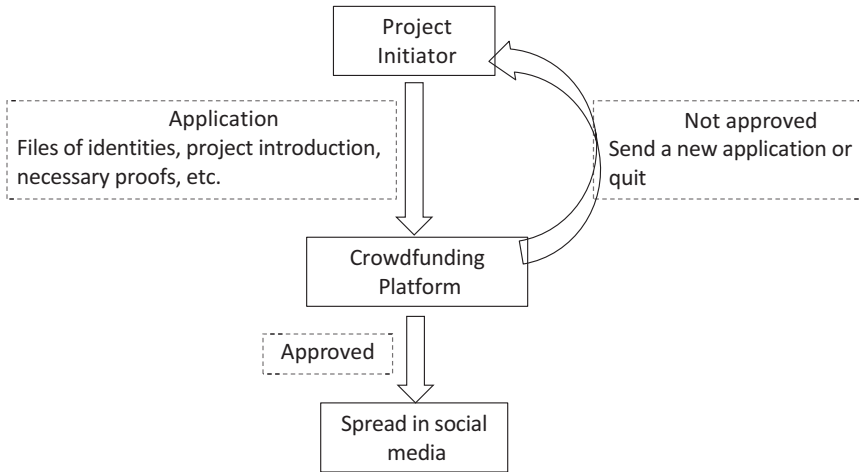
Fig. 3.1 The procedures of non-profit crowdfunding on the Qingsongchou Platform

3.3.3   An Accident-Based Non-profit Crowdfunding Project in Qingsongchou Platform

A finished non-profit crowdfunding case on the Qingsongchou platform may help to understand the procedures and necessary documents for the success of the project.

Accident: Something Bad Happened

Mr. Wang, an old school friend from my hometown, has gone through a terrible car accident in Shanghai in June 2015. He was hit by a motor vehicle when he was crossing the road. The signal light was green and the fault was all on the rider. However, the rider was too poor to pay for Mr. Wang's medical treatment. After he was sent to the hospital, he was in a coma. He stayed in the ICU for two weeks. Mrs. Wang was helpless. They just moved to Shanghai one year ago. They have no sufficient savings to pay for the medical treatment. It was an urgent and desperate situation. So she took the suggestion from family friends who helped her to

apply for the non-profit crowdfunding through the Qingsongchou platform. At the very beginning, she was embarrassed. But at that moment, she had no choice. It was the truth that they could not afford the expensive treatment in the ICU even with medical insurance from the employer. Since the doctor said her husband had a chance to wake up, she wanted to seize the only hope.

Application: Certificates and Records

Considering the circumstances of the accident, Mrs. Wang can choose to start a "Mini-Love Path" crowdfunding initiative, designed by the Qingsongchou platform and especially for people suffering from critical diseases or serious accidents. With the help of her friend, Mrs. Wang prepared all the necessary certificates and files and uploaded them on the Qingsongchou platform, including the car accident records, and medical receipts. The certificates included Mr. Wang's identification card, her identification card, and their marriage certificate, as well as their employment cards, which can help to confirm their credit to a certain degree. The car accident records from the traffic police and the medical receipts from the hospital will guarantee the truthfulness of the accident. Then, she described the accident and the financial conditions of their family and explained why they needed to start the crowdfunding project, in a short paragraph.

Reality Check

As long as the initiator uploads the required certificates and files and sends the application off online, the Qingsongchou platform will launch a reality check on these materials. However, there is no investigation into the accident itself. The so-called reality check is all about the availability of necessary identification cards, accident records, and other materials that justify the application of non-profit crowdfunding projects. In that sense, the reality check is superficial since the platform cannot contact the police officer or the doctors from the hospital to confirm the authenticity of the relevant records. If the initiator presents all the files required by the platform, the platform assumes the validity of the project. Usually, the platform has no legal obligation to check if the accident or the files are indeed true.

Spread It Through Social Media

The more the non-profit crowdfunding project can reach people, the more likely it will be successful. Once it has been approved by the Qingsongchou platform, Mrs. Wang copied the link to the crowdfunding project and pasted it to the memo in her QQ account and the friend circle in her WeChat account. The QQ settings will then remind all her friends of her changing memo and WeChat will further share her update with all her friends. By doing this, all her friends will learn about the tragedy that has happened to the family. Some of her friends, even if it is not all her friends, will post the link to their friendship circles or QQ groups. Then, it is the social media that does the magic. As more and more people got to know about the accident, more and more money was donated. In turn, this was not like begging for pocket money on the street. People offered their contributions voluntarily because they felt a connection to the victim, thanks to the social media. Within 48 hours, the project reached the target of 200,000 yuan.

Close the Project and Get the Cash

When the crowdfunding target had been reached, however, it turned out that the medical treatment cost a lot more than expected. After the two-day critical treatment in the ICU, Mr. Wang was still in a coma. And even the doctor had no idea when he would come back to life. Mrs. Wang received a long list of charges for the medicine, surgical treatments, and machine support, and she had no choice but to change the crowdfunding target from 200,000 to 500,000 yuan. She cannot increase the number by herself. She had to send an application for the change of the crowdfunding target, alongside the necessary files, such as medical charges and treatment receipts for further verification of the necessity of changing the target. If the application is approved, the crowdfunding project will last for more days. The money cannot be cashed out before the target is reached. When the crowdfunding project hits the deadline, no matter whether the target has been reached or not, the project will not receive any more money. The cashing procedure then starts. For most of the non-profit crowdfunding projects, especially the projects initiated because of

the family strategy, Qingsongchou does not charge for a management fee, which means that the initiator can cash out all the money donated by the people. However, for those profit-based crowdfunding projects, the Qingsongchou platform will charge 2–5% of the total money for management.

Post-crowdfunding Issues

Usually, when the project hits the deadline and the initiator gets the cash from the platform, the crowdfunding project is completed. The platform has no obligation to supervise the use of the gathered money. But the Qingsongchou platform does require the initiator to release the use of money online after a reasonable time period after the initiator gets cash from the platform. It will automatically send a message to the initiator, which says: Please inform all donators about the details of money expenditure by uploading relevant proofs within a reasonable time period after the withdrawal of the crowdfunding money. All the donators deserve to know where their donations went. Please honour them by sharing with them your treatment conditions. It is the least you can do to thank them for their kindness and donations.

From a legal perspective, if the completed project was proved to be fake later, the platform has a legal right to take the money back on the behalf of the donators.

3.4   The Key Factors and Potential Risks Involved in Non-profit Crowdfunding Projects in the Qingsongchou Crowdfunding Platform

One non-profit crowdfunding project can help us to understand the basic principles and procedures of the Qingsongchou platform, but we still cannot identify the key elements involved in non-profit crowdfunding projects. Therefore, we launched a survey focusing on the initiators

and donators to non-profit crowdfunding projects on the Qingsongchou platform.

We designed a questionnaire for a trial survey and updated the version based on the feedback. Then, we launched the formal survey online and successfully collected 623 valid results. After an in-depth analysis of the crowdfunding questionnaire focusing on the Qingsongchou platform, the most popular crowdfunding platform in China, we finally identified the following factors that are involved in the process of non-profit crowd-funding and summarized the potential risks.

3.4.1   The Key Factors

(1) The purpose of the non-profit crowdfunding project
According to a multiple choice questionnaire in the survey, about 88.7% of people give priority to the serious disease or accident-related crowdfunding projects, 44.8% of people care about the agri-cultural product planting and marketing-related projects, 35.6% of people choose to give donations to public art and show-related proj-ects, 27.6% of people support the start-up business projects without considering returns, 12.3% of people are in favour of art exhibition projects, and 10.5% of people support non-profit book publication projects. Apparently, from the perspective of potential donators, the purpose of the project is a critical element. Only when the donators believe that the non-profit crowdfunding project is meaningful and thereby deserves to be supported financially, do they give their pocket money for no return. The survey shows that donators care more about the necessity of a non-profit crowdfunding initiative rather than its creativity. In other words, as far as non-profit crowdfunding projects are concerned, incident-based crowdfunding projects are highly accepted and financially supported by donators.

(2) The project introduction
The Qingsongchou platform demands a short description of the non-profit crowdfunding project so that potential donators can understand the project and make donations accordingly. Therefore, the project initiator must give a brief and clear project introduction,

which includes the project purpose, the reasons, and the targets. Usually supported by a group of pictures, the project introduction will be more convincing. The initiator should not compose a long and detailed project introduction. He or she should seize the attention of potential donators by simple, sincere, and positive words. However, the project introduction is not supposed to be too emotional. Although a majority of non- profit crowdfunding projects are incident-based, a good project introduction must be objective and accurate. According to a multiple choice question in the survey, 88.2% of donators made donations because they believed that the information about certain non-profit crowdfunding project was true and 78.5% of donators gave their pocket money because they felt sorry for the incident.

Earlier this year, an essay titled "Yixiao Luo, Please Don't Go" gave a vivid and moving description of a little girl struggling with a rare cancer, which caught people's heart at the very moment when it was posted online. Within a short period of crowdfunding, hundreds of thousands of cash ran into the father's bank account. It turned out that the father was a writer and an editor who had already published several articles. He was therefore good at using words to reach people's heart. Although the truth was horrible, we can still see the magic of words in a non-profit crowdfunding project introduction.

(3) Project promotion

The non-profit crowdfunding project is like a product of the initiator. In order to "sell" the product to people, the initiator must launch a "market" promotion. However, considering the uniqueness of non-profit crowdfunding projects, the promotion means are to circulate the project through social media and traditional media routes. In China, the most popular social media channels include QQ, WeChat, and Weibo, which cover more than 90% of online social connection. After the non-profit crowdfunding project is approved by the Qingsongchou platform, it will be automatically listed on the website of the platform. However, the platform itself is as popular as any of the three social media channels. The initiator must link the non-profit crowdfunding project to his or her QQ account, WeChat friends circle, and Weibo account in order to

reach the financial target as soon as possible. In this sense, at the stage of promotion, it is the friends circle and relatives circle of the initiator that determines whether the project can finally achieve the financial target. The survey shows that around 99.8% of donators know about certain non-profit crowdfunding projects through WeChat, QQ, and Weibo. Only 0.1% of donators know about the project through the Qingsongchou platform itself, and another 0.1% of donators know about the project through other means.

Promotion proves powerful in the case of the "Yixiao Luo" crowdfunding project. Because the father had the resources in social media, the project spread online like wildfire. Every minute there was money rushing into the father's bank account from strangers.

3.4.2 The Potential Risks

(1) Legal issues may threaten the validity of non-profit crowdfunding activities

At present, there are no special laws or regulations to ensure legal supervision over the non-profit crowdfunding activities. All crowdfunding platforms make up corporate rules by learning from others or based on practice. According to the Qingsongchou platform, all non-profit crowdfunding projects should be started by individuals instead of organizations.

The non-profit crowdfunding project involves at least two kinds of relationship: the relationship between the project initiator and the donators and the relationship between the project initiator and the platform. The relationship between the project initiator and donator is based on a contract. Specifically, it is a gift contract: the donator gives his or her money to the project initiator and the latter accepts the donation. Considering the nature of a gift contract, the donator can withdraw the donations legally. However, in practice, because of the nature of money, the actual possession of money as a donation makes it impossible to be withdrawn by the donators legally. As for the relationship between the project initiator and the platform, it is essentially an entrusted contract. The project initiator entrusts the

platform to launch his or her project because of the credit and the popularity of the platform. The platform advertises the project on behalf of the project initiator. For normal crowdfunding projects, the Qingsongchou platform will charge 2–5%, as a management fee. But for the incident-based non-profit crowdfunding projects, a notice at the Qingsongchou platform mentions that the management fee will instead be paid by some charity organizations instead.

In China, the Charity Law, enforced in September 2016, together with the civil rights law and relevant economic laws, can regulate the non-profit crowdfunding activities to a certain degree. Especially the release of the Charity Law can help to deal with most of the online charitable fundraising activities by establishing basic principles for the fundraising subjects, platforms, and information disclosure, and prevents cheating and fraud. However, in practice, the Charity Law finds it tough to enforce proper regulations on non-profit crowdfunding projects online. Although the Charity Law makes it clear that the charitable fundraising activities must be undertaken by legally qualified subjects, that is, legally registered charitable organizations, the Qingsongchou platform allows individuals to start non-profit crowdfunding projects for now. But, with the enforcement of the Charity Law, the current situation may change in due course.

(2) Morality issues may ruin the reputation of non-profit crowdfunding
Morality can be a body of standards or principles derived from a code of conduct from a particular philosophy, religion, or culture, or it can derive from a standard that a person believes should be universal (Stanford University, retrieved in 2011). Because of the absence of laws and regulations, morality plays an important role in regulating the non-profit crowdfunding projects. Both the project initiator and the project donators face morality issues. As for the project initiator, he or she should accept that non-profit crowdfunding is not like traditional begging on the street. It is about a dream come true, about an incident that needs support or a start-up business that deserves a try. There is no shame in starting a non-profit crowdfunding project. However, there might be some project initiators who use fake identities and files to apply for non-profit crowdfunding projects in order to get cash from others. Although this kind of cheating projects does

not happen every day, its existence does hurt other innocent project initiators as well as the platform itself, and even the whole crowdfunding business in general—since it may damage the basic trust between the project initiator and the donators.

As for the donators, it is the human morality that compels them into carrying out selfless donations. The survey shows that there are two kinds of donators, the frequent donators and the one-time donators. Here the frequent donators refer to people who make donations when they know a non-profit crowdfunding project through social media, no matter whether they have certain connections with the initiator or the project itself. Usually they are active participators in social media. Making donations is a kind of online habit rather than a commitment to relatives, friends and old classmates. The one-time donators refer to people who make donations when they really know about the initiator or the project or they have a direct connection to both. Relatively speaking, donations from frequent donators are always pocket money, varying from several yuan to hundreds, while donations from one-time donators are significant, from hundreds to thousands. One-time donators are usually inactive on social media. Only when they are informed by friends or reminded by friend circles on WeChat, QQ, or other social media apps, do they notice the non-profit crowdfunding projects and make donations.

(3) Information asymmetry may damage the trust between project starters and donators

Today, in an information society, the problem of information asymmetry tends to be unprecedentedly more serious. The non-profit crowdfunding is not an exception. Like in other fields, achieving information symmetry between participators is more economical and trustworthy, while the existence of information asymmetry may cause a series of problems. As far as the non-profit crowdfunding projects are concerned, what the potential donators know about is only the project description shown in various social media, which will cause serious information asymmetry. Normal people have no intention or means to check the reality, which gives all project initiators certain advantages. They may choose to exaggerate or even make up some details about the project in order to collect more money by

gaining people's sympathy or interests, while people will be unable to make wise decisions based on false information. Accordingly, it will form an evil circle, which will ultimately ruin the reputation of non-profit crowdfunding.

3.5 Suggestions for the Healthy Development of Non-profit Crowdfunding in China

The popularity and fast growth of non-profit crowdfunding in China has proved the necessity of its existence to a certain degree, which is closely associated with China's current economic development, social welfare system, Internet technology, and many other conditions. It serves as a positive complement of social welfare and fills the blank of charitable cause. However, because of a series of credit and morality issues, the development of non-profit crowdfunding has encountered lots of problems and disputes. The government, crowdfunding platforms, and project initiators can work together to tackle these issues from the following aspects.

Firstly, establishing a special agency or a professional department of the existing legal system to supervise the whole process of non-profit crowdfunding and to make sure project initiators and crowdfunding platforms behave properly and that all procedures are legal. The existing legal system and government administrative systems are not effective in monitoring the ongoing non-profit crowdfunding, which may result in negative impacts on the development of non-profit crowdfunding because of the existence of the crowdfunding fraud. Meanwhile, the special institution should be entitled to making up regulations regarding the development of non-profit crowdfunding. For the long run, it will be better to include some special rules for non-profit crowdfunding in the Charity Law of China.

Secondly, setting up an information-sharing platform to help donators to check out the facts before making donations. All non-profit crowdfunding projects should register in the platform and share the application

information, the crowdfunding results, and the expenses details after getting the cash. This is not impossible in terms of Internet technology. However, this work does need the cooperation of different crowdfunding platforms. Unfortunately, due to the fierce competition between these platforms, it may need the help or even certain interference of the government to push the establishment of cooperation in order to achieve the cooperation as soon as possible for the sake of the long-term healthy development of non-profit crowdfunding.

Thirdly, carrying out a joint action to ensure the timely release of expenditure details. The strict regulations on the expenditure of crowdfunding money will benefit the whole industry at least. However, currently the release of expenditure information is not compulsory and only the initiator may have access to the expenditure information. When the non-profit crowdfunding project hits the deadline and the project initiator gets the cash from the platform, the Qingsongchou platform will automatically send a kind reminder to publicize the expenditure of the money. But if the project initiator fails to publicize the expenditure of the crowdfunding money, nobody can demand a compulsory information release, which may damage the credit of non-profit crowdfunding initiators and platforms as a whole, thus resulting in a serious decline of donators in the future. If it guarantees the release of the expenditure information, it can effectively monitor the crowdfunding account in case someone tries to take advantage of the non-profit crowdfunding system.

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4

The Language of Luxury Hotel Websites in China

Amy Suen

4.1   Introduction

The World Wide Web offers the hotel industry a new channel to communicate with global visitors. Since the 1980s, hotels have been promoting themselves and handling transactions through their websites in the competitive market (Law and Au Yeung 2007). The creation of a website to promote their hospitality services seems to have now become a major platform in constructing a brand for their respective hotels; comparatively, fewer research initiatives, however, have been undertaken to explore the language of evaluation of hotel homepages (e.g. Suen 2009; Cheng and Suen 2014).

Studies related to hotel discourse mainly focus on the language of hospitality in service encounters. For example, Blue and Harun (2003) discuss receptionist-guest exchanges from a sociolinguistics

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approach by observing receptionists' liaisons. Cheng (2004) examines hotel staff and guest exchange from a corpus-driven approach. Martin and Davies (2006) account for hotel customers' view on how the receptionists' handled telephone inquiries. A recent study of hotel written discourse by Tian (2013) further explores hotel online reviews by comparing engagement patterns of American and Chinese travelers. Hotel reviews are found to be assertive, and American and Chinese travelers exploit the homogeneous resources of monogloss and heterogloss to evaluate the quality of the hotels. Tian (2013) illustrates how language can be exploited to evaluate hotels, yet the appraisal analysis is from the hotel guests' perspective. Further, in the field of website branding, the existing literature merely offers a brief account of the language used on websites, yet discussion of the ways in which one can manage interpersonal relationships via evaluative language is limited (e.g. Smith 2012; Okonkwo 2010; Newsom and Haynes 2008; van der Geest 2001).

The study thus seeks to examine the ways in which Hong Kong luxury hotels evaluate their products and services, and construct interpersonal relationships with readers in the introductory texts of their homepages by adopting the framework of the Appraisal Theory (Martin and White 2005) within a Systemic Functional Linguistics (SFL) approach. The study would contribute to website communication not only in the hotel industry but also in other corporate service sectors.

4.2 Methodology

4.2.1 Theoretical Framework

This research adopts Martin and White's (2005) appraisal framework to analyze the evaluative language in the introductory texts of the hotel homepage. Appraisal analysis offers a systematic approach to examine how language is then used to evaluate and construct interpersonal relationships with readers.

4.2.2   Attitude

"Attitude" is "concerned with our feelings" (Martin and White 2005: 35). The language for expressing attitude is categorized into three systems: "affect", "judgment" and "appreciation" (Martin and White 2005: 40), which are the semantic domains related to emotional responses, moral assessments of behavior and aesthetic judgments of things which can be found on the text from the homepages of these hotels. Each system has a positive and negative dimension. "Affect" is "registering positive and negative feelings" (*ibid.*: 42), e.g. happy, sad, restless. "Judgment" is related to the "attitudes towards behavior", which people admire or criticize, praise or condemn (*ibid.*: 42), including "social esteem" which involves the assessment of people's normality, e.g. stable, charmed, tenacity (inclination), e.g. dependable, brave, capacity (how dependable people are?), e.g. powerful, mature, educated and "social sanction" which refers to more morally charged assessments of veracity (truth) and propriety (ethics) (*ibid.*: 42). Appreciation includes "evaluations of semiotic and natural phenomena according to the ways that they are valued or not in a given field" (*ibid.*: 43). It evaluates things and is divided into "reaction" (impact and quality), e.g. splendid, enchanting, fine, "composition" (balance and complexity), e.g. balanced, irregular, unclear and "social valuation" (the importance of the phenomena in a given social context) (*ibid.*: 56), e.g. profound, shallow, appropriate.

4.2.3   Graduation

"Graduation" is concerned with gradability (Martin and White 2005: 137) which is achieved by raising or lowering the "force" of the gradable resources by means of intensification and quantification (*ibid.*: 137). Intensification can be divided into two broad lexico-grammatical classes, i.e. "isolating" and "infusing" (*ibid.*: 141–143). The notion of differentiation refers to whether the upscaling/downscaling is realized by an individual item which merely carries out the function of setting the level of intensity, e.g. slightly, very greatly or whether the

up/down-scaling is fused with a meaning which serves some other semantic functions, e.g. happy, ecstatic, trickled and poured (*ibid.*: 141, 148). Intensification can also be realized through repetition either by repeating the words, e.g. hot hot hot or by the assembling of lists of terms which are semantically interlinked, e.g. stylish, timeless and elegant (*ibid.*: 144). Quantification further includes scaling of the amount, e.g. size, weight, strength, number, extent in time and space (how widely distributed, how long lasting) and the proximity in time and space (how near, how recent) (*ibid.*: 148). It is typically made through an isolated term performing as a modifier of the graduated entity, e.g. many, large, heavy. "Graduation" can also be made by "sharpening or softening the 'focus' of the non-gradable resources, according to prototypicality and the preciseness by which category boundaries are drawn" (Martin and White 2005: 37). Under focus, we can upscale or "sharpen" the specification so that the prototypicality is indicated, e.g. a real father, a true friend or to down-scale, or "soften" the specification to characterize a case as having only a marginal membership in the category, e.g. they sort of play jazz, and they are kind of crazy (*ibid.*: 137).

4.2.4   Engagement

"Engagement" is the ways in which "resources such as projection, modality, polarity, concession and different comment adverbials position the writer/speaker in relation to the value position being proposed and with respect to the potential responses to that value position, by quoting or reporting, acknowledging a possibility, denying, countering, affirming and etc" (*ibid.*: 36). "Engagement" resources are made between monoglossic and heteroglossic utterances (*ibid.*: 104). Monoglossic utterances are "bare assertions" (*ibid.*: 98). In contrast, heteroglossic utterances are dialogized by the manner in which they "evoke other opinions" (*ibid.*: 102). Please refer to Martin and White (2005) for a detailed discussion of the Appraisal theory.

The Appraisal framework reviewed above provides a systematic way to analyze the language of evaluation on hotel homepages.

4.3   Data

The data used throughout the study are derived from all 12 luxury hotels in Hong Kong that are listed in the Five Star Alliance list as there is no international unified star rating system (Kalashnikova 2010). Five Star Alliance is an organization which offers reservation services for the world's best hotels via a website. Table 4.1 shows the 12 hotels and the number of words in the introductory texts. The cumulative introductory texts on the 12 homepages amount to 2982 words.

4.4   Analysis

The analysis starts from the realm of attitude. Table 4.2 summarizes the percentages of attitudes, i.e. appreciation, judgment and affect, used by the 12 hotels in construing an evaluative stance.

Table 4.1   Hotels and the number of words

Hotel	Number of words
The Peninsula Hong Kong	308
Grand Hyatt Hong Kong	249
Shangri-la Kowloon	93
Four Seasons Hotel Hong Kong	82
Le Meridien Cyberport	132
Langham Hotel, Hong Kong	241
Langham Place Hotel, Mongkok	274
InterContinental Hong Kong	722
InterContinental Grand Stanford Hong Kong	292
Mandarin Oriental, Hong Kong	172
The Excelsior, Hong Kong	159
The Landmark Mandarin Oriental, Hong Kong	258
Total: 2982	

Table 4.2   Patterns of attitude

Patterns of attitude	Percentage (%)
Appreciation	92
Affect	4
Judgment	4

4.4.1 Appreciation

Most of the attitudes on the 12 hotels are in the form of positive appreciation (92%), which is in line with the fact that hotel homepages are ultimately promotional in nature (Table 4.2). Expressing attitudes in the form of appreciation implies that the luxury hotels are attempting to shift the evaluation of feelings from a personal orientation to an institutional one (Martin 2000: 147) which makes the evaluation sound more factually orientated, rather than based on personal feelings.

Positive appreciation constructs a high-quality image of the hotels. Using positive evaluation is a key feature of promotional language (Cook 2001; Bhatia 2004) and shows the subject in question from a favorable point of view (Wernick 1991). Table 4.3 presents the different types of appreciation used on the homepages of the hotels.

The hotels tend to use positive reaction for the aesthetic evaluation of the quality (67%) of their products and facilities compared to the use of composition and valuation. Positive reaction about quality is found to occur in nearly every one of the introductory paragraphs of the 12 hotels. For example,

(1) Each one of the hotel's <u>opulent</u> guest rooms is <u>comfortable</u> and <u>stylish</u> and equipped with advanced technology for the convenience of hotel guests-
(4) …all of which have <u>high-speed</u> broadband internet access
(6) Very <u>stylish</u>, <u>timeless</u> and <u>elegant</u>, the <u>brand new</u> Grand Rooms are <u>beautifully presented</u> using <u>high luxury</u> fabrics and textiles, including <u>hardwood</u> floors, <u>rich</u>, <u>ornate hand woven</u> carpets, <u>silk</u> drapes and <u>gold-leaf</u> artwork.

Table 4.3 Types of appreciation

Different types of appreciation	Percentages (%)
Reaction: impact	7
Reaction: quality	67
Composition: balance	2
Composition: complexity	1
Valuation	23

The examples show the description of the accommodation which extensively uses the concept of positive reaction, based on the notion of quality to portray the environment and facilities of the rooms. As shown in examples (1) and (4), the hotel evaluates its guest rooms in an interpersonal way by using positive reaction of quality, e.g. *opulent, comfortable, stylish, advanced technology, convenience,* and *high-speed broadband*, in order to project a fantasy-like image to the readers that exemplifies the fact that the guest rooms are well furnished and equipped, and that guests can be worry-free with the convenient facilities. A similar way of evaluation can also be found in example (6) with words that highlight the high quality of the rooms, e.g. *very stylish, timeless, elegant* and *brand new* with extraordinary items rather than merely describing the functions of items, such as *high luxury fabrics, hardwood floors, rich, ornate hand woven carpets, silk drapes* and *gold-leaf artwork,* in order to establish an exceptional image.

In addition to positive reaction of quality, positive reaction of "impact" is used (7%). For instance,

(2) …a floor-to-ceiling bay window commanding <u>breathtaking</u> harbor views or <u>exciting</u> city vistas.

(3) InterContinental Grand Stanford Hong Kong offers <u>breathtaking</u> views of Hong Kong's Victoria Harbor…or overlooks the <u>vibrant</u> streets of Tsim Sha Tsui East.

(4) …with <u>spectacular</u> views over Victoria Harbor…<u>dramatic</u> dining options include SPOON by Alain Ducasse…

(11) The bathrooms are quite simply <u>spectacular</u>…

Positive reaction of impact occurs to describe the scenery of the Victoria Harbor and the city of Hong Kong in (2), (3) and (4), with words such as *breathtaking, exciting* and *spectacular.* Occasionally, positive reaction of impact is used to describe the dining choices as shown in (4), the bathroom in (11) and the activities organized by the hotel in (8). The use of positive reaction of impact functions to evaluate the views and location of the hotels; however, these evaluations focus on the attributes of the hotel which may create detachment from readers' emotional or sensory experiences.

Positive valuation further has the second highest occurrence (23%) after reaction of quality. Valuation is used more frequently than reaction. The strong preference for positive valuation implies that it is highly favored by the hotels to showcase their value and worth. Positive valuation (23%) is also adopted to describe their social significance and status. For example,

(2) The <u>award-winning</u> Kowloon Shangri-La, <u>known for</u> its legendary warm and friendly hospitality…

(3) <u>Internationally renowned</u>, the hotel offers *both* business and leisure travelers to Hong Kong <u>the highest</u> levels of service…

Hotel (2) describes itself as an *award-winning* hotel, which is famous for providing not just an ordinary experience but an outstanding one. The use of positive valuation could function to enhance the credibility of the hotel. Similarly, (3) mentions that it is famous *internationally* and offers a high standard of service. Hence, positive valuation facilitates to construct a successful image and shape the ideational worth of the hotels.

Regarding composition, composition occurs rarely (3%) when compared to reaction and valuation. The following are some examples:

(1) The new Peninsula Spa by ESPA is a <u>harmonious combination</u> of The Peninsula's legendary service…

(7) The Grand Hyatt Hong Kong enjoys a <u>central</u> location on Hong Kong Island, in the very <u>heart</u> of this vibrant and exciting city.

(8) The Excelsior, Hong Kong is in <u>the heart of</u> the entertainment, business and shopping district….

The use of composition in the introductory texts focuses more on balance (2%) rather than complexity (1%) to describe the centrality of the location of the hotels and the balance of the different kinds of services that are on offer. Example (1) shows that the hotel offers multiple quality services, e.g. *harmonious combination* with both world-class spa facilities and quality service, and examples (7) and (8) evaluate the convenient and unique locations of the hotels, e.g. *central location, very heart of* and *in the heart of*, in order to illustrate the fact that the hotel is positioned in the most desirable place, in the perfect spot in the city.

4.4.2   Judgment

It is interesting that only half of the hotels present their staff members by using positive judgment. For example,

(2) …a range of fine restaurants and bars enhanced by our <u>warm</u> and <u>caring</u> people.

(7) …<u>Dedicated</u> Convention Services Team

(10) Our restaurants have been recreated by <u>epicurean maestros</u> from around the world such as Pierre Gagnaire… Our <u>legendary</u> staff welcomes you back to our hotel and this unique destination, our home, Hong Kong

(11) Pure escapism delivered by fabulous design, <u>professional</u> therapists…

These examples evaluate the capability of the hotel staff in a favorable way, e.g. *warm and caring people, dedicated convention services team, epicurean maestros* and *professional therapists* etc., to illustrate the fact that the hotel staff are outstanding and capable of offering warm and caring services to ensure that guests are well attended to throughout the duration of their stay. Judgment of the social esteem of normality is also found in (10) to evaluate the fame of the staff as *legendary* who are more than capable of providing exceptional service to their guests. The comparatively infrequent use of judgment suggests that the hotels seem to use the traditional consumer goods branding more (Thomson et al. 1999) with a focus on evaluating products and services. Yet, the role of hotel staff members could not be underestimated as they contribute to make the brand "alive" (Kimpakorn and Tocquer 2009; 533). Hence, the comparatively infrequent exploitation of judgment may inherently weaken the promotional effect.

4.4.3   Affect

Hotels seldom use affect (4%) to express feelings. Only four use affect to describe how guests would feel if they stayed in their hotels. For example,

(3) <u>Welcome</u> to Four Seasons Hotel, Hong Kong
(6) Here is what you <u>desire</u> in a Hong Kong hotel
(7) You'll feel <u>refreshed</u> and <u>inspired</u> *as soon as you step inside*

   Affect functions to invoke emotional responses, which could shape readers' attitudes favorably toward the hotels. The use of positive affect, e.g. *welcome, desire, refreshed* and *inspired*, expresses the intangible experience of the hotels. It is important to appeal to readers' feelings and, hence, arouse a profound desire to the brand to create a positive online experience and to strengthen the brand's image (Okonkwo 2010). Affect functions to evoke feelings and establishes a relationship with the readers (Martin and White 2005), which could reinforce brand perception. However, the low instances of the employment of affect on hotel homepages, when presenting the luxury experience from the readers' perspectives, may reduce the rapport between the hotels and their readers.

4.4.4   Graduation

The 12 hotels use graduation to intensify the positive evaluation of their products and services. Hotels use various modes of intensification of force to scale up the intensity of their products and services. They also endeavor to strengthen the categorical boundaries of the experiential phenomenon (Martin and White 2005: 137).

Graduation as a Force

Regarding grading as a force, hotels use intensification to upscale the quality of their facilities in order to elevate readers' positive perceptions of the brand. For instance,

  (1) …The Peninsula's <u>legendary</u> service…
  (2) …<u>state-of-the-art</u> fitness facilities…
  (3) A <u>fully</u> equipped Business Center is also available…
  (4) The Lobby Lounge is renowned for its <u>spectacular</u> panoramic views…

(5) …introducing a <u>refreshingly</u> modern five-star luxury Hong Kong Spa hotel…
(6) …each Grand Langham room is <u>highly</u> intelligent…
(7) …and with <u>magnificent</u> views of Hong Kong's renowned Victoria Harbor.
(8) …with <u>spectacular</u> views over Victoria Harbor
(9) As part of the <u>prestigious</u> International Finance Center…
(10) …retreat to our <u>extraordinary</u> spa space.
(11) …to <u>luxuriate in discreet serenity</u>.
(12) …room features <u>*cutting-edge*</u> technology

Intensification adds further weight to the promotion of products and services. In examples (3), (5), (6) and (11), attitude is graded with intensity by resources of pre-modification of adjectives, such as *fully equipped, refreshingly modern,* and *highly intelligent*, to amplify the quality of the hotel as well as the pre-modification of nominalized quality through the use of *discreet serenity*. The use of pre-modifications makes the message more intense which further aims to project a worry-free image of the hotel.

In example (3), the graduation *fully* is used as a separate lexical item to grade the business center of the hotel, as not just equipped or partly equipped but *fully* equipped which promotes a distinctive image of the hotel. Example (5) intensifies the quality of being *modern* by using the isolated word *refreshingly* to convey a contemporary image of the hotel. Similarly, *highly* is encoded separately to the attitudinal term *intelligent* to upscale the quality of the advanced technological facilities that the rooms are equipped with, such as the case in example (6) which also highlights the unique nature of the accommodations.

Infusion is also found in examples (1), (2), (4), (7), (8), (9), (10) and (12) in which hotels present themselves with extraordinary quality. The hotel (1) uses *legendary* to highlight its distinctive reputation for conveying a reliable image to the readers. Examples (2) and (12) employ the adjectives *state-of-the-art* and *cutting-edge* to promote a high-tech image of the hotels with the most up-to-date facilities, and hence create a superior brand image to their readers. Examples (4), (7) and (8) use *spectacular* and *magnificent* rather than just "beautiful" to upscale the

quality of the views of the Victoria Harbor that the hotel overlooks. Similarly, example (9) employs *prestigious* to convey the idea that the hotel is located in a very respectable location, and example (10) utilizes *extraordinary* to underline the uniqueness of the hotel's spa facilities. The use of infused intensification to evaluate the attributes of the hotel makes their claims more compelling for readers (Hood 2010: 86). Readers may be more willing to make purchase decisions as they know how the products and services of the hotels would benefit them. The choice of using infused intensification presents a stronger investment in the proposition, and hence, it may shape a positive attitude and response from readers.

In (5), intensification is also used by grouping words which are closely semantically related (Martin and White 2005: 144). The hotel uses *refreshingly modern five-star luxury* which are all positive appreciations that are semantically interlinked and assembled together to scale up the intensity of the appeal.

Intensification: Superlatives

The most crucial way of brand building is to provide "superior consumer value" (Randall 2000: 13). The distinctive feature of the language of hotel homepages is that, in addition to using the resources of sub-modification, infusion and repetition, hotels also use superlatives to showcase the superior quality of their products (Martin and White 2005: 142). The use of superlative maximization shows that the hotel is not just good but also has a superior identity over their competitors. Superlatives and maximization implicitly compare the hotel against other hotels in the industry and also implicitly imply that other hotels are inferior. Hotels compete continuously to show that they are better in quality than their competitors through the use of intensification to persuade readers to make room reservations through their websites or purchase products from their hotel. For example, on (1) The Peninsula Hong Kong has long been hailed as one of the finest hotels in the world……offering a blend of the best of Eastern and Western hospitality……with the most spacious hotel rooms and suites in Hong Kong……The restaurants and bars at the Peninsula

Hong Kong are among <u>the most exclusive</u> and <u>most elegant in Hong Kong</u>……Renowned as one of <u>the best French restaurants in Asia</u>, Gaddi's is Hong Kong's <u>most elegant</u> dining experience……and <u>the best authentic Cantonese food in town</u> is served in Spring Moon……

The Peninsula Hong Kong uses superlatives to appraise the experiential attributes (Hood 2010: 86) of the hotel as *one of the finest in the world*. It also upscales the attributes of its services as *the best of Eastern and Western hospitality*, the rooms and suites as *the most spacious in Hong Kong*, the restaurants and bars as *the most exclusive, most elegant, one of the best in Asia* and *the best in town* to persuade readers that their hotel is indeed one of the best in the industry in Hong Kong, Asia and even the world. The use of superlatives creates the notion of superiority which further assigns prominence to their claim that they are one of the leaders in the industry. However, these claims which are in the highest favorable scale are rather subjective as many other hotels, as shown in the following examples (2), (3), (7), (10), (11) and (12), are all presenting themselves in the same manner. The claim of being superior may be true but could also merely be empty rhetoric or a self-perception which cannot be verified unless the hotels show specific evidence or figures comparing them to their competitors on their websites (Pollach 2005: 295). Hotels further do not specify in what terms they consider themselves superior. These claims are exaggerated but common among companies engaged in product promotions (Durant and Lambrou 2009: 96).

Similarly, superiority is shown in example (2) whereby the quality of its rooms and suites are intensified as being *the most spacious* in Hong Kong.

(2) All its 700 guest rooms and suites, among <u>the most spacious in town</u>……

Example (3) below presents the superior value of its services, rooms and the hotel as a whole through superlatives to evaluate the quality of its service as *the highest level*, rooms and suites with *the best* harbor views, the hotel as the *most stylish* in Hong Kong, and the Presidential Suite as *the most spectacular* in Asia and *the largest* in Hong Kong.

(3) the hotel offers both business and leisure travelers to Hong Kong <u>the highest levels</u> of service……rooms and suites either present <u>the best harbor views of any of the five-star hotels</u>……which have positioned it as Hong Kong's <u>most stylish</u> hotel……the hotel has launched its stunning new Presidential Suite, <u>one of the most spectacular in Asia</u> and <u>the largest in Hong Kong</u>……

Similar examples can be found below in (7), (10), (11) and (12) in which the use of superlatives portrays the hotels as the leaders in the industry (*the finest luxury hotels in the world, the most valuable of today's luxuries,* situated in *the most prominent addresses* and *most exciting destination, largest rooms with the highest quality* entertainment systems) to present an optimal image of their hotel to the readers.

(7) Grand Hyatt Hong Kong Hotel in China is positioned among the finest luxury hotels in the world…
(10) And for <u>the most valuable of today's</u> luxuries, serenity, retreat to our extraordinary spa space.
(11) The new Landmark Mandarin Oriental is situated at Hong Kong's <u>most prominent</u> address……<u>the largest room in Asia</u>……. the entertainment system is <u>the highest</u> quality.
(12) …putting guess at the center of one of the world's most exciting destinations.

Through the employment of superlatives to evaluate the qualities of hotels, as discussed above, hotels are found to describe themselves as incomparable, offering the best products and services in the industry. Hotels attempt to establish their reputation by describing themselves favorably as the best hotel (e.g. *one of the finest hotels, most spacious in town, the highest levels of service, the most valuable, the most prominent*) in Hong Kong or in Asia and avoid the use of the negative in order to shape a favorable brand image. They offer the highest level of service and are *the most exclusive, most elegant, and most stylish, Hong Kong's largest, situated at Hong Kong's most prominent addresses*, and offer *the most valuable luxuries.* These portray very positive images of the hotels. Moreover, hotels describe themselves as the "best" hotel in the world, offering the "best" catering

services, e.g. (1) *most exclusive and most elegant* restaurants, and three further refer to themselves as being one of the top hotels in Asia, e.g. (3) *highest levels of service* to showcase themselves as being the leaders in the hospitality industry. This also shows the hotel's confidence in making the assertion of their status in the industry. Some hotels describe themselves as being "experts" in the industry, e.g. (4) *internationally acclaimed as one of the world's top hotels*. All these hotels make their superior claims because they all belong to the supposed five-star category and provide more or less identical products and services, i.e. high-quality rooms, restaurants, leisure and meeting facilities, caring staff etc. Because of the similarity of the products and services, their claims of being the best could mean that the hotel is only as good as the other superior hotels in the five-star category (Schrank 1976).

Intensification: Maximization

Infused maximization in which the scaling is realized through a single word (Martin and White 2005: 143) is often adopted to describe the hotel facilities as being at the uppermost end in the scale of intensity in order to build up a superior brand image. For example,

(1) The Peninsula Hong Kong offers the <u>ultimate</u> in luxury accommodations
(2) …offers the <u>ultimate</u> in luxurious comfort.
(3) InterContinental Grand Stanford Hong Kong offers <u>breathtaking</u> views of Hong Kong's Victoria Harbor…
(4) …offers <u>unrivaled</u> views of the Victoria Harbor and Hong Kong Island, and <u>unparalleled</u> services and facilities.
(8) The Excelsior is the <u>ideal</u> place to stay on a visit to the island.
(9) … <u>impeccable</u> food and service
(12) Each room features both <u>cutting-edge</u> technology and…

The evaluative resources (e.g. *ultimate, breathtaking, unrivaled, unparalleled, ideal, impeccable and cutting-edge*) imply that the hotels offer the highest grading of products and services. Examples (1) and (2) show that

the hotels provide the best luxury accommodation. Example (3) implies that the hotel offers extremely beautiful views of the harbor. Example (4) describes the view, services and facilities of the hotel as being far better than any of their counterparts. Similarly, example (8) suggests that the hotel is the best possible place for guests to stay in when they visit Hong Kong. Example (9) shows that the hotel offers perfect food and service, and example (12) claims that the accommodation of the hotel has the most advanced technology. The use of maximization suggests that hotels try to highlight the uniqueness of their business by providing the highest quality of products and services. It shows that the hotels are maximally committed to evaluating themselves to be in the top position and also strongly align readers to this prestigious status.

Intensification: Metaphor

Figurative meanings, i.e. metaphors are occasionally used in the intensification of quality, as shown in the following five homepages.

(1) …the legendary <u>Grande Dame of the Far East</u> continues to set hotel standards worldwide…
(4) Other <u>"around-the-clock" services</u> include…
(5) …a sumptuous buffet (you'll need to <u>watch your waistline</u>).
(11) … enter a <u>cocoon</u> of private luxury…
(12) …a stylish <u>haven</u> of modern technology.

Example (1) uses the metaphor, *Grande Dame of the Far East*, to amplify the idea that the hotel is elegant, respectable and has significant experience in the industry. The hotel associates itself with the Grande Dame and further intensifies its fame by describing itself as a role model for other hotels around the globe.

The expression *around-the-clock* in example (4) implies that the hotel offers extensive 24-hour services to guests. *Watch your waistline* in example (5) exaggerates the idea that the hotel offers attractive and irresistible buffets and that guests may not be able to control their appetite and consequently their body weight. Examples (11) and (12) employ

the metaphors *cocoon* and *haven* to show that the hotel is a safe and private place for guests to retreat to. All these metaphors scale up the qualities of the hotel in order to establish a fantasy-like image. In contrast to making straightforward claims, the employment of such metaphors to intensify their qualities implies that hotels avoid making direct claims and that readers are given space to derive multiple positive inferences.

Intensification: Comparative

In addition to the employment of superlatives, maximization and metaphors, examples of comparatives can also be found;

(9) …in a city renowned for <u>exceptional</u> accommodations……with <u>bigger</u> rooms
(10) We offer guests 502 rooms and suites with <u>more space</u>…

Example (9) uses comparatives to compare itself with other hotels to promote the idea that their accommodations outclass that offered by their counterparts in the industry. However, the comparative is elliptical as the hotel does not state whether the rooms are bigger than before or bigger than those in other hotels. This results in a vague claim. Similar to the use of superlatives and maximization, comparatives could be empty as they may not be verified unless the hotels compare themselves with a standardized benchmark. Example (10) employs the word *more* to intensify the quality of the newly renovated rooms to be more spacious, suggesting that their hotel is at the forefront of the trend.

Intensifying Processes Attitudinally

In addition to intensifying qualities, attitude is also expressed in processes. For example,

(1) The Peninsula Hong Kong <u>has long been hailed</u> as one of the finest hotels in the world.

(2) …fine restaurants and bars <u>enhanced</u> by our warm and caring people.

(9) Four Seasons <u>redefines</u> luxury…

(11) …they <u>will be struck</u> by the iconic design…

In examples (1), (2), (9) and (11), processes are enriched by the infusion of manner. In example (1), the choice of *hailed* infuses greater intensity on the action of praising. Combined with the pre-modification *long* which intensifies the extent of the scope, the force of the claim *the finest hotel in the world* is graded up to impress readers about the hotel's positive brand image. In example (2), the process *enhanced* construes an infused attitude which adds further weight to the positive quality of the fine restaurants and bars with friendly staff. Similarly, example (9) conveys the hotel's leadership and innovativeness in the industry by the infused intensification of the process *redefine*. *Redefine* suggests that the hotel sets a standard of luxury that is inherently better than the others, and also implies that the standard of other hotels in the past may not be good enough. Infused intensification of process is also found in example (10) with the employment of the process *struck*, which construes a strong feeling of guests being impressed by the design of the hotel. It conveys a positive affect on behalf of the guests' experience and at the same time, favorably grades up the quality of the iconic design.

Quantification of Experiential Meanings

Hotels also use quantification to intensify the extent of the products or services that they offer. They present exact numbers to show specific quantities of things. Eleven hotels describe their facilities by providing numerical evidence to explicate the sheer size and scope of their businesses to make such claims seem more credible to the readers. For example,

(1) The Peninsula Hong Kong has long been hailed as one of the finest hotels in the world. Created nearly <u>80 years ago</u> in the glamorous <u>1920s.</u>

(2) All its <u>700 guest rooms and suites</u>, amongst the most spacious in town…

(4) The hotel features <u>495 guest rooms</u>, including <u>92 harbor-view suites</u>, all of which have high-speed broadband internet access and <u>24-hour butler service</u> and in-room dining for all rooms. Other "around-the-clock" services include a <u>24-hour "Insider Concierge"</u> and business services. New "Contemporary guest rooms and suites" all have <u>37-inch SHARP LCD televisions</u>

Specific numbers in the above examples are used to invoke attitude. In example (1), the numericals *80 years ago and 1920s* function to evaluate the historical value of the hotel positively. This shows that the hotel has a long history and fine reputation. Similarly, the figure *700 guest rooms and suites* in example (2) expresses attitude as it is within the prosodic domain of the positive appreciation *most spacious.* Example (4) employs figures to present the number of rooms and suites, the hours of service and the size of the room facility which suggests that the hotel is indeed large in size with abundant facilities and offers extensive services. The exploitation of figures to promote facilities implies that hotels tend to present the notion of luxury in tandem with the volume of amenities.

Further, like grading attitudinal lexis through repetition or listing of words in academic texts (Hood 2010; Martin and White 2005), the listing of numbers, as shown in examples (1), (2), and (4), can also convey an amplified positive value of the quality of these hotels. Numbers also serve to make the homepage description sound credible and trustworthy. Using inflated figures can "create a sense that the company is successful" although the figures may not be verified by the readers (Pollach 2005: 293). These figures may further be regarded as "quasi-objective" as they are compelling in the formation of public opinion to reinforce the readers' opinions (Flowerdew et al. 2002: 335).

Alongside the employment of figures, hotels grade quantification through "extent" to amplify the distance (relative location) and scope (relative spread) of services. For example,

(1) …offer hotel guests luxurious transportation <u>to and from Hong Kong International Airport and around Hong Kong</u>……stylish city rendezvous with stunning views <u>across the harbor</u>.
(8) …the very first plot of land sold at auction <u>when Hong Kong became a British Colony in 1841</u>.
(9) …with the famed Star Ferry <u>steps away</u>.
(12) <u>Minutes</u> from Hong Kong's center…

Examples (1) and (9) are graded in terms of the distance in space. In example (1), the hotel intensifies the convenience of its transportation service by stating the specific places that the transportation service covers. It amplifies the extent of the *stunning views* that guests could enjoy should they opt to stay in the hotel by using *across the harbor*. Similarly, the expression *steps away* in example (9) amplifies the distance in space which suggests the hotel's proximity to the tourist attraction, Star Ferry. Grading in terms of the distance in time can also be found in examples (8) and (12). The clause *when Hong Kong became a British Colony in 1841* intensifies the history of the plot of land given to the hotel. This implies that the hotel has a favorable location which has long been established. In example (12), *minutes from Hong Kong's center* implies that the hotel is located conveniently and very close to the city center. Hence, intensification in terms of distance in space and time promotes the extent of their products and services distribution as well as the convenience of the hotel's location. This is important for potential customers because time is indeed a luxury (Chevalier and Mazzalovo 2008), and convenience could help guests save time for more sightseeing and business-related matters. The above examples illustrate the fact that hotels present their strong alignment of positive value positions and, at the same time, invite readers to share their positive views.

Regarding the grading of scope, the following examples illustrate the evaluative language related to both time and space.

(1) …the legendary "Grande Dame of the Far East" <u>continues to set hotel standards worldwide</u> …
(3) …offers <u>a wide selection of world-class dining outlets</u>

(4) Other "around-the-clock" services include 24-hour "Insider Concierge" and business services.

(6) …provides exclusive and personalized services daily between 7:00 a.m. and 11:00 p.m.

(10) …our extensive knowledge and training will give you beautiful, healthy hair in an instant!

In examples (4) and (6), both hotels intensify the extent of their services by stating the long time-range, i.e. *around-the-clock, 24-hour, daily between 7:00 a.m. and 11:00 p.m.* Example (10) employs the expression *in an instant* which amplifies the idea that the hotel's salon offers efficient service. These examples show grading in terms of scope in time to show the duration of the services offered, implying that guests would be served well all the time and projecting a customer-focused, hospitable image of the hotel. Grading in terms of scope and space are found in examples (1) and (3). The expression *continues to set hotel standards worldwide* in example (1) amplifies the extent of the fame of the hotel, i.e. it is renowned globally. In example (3), *a wide selection of world-class dining outlets* intensifies the extent of the dining choices that the hotel offers. These examples show the extensiveness of products and services that the hotels offer and convey the image that the hotels are of world-class standard which could suit the needs of guests across countries and cultures.

Graduation as a Focus

The above shows how experiential meanings are graded by force. Hotels also employ focus to strengthen the categorical boundaries of an experiential phenomenon (Martin and White 2005: 137).

(1) …and the best authentic Cantonese food in town is served in Spring Moon.

(5) As a true five-star luxury Spa hotel in Hong Kong…

(11) The Oriental Spa is an extreme experience; pure escapism…

In example (1), the hotel first employs force by both the superlative *the best* and positive appreciation *authentic* to intensify the quality. It also uses the cline of prototypicality of the Cantonese food that they offer. The expression *the best authentic* construes a high degree of authenticity of the Cantonese food. The expression *true* in example (5) sharpens the authenticity of the five-star luxury Spa hotel. Together with the next two instances of positive appreciation *five-star* and *luxury*, the expression *true five-star luxury Spa hotel* works together to form a strong prosody of positive values. Authenticity of escapism of the Oriental Spa in the hotel is also sharpened by *pure* as well as the employment of intensification through the maximization of the experience of it being *extreme* as stated in example (11). These examples function to strongly flag a positive assessment of the hotels, promoting the idea that the hotels are worthy of their name and status.

4.5   Engagement

Martin and White (2005) suggest that engagement could establish rapport between writers and readers. Yet, the analysis of engagement shows that the language of hotel homepages tends to be "monoglossic", and the texts are found to be "bare assertions" without overtly referring to other voices and alternative positions (Martin and White 2005: 99). Similar to Tian's (2013) analysis of online hotel reviews, the monoglossic evaluation of a hotel does not invite other viewpoints to align readers with the views of the hotel. There are only a few examples of "heteroglossic" utterances in which the hotel includes alternative voices (*ibid.*: 99). For example,

(1) The Peninsula Hong Kong has long been hailed as one of the finest hotels in the word.
(4) Internationally acclaimed as one of the world's top hotels for business…

The above two examples are heteroglossic as the hotels have a dialogic expansion of attribute by presenting the fame of the hotel from the external voice of the public, in order to distance themselves from making a direct claim and to further enhance credibility.

In addition to expansion, there are also dialogic contractions. For example,

(9) "The smart hotel is now the Four Seasons Hong Kong in the International Finance Centre…with bigger rooms and impeccable food and service…" Condé Nast Traveler (UK), March 2007.

(10) "All who know it, love the place. It is more, far more, than merely a hotel. It is quite simply home" Condé Nast Traveler UK.

The hotels in examples (9) and (10) contract by using proclaim through endorse (Martin and White 2005: 98) to make reference to external sources (i.e. positive comments from a travel magazine) to illustrate to the readers that the propositions are indeed valid and unquestionable, and thus preventing subsequent negotiation. Another type of contraction is also shown in the following example:

(1) Each one of the hotel's opulent guest rooms is comfortable…under-lined, of course, by the world-famous Peninsula service.

In example (1), the hotel contracts (i.e. *of course*) by using proclaim through concur to affirm its spectacular facilities and services. The hotel presents its proposition as highly warrantable, in order to engage readers positively to the hotel.

Instances where hotels use contraction of disclaim to counter their proposition can also be found. For example,

(3) …the hotel offers both business and leisure travelers to Hong Kong the highest levels of service in a friendly, <u>yet</u> elegant five-star hotel environment.

(5) Langham Place, Mongkok, Hong Kong builds on The Langham legend of 141 years <u>while</u> introducing a refreshingly modern five-star Luxury Hong Kong Spa hotel of clean lines and hi-tech delivery.

The hotel in example (3) invokes a contrary position by using *yet* to show a counter expectation of a five-star hotel (i.e. both friendly and

elegant) to align readers positively toward the hotel. Similarly, example (5) shows a counter expectation of the hotel *while* by stating that although the hotel has a long history of establishment, it offers modern facilities and services. The function of using disclaim of counter is to inform readers that although the hotel is indeed a five-star prestigious hotel with a long history, they offer friendly and modern services to align readers positively toward their hotels.

4.6   Conclusion

The appraisal analysis shows that in hotel homepages, positive appreciation dominates when compared to the other types of attitudes used to evaluate the quality of the products. With the infrequent employment of affect and judgment, hotels seem to adopt the traditional goods–communication approach in an impersonal manner, without appealing much to the readers' emotional responses. It is important to consider the issues that enhance readers' feelings and emotions on the promotional message which could in turn elevate the online experience (Okonkwo 2010; Zaltman et al. 2015) and hence reinforce brand perception. Similarly, the comparatively fewer evaluation of judgment suggests that some hotels may have overlooked the role of staff members in contributing to brand distinction in the competitive market. As is the case in the twenty-first century, the majority of the luxury hotels are all providing similar features by stocking up on high-quality amenities (Bernstein 1999), staff members could therefore be part of the resources that differentiate the good and the great brands, especially since guests now value the "service and pampering" (ibid.: 49) in addition to the facilities.

    In addition to the presentation of fine amenities, graduation is heavily employed to intensify the positivity of the hotels. In the realm of graduation by force, superlatives and maximization are used to amplify the sense of superiority of the hotels while metaphors and comparatives are used to refrain from making direct claims. All these choices may function to the invocation of positive attitudinal interpretations of the readers but are rather subjective without a generic benchmark. Hotels could thus

indicate the intended basis of their claims to enhance the credibility of such evaluations.

Another unique feature of luxury hotel homepages is the use of quantification by specific numbers. Similar to the sustained listing of lexis which could intensify attitudinal meanings (Hood 2010; Martin and White 2005), the listing of numbers could also show an amplified positive value on the homepages of the hotels. Numbers on hotel homepages function to scale up the volume of amenities or the extent of the services that are on offer. These numbers might seem to be credible but could be "quasi-objective" (Flowerdew et al. 2002: 335) and thus needs further verification.

Regarding engagement, hotel homepages are predominantly monoglossic with only a few instances of heteroglossic statements, possibly serving to pre-empt subsequent challenges from readers. The relatively scarce use of engagement could therefore reduce the rapport between the hotels and the readers.

The appraisal analysis suggests that the examples of luxury hotel homepages in the study seem to be "talking to" rather than "talking with" the readers. The communication trajectory of their messages tends to be rather one way, which is from the hotel's perspective rather than a two-way dialogue, which engages readers to the luxury experience far more effectively. Web users could therefore quickly abandon a website that does not meet their expectations (Kotler et al. 2010). Textbooks on communication in the tourism and hospitality industry are rare, and they tend to focus on cross-cultural communication, workplace communication and guest service (van der Wagen 1997; FitzGerald 2002; Bagdan 2013). With regard to hotel website design, Kotler et al. (2010) proposed that hotel websites should facilitate two-way communication and provide useful information and interactive features to facilitate the evaluation of products and services. Hotels in Hong Kong could thus consider using a greater amount of linguistic resources of Affect, Judgment and Engagement on their websites to align themselves with their readers to improve branding, promotion, marketing and sales; to boost the popularity of their hotel among travelers and to strengthen the promotion of the tourism and hospitality industry in Hong Kong.

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5

The Development Path of WeChat: Social, Political and Ethical Challenges

Pi-Chi Chen

5.1   Introduction

Social media involves social relationships amongst people who have a shared interest or affiliation (Wellman 2001) and refers to a set of online tools that are designed for and centred around social interaction (Hansen et al. 2011). In practice, social media serves as a catch-all phrase for a conglomeration of web-based technologies and services such as blogs, microblogs (e.g., Twitter), social networking services (e.g., Facebook, MySpace), social sharing services (e.g., YouTube, Flickr, StumbleUpon, Last.fm), text messaging, discussion forums, collaborative editing tools (e.g., Wikipedia) and virtual worlds (e.g., Second Life). Social media has become popular in recent years, regardless of the form. China has the world's largest social media market, but their form of social media is significantly different from its counterparts in the West. Some of the most

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popular social media websites in China are Tencent's WeChat, QQ and Weibo, and Baidu. These websites have a growing number of social media users and are adapting to the fact that it has become a trend to have a user profile online. According to China Internet Network Information Center (CNNIC) (2017), as of December 2016, China had 731 million Internet users with an Internet penetration rate of 53.2 percent. Mobile phones were also becoming an increasingly important means to access the Internet and the main factor driving the numerical growth of Internet users. As of December 2016, the number of mobile Internet users in China had reached 695 million, and 95.1 percent of the Internet users used mobile phones to access the Internet (CNNIC 2017). Moreover, almost 92 percent of mobile Internet users in China use instant messaging (IM) apps and almost 80 percent use news apps. However, much of the focus in recent scholarship has been on examining technology interfaces, rather than on the more important questions involving stakeholders, the public and relational issues (except the work of Harwit 2016). Social media tools represent only a medium, or channel, through which public relations is practised. More important than the communication channels are the questions that we should ask. This research focuses on stakeholders, the public and communication, rather than whether an organisation uses a specific social media interface effectively.

With advances in Internet technology and the popularity of smartphones, WeChat (or "Weixin" as it is known domestically in China) has become the major IM communication service provider in China, and is particularly attractive to younger generations (Lien and Cao 2014). As WeChat grows, politicians and dissidents are voicing concerns: activists fear that the app's voice-messaging service enables security officials to monitor users' movements in real time. In China, some fear this could potentially make targeted users susceptible to surveillance. However, the Chinese authorities see the service as something of a threat as well. WeChat-related crimes are apparently quite common. In one three-month span in the city of Hangzhou, for example, authorities say that the service was used in more than 20 crimes (Custer 2012). The app's features include Look Around (known colloquially as the "hook-up" function), which allows users to chat with strangers nearby, while Moments works like Instagram. Its anonymity and location-reporting features can give criminals an easy in.

This research has two objectives. Firstly, the study focuses on China's mobile application WeChat, and its implications for social development, ethical challenges and social policy. Ethical concerns within social media include identity, privacy, surveillance, friending and user exploitation (Wasike 2013). At present, the ethical issues associated with social media spaces are not being tackled. The research aims to look at the development path of WeChat and consider the impacts of government policies and how ethical issues may be addressed through, for example, policy interventions targeting governance of the social media. Secondly, the study aims to demonstrate that China's social media evolution process is different and more complex than the standard Western-centric social media. Social networking has evolved differently in China in comparison to Western societies. In China, the market is dominated by local, Chinese social media. The established networks that we have come to know in the West have not been able to successfully expand in China due to strict state censorship. This results in a unique, China-specific, social networking ecosystem.

In the next section, the research introduces the development of social media around the world and in China. The third section discusses WeChat while the fourth and fifth sections present and discuss the ethical issues within social media and possible policy approaches, respectively. Finally, the research compares the main differences between social media in China and social media in Western countries in the sixth section. In this study, we use the qualitative method and secondary data sources to analyse the case of WeChat. We use content analysis to analyse texts, documents, web pages and one-to-many message content.

5.2 Development of Social Media Around the World and in China

There are a lot of different definitions of social media. The term "social media" embraces blogs, microblogs, social bookmarking, social networking, forums, collaborative creation of documents and the sharing of audio, photographic and video files (Balana 2012). It is characterised by interactive communication, in which message content is exchanged between individuals, audiences, organisations and sectors of the general

public. Social media including social networking applications such as Facebook, Twitter, blogs, Wikipedia and YouTube, refers to a set of online tools that support social interactions. Social media is considered to be a part of the Web 2.0 revolution which is characterised by user-generated contents, online interactions, and content sharing in a social environment (Livingstone 2008). Social media is also defined as a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and an application that allows the creation and exchange of user-generated content (Kaplan and Haenlein 2010). Social media introduces substantial and pervasive changes to communication and information sharing between business organisations and individuals (Kietzmann et al. 2011). A recent study on mobile social media usage by a leading web metrics firm comScore (2017) reveals that in the US, mobile now accounts for 69 percent of the total time spent on digital media. For the top 1000 online properties, mobile visitors are, on aggregate, roughly two times the desktop audiences. In addition, there are growing audiences that rely exclusively on mobile for Internet access. The largest single group in this category is made up of women who are aged between 18 and 24. Social media and entertainment are the top digital media categories in terms of overall time spent. Social media captures 20 percent of all digital media time, and 79 percent of social media usage is on mobile devices, with 60 percent of that on smartphone applications. Facebook (2017) further confirms that 90 percent of Facebook's daily active users (1.15 billion mobile daily active users) access the Facebook site from a mobile device.

The benefits to be gained from using social media are not limited to individual and private companies. Governments can benefit from using social media as well. For individuals, the benefits of participating in social media have gone beyond social sharing to build reputations, bringing in career opportunities and monetary income (Tang and Yang 2012). Social media is also transforming purchasing decisions made by consumers across the globe. Consumers around the world are using social media to learn about other consumers' experiences; find more information about brands, products and services; and find deals and purchase incentives. Social media has emerged as an important channel for customer service, with consumers reaching out directly to brands and service providers to

voice their satisfaction or complaints, or simply to ask questions (Nielson 2012). Social media websites provide a public forum that gives individual consumers their own voices, as well as access to product information that facilitates their purchasing decisions (Kozinets 1999). For business corporations, the benefits of engaging in social media are that it can make the communication easy and bring opportunities for managers to market their products and services to online community members. Social media even facilitates customer value co-creation denoting an active, creative and social collaboration process between producers and customers in the context of possible new products or service development (Piller et al. 2012). Social media in government is also becoming one of the major trends in electronic government (e-government) research and practice worldwide (Bertot et al. 2012). It holds the promise of increasing the effectiveness and legitimacy of the public sector by promoting communication and coordination between various internal and external stakeholders (Meijer and Thaens 2013), which has also helped the current Chinese administration in fulfilling its open government initiative to increase transparency, participation and collaboration (Lee and Kwak 2012). Mergel (2013) insists that social media provides the opportunity for the government to integrate information and opinions from citizens into the policymaking process. This innovative mode of thinking increases the transparency concerning the public's thoughts and allows further participation from the public to voice their opinions when it comes to policy decisions and government solutions. Bertot et al. (2010) further argue that governmental use of social media offers several key opportunities, which are democratic participation and engagement, co-production, and crowdsourcing solutions and innovations. Thus, there are numerous opportunities that can be earned through governmental social media interactivity.

Social media usage continues to grow across the world, and China is no exception. With an Internet user population of 731 million (more than twice the population of the entire US) (CNNIC 2017) and censorship laws that prohibit these consumers from participating in the social networks that dominate the rest of the world in popularity, China did the inevitable and created their own social platforms and networks. China's social media sector is very fragmented and local. Each social media and

e-commerce platform has major local players: in microblogging (or Weibo), for example, Sina Weibo and Tencent Weibo; in social networking, several companies including Tencent WeChat, Renren and Kaixin001. According to Chiu et al. (2012), these players have different strengths, areas of focus and geographic priorities. For marketers, this fragmentation increases the complexity of the social media landscape in China and, hence, requires significant resources and expertise, including a network of partners to help guide the way. Competition is evolving quickly as well; consequently, marketers looking for partners should closely monitor the development of the sector's platforms and players.

Sina Weibo, often simply called Weibo, is the best-known microblogging platform in China; Weibo is the Chinese word for microblogging, which is considered as the Chinese answer to Twitter. With 154 million daily active users (BBC 2017), Weibo is the most dominant source of news content, where people come for information acquisition, sharing and commenting. It attracts the largest number of companies, organisations and celebrities in China, with each wanting to interact with consumers. Big companies can get a large audience by creating and managing a page where users can react and debate on any subject approached. It also allows brands to advertise, market and even directly sell their products through the page. The unique characteristic of Weibo is that the users must register with their real names and they must reveal more personal information about themselves. Thus, it is easier for marketers to target their ideal customers.

5.3   WeChat

Personal communication, through IM tools, is the most common form of online activity globally. Skype, WhatsApp, Line and other tools and apps are booming globally. As with other global platforms, China has also developed its own versions of IM. The most popular platform in China is WeChat (formerly Tencent's Weixin), which allows users to manage their contacts between their PCs and phones via apps that are available on Apple, Android and Symbian. It also offers integration with

other platforms such as Weibo and even Facebook when it comes to accessing contact lists and allows easy connections with people in existing networks.

WeChat, the free application released in 2011 by Tencent, Inc., however, is much more than just a messaging application. WeChat is a platform which includes IM, social gaming and social media. WeChat provides many services for daily living, including IM, free phone calls, sharing interests or creating private groups, browsing, posting and information sharing on Moments, mobile payments, social gaming and even sending red envelopes (a form of giving pocket money during Chinese New Year). Moreover, you can use WeChat to order house-cleaning services or noodle delivery service, book a taxi or a flight, or even get a nail beauty stylist to come to your house. WeChat encapsulates all the online-to-offline (O2O) services you can think of. WeChat is not like any Western messaging app and is far beyond a messaging platform. Unlike WhatsApp, Facebook, Instagram and Skype, it contains 10 million third-party apps and it has an all-apps-within-an-app functionality. WeChat allows one-to-one personalised and dedicated interaction between brands and users. Furthermore, WeChat allows sponsored posts in WeChat Moments (like Instagram and Facebook posts, to share photos, videos and context in a public page). When businesses use this software, WeChat can identify key active users and target them with the right advertisements (WeChat 2018).

On 20 August 2012, the WeChat public platform function was launched which kicked off the light mobile Internet application development revolution (Light APP) based on its numerous customers, good interactivity and marketing features. Since 2013, WeChat underwent rapid development. It opened the application programming interface (API), established the WeChat public service platform (Baidu Encyclopedia 2015), guided the users in serving enterprises and organisations, and allowed individuals to establish their brands. The account types involve media and self-media, non-profit organisations, business marketing, business promotion, O2O business, information and entertainment, tourism services as well as various other fields.

There are some key features that WeChat users enjoy, which Western social media companies could learn from. For example, Shake is a very

simple concept with far-reaching consequences. By shaking the phone, other users who are also doing the WeChat Shake, will receive a notification and can start chatting. In the West, this might seem like a strange concept, but in China it is a great way for young people who have just left their rural homes to travel to megacities like Shanghai and Shenzhen to meet new friends. The other feature is WeChat Payment. Facebook, recently, began making waves when it allowed people to send money over Facebook Messenger. WeChat, in this regard, has been ahead of them for years as their WeChat Pay feature allowed payments to be made since its development in 2013. Finally, one of WeChat's most popular features is its integrated gaming platform. WeChat users can visit the in-app app store to download games, launch games from within the app and then take advantage of WeChat's social features to add a more social dimension to the gaming experience. WeChat's games are much more than simple 2D-pixel art style titles. Some games, like Thunder Raid and Dragon Warrior, are fully fleshed out 3D experiences that feel almost console-like in terms of technical quality.

WeChat has become an inevitable tool which has transformed the daily life of users in many ways. As part of a new lifestyle, WeChat spearheads a new era of mobile Internet communication (Hui 2013). One of the examples is that a wide range of health-related information is continuously generated and transmitted among tremendous numbers of users through the different functions of WeChat, providing WeChat with enormous potential to affect the general public's health status. Research on how social media transforms the public's health status is forecasted to be on the rapid rise and is highly necessary for the government (Zhang et al. 2017). Another example is the application of WeChat in university libraries. Many university libraries in China have established the new service modes of mobile services through WeChat Library (Xu et al. 2015). Since 2012, the libraries of Beijing Second Foreign Languages University, Kunming University of Science and Technology, Huazhong University of Science and Technology, Tsinghua University and Capital Medical University have all opened a WeChat Library (Han 2015). Chongqing University Library opened a WeChat Library and launched its operation in March 2014. The administrators adopted the service account to further customise services, which was highly appreciated by the patrons. According to the study conducted

by Wei and Yang (2017), owing to the low development costs of WeChat Library and the good compatibility of crossing system platforms that can realise self-adaptation using different equipment and various screen sizes, WeChat Library usually receives positive feedback.

WeChat is also working with Chinese hospitals to simplify the hospital operation process by transferring the procedures of reservations, payments, hospital navigation and receiving and reading medical reports to be conducted through WeChat. WeChat has accelerated hospital operations by reducing the average waiting time from 4 hours to 1–1.5 hours in China using its WeChat Smart Hospital Service. The WeChat Smart Hospital Service was launched in 2015; it has been adopted by over 1200 hospitals in China and is potentially benefitting more than 100,000 Chinese patients every day (Weixin 2016).

WeChat has become the most widely and frequently used social networking platform in China. According to Tencent (2017), WeChat has 899 million monthly active users from 200 countries and is available in nearly 20 different languages. It is also available on iOS, Android, Windows Phone, Symbian and Series 40 and can be logged into and used by more than 90 percent of smartphones and tablets. Moreover, the web version of WeChat can be used on PCs, even by independent Windows and Mac clients and by the latest intelligent wear equipment such as iWatch. Sixty-one percent of WeChat users open WeChat more than 10 times a day, 36 percent open WeChat more than 30 times a day, and 32 percent use WeChat for more than 2 hours a day. Additionally, 61.4 percent of users check Moments each time they open WeChat and 28 percent of users have more than 200 friends. In April 2016, the time spent, daily, on mobile Internet averaged 200 minutes per user, and WeChat accounted for 35 percent of that time (Meeker 2016). Furthermore, 200 million users have linked WeChat with credit cards, 70 percent of users spend more than 100 RMB (local currency in China) per month on WeChat, and a total of 8 billion RMB was sent via WeChat Red Envelopes during the Spring Festival of 2016. It has become an integral platform for users and they now spend 35 percent of their time on smartphones on WeChat. The services have now become so vast and integrated that the app has become a necessary "one-stop shop" for Chinese users' daily lives.

5.4   Social Media and Ethical Issues

Social media exhibits unique characteristics when compared to traditional media forms. Its speed and scope mean that once the content is published it is available instantaneously, to a potentially global audience. Social media tools tend to be free or available at a very low cost relative to other forms of media and do not require users to have much technical knowledge. This allows larger numbers of individuals to access and publish material than with traditional media forms. Social media can be useful, and it shows promise for development in promoting businesses and knowledge sharing. However, it does have a darker side (Alexander 2013, 2014; Chung 2011). Social media is usually interactive in a way that traditional media is not, so users can comment on and edit published materials, making it difficult to control content. Social media blurs private and public boundaries when personal information and opinions enter the public domain. The boundaries between personal and work life also become blurred as companies make use of social media (originally designed for personal use) for business purposes, and likewise employees access personal sites while at work. A 2011 DLA Piper survey found social media is used for personal and work-related activities by 95 percent of employees. These unique characteristics of social media pose ethical challenges for businesses, through employees' use of social media on behalf of the company, as well as their personal use.

Social media providers expect users of their services to adhere to some basic standards of ethical behaviour, but the mechanisms of enforcing compliance remain weak. For example, Facebook has statements of rights and responsibilities and a user privacy policy that governs their relationship and provides interaction guidelines with other users who interact with their social media platform. The policy also demonstrates how Facebook collects and uses clients' content. The content owner is required to grant Facebook exclusive, transferable, sub-licensable, royalty-free, worldwide licence to use their content. However, this intellectual privacy licence, in theory, ends when a client deletes the content or the account, unless the content has been shared with others and they have not deleted it. With WeChat, users do have the same amount of control over their privacy settings, which can help them choose who they want to engage

with. By using WeChat, users agree that the company may collect, use and share their information in accordance with its privacy policy; however, these terms are ambiguous and are revised from time to time.

Social media is not always positive and has often displayed its negative face. Lundsay (2010) argues that social media is a challenging matter because it crosses over so many ethical and compliance issues, but unlike any other ethics and compliance issue it cannot be totally proactively managed. UNESCO (2008) stated that promoting ethical aspects and principles that espouse creative multilingual content and universal access to information and communication should be encouraged among users and service providers. The policies to enhance ethical values in social media environments should be able to provide a commitment to the free flow of information. The social media environment reveals several gaps that leave room for infringements on users' legitimate rights because of service providers' inaction, technology inefficiencies, predatory behaviours, lack of government policy intervention, exclusive rights of providers and user abuses or outright users' criminal behaviour. There is growing evidence of rampant inappropriate behaviour on social media platforms. Oriedi (2012) observed that some sportsmen have used their Twitter and Facebook pages as platforms to ventilate their anger, write insane comments and promote sites attacking fellow players and coaches. Moreover, Collymore (2010) alludes that no one is safe on social media. Some people use it to spread rumours, release naked pictures, or at times just outright abuse celebrities. In some cases social media has been used to promote false accusations and "scare mongering" at times of national disasters. For example, the tragic explosion in the Chinese city of Tianjin in August 2015, which claimed the lives of 173 people including firefighters, triggered a nationwide online conversation in China. With the surge in sharing, China's Internet regulators busied themselves monitoring "unhealthy" tweets on social media platforms including WeChat. Shortly after the disaster, rumours including tweets referring to "terrorist attacks", "shops being looted", "no survivor within 1 kilometre of the site" and "sodium cyanide leaking into city's sewage" were widely dispersed (Dwyer and Xu 2015). Some of the messaging and comments created further panic and fear among online users affected by the disaster. Lundsay (2010) further observed that social media can also be misused in

many ways including wasted work time; misuse of company resources; risk to company computer systems, network or data; disclosure of confidential or other non-public information; disparagement or harassment; conflicts of interest; espionage or fraud; privacy; and damage to personal reputation.

Potentially, social media can be used as tool to orchestrate crime, (Goolsby 2010). The greatest challenge in using social media is the sheer volume of information involved. Goolsby (2009, p. 3) comments that "finding useful 'tweets' during a major event is a little like panning for gold in a raging river". Castillo et al. (2011) observed that immediately after the 2010 earthquake in Chile when information from official sources was scarce, several rumours posted and re-posted on Twitter contributed to the increasing sense of chaos and insecurity in the local population. Despite this, Castillo et al. (2011) found that people had more faith in traditional media, and headlines on Twitter were often regarded as less credible. According to Cheong and Lee (2011), Twitter has been identified as both a potential facilitator and a powerful deterrent to terrorism. Hence, there is currently considerable ambiguity about whether social media exerts a benign or a malign influence on public safety and security (Alexander 2013, 2014). For example, China is known for its attempts to repress free usage of the Internet; however, Denis-Remis et al. (2013) described how the patriotic Chinese used social media to orchestrate the disruption of the activities of a French hypermarket company in China due to anger at the French Government's policies and rhetoric towards Tibet. This underlines the influential feedback inherent in social media usage in a crisis, a phenomenon that can generate unstoppable, uncontrollable developments with little regard to whether posterity will consider them positive or negative.

When reviewing the potential drawbacks of social media, one should also note the physical weaknesses. Writing about social media usage during a major interruption of electricity supply to the southern Californian city of San Diego, Jennex (2012) notes that ultimately the Great Southwest Blackout can be considered a massive, unplanned, backup battery test. Neither the users nor the providers of sites and cellular communication to reach them were ready in any way for such an exigency. Jennex (2012) concludes that while the functionality of social media is useful, the maturity of social

media availability is not sufficient to warrant including social media as an operational crisis response system. In other words, the potential is there, but much needs to be done to realise it. This will require preparedness on both the technical and the social fronts, from both suppliers and users of services.

One of the weaknesses of social media is fake ads and information overload. WeChat has been notified of this phenomenon as users complain about being bombarded by deceptive advertisements, excessive information and fraud. In 2014, authorities in Chongqing busted a case in which a "travel agency" account told its followers on WeChat to "Like" its ads to win a free trip to Hong Kong and Macao, which was later proved to be deceptive. Similar cases were reported in the provinces of Guangdong, Sichuan, Shaanxi and Jiangsu, with unscrupulous business people trying to lure customers with promotions for coveted items, which they failed to deliver. Along with fake ads, information overload on the app is causing some users to want to escape the flood of daily annoyances. In February 2014, Huang Zhen, a professor from the Central University of Finance and Economics, caused a buzz on the Internet when he announced he would abandon all WeChat chat groups and "try to find some inner peace". In a survey conducted by a newspaper in Shanghai in March 2014, two-thirds of respondents claimed that they had an inherent feeling of being "kidnapped" by WeChat, but most chose to put up with the barrage of messages and information. The "Moments" section on WeChat, for instance, has waned in popularity as it has become a place for people to either share ads or Chicken Soup for the Soul-type articles. "My WeChat 'Moments' are basically spammed by these every single day, which is quite annoying", a WeChat user screen-named "HXfengai" said (Xinhua 2014).

The other weakness of social media is privacy. WeChat's use is expanding in countries with tense diplomatic relations with China, such as Taiwan, India and Vietnam. Taiwanese opposition legislators expressed concerns that WeChat might threaten individual's privacy and the island's security if messages were spied upon. According to Sharma (2013), the Indian government was reviewing whether it should block access to WeChat over national security concerns. Vietnam has also mulled banning chat apps like WeChat (Reuters 2013).

Finally, owing to the fierce competition for consumers in China's social media space, many companies regularly employ "artificial writers" to seed positive content about themselves online and attack competitors with negative news and views which they hope will go viral. In some instances, negative publicity about companies has prompted waves of microblog posts from competitors and disguised users, such as allegations of product contamination. Businesses trying to manage social media crises should carefully identify the source of negative posts and base counter-measures on whether they came from competitors or from real consumers. Companies must also factor in the impact of artificial writers when mining for social media consumer insights and compare the performance of their brands against that of competitors. Otherwise, they risk drawing the wrong conclusions about consumer behaviour and brand preferences.

5.5   Social Media Policy Approaches

Fearing that freedom of speech, combined with the free flow of information, could destroy its political legitimacy and its control over society, the Chinese government has made great efforts to regulate online content. The Chinese government routinely blocks the websites deemed subversive and undesirable and uses keyword-filtering technology to censor politically sensitive information on the Internet. Despite pervasive government regulations, the ephemeral, anonymous and networked nature of Internet communication makes total control nearly impossible (Qiang 2010). In China, the Communist Party holds its tight control over the mass media, which serves as a mass mobilisation tool to set the public's agenda or "guide public opinion" (*yulun daoxiang*) (Dai 1999). However, the interactive and networked nature of the Internet creates new ways of grass-roots organising and coalition building (Chaffee and Metzger 2001). When netizens (Internet users) collectively advocate for attention to be given to an issue, a powerful opinion discourse comes into being, which could then force the government to address their concerns and influence the policy decision process. The Sun Zhigang case in 2003 is an example. Sun Zhigang, a 27-year-old college graduate who worked for a

graphic design company in Guangzhou, was detained by police for failing to display his proper identification document and was beaten to death three days after his detention. A significant amount of consequent discussion online and follow-up media reports transformed this local accident quickly into a major national issue, placing unprecedented pressure on the government and eventually resulting in the abrogation of the custody and repatriation system in China three months after the incident. As the number of Internet users is increasing exponentially, the voice of the online public has become too loud to ignore. Consequently, the media and the government have taken Internet postings more and more seriously.

Social media is used to facilitate governance, provide access to vital information and services, communicate with the public and promote civic participation. Following the tradition of applied information ethics studies, Turilli and Florida (2009) propose three policy indications that can be undertaken by users and policymakers to address the specific social media ethical issues. Firstly, social media developers should take into consideration new forms of media protocols, which could be referred to as "intelligent" or "adaptive". For example, an "intelligent autonomous agent" can limit the activities of social media users localised in areas in which the bandwidth has been almost completely occupied; by the same token, an autonomous agent can warn a user, who is trying to access and store some specific information, that this is already available in his/her information environment. These solutions could resolve the problem of organisational servers overloaded with redundant information. Secondly, an "infosphere" provides a useful parameter for the choice of the most suitable design of social media networks. Unstructured centralised architecture could be more effective than the standard one in controlling the overall levels of usage of bandwidth among the peers of a social media network. Finally, there is a need to raise awareness among information users and policymakers about the potential exploitation of information resources for implementation of social media architecture, to encourage more responsible and conscientious behaviours (Vaccaro and Madsen 2009). This stresses the need for governments and higher education institutions to invest more resources to raise awareness about the consequences of the improper and irresponsible use of social media

information. Previous studies showed considerable growth in the impact of social media usage in the workplace. However, issues regarding how organisations respond to their subordinates' use of social media have still been underestimated (Vaast and Kaganer 2013). Pre-existing IT governance mechanisms may fail due to them ignoring the emerging characteristics of social media (Bertot et al. 2012). Therefore, considering the prominence of the topic in both theory and practice, it would be meaningful to discover how government organisations conduct social media governance through social media policies (Chen et al. 2016).

All Chinese Internet companies are held responsible for the content they host and are expected to establish entire departments devoted to surveillance and censorship of their platforms' users. With WeChat, every time users send a message through WeChat it is routed through centralised servers, managed by Tencent. In most cases, these servers are located inside China, often in Shanghai-based data centres. In some countries, local servers are being set up, although these servers are still within reach of Chinese law, regulations and influence, and all data passing through them are vulnerable to surveillance and censorship. China's demand for censorship of particular topics and keywords extends beyond its borders. According to Citizen Lab's Asia Chats (2013), censorship keyword lists can vary by geography. If you mention "Occupy Central" in a message sent from WeChat in Beijing to someone in Chengdu, it will likely be blocked, and your profile flagged. If you send the same message using WeChat in Toronto to someone in New York, the message will likely go through, though your profile will most likely still be flagged.

In addition, many users reported their concerns that the domestic division of China's Public Security Bureau is actively surveilling WeChat based on suspicions that security officers were following users' movements through WeChat. The messages transmitted through WeChat were recited back to them by authorities in full detail almost immediately after they took place. Another example is that of the Tibetan community who raised concerns regarding surveillance of WeChat communications, especially as Tibetans living in Tibetan areas of China are subject to intensive surveillance and persecution by the Chinese authorities. A report presented by Phayul (2013) indicates that surveillance of WeChat is likely taking place as part of repressive actions from Chinese authorities against

the Tibetan community. For example, a Tibetan woman was arrested by the Chinese authorities in October 2013, who alleged that she expressed anti-Chinese sentiments over WeChat and stored prohibited photos of His Holiness the Dalai Lama on her mobile phone.

With the surge in sharing, Chinese officials have displayed "zero tolerance" towards online rumours. After the tragic explosion in the Chinese city of Tianjin, the WeChat account of Zhengzhou Evening News, a municipal level local newspaper, was forced to close for a week after the account circulated information that the leadership of the Tianjin government would reshuffle. However, the problematic proliferation of rumours has led to a push for more transparency and timely release of information from the government and state-run media. Chinese Premier Li Keqiang said, "Rumours will fly if authorities do not release enough up-to-date information". He requested that the rumours should stop and that government agencies "should not fail" to disclose any information (Dwyer and Xu 2015).

5.6   Social Media in China: Main Differences with Western Countries

The Chinese social media landscape is the most unique, dynamic and influential in the world. Western social networks like Facebook, Twitter and YouTube are censored in China. In China, nonetheless, social media has exploded, especially with the rise of WeChat and Weibo. Social media has become vital for companies in China, contrary to Western countries where it is also used by a large part of the population, but not in the same way. In Western countries, social media is less a part of companies' digital marketing strategy, and population targeting is not as important. In China, companies have learned to be adaptable and flexible to social media trends.

In China, the number of people using social networks is significantly higher than Western countries. This difference is important because the Chinese population is very active when it comes to social media; they spend about 40 percent of their 25-hours-a-week online on social networks. That means they have a greater exposure to content and are more

likely to be interactive with the latest social networking news. The social networking landscape is evolving and changing quickly; the companies must be more reactive, not like in Western countries where the conception of social media is different. Most of the population using social media in China use it on their mobile phones rather than via PC or laptop like in Europe. Another example is that in WeChat people always express themselves and update their social media to reflect their life moment by moment; in comparison, people in Europe update their statuses from time to time. In China with WeChat, users always post these Moments.

In China, censorship is a current practice, and there are many sensitive topics that are not supposed to be discussed, so people use social networks to find this type of information and to talk about it with their friends and family. They are more influenced by their environment than by TV, press or radio, unlike in Western countries, and word of mouth has become the most powerful marketing tool in China. An intelligent, comprehensive digital campaign to facilitate the spread of the word of mouth is the key.

Another key feature of social media in China is Key Opinion Leaders (KOLs). KOLs are influential opinion leaders in Chinese social media and are referred to as influential public figures who people perceive as experts in certain fields and who are knowledgeable on many topics. People see them as experts on certain subjects as they give their views and opinions on their area of expertise. As they are very popular in China, they are a powerful marketing tool for brands. The benefit of that for businesses is these KOLs can be recruited by companies and become a marketing instrument to share a positive message about a brand; companies can directly touch a large community and reach thousands or even millions of potential consumers by implementing this method. Therefore, the digital solution has become extremely effective in China, more than Western countries where celebrities exist and are followed by millions of people too, but, importantly, they do not have the same marketing influence.

With the growth of e-commerce in China, the product reviews on the Internet have increased substantially as a consequence and have become more and more precise and important for the population, more than in

Western countries where there is not a total trust of the public. The average Chinese consumer will always look at reviews and will be especially influenced by the views and opinions of those within their social circle, and this has been further enhanced due to social networks. Social media and e-reputation have become a vital component for brands to manage, not just for consumer insights and intelligence but also as an enhancement for marketing.

There is a basic component which has helped drive the Chinese, more than any other population, to engage in social media: the nature of a "lonely family". The key factor to this has been the rural-to-urban migration that has separated families and the loneliness of the one-child generation, which has contributed to a fundamental distrust of information from government-controlled media. According to 2008 MTV Music Matters survey, young people across Asia have a similar number of friends online and offline. However, only in China do young people have more friends online than offline (Crampton 2011). This points to a convergence of the offline and online worlds, where it is less important to distinguish between what happens online and in the real world. In China, more so than many countries, social media has become deeply integrated into people's lives.

Different social media usage patterns also paint a picture of the Internet and the influence of it on the country involved. For example, the Chinese netizens use online video platforms quite differently from how Americans use YouTube. Rather than short videos of cute animals or silly domestic mishaps that may be popular among YouTube watchers, Youku and Tudou (equivalents of YouTube) are filled with longer-form content, up to 70 percent of which is professionally produced. Users in China spend up to an hour per day on the sites, compared to less than 15 minutes spent by Americans on YouTube. The Chinese sites seem more like online television stations or a replacement for digital video recorders. Though individuals in China produce and post videos, a large portion of online video content is longer-format professional videos. Much of this content consists of foreign programmes pirated, subtitled and uploaded hours after broadcast in the US. An odd consequence is that the stars of programmes have a huge fan base in China, despite the series never having been broadcasted on Chinese television. In addition to the pirated programmes, demand for original content on Youku and Tudou has

resulted in a boom of companies that focus purely on online videos. In some ways, the sites resemble the US-based television service Hulu more than YouTube. The television-like feel of Youku and Tudou reflects the usage patterns of the young Chinese. University students in China often express scepticism when told that their country has one of the highest levels of social media engagement in the world. In China's case, certain demographics can no longer be reached effectively via traditional media channels (such as China Central Television, CCTV). As the anecdote above shows, a well-crafted television advertisement on CCTV could miss the young generation entirely.

Some other differences between Chinese and Western social media are rooted in culture and language. For example, like Twitter, Sina Weibo allows users to post 140-character messages (Crampton 2011), and users can follow friends and find interesting comments posted by others. Small but important differences in the platform have made some say that it is a Twitter clone, but better. For example, unlike Twitter, Sina Weibo allows users to post videos and photos, comment on other people's updates, and easily add comments when re-posting a friend's message. However, the more striking difference between Chinese and foreign social media is the length of communications expressed via microblogs in Chinese versus English. Since each character in Chinese is a word, users can write much more using the Chinese-language Zuosa microblogging platform.

Social media in the West is largely dominated by Facebook and Twitter and this is a trend which is consolidating rather than regressing. In comparison, although Chinese social media is largely dominated by Tencent in terms of users, their grip is primarily held through mobile networking. There is plenty of variation in China when it comes to desktop-based social media platforms of the Facebook and Twitter mould, with sites such as Sina Weibo, Renren (the Chinese Facebook, both in terms of functions as well as having nearly the same visual features) and Douban (like MySpace and popular with niche communities) all boasting well over 100 million accounts. The social media makeup of China expands far beyond a single dominant monopoly or duopoly. This is coupled with the fact that Facebook and Twitter are not entirely obsolete in China due to the increasing accessibility of VPNs, but even with their presence the notable social networking variations are conclusive.

5.7   Conclusion and Way Forward

This study began with the review of the development path of social media and the growth of WeChat in China. The study then traces the social development and the influence of ethical challenges coupled with possible government control and policy to overcome these challenges. The study aims to demonstrate that China's social media evolution process is more complex and different from the development of the Western-centric social media. In 2017, the Chinese government tightened its grip over news distributed online and on social media, overhauling its Internet regulations for the first time in 12 years with sweeping new restrictions. China's Cyberspace Administration will now require most online news and media outlets to obtain a licence from the government. Outlets subject to the new provisions, effective from 1 June 2017, will include websites, applications, forums, blogs, microblogs, public accounts, IM tools and Internet broadcasts. Temporary measures enacted in 2014 already required licences for news published on IM platforms such as WeChat, but the rules did little to curb the spread of so-called unofficial media and news discourse. Therefore, this study recognises and invokes the theory of social media, policy change and ethical issues, thereby offering an alternative model to explicate the complex power dynamics behind China's changing strategies.

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Part II

Digital Business as an Operating Platform

6

Digital Business and Chinese Consumers' Purchase Intentions in Indonesia

Tao Jiang and Yeyi Liu

6.1   Introduction

Research has shown that consumers tend to trust peer consumer reviews when searching for information online (e.g., Chaffey and Ellis-Chadwick 2012; Lee and Koo 2012). Therefore, it is in the company's interest to possess abundant consumer-generated product reviewers, as they are the ones who play an important role in consumers' decision-making process.

Rapidly growing Internet users in emerging markets, such as Indonesia, have begun to use the Internet as a new alternative to the traditional channels for searching product information before their purchase. Although there has been an emergence and continuous development of online shopping behavior in recent years, emerging markets, like Indonesia, are not familiar with online product reviews. Most of the current online shopping website reviews are about delivery and packaging, but not the actual products. This study will discuss the effect of online

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consumer-generated reviews on readers' purchase intention in Indonesia and the factors that might influence their attitudes toward product review.

A number of researchers have studied the impacts of product review on consumption (e.g., Wulff et al. 2015), yet there is little research into how the internal variables of a product review could affect the consumer attitude toward a product and their purchase intention. This study will draw on the evidence from existing literature on the internal variables and test their effects on Indonesian consumers in order to gain better understanding of this problem. The result of this study is expected to be beneficial for marketers who consider utilizing the product review or other user-generated content as marketing communication to enhance their business performance in the Indonesian market.

6.2 Literature Review

6.2.1 Online Consumer Review

Consumers can easily use Web 2.0 tools to provide information about their purchasing experience on different platforms such as websites, online discussion forums and even their own personal blogs or video channels (Lee and Youn 2009). This information is classified as user-generated content (UGC). Chevalier and Mayzlin (2006) stated that about 61% of Internet users perceived UGC as valuable and credible. This echoed the findings of Bae and Lee (2010) that prospective consumers revealed more positive attitudes toward UGC than PGC (product-generated content) information, and they are more likely to visit websites with UGC reviews to learn more about the product before deciding to make a purchase.

Consumer opinions and recommendations can influence the image of products and services, in a positive or negative way (e.g., Fruth and Neacsu 2014). The vast development of online commerce and removal of time and space barriers lead the spread of recommendations via the

Internet through networking sites (Facebook, Twitter, LinkedIn), personal blogs and specialized review sites (e.g., IMDB.com, TechinAsia). This has enabled the quick and potentially limitless dispersion of online UGC recommendations (Fruth and Neacsu 2014). When consumers generate online recommendations for others consumers, it can be considered as e-word of mouth (eWOM). eWOM is assumed to gives more benefit to consumers because it can reduce the consumers' perceived risk of online shopping and stimulate purchase intention by providing detailed product information (Cheung et al. 2009). Furthermore, eWOM also plays an important role in reducing uncertainty and the amount of information that needs to be processed when making a decision.

There are several classifications of online reviews gathered from previous studies, such as written, audio, video and mixed reviews, but for this research the scope of media that will be used are written reviews. Written reviews are mostly typed in text; this allows the search engine to scan through its sentences, which results in more readers being attracted through search engines (Fruth and Neacsu 2014).

Valence of Consumers' Online Review

Consumers providing online review or recommendations have the freedom to develop their personal blogs and present themselves as experts or specialized bloggers who frequently express their views on a certain product (Pan and Zhang 2011). Product reviews are highly influenced by the user's personal preferences and usage conditions (Chen and Xie 2008); therefore, the valence of these reviews will be different regardless of whether they are positive or negative. However, negative reviews tend to be seen as more reliable and generalizable than the positive ones (Chevalier and Mayzlin 2006), hence exert greater influence on the sales of a product (Podsakoff et al. 2012). It has also been documented that helpful reviews with more details of the product tend to influence the potential customers' decision more than the reviews that are not perceived to be helpful (Li et al. 2013).

Sponsored Product Review

Compared to the conventional sellers, online sellers can provide consumers with two types of product information. Seller-created product information can be seen on the websites and traditional communication channels such as advertisements. The other type of product information is consumer-created information, which is presented by consumers who have already purchased and used the product (Park et al. 2007a). This consumer-created information provided in this way is a new method of word-of-mouth communications as it also includes consumers' experiences, evaluations and their personal opinions.

In sponsored reviews, companies (the 'sellers') give certain online users (the 'reviewers') compensations in exchange for their reviews on the online platform, such as personal blogs (e.g., Forrest and Cao 2010; Zhu and Zhang (2010). These compensations have led sponsored reviews or recommendations to be seen as having bias because it can be considered as one form of advertisement (Lu et al. 2014). Companies have been using sponsored online consumer reviews as a more effective marking tool (e.g., Becker-Olsen 2003; Chevalier and Mayzlin 2006), but its affects are often debatable.

Ballantine and Au (2015) found that consumers made no distinctions between sponsored and non-sponsored reviews while measuring the perceived credibility of the reviews and their impacts on brand attitude and purchase intentions. This echoed the findings of Lu et al. (2014) that readers' trust in source credibility and their attitudes toward sponsored online posts remain unaffected after being made aware that such posts were sponsored. On the other hand, Hwang and Jeong (2016) noted the attitude changes among consumers toward online reviews with different sponsorship declaration messages. They concluded that consumers rated source credibility negatively toward reviews with a simple sponsorship disclosure message (e.g., this post is sponsored) while this negativity disappeared for those reviews with 'honest opinions' message (e.g., 'this post is sponsored but the opinions are honest').

This study will differentiate between non-sponsored and sponsored reviews because the Indonesian market is unfamiliar with online reviews,

and therefore this differentiation will help companies understand how consumers react to different reviews. It will also contribute to the existing literature in its knowledge of how sponsored and organic reviews would influence readers' attitudes and purchase behavior.

6.2.2   Product Type

Products can be broadly classified as either search goods or experience goods based on particular attributes consumers can differentiate through (e.g., Hsieh et al. 2005; Mudambi and Schuff 2010; Weathers et al. 2007).

Search goods are those goods whose specific attributes consumers can identify before purchase. The best examples of search goods are electronics, camera, mobile phones and laptops (Mudambi and Schuff 2010). Search goods are easier to acquire (Hsieh et al. 2005) and compare (Mudambi and Schuff 2010), without the need to interact with the product (Huang et al. 2009) before purchase. In case of search goods, consumers usually evaluate the product through instrumental evaluative cues or, put differently, by assessing the technical and more detailed performance of the product. Consumers tend to observe ratings of the search product, and these observations affect their valuations and purchase decisions.

Experience goods are those goods for which consumers cannot easily identify their attributes before purchase. Examples of experience goods include movies, books or video games (Weathers et al. 2007). Reviews of experience goods usually focus on the appearance or aesthetics of the product itself. Online reviews tend to depend on the senses of the reviewers to describe the experience they have felt while using the product, even though the experience of reviewer and potential consumers might be different based on their own personal perspective. Moreover, extrinsic cues such as the popularity of the product can be displayed by the number of reviews and therefore might have a great impact on consumers' purchase intention.

Overall, the measurement of these two product type categories is different in terms of the volume and valence of the reviews (Huang et al. 2009);

therefore, their effects on consumers' attitude and purchase intention may also vary which is one of the aspects that will be studied in this research.

6.2.3   Product Involvement

Involvement is the perceived individual relevance of a product based on consumers' values, needs and interest (e.g., Griffith et al. 2001; Zaichkowsky 1987). When consumers consider making a purchase, they are most likely to appraise the degree of involvement first (Clarke and Belk 1979). As their involvement grows, consumers tend to elaborate information processing further (Doh and Hwang 2009). Involvement with the products affects consumers' decision process, and online reviews act as the information provider that they need to process the information (Quester and Smart 1998).

High-involvement consumers tend to be more motivated to devote the cognitive effort required to evaluate the true merits of a product, and are hence more influenced by the quality of reviews rather than the volume itself (Park et al. 2007a, b). Consumers with low product involvement tend to be more influenced by the dynamic attitude and volume of good reviews (Petty and Cacioppo 1984).

6.2.4   Attitude Toward Product Review

In order to facilitate online purchasing decision, companies often either provide their own online product information or allow users to share product reviews online (e.g., Chatterjee 2001; Chen and Xie 2004). In relation with the review's valence, Doh et al. (2009) stated that both positive and negative eWOM could impact consumers' attitude toward the product, although a few negative messages within a vast amount of positive messages are not critically harmful. On the whole, consumers tend to choose a product with more recent reviews and small sample size indicating a salient summary of percentage on the ratings (Wulff et al. 2015).

Consumers perceive user-generated reviews as true, factual and unbiased (Hass 1981). They are also likely to trust reviewers or sites that they

perceive as credible (Lu et al. 2014). This is particularly important for consumers with less knowledge of the product (Cheung et al. 2009). When consumers feel that the review messages are untrue or being modified by the company through sponsored content but without sponsorship declaration, the credibility of the source decreases while consumer resistance to such reviews increases (Lee and Koo 2012). Declaration of sponsorship helps both reviewers and the company to build trust and lead to positive consumer attitudes toward the product.

6.2.5   Purchase Intention

Purchase intention can be defined as the willingness of a consumer to purchase a specific or particular product, and it is influenced by the information that they find related to that specific product. Lu et al. (2014) suggested that consumers' purchase intention can be highly influenced by the valence and sponsored status of the review. This echoed the findings of Lee and Koo (2012) that readers would resist the persuasive intent of the review if they sensed that the message is biased or with sponsored content.

The different effects of valence reviews, product involvement, and reviewer's sponsored status on purchase intention will be studied in this research. The results will highlight the most effective and appropriate ways of using online reviews for certain products and/or targeted segment of consumers in Indonesia.

6.2.6   Summary

In conclusion, the controlled variables such as product type, product involvement and sponsored status are chosen to develop the proposed model in this research. Based on the factors from these variables, the responses of consumer attitude toward product review and their purchase intention can be measured and analyzed. The specific relationships between the individual variables and consumer attitude toward product review and purchase intention are going to be explained in conceptual framework and hypothesis development.

6.3   Conceptual Framework and Hypotheses Development

Online information search behaviors for product type (search and experience goods) are non-identical (Lu et al. 2014). It is likely that the different variables of product type could have direct relationship to consumer attitudes toward product review. The amount of information they are searching for search goods is more likely to be more detailed regarding the capabilities of consumers to evaluate the attributes of the product before purchasing. In contrast, experience goods could mainly be evaluated after the purchase of product. Furthermore, Mudambi and Schuff (2010) mentioned that reviews about experience goods are supposedly subjective and have an unstable nature even when the reviewers have experienced the product themselves. Thus, we consider that consumers will appreciate online reviews more favorably for experience goods rather than search goods. They might have a better attitude toward experience goods because the attribute of the product cannot be easily identified and verified without others' experience. Thus, the following hypothesis is derived:

H1: Consumers will be more likely to have positive (a) attitude toward, (b) trust on, and (c) purchase intention for the product review for experience goods compared with search goods.

Product involvement is also considered as an affecting factor toward consumer attitude regarding the different behavior when confronted with high- or low-involvement product. It has been discussed that consumers tend to be more active looking for information and allocate more time to consider when buying high-involvement compared with low-involvement goods (Park et al. 2007a, b). Low-involvement goods consist of products that consumers don't need to think deeply about when purchasing and don't have specific preferences for, so the loyalty of the brand is considered lower than high involvement. In contrast, products considered as high involvement have a larger impact on the consumer, including their financial status and personal preferences, so their attitudes might get affected by the type of product involvement included in the article. Therefore, the following hypothesis is constructed:

H2: Consumer's (a) attitude, (b) trust and (c) purchase intention for the product review will be higher for high-involvement products than low-involvement products.

When an article is sponsored, some reviewers willingly state that they are being sponsored and some of them implicitly mention it. The research by Lu et al. (2014) mentioned that there are two methods of sponsorship for product reviewers, which are direct monetary sponsorship and indirect monetary sponsorship. However, it was proven that the sponsorship type does not significantly affect consumer attitudes toward the sponsored articles. Therefore, this research will implement broader scope by differentiating the variables into sponsored and non-sponsored reviews. Podsakoff et al. (2012) suggested that when information comes through opinions or recommendations from others, positive information might be less credible and generalizable in contrast with negative information. Hence, this research will implement positive articles as the samples and analyze the respondent's reaction when confronted with sponsored or non-sponsored positive article. Based on the supporting evidence, the following hypothesis is derived:

H3: Consumers have more positive (a) attitude, (b) trust and (c) purchase intention for product reviews if the review in the article is not sponsored compared with sponsored (Fig. 6.1).
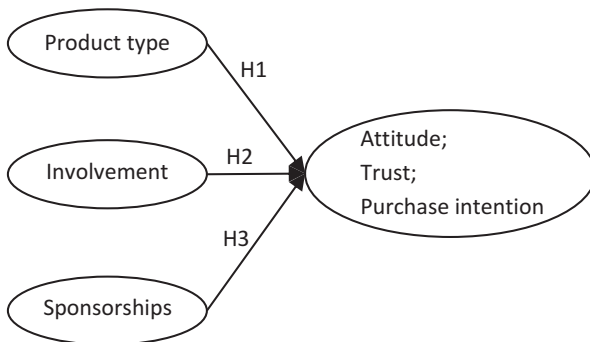
Fig. 6.1 Summaries of the conceptual model

6.4   Methodology

6.4.1   Research Design and Measures

Manipulation Variables

The research applied a 2 (product type) × 2 (product involvement) × 2 (sponsorship) between-subject design. Consumer reviews are provided with two types: sponsored and non-sponsored. They can be differentiated by choosing the reviews that mention 'in partnership with, sponsored by, given samples for honest reviews…,' which clearly expose and inform the consumer that they are being compensated by the company of the product they reviewed. The research also adopts a within-subject design. Each respondent will be provided a questionnaire with eight examples of written positive product reviews that consist of sponsored and non-sponsored reviewers. Respondents will then be asked how they perceive the reviews and about their purchase intention.

Search goods and experience goods are selected as the two products types. Search goods will be identified through asking the consumers whether the product performance is easy to evaluate prior to the purchase. Experience goods product will be identified in contrast with the search goods attributes and focusing on the consumers' perspective about the appearance of the product. Search goods products can be thoroughly evaluated by consumers before purchase and technology product and beverage are the best examples of it. On the other hand, experience product demands the consumer's personal senses experience the specific attributes, and may render varied experiences among consumers. The best examples of experience goods are travel agency and food delivery service, in which consumers need to get their hands on the actual product first before evaluating the detailed attributes. Through the product type, consumers' search behavior and the utilization of information source can influence their purchase intention (King and Balasubramanian 1994).

Consumer involvement represents the product's relevance for the consumer's life. If the product being reviewed is generally complex, risky, expensive or demand extensive information processing, then it would be considered as a high-involvement product. Respondents will be asked

whether the product that they were searching has a high level of involvement in their life, and how their attitudes toward product reviews relate to the attributes. In contrast, the low-involvement product consists of items that are habitually needed by the consumers but they don't need to conduct thorough research when purchasing the product, due to easy availability of information and lower purchasing cost. Respondents will be asked about these variables in order to measure the significant effects of consumer involvement in their attitude toward product review and how it might impact their final purchase intention phase.

Independent variables will be measured as manipulation check on a seven-point Likert-type scale ranging from 1 (strongly disagree) to 7 (strongly agree) to validate whether the manipulation has been successful. The score on each variable will denote whether the respondents were able to differentiate the stimulus variables in the articles shown.

Dependent Variables

Attitudes toward product review and purchase intention are measured as the two dependent variables. According to Lu et al. (2014) and Obermiller and Spangenberg (1998), attitudes toward the product review variable will contain credibility, trustworthiness and product review valence as indicators to measure how the independent variables effect these factors of attitudes. Seven-point Likert-type numeric scales ranging from 1 (strongly disagree) to 7 (strongly agree) are used. Respondents will need to respond about what they feel and think about product review after measuring the involvement, product type and sponsor status involved in the making of established product review.

6.4.2 Data Collection

Procedure

Electronic survey links are sent out through social media posting, online shopping forums and several selected blogs of product reviewers. Google Form is used as the data collection platform. When participants access the links, they will be directed to the survey and asked whether they have read or watched product reviews before the research to make sure they

have the experience to identify various types of product review before participating in the research. Participants who have never read product reviews before will be guided to the end of the questionnaire and excluded from the analysis.

Pretest

Pretest was conducted with a sample of 30 master students. The pretest respondents were asked to measure the product that was provided through seven-point Likert scale in order to highlight which of the products are appropriate to be used in mass survey. The respondents were choosing respectively the value of the statements provided in the questionnaire.

Pretest results show that two products were easily identified by respondents as search goods, which were laptop (Mean $_{before}$ = 5.83, Mean $_{after}$ = 6.49) and soft drinks (Mean $_{before}$ = 5.87, Mean $_{after}$ = 6.23). Laptop is perceived as a high-involvement product (Mean = 6.76) while soft drinks are perceived a low-involvement product (Mean = 3.84). For the experience goods, travel agency (Mean $_{before}$= 3.66, Mean $_{after}$ = 5.74) and food delivery service (Mean $_{before}$ = 4.48, Mean $_{after}$ = 5.62) are perceived to be suitable. Travel agency is perceived as a high-involvement product (Mean = 6.37) and food delivery service is considered as a low-involvement product (Mean = 4.58).

Building upon the result, we developed eight articles that consist of previously selected products with the differentiation of sponsored status (see Table 6.1). The articles clearly inform the respondents about the sponsorship status and about being tested. Participants were able to point out which articles are sponsored and which are not. To avoid bias, ficti-

Table 6.1 Experiment design

Article #	Product type	Involvement	Sponsorship	Product	Sample size
1	Search	High	Yes	Laptop	21
2	Search	High	No	Laptop	22
3	Search	Low	Yes	Diet soda	23
4	Search	Low	No	Diet soda	22
5	Experience	High	Yes	Travel agency	22
6	Experience	High	No	Travel agency	20
7	Experience	Low	Yes	Food delivery	27
8	Experience	Low	No	Food delivery	24

tious brand names were used, and respondents were randomly provided with one of the eight articles.

Sample

Indonesian market is widely considered as an emerging market. The data were collated from participants aged 21 to 35 in the Indonesian market. This particular demographic is used due to the evidence that the Y generation that was born around the 1980s and early 1990s has had constant access to technology, thus making it easier for them to search for information through written or video reviews on the inter web. In addition, the Y generation has already stepped into productive ages and has started making their own income, and therefore their consumption behavior (where they will spend their income) is completely up to them. Furthermore, previous online surveys such as Forrest and Cao (2010) stated that online consumers are generally younger and better educated compared to conventional age segment. Thus, the selection of Y generation consumers as the target for this research is unbiased and appropriate.

Initially, 209 responses were collected and 181 valid responses were finally achieved (48.1% females). The majority (63.5%) of the respondents are graduates while 33.7% of them have finished their master's degree. In terms of the reviewers' usage experience, many respondents already had 1–5 years experience of using product review; in particular, 24.9% had experience of more than 5 years. This fact can help the research to be more valid in analyzing consumer attitude toward product review because, presumably, it can be considered that respondents had already encountered several product reviews and already developed their own perception toward them, which might give greater insight on the subject.

6.5   Result

6.5.1   Descriptive and Reliability Results

Table 6.2 shows the score of mean and standard deviation of dependent variables and control variables used in this research.

Table 6.2 Mean and standard deviation of dependent variables

Variables	N	Mean	SD
Attitude	181	4.51	1.25
Purchase intention	181	5.60	0.90
Trust	181	4.61	1.19

We test the validity and reliability following the recommendation of Malhotra (1987). Cronbach's alpha and inter-item correlation are tested to validate the scale. The result shows good reliability of attitude (Cronbach's alpha = 0.89), trust (Cronbach's alpha = 0.89) and purchase intention (Cronbach's alpha = 0.75).

6.5.2 Manipulation Check

Product Type
Respondents were asked to rate the product type indicators after they had finished reading the article, to verify that the manipulation was successful. They were asked to answer the two questions developed by Krishnan and Hartline (2001) on a seven-point Likert scale. The questions enquire as to the ability of respondents to assess the product attribute before or after purchasing the product or service. ANOVA result shows that respondents who got the search goods articles got higher mean (Mean = 2.52, SD = 1.113, N = 88) compared to the respondents who got experience goods (Mean = 6.57, SD = 1.117, N = 93, $F (1,179) = 595.146$, $p < 0.001$). Based on the result, the manipulation can be considered successful as the scores are consistent with previously stated theory of Mudambi and Schuff (2010), who suggested that search goods are harder to evaluate before buying or using the product or service and this statement correlates with the findings. In addition, the standard deviation of search goods is lower than experience and it supports the argument.

Product Involvement
Product involvement has four indicators: interest, pleasure, sign and risk probability. The result has shown that high-involvement product received a higher mean score (Mean = 5.60, SD = 2.06, N = 96) in contrast to low-involvement product (Mean = 3.47, SD = 2.056, N = 85,

$F (1,179) = 48.455$, $p < 0.001$). The manipulation worked because it is consistent with the discussion by Laurent and Kapferer (1985), which explains the condition that when the mean is higher it can be classified as high involvement due to the fulfillment of self-interest, pleasure, sign and risk probability.

Review Sponsorship
Lastly, the sponsorship variable has a two-item scale to calculate the mean score on each factor, which are sponsorship and non-sponsorship. There is respectively the same number of sponsored and non-sponsored articles, and from the mean score non-sponsorship is rated higher (Mean = 5.045, SD = 2.29, N = 88) compared with sponsored (Mean = 4.18, SD = 2.27, N = 93, $F (1, 179) = 6.478$, $p < 0.05$). This indicates that the manipulation results in a favorable outcome due to the fact that means are relatively different; therefore, it reflects that the respondents are fully aware of the sponsored status given in the article.

6.5.3 Hypotheses Testing

Descriptive result summarizes consumers' attitude toward reviews under different conditions (see Table 6.3).

ANOVA is used to analyze consumers' attitude and purchase intention toward different product reviews. The result (see Table 6.4) shows that product type has a significant effect on consumer attitude toward product review ($F (1,181) = 5.08$, $p < 0.05$). Surprisingly, no significant effect of

Table 6.3 Descriptive result

Sponsorships	Involvement	Product type	Mean	SD	N
Non-sponsorship	Low	Search	4.20	1.55	22
		Experience	5.12	0.95	24
	High	Search	4.57	0.99	22
		Experience	4.72	1.30	20
Sponsorship	Low	Search	4.00	1.41	23
		Experience	4.76	0.90	27
	High	Search	4.43	1.52	21
		Experience	4.25	1.07	22

Notes: DV = Attitude

Table 6.4 ANOVA result

	Df	Mean Square	F	Sig.
Sponsorship	1	3.85	2.57	0.11
Involvement	1	0.03	0.02	0.90
Product type	1	7.60	5.08	0.03
Sponsorship * involvement	1	0.01	0.00	0.95
Sponsorship * product type	1	0.65	0.44	0.51
Involvement * product type	1	8.10	5.42	0.02
Sponsorship * involvement * product type	1	0.07	0.05	0.83
Error	173	1.50		
Total	181			
Corrected Total	180			
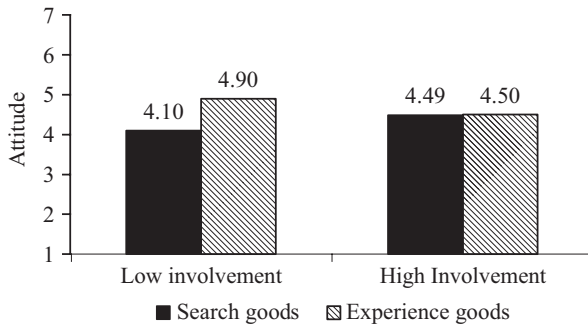
Fig. 6.2 Interaction of involvement and product type toward attitude at low involvement

sponsorship or involvement has been found. These findings suggest that product type (i.e., search goods vs. experience goods) is the most important factor when considering the effect of online reviews. Even sponsored reviews will benefit the company with similar positive attitude as non-sponsored reviews.

Furthermore, the effect of product type is moderated by involvement (F (1, 181) = 5.42, p < 0.05). When involvement is high, there is no significant difference in attitude between search goods (Mean = 4.49) and experience goods (Mean = 4.50). However, when involvement is low, attitude toward reviews on experience goods (Mean = 4.90) is significantly higher than that on search goods (Mean = 4.10). See Fig. 6.2 for details.

Similar results have also been found for trust and purchase intention.

6.6 Conclusions and Implications

The research aims to analyze the effects of different factors on consumers' responses toward customer reviews in an emerging market. Based on the findings from literature reviews, three factors are selected—product type (search and experience goods), product involvement (high and low) and sponsorship (sponsored and non-sponsored review). A 2 x 2 x 2 between-subject design experiment was conducted. Consumers' trust on, attitude toward, and purchase intention for the products were measured as consumer responses to the reviews. Based on the data collected from 181 respondents through online platforms, some interesting results were found.

6.6.1 Theoretical Contributions

This study provides a valuable academic contribution toward online marketing and social media, extends existing findings to an emerging market, and identifies some interesting findings.

Firstly, consumers will respond differently to reviews for different product types. Specifically, consumers respond to online reviews on experience products in a more favorable way than search products. This is consistent with the literature. This might be caused by the fact that it is much easier to assess search goods compared to experience goods (Hsieh et al. 2005). Thus, consumers will rely more on other people's experience to evaluate experience goods. Hence, they have more favorable response toward the experience goods product review.

Secondly, no significant difference has been identified in consumers' responses if the reviews are sponsored by the company. This is surprising and in conflict with common sense and existing findings. This indicates that consumers in an emerging market do not care about whether the written reviews are sponsored by the company. They still appreciate the benefit from other people's reviews even when the other people are sponsored by the company. They treat the sources of online review indifferently.

Thirdly, there is no significant relationship between product involvement and consumer responses in an emerging market. When making a purchase, consumers in an emerging market will pay attention to product review equally, regardless of whether the involvement is high or low. The reason could probably be that the information available in an emerging market is limited and consumers appreciate all sorts of information, especially other users' experiences and opinions.

Finally, there is a significant interaction between involvement and product types. Although involvement itself does not change consumers' responses to reviews, it will moderate the effect of product type on consumers' responses. When consumers are making a less important decision (i.e., low involvement), they will have a much more positive response toward the reviews about experience goods rather than about search goods. This is because consumers will appreciate the benefit from other people's opinions on experience goods. However, when consumers are making an important decision, they will appreciate other people's opinions independent of the product types. It could be explained by the fact that when making an important decision, no matter what type of product they are going to purchase, consumers treat reviews as equally important (even for a search good).

6.6.2   Managerial Implications

This research provides valuable and constructive online marketing communication implication for companies in an emerging market. Firstly, product reviews can foster positive eWOM in an online platform and might trigger improvement in purchase intention of the consumer. Secondly, by carefully identifying the product that is going to be reviewed (product type or involvement), marketers could strategically make suitable plans to handle how the reviews will be displayed. Thirdly, marketers can feel relieved when sponsoring a review article, as consumers in an emerging market will pay attention to the sponsorships. Furthermore, product reviews about experience-based product/service should be maintained with the quality of content to attract the consumer to experience it themselves. And finally, if the product is experience based and considered a low-involvement product, consumers tend to trust the reviews more.

6.6.3   Limitations and Future Works

The current study focuses only on an emerging market. A cross-cultural study between a developed market and an emerging market will enrich the current findings and show some differences clearly. Some cultural factors should be examined as moderators. Similarly, some personal traits would play some roles as well, such as risk aversion.

The underlying mechanism of the current relationships is not examined. Further works should focus on some mediating effect in the relationships between product types, sponsorship, involvement and consumers' responses—for instance, whether the online review works as uncertain reduction in the emerging market.

Finally, other characteristics of online reviews are worthwhile to be examined in further works—for example, format and valence of online reviews.

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7

Enhancing Brand Image and Brand Trust in the Vietnamese Tourism Industry Via e-Word of Mouth

Hoang Thi Phuong Thao

7.1 Introduction

Word of mouth (WoM) is considered an important information source that influences consumer behaviour (Chevalier and Mayzlin 2006). Opinions and comments of consumers are highly evaluated because their information is updated, interesting and more credible than marketing information from product/service suppliers. The development of the Internet and Web 2.0 creates a new environment for easy information exchange. Most of the electronic word-of-mouth (e-WoM) information is not derived from companies, so it is very difficult to control this information. With strong interaction and fast dispersion of information via the Internet, unfavourable e-WoM may create an unintended communication crisis. Therefore, managers need to deeply understand and manage this information flow. Especially, in the tourism industry, intangible characteristics of service are very difficult to evaluate before usage; tourism services are highly risky for consumers when making buying decisions

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(Lewis and Chambers 2000). As such, WoM plays an important role because over 50% of consumers confirm that information sourced from their families and friends is mostly reliable (Vinaresearch 2013). However, according to the report of Desktop Traffic (2015), 11 travel websites had the highest access volume in Vietnam, which came from search engines (62.9%) and affiliate advertising (21.2%), while average traffic volume from the social network only came to 1.1%, although social networks are a good environment to spread positive e-WoM for firms. This shows that Vietnamese tourism firms have still not recognised the necessity of social marketing media in creating competitive advantage.

Most of the previous research about the influence of e-WoM on consumer activities emphasises the performance of increasing purchasing intention, sale turnover, number of likes, number of comments and success of introducing a new product (Chevalier and Mayzlin 2006), while the impact of e-WoM on other important intangible values, such as brand image and brand trust of the firm, has not been given attention yet. The research on e-WoM adoption and its influence on brand trust and brand image is rare; this study is implemented to explore the factors influencing the adoption of e-WoM, and the consequent effects on brand image and brand trust. To achieve these objectives, theories related to information adoption, e-WoM and brand will be synthesised to build a research model and, consequently, hypotheses. Next, research methodology will be set up. After that, the research's result will be presented. Finally, managerial implications will be raised for tourism firms to improve their brand image and trust via the non-commercial tool of e-WoM.

7.2   Theory and Research Hypotheses

7.2.1   e-WoM

According to Litvin et al. (2008, p. 459), "Word-of-Mouth (WoM) is communication between person and person about product, service or company. This information is independent of commercial advertising".

WoM communication is raised on the Internet through the virtual foundation to establish e-WoM; thus the Internet is the foundation on which the difference between electronic WoM and traditional WoM is created. Emphasising this difference, Lee and Cranage (2014) note that the influence of the Internet on e-WoM is very large: negative evaluation of a message may spread in a few moments and affect the company in a negative way. In contrast, positive assessment of a message will attract more customers to online activities of the company. It should be noted that informal communication in WoM includes voice interaction among consumers and between the company and its consumers. These information interactions are independent of public marketing communication.

7.2.2 Information Adoption

Information adoption model (IAM) of Sussman and Siegal (2003) is used in research relating to online communication (Chen et al. 2011; Cheung et al. 2008; Li 2013). These researchers propose that to adopt information, firstly receivers must evaluate the useful level of the information when receiving it. This evaluation is based on two factors: (1) quality of message's argument and (2) relevant suggestion in the message. The quality of argument accounts for key nature of message's information and the relevant suggestion is not the main topic of the message (Petty and Cacioppo 1986). When an individual is ready to perceive and able to understand the message's argument and explanation, quality of message will determine the effective level of message's information; in contrast, when an individual does not have any motivation or is unable to understand the argument in the message, other relevant suggestions will determine the effect level of message's information. The reference from relevant suggestion is compatible with evaluation of attraction, interest and trust of the information source.

Relying on IAM, Cheng et al. (2008) suppose that *relevant level of information, timeliness, accuracy, completeness and credibility of information source* are main components of information quality in IAM.

Let us first discuss the component *relevant level of information*. Consumers in online environment want to find out necessary information

as soon as possible without a lot of effort. Therefore, e-WoM information in online public communication needs to be suitable in relation to the topic of the website as well as goods/service of providers. Dunk (2004) proposes that a relevant level of information is an important component in the decision process of using the information. Thus, the first hypothesis is proposed:

H1. *The higher the consumers perceive the relevant level of e-WoM information needed, the higher they adopt this e-WoM information.*

Timeliness of information is presented by concurrent and timely updation of information. Madu and Madu (2002) note that if the information on the web is outdated and not consistent with company activities, the information cannot transmit and bring added value to consumers. Furthermore, when customers get the information that they need, they will immediately evaluate this information is useful for them (Cheung et al. 2008). Thus, the second hypothesis is proposed:

H2. *The higher consumers perceive timeliness of e-WoM information needed, the higher they adopt this e-WoM information.*

The accuracy of information represents customer awareness about the respectability of information (Wixom and Todd 2005). Daft and Legel (1986) proposed the theory of multimedia communication, in which quality, accuracy and reliability play an important role in the information exchange process. In other words, the more information is concrete, the more it is easy to be accepted. Therefore, the third hypothesis is proposed:

H3. *The higher consumers perceive accuracy of e-WoM information needed, the higher they adopt this e-WoM information.*

Completeness of information is presented in fullness, entirety and words of the message. Sullivan (1999) suggests that a website that focuses on many groups of customers will deliver various kinds of detailed information to attract customers to be interested in and use this information.

Cheung et al. (2008) affirm that messages that provide completeness of necessary information will be easily accepted by readers. Thus, the fourth hypothesis is proposed:

H4. The higher consumers perceive completeness of e-WoM information needed, the higher they adopt this e-WoM information.

Finally, let us discuss the component *credibility of the information source*. In a virtual environment, consumers are free to express their opinions without telling who they are, so assessment of the reliability of the information will depend on readers. At that time, if the reader thinks that the message is from a trustful source, they will highly evaluate the message (Cheung et al. 2008). Based on this view, the fifth hypothesis is suggested:

H5. The higher consumers perceive credibility of e-WoM information, the higher they adopt this e-WoM information.

7.2.3   Brand Image

Brand image is considered as a key concept in marketing and brand building (Keller 1998). Keller also states that "brand image is consumer awareness about brand, the awareness reflects brand association in terms of emotion, attitude and perception about quality of brand in consumer mind" (1993, p. 3). The awareness process is decryption of information associated with the brand. Staisch (2007) supposes that marketing efforts focusing on creating a strong brand (which is loved and has a unique association) will build a positive brand image.

7.2.4   Brand Trust

Brand trust is an important concept that helps customers think about product/service quality (Crosby et al. 1990) and be loyal to the brand (Chandio et al. 2015). Therefore, building and maintaining a long-term relationship with customers is necessary for sustainable development of

the brand. Lin and Lee (2012, p. 310) confirm that "brand trust in a virtual environment is an emotional status engaged with self-confidence and positive expectation from the brand". A firm can build customer trust if they can prove they befit the customer's expectation (Chandio et al. 2015). Accompanied by this expectation there is accepted risk which customers consider as an uncertainty. Creating an environment in which customers believe the uncertainty is very low, will increase brand trust (Chaudhuri and Holbrood 2001).

7.2.5   The Links Among Adoption of e-WoM Information and Brand Image and Brand Trust

Dobni and Zinkhan (1990) show that brand image is a result of interaction between the receiver and incentive from marketing message related to a brand and product. According to Liu (2006), e-WoM not only plays an important role in increasing purchasing intention of customers and reducing advertising cost but also helps to create a favourable image for the company. Jalilvand and Samiei (2012, p. 461) note that "E-WoM information that is published in a lively environment and place where there is high interaction of Internet can have a strong impact on the brand image and consequently lead to purchasing intention". Besides, Esch et al. (2006) confirm that a direct impact of the brand image exists on the brand trust of consumers.

The above arguments act as groundwork to state that e-WoM information influences brand image; concurrently brand image plays a mediating role in the relationship between adoption of e-WoM and brand trust. Thus, the following two hypotheses are suggested:

H6. The higher consumers adopt e-WoM information recommended to a brand, the higher they perceive of the brand image.
H7. The higher consumers perceive of positive e-WoM information recommended to a brand, the higher they trust the brand.

e-WoM also contributes to the development of the brand in long term. The research results of Alam and Yasin (2010) and Ha (2004) show that

positive information from WoM interaction in the Internet environment has an influence on brand trust. So, the eighth hypothesis is proposed as follows:

H8. The higher consumers adopt e-WoM information recommended to a brand, the higher they trust the brand.

7.3 Research Methodology

The Likert scale with five levels (where 5 stands for totally agree and 1 for totally disagree) was built based on researches of Citrin (2001), Wixom and Todd (2005), Wu and Shaffer (1987), Bambauer-Sachse and Mangold (2011), Davis et al. (2009) and Delgado-Ballester and Munuera-Aleman (2001). To ensure content validity of measurement, ten consumers were interviewed to explore latent variables and adjust them to be appropriate with contents of observed items. The interview result showed 32 observed items that represent 8 constructs.

The convenient sampling method was used to do this survey. More than 300 tourists attended the survey in four main cities in Vietnam: Hanoi, Ho Chi Minh, Nha Trang and Da Nang. The response rate was 88%. In the response sample of 281, 9 responses were not qualified and were deleted. Finally, 272 useful responses were used for further analysis. Cronbach's alpha tool was used to check the reliability. Discriminant validity and convergent validity were checked by exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). After that, research hypotheses were tested by analysis of structural equation modelling (SEM).

7.4 Research Result

7.4.1 Sample Description

In the sample of 272, male respondents account for 49.6%, female respondents 48.2% and others 2.2%. Most of the respondents belong to

the age group 26–35 (60.3%), followed by those belonging to the age group 18–25 (33.8%). Respondents with college degrees account for half of the research sample, while 36% of respondents have a postgraduate degree and 14% of respondents have a high school or vocational diploma. More than half of the research sample (54.4%) is constituted by office staff. About 43% of respondents have a monthly income of around VNĐ10–20 million, and nearly 48% of respondents have a monthly income of lower than VNĐ10 million. Only 9.2% of respondents have a monthly income of higher than VNĐ20 million.

Daily time spent using the Internet is very high. Nearly 45% of respondents use the Internet for 45 minutes daily, 28.7% of respondents use the Internet for 30–35 minutes, 20.6% of respondents use the Internet for 20–30 minutes and only 6% of respondents use the Internet for 10–20 minutes. Two frequent forms of e-WoM are instant messaging and online social community networks. A few respondents participated in the website assessment of the tourism service, travel news and e-mail. The characteristics of research sample are described in Table 7.1.

7.4.2 Measurement Scale

The Cronbach's alpha of measurement scale is in the range of 0.687–0.839, which meets the criterion of higher than 0.7 (Nguyen 2014), so the reliability of the measurement scale has been satisfied. The result of EFA shows that 8 components are constituted from 32 items and there is no moving of items among constructs. However, an item of CM2 has not satisfied the criterion of factor loading higher than 0.5, so this item is deleted (see Table 7.2).

CFA is implemented to test the validity of measurement scale. All factor loadings are higher than 0.5 (Hair et al. 2010)—at least 0.599—which is needed to achieve convergent validity. The index of $\sqrt{AVE}$ is compared to external correlation (r) to check the discriminant validity of measurement scale. The indexes of $\sqrt{AVE}$ of all constructs range from 0.652 to 0.772 that is higher than the external correlation of all constructs (from 0.375 to 0.562). This result shows that measurement scale of all constructs achieves discriminant validity. At the same time, correlation

Table 7.1 Respondents' profile

Characteristics	Frequency	Percent
Sex		
Male	135	49.6%
Female	131	48.2%
Others	6	2.2%
Age		
18–25	92	33.8%
26–35	164	60.3%
36–45	12	4.4%
46–55	4	1.5%
Education		
High school and vocational	38	14%
College/University	136	50%
Higher university (postgraduate)	98	36%
Occupation		
Students	49	18%
Office staff	148	54.4%
Business owner	21	7.7%
Others	54	19.9%
Monthly income		
Less than 10 million VNĐ	129	47.4%
10–20 million VNĐ	118	43.4%
More than 20 million VNĐ	25	9.2%
Frequency of using Internet		
10–20 minutes/day	16	5.9%
21–30 minutes/day	56	20.6%
31–45 minutes/day	78	28.7%
Over 45 minutes/day	122	44.9%
Frequency of participating in e-WoM		
(1: less. 2: medium. 3: much)		
Online social community (Facebook, Zalo, Twitter)		2.86
Instant message		2.25
Website assessment of tourism service		1.21
Website of travel news		1.48
E-mail		1.01

coefficients of all constructs are lower than 0.8 (see Table 7.3), so collinearity does not exist among constructs.

Table 7.2 Result of reliability and EFA test

Measurement source Observable items	Percent of variance	$\sqrt{AVE}$	Cronbach's alpha	CFA	EFA
Relevant level of message (Citrin 2001)	**6.72%**	**0.652**	**0.687**		
RL1	e-WoM information has related to my information need.			0.633	0.808
RL2	I notice that it is suitable between information from e-WoM and my information need.			0.676	0.749
RL3	I can use e-WoM information to answer my questions about a certain travel issue.			0.647	0.605
Timeliness of message (Wixom and Todd 2005)	**6.25%**	**0.703**	**0.737**		
TM1	Content of e-WoM shows current tourism information.			0.846	0.650
TM2	I frequently receive opinions that immediately answer my question related to tourism service.			0.625	0.738
TM3	Contents of exchanged information are always updated.			0.613	0.699
Accuracy of message (Wixom and Todd 2005)	**7.68%**	**0.772**	**0.808**		
AM1	e-WoM information has high accuracy and consistency.			0.827	0.797
AM2	e-WoM information expresses practicality.			0.839	0.826
AM3	e-WoM information is reliable.			0.633	0.740
Completeness of message (Wixom and Todd 2005)	**7.28%**	**0.743**	**0.726**		
CM1	e-WoM information is adequate for my information need.			0.674	0.784
CM2	Addition to the main information I am looking for, e-WoM provides other information related to my information need.			–	0.495

Table 7.2 (continued)

Measurement source Observable items	Percent of variance	$\sqrt{AVE}$	Cronbach's alpha	CFA	EFA
CM3	I think e-WoM information meets my tourism information need.			0.800	0.784
CM4	I suppose that tourism knowledge from e-WoM has enough breadth and depth.			0.750	0.740
Credibility of information source (Wu and Shaffer 1987)	**9.45%**	**0.741**	**0.827**		
CI1	I suppose participants in e-WoM have knowledge to assess tourism service.			0.653	0.721
CI2	I suppose e-WoM comments are created by specialists in assessing tourism service quality.			0.740	0.741
CI3	I suppose participants in e-WoM are trustworthy persons.			0.785	0.787
CI4	I suppose participants in e-WoM are honest.			0.778	0.696
Adoption of e-WoM information (Bambauer-Sachse and Mangold 2011)	**10.27%**	**0.664**	**0.823**		
EW1	I usually use e-WoM to compare tourism brands.			0.659	0.624
EW2	To choose the right brand, I often use information from e-WoM.			0.740	0.705
EW3	I usually reference e-WoM when I choose the brand for a certain tourism service.			0.663	0.805
EW4	I usually synthesise e-WoM to gain good information before I choose a certain tourism service.			0.651	0.680
EW5	e-WoM information motivates me to choose a certain tourism brand.			0.601	0.639
EW6	e-WoM information creates confidence for me to choose a certain tourism service.			0.664	0.607
Brand image (Davis et al. 2009)	**5.82%**	**0.688**	**0.722**		
BI1	Recommended brand from e-WoM has higher quality than other brands.			0.641	0.633

(*continued*)

Table 7.2 (continued)

Measurement source Observable items	Percent of variance	$\sqrt{AVE}$	Cronbach's alpha	CFA	EFA
BI2	Recommended brand from e-WoM has ancient history in tourism industry.			0.641	0.693
BI3	It is easy to figure out responses of recommended brand provided by e-WoM.			0.774	0.633
Brand trust (Delgado-Ballester and Munuera-Alemán 2001)	**10.85%**	**0.684**	**0.839**		
BT1	Recommended brand from e-WoM provides tourism service with stable quality.			0.740	0.628
BT2	Recommended brand from e-WoM always supports tourists to solve tourism issues.			0.732	0.643
BT3	Recommended brand from e-WoM provides service that meets my need.			0.742	0.774
BT4	Recommended brand from e-WoM always caters to customer satisfaction.			0.671	0.690
BT5	I feel recommended brand from e-WoM provides worthy tourism service.			0.599	0.701
BT6	Recommended brand from e-WoM always receives customer opinion to create suitable tourism service.			0.606	0.663

Note: CM2 item is deleted after factor analysis

Table 7.3 Pearson correlation among constructs

	RL	TM	AM	CM	CI	EW	BI	BT
RL	**0.652**							
TM	0.432**	**0.703**						
AM	0.224**	0.375**	**0.772**					
CM	0.132*	0.309**	0.259**	**0.743**				
CI	0.095	0.343**	0.098	0.391**	**0.741**			
EW	0.279**	0.293**	0.208**	0.240**	0.421**	**0.644**		
BI	0.288**	0.339**	0.158**	0.306**	0.487**	0.519**	**0.688**	
BT	0.206**	0.361**	0.246**	0.336**	0.450**	0.475**	0.562**	**0.684**

Note: * Significance at $p \leq 5\%$; ** Significance at $p \leq 1\%$
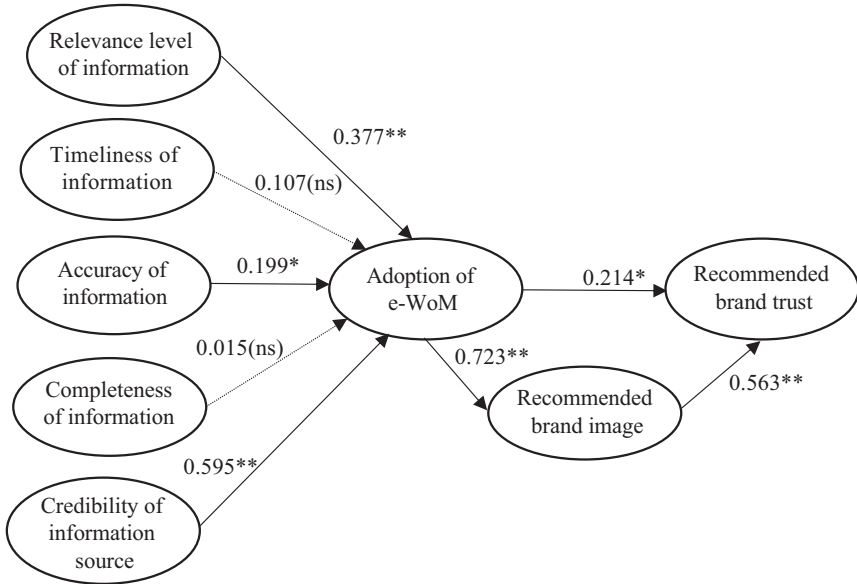
Fig. 7.1 Result of research model testing

7.4.3 Research Model Testing

The research model is tested by SEM analysis, which is shown in Fig. 7.1. The indexes of research model are fit at $X^2/Df = 1.877 < 3$; GFI = 0.840 > 0.8; CFI = 0.888 > 0.8; RMSEA = 0.057 < 0.08 (Hu and Bentler 1999). Therefore, the research model corresponds with sample data collected.

The result of SEM analysis in Fig. 7.1 shows the following three factors to have a positive influence on the adoption of e-WoM information (H1, H3 and H5 are accepted): relevant level of information, the accuracy of information and credibility of the information source. The relationship among three factors of e-WoM adoption, brand image and brand trust is confirmed (H6, H7 and H8 are accepted). With *p*-value > 0.05, it is noted that the two factors of timeliness and completeness of information do not influence the adoption of e-WoM (H2 and H4 are rejected).

7.4.4   Discussion

The factor of credibility of information source has the greatest impact on the adoption of e-WoM. This result is consistent with the research of Zhu et al. (2016): in a traditional communication environment, information quality plays a key role in the receiver's assessment of information, while in the online communication environment the receiver is influenced mostly by the credibility of the information source. The two factors relevant level of information and accuracy of information also play an important role in impacting on adoption of e-WoM. Although, the credibility of information source is recognised as the strongest influencer, "receiver sometimes don't follow indiscriminately someone's recommendation" (Cheung et al. 2009, p. 29). The authors reckon that if someone's advice is not consistent with the subjective belief of receiver, he/she tends to suspect this information.

The two extant factors are timeliness of information and completeness of information that do not influence significantly on adoption of e-WoM in the tourism context. The result is different from the result of Cheung et al. (2008) in the food/restaurant sector. For this sector, two factors of timeliness and completeness contribute an enormous support to assess whether e-WoM information is useful or not. The authors said that in food/restaurant business, customers' demand of food had not been recognised often before customers use. Customers will refer to many opinions in the communities when deciding food. There are many restaurants that supply a large number of meals; in each restaurant, owners provide various meals and dishes. Therefore, plentiful e-WoM information about food and meal on the Internet will help customers compare and select the best restaurant or meal easily. In contrast, in the tourism/travel sector, customer demand of destination is often defined before the customer uses the service. At that time, referring e-WoM will focus on choosing the best tourism company that provides the best service quality in relation to the destination chosen. Choosing and consuming travel services are not timely, impulse as choosing and consuming food or beverage so customers don't rush to find reference information. Therefore, customers do not heighten timeliness of information when using e-WoM.

One of the differences between e-WoM and traditional WoM is that e-WoM information is saved to be accessed at any time, so the information volume is very big. When referring to a large volume of storage information, readers can easily find related information which meets their information needs. If this information cannot meet their needs, they can interact with other tourists by e-WoM to get more useful information. Therefore, timeliness and completeness of information do not play an important role in affecting adoption of e-WoM in the tourism sector.

In the relationship between e-WoM and brand image and brand trust, the impact of adoption of e-WoM on the brand image ($\beta = 0.723$) is stronger than on brand trust ($\beta = 0.214$). Concurrently, the brand image makes a high impact on brand trust ($\beta = 0.563$). It is noted that the role of adoption of e-WoM in brand trust decreases when the mediating variable of brand image appears. This will become clear when we consider the meaning of each construct. The brand image represents customer perception and thinking about tourism brand in the short term, but brand trust is worthy in the long term. e-WoM plays a role in suggesting useful information associated with tourism brand. Thus, receiving and decrypting e-WoM information firstly affect the brand image in customer's mind. The influence of the brand image repeats many times and creates an accumulation of information about the brand in the customer's mind, and has a significant influence on brand trust in the long term. Thus, it is said that this research explores the considerable role of connecting the brand image in the relationship between adoption of e-WoM and brand trust.

7.5   Conclusion and Implication

This chapter identifies the linear relationship among information quality, the credibility of information source with the adoption of e-WoM, and the adoption of e-WoM in relation to brand image and brand trust. Therein, the credibility of the information source has the strongest impact on the adoption of e-WoM. Two other important factors are relevant—level and accuracy of information. The association of adoption of tourism e-WoM information with tourism brand image and brand trust have also

been confirmed. When customers' adoption of e-WoM increases, the perception of customers about brand image increases as well. At the same time, the more the customers are aware of the tourism brand image, the more they trust the recommended brand.

Based on the research result, some implications are raised for tourism website managers to focus on social media to increase brand image and brand trust as follows.

7.5.1   Increasing Quality of Information Exchange

To increase mutual trust level among e-WoM participants in an uncertain environment such as the Internet, firms need to pay attention to reducing risks for customers when receiving information. Firms need to create an environment comprising two conditions: ensuring low risk and building a rating system of participant reputation. This action will increase the credibility of the message delivered as well as information quality created. Tripadvisor.com is a company that has built such an environment by stipulating a clear policy, the terms of usage and penalty level for any individual/company who violates regulations on their website. Concurrently, the website also builds a reputation system for every participant through their comment history, ranking and liking, especially for the appellation of each participant that helps other members visually evaluate identity and credibility of the information source.

7.5.2   Promoting e-WoM Via the Social Community Network

For the big social community networks such as Facebook, Vietnamese tourism companies seem to create their fan pages following the movement of young people; however, they invest in the fan pages poorly. For example, the fan pages of five top tourism companies in Vietnam: Vietravel, Dulich Vietnam, Saigontourist Travel, Dulich Viet and Fiditour, have an average volume of liking lower than 100,000. This is a small number of fans for a fan page of a top company in the tourism

industry. Furthermore, the number of likes and comments for each post in these fan pages are limited. Otherwise, in fan pages and social groups speaking about tour news/evaluations, information exchange is more enlarged positively. The post contents are about history, development of destination or tourists' experience and the interested feeling when attending local activities at the destination. Instead of displaying too much commercial advertising, the fan pages of tourism companies should upload posts about customer curiosity and discovery to encourage customers to attend e-WoM positively, and customers should be treated as friends so that they visit the company fan page more frequently.

7.5.3 Using e-WoM to Enhance Brand in the Short Term

Brand image is a variable that is influenced by e-WoM more than brand trust, and brand image also impacts brand trust strongly. Therefore, tourism companies should use e-WoM when in the process of developing a brand. In the process of participating in e-WoM, tourism companies should orientate contents and topics of communication around creating positive recommendations associated with their tourism brand. To ensure that company-associated recommendation is accepted, communication content should be clear, understandable and especially engaged with the company brand identifier. In the process of receiving this information (decryption of associated recommendation), customers will stay engaged and think positively about the brand in their mind.

7.5.4 Limitation and Further Research

The chapter just inspects the impact of five main factors on the adoption of e-WoM. Therefore, other latent factors may exist that have not been explored in this study, such as website design, amity of community and consumer nature in the social community network. Especially, the quality of website may be a subjectively important element when pushing

consumers to participate in e-WoM. (Yang et al. 2015). Further research may complement more constructs and their components to fully evaluate the role of adopting e-WoM in enhancing brand image and brand trust in the tourism sector as well as the other sectors.

The chapter does not concentrate on a specific form of e-WoM. This may lead to responses that are not uniform for all forms of e-WoM in the online social community: tourism fan pages, travel news website, and so on that have different characteristics. Thus, further research may focus on the different forms of e-WoM to gain consistency and generalisation.

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8

Digitalisation in Dentistry: Development and Practices

Yuan-Min Lin

8.1   Introduction

Over the past several decades, the dental workflow has not changed too much. Despite its maturity, the conventional "analogue" workflow is time-consuming and labour-intensive. Ever since the introduction of the dental CAD/CAM (computer-aided design/computer-aided manufacturing), the production of dental restoration has become more automated, as in many other industries. Meanwhile, the term "digital dentistry" is frequently seen in all kinds of media. Many dental professionals misunderstand that digital dentistry equals to dental CAD/CAM technology. In fact, digital dentistry stands for the involvement of the computer-based tools during diagnosis, recording, communicating and treatment of patients. Digital dentistry has been the biggest advancement in the past few years in the dental industry. Numerous articles described digital dentistry as "paradigm shift" or "revolutionary"; these articles lead

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the patients to believe that digital dental technology is currently the mainstream of daily dental practices. Despite the generally agreed consensus that digital dentistry is an inescapable trend, surprisingly, less than 10% of dentists in the USA used the intraoral scanner for digital impression in 2016 (Cowburn and Cowburn 2016).

Digital workflow for dental restorations consists of image acquisition, data processing and digital manufacturing. When it comes to image acquisition, most people think about digital impression using an intraoral scanner or digitalisation of conventional impression using a desktop scanner. In fact, other image acquisition methods, including cone beam computed tomography (CBCT), face scanning and even photo taking using a digital camera, are also widely used in digital dentistry. After image acquisition, software must be used to create a dental restoration or appliance based on the "digital models" obtained from image acquisition. This is also referred to as CAD, or computer-aided design. For example, the software can be used to create the shape of a single crown or bridge on the digital die. There are some free software products for the general CAD applications. For complex shapes like a single crown or bridges, paid software is a favoured option as it can hugely smoothen the workflow, and its functions are especially designed for dental applications. After designing the dental restorations or appliances, the three-dimensional (3D) model files can be sent to a dental laboratory or to the dentist's own on-site digital manufacturing system. Digital manufacturing, commonly called computer-aided manufacturing (CAM), can be divided into subtractive manufacturing and additive manufacturing. The former refers to computer-numeric-controlled (CNC) milling and the latter 3D printing. CNC milling has been used in dental applications for more than two decades, so the mechanical performance, marginal integrity and accuracy of CNC-milled dental restorations are comparable with conventional solutions (Yao et al. 2014; Penate et al. 2015). These automated dental CAM procedures became more cost-effective compared to conventional dental laboratory cost, especially in the high-wage countries, such as Western Europe, USA, Australia and Japan.

Before 2017, the digital impression was categorised into "closed system" and "open system". The "closed system" means that the exported file of the intraoral scanner can only be read by CAD software and a CAM

machine originating from the same company. In contrast, the file coming from an "open system" intraoral scanner, mostly in STL, PLY or OBJ file formats, can be read by other CAD software from the "open system" camp. As the market is getting increasingly competitive and dentists are unwilling to put all their eggs in one basket, the boundary between open and closed systems is disappearing. To give an example of Sirona (Dentsply Sirona, USA) and 3 Shape Trios (3 Shape, Denmark), the former was long considered as a "closed system" intraoral scanner manufacturer and the latter previously provided the "pay-to-be-opened" option; however, recently 3 Shape Trios allowed free exports in the first half of 2017.

The purpose of this article is to briefly describe the technologies used in digital dentistry and also their influence on the dental industry until 2017, based on scientific findings, personal experiences and communication with the dental communities. The facts outlined in this article may change over time.

8.2   Digital Impression

Digital impression technology replaced traditional impression procedures, from prior methods of taking an impression using a tray and impression materials to using intraoral scanners to create the 3D models of the hard and soft tissues in the mouth. The digital impression system creates an "electronic impression" that can be forwarded to the dental laboratory or dentist's own CAD/CAM system. Because these 3D models can be displayed on a chairside monitor using various software tools, dentists can consequently evaluate their preparation quality, such as margin smoothness, occlusal clearance and preparation taperness. If the preparation is not satisfactory, immediate corrections can be made which can now save time and money, when prior conventional impressions would have resulted in a second appointment.

"Digital impressioning" was first introduced in the mid-1980s when Sirona Dental System released the CEREC 1 (Mormann 2006) (Sirona Dental System merged with Dentsply International Inc., to form Dentsply Sirona in 2015). In 1980, a Swiss dentist Dr. Werner Mörmann and an Italian electrical engineer, Dr. Marco Brandestini from the

University of Zurich, developed the CEREC method, which stands for Chairside Economical Restoration of Esthetic Ceramics. The method was commercialised in 1987 by Siemens as the CEREC 1, the second CAD/CAM system in dentistry. CEREC 1 was equipped with a 3D digital scanner and a milling unit to create dental inlays from ceramic blocks in a single appointment.

During the procedure of conventional impression, problems could happen due to mould instability over time, for example margin laceration, when separation and dimensional discrepancy occur between the mould and the die. Digital impression is a non-contact measuring technology; therefore, it can overcome the problems associated with the material laceration during conventional impression. Also, almost all the intraoral scanners in the market can provide enough accuracy to meet the clinical needs (Ender et al. 2016), (Ender and Mehl 2011). A study pointed out that compared to the additional silicon impression materials, intraoral scanners only exhibited a slightly lower accuracy. However, the trueness and precision of the intraoral scanner are still far lower than 120 μm, below which a tolerance value was generally considered clinically acceptable. Another study also demonstrated a similar trend (McLean and von Fraunhofer 1971). The intraoral scanner also causes less gagging reflex because of the small scanning tip. Despite all these benefits, it must be mentioned that digital impression cannot replace conventional impression in every case. For example, traditional impression materials can provide a better result in situations in which a dry scanning environment cannot be achieved.

The cost was one of the first barriers for dentists when entering the world of "digital impression". In 2016, only a few companies in the world were manufacturing intraoral scanners, which included 3 Shape (3 Shape Trios 3, Denmark), Carestream (Carestream CS3600, USA), Dentsply Sirona (Omnicam, USA), iTero (iTero Element, Israel), Planmeca (Planmeca PlanScan, Finland) and other small brands. There was no major intraoral scanner manufacturer from East Asia and the price of the intraoral scanner ranged from 30,000 to 100,000 US dollars, although it was dependant on the software packages. However, it became evident that regardless of whether dentists intended to have the restorations made in the external laboratory or use their own CAD/CAM system, an investment in digital impression system must be made. Thankfully, fierce com-

petition between the companies made the market more liberalised and, consequently, the cost of the digital impression system has dropped significantly in the past two years. The price of the digital impression system has now dropped to a range that most dentists "would consider" buying one. It can therefore be expected that in the developed countries and in some developing countries, the digital impression system will eventually be embraced by most of the dentists. In Taiwan, it was observed that younger dentists are more prone to quickly embrace the new technology while senior dentists are more hesitant to enter the digital world in the beginning due to the lack of familiarity with regards to recent technological advances. However, as times are advancing, it seems rational to suggest that the uptake of new technology is only going to get greater.

Like many other digital products, it is always risky to buy the latest digital dental products immediately after they are released because they are typically sold without having been tested extensively. A similar scenario can be seen in the computer software, most of which is field-tested by the consumer rather than being debugged by the developers. Luckily, the calculating power and post-processing need for the image acquisition heavily rely on the computer which the intraoral scanner is connected to. Therefore, the bugs of a newly released digital impression system can be fixed by a simple software update.

The latest model of many intraoral scanners can scan the objects in colour. Colour scanning makes the scanned model more realistic and clearer with the margin location. Blood or saliva contamination during scanning can be easily differentiated in a colour-scanned model, while in a monochrome model, the fluid contamination cannot be differentiated which consequently results in inferior accuracy. Another benefit of the colour scanner is the potential in shade matching. Currently, shade matching of patient's teeth with the shade guide, which is the colour reference provided by dental material suppliers, relies heavily on the naked eye or the digital camera. Because the colour of a tooth is not homogenous, if the intraoral scanner can record colour distribution and then match the shade in the same scanning procedure, it will save lots of clinical time for shade matching. Matching shade usage in the intraoral scanner is still in its preliminary stages; shade matching using conventional shade matching procedures is still more accurate at this time. There

is still a long way to go before the accuracy of the intraoral scanner shade matching can be considered clinically acceptable.

8.3   CAD for Prosthetic Restorations

For dental CAD, not too many software products are available in the world. Exocad DentalCAD, CEREC software (Sirona) and 3 Shape Dental System are among the most used dental CAD software products in the world. Other companies, such Carestream, Planmeca, iTero and others, also have dental CAD software products but with low market shares. Exocad is a dental software company worth noticing. Unlike CEREC and 3 Shape, Exocad is a small company specialising in dental CAD/CAM, and it does not have its own hardware products. Exocad collaborates with quite a few hardware companies as the OEM (original equipment manufacturer) for their CAD software. Because of this reason, Exocad grew rapidly in the past few years and has a huge user base. Many digital dental laboratories in Taiwan use Exocad DentalCAD for their daily works. Because of its popularity and simplicity, some dental schools, including Department of Dentistry, National Yang-Ming University, where the author is working, taught undergraduate students to used Exocad DentalCAD in the digital dentistry course. CAD software can not only be used to design fixed restoration such as crown and bridges, it can also be used to design prostheses such as a removable partial denture, complete denture, occlusal splint and implant abutments. Moreover, some CAD software provides the simulation of jaw movement with a virtual articulator. Targeting different users, most CAD software have a dentist version and a dental technician version. In most cases, the former is a simplified version of the full functional dental technician version.

One functionality that almost every CAD software is adding into their features is DSD, Digital Smile Design. DSD is a working philosophy for dentists to present what the patients will look like after the whole treatment using photographic tools. A dentist can design the shape, calculate the ratio and pick up the colour of the anterior teeth of a patient using either database or manual drawing. It is a communication tool between the dentist, the patient and the technician. If the patient is happy with

the dentist's design, the technician can fabricate the diagnostic wax-up or provisional restorations according to the design from the dentist for the clinical try-in process. Even though the DSD process can be presented in 2D using a standard presentation software such as PowerPoint (Microsoft, Washington, USA) or Keynote (Apple, California, USA), integrating this feature in the CAD software can smoothen the DSD workflow and present the patient's future appearance in a 3D manner. Not only is the patient's future teeth present, the soft tissue, including the later profile and the lip position of the patient, can also be simulated. There are two available applications that can implement the Augmented Reality technology to present the "after treatment" smile of the patients using a tablet: Kapanu app and QuicSmile app. The former is a spin-off company from ETH Zürich. It was acquired by the dental material giant Ivoclar Vivadent in 2017. The latter was developed by an innovation team named "Glamofy" from the electronics company ASUS. Using the machine learning database, both DSD software can detect the intraoral area and replace the current dentition with the "after treatment" image, without the need for manual selection and replacement. However, neither software has been integrated with any CAD software yet; therefore, the "after treatment" smile could not be 100% recreated by restorations.

8.4 CAM Using CNC Milling Machine

CAM can be divided into two categories: subtractive manufacturing and additive manufacturing. Subtractive manufacturing means that the dental restorations, including crowns, bridges, inlays, onlays, veneers, occlusal splints, dental implant restorations, removable dentures and orthodontic appliances, are milled from solid blocks (or discs) of materials.

As described previously, the technology behind the CAD/CAM system is really mature. In the 1940s to 1950s, the first numerically controlled machines were invented. The machines utilising a punched tape to provide information for the positions work on machine tools. In the 1960s, technology advanced rapidly so that early computer systems were implemented in manufacturing the parts of automobiles and aeroplanes

(Weisberg 2008). Professor Francois Duret, a French dentist introduced CAD/CAM concepts into the dental world in the thesis written at the Université Claude Bernard Lyon, entitled "Empreinte Optique" (Optical Impression) in 1973 (Duret 1990). Professor Duret submitted a patent entitled "Method of and Apparatus for Making a Prosthesis, Especially a Dental Prosthesis" (US Patent #4,663,720) in 1984. In the Chicago Midwinter Meeting in 1989, Professor Duret brought his CAD/CAM system and did a live demonstration, in which he successfully made a crown in four hours (Duret 1990).

Nowadays, the time to mill a ceramic crown from a block can be as short as 15 minutes. With an in-house digital impression, CAD and CNC milling system, the dentist can achieve a "one-day dental crown". In the conventional workflow, a patient has to wear temporary restoration for several days to even several weeks and visit the dentist again for the final prosthesis. The "one-day dental crown" saves not only the chair time of a dentist but also the time for patients and technicians. In Taiwan, many dental clinics used the "one-day dental crown" as the marketing strategy and were very successful. Patients who were not satisfied with the aesthetic of their teeth were more willing to visit clinics that offered the "one-day dental crown" because of the shorter treatment period. In addition, those patients who were not satisfied with their aesthetic had a tendency to have more than one crowns or veneers placed. As a result, more revenue was made.

The materials used for dental CNC milling can be polymers, ceramics, metals or even composite materials. Milling of polymers, ceramics and composite materials can be done by an entry-level CNC miller, while milling of metal requires large milling power; thus it is usually very expensive and only available in the dental laboratory. In order to compete with the conventional prosthetic materials, the materials for CNC milling must be both functional and "aesthetically" pleasing. Over the past decade, the materials for CNC milling have evolved dramatically. Here, we take ceramics as an example. Feldspar porcelain, commonly used for PFM (porcelain fused to metal) crown and bridge, was made in the form of a block by many material suppliers for CNC milling. For better aesthetic, feldspar blocks with three or four colour

gradients, for example Vita Triluxe and Vita Triluxe Forte, were offered. These gradient blocks provided colours that could simulate the colour change of a natural tooth from the incisal edges to the cervical third. The location of the colour gradients on the milled crown or veneers can be designed in the CAM software. Another material that is increasingly becoming popular is zirconium dioxide (or zirconia), also called ceramic steel. Zirconia is a high-strength material but has been complained about for its opacity and whiteness. Therefore, zirconia was not used in the aesthetic zone not long ago. By keeping the structure of zirconia at the cubic phase, scientists have developed the high-translucency zirconia, and they have been getting more popular recently. Like the gradient feldspar materials, gradient zirconia discs are now available in the market, including KATANA Zirconia HT, LAVA plus and Zirkozahn Prettau to name a few.

8.5   CAM Using 3D Printing

CNC milling is a popular technology, and numerous companies supply CNC milling machines for dental applications. A disadvantage of milling technologies is that they are less capable of carving complex details such as undercuts and inner-geometry. The detail of the milled products is determined by the diameter of the smallest milling tool a milling machine uses. Furthermore, it can only produce one unit at a time. Additive manufacturing, in contrast, is capable of building complex geometric features and much more at a productive rate, if large quantities of products are needed. Additive manufacturing, also known as 3D printing, has been used for rapid prototyping of industrial products for almost three decades. In 1984, the first patent for the stereolithography process was filed in France (Andre 1984). A few months later, 3D System Corporation filed another stereolithography patent which described a way to cure photopolymers layer by layer using ultraviolet light (Hull 1986).

Ever since former US president Barack Obama referred to 3D printing technology as the technology that has the "potential to revolutionise the way we make almost everything" (2013), 3D printing became well known

by many dental professionals. By 2017, most of the dental restorations and dental appliances could be made by 3D printing, despite some of them being pricey compared to its counterpart made by CNC milling or by conventional manufacturing procedures. For example, 3D printing of zirconium dioxide crown and bridge is possible by inkjet printing glue to bind zirconium dioxide powders followed by high-temperature sintering at 1700°C. This technique is very rare, and the surface smoothness of the printed model is still not satisfactory. Zirconium dioxide crown and bridge made by CNC milling is a mature technique, and the material cost for each crown can be as low as 5 US dollars. Another example is base metal. Base metal is a commonly used material for low-cost crowns and bridges. 3D printing and CNC milling of base metals are possible, while the cost of both techniques is far higher than the wax-up and casting of base metal using a conventional method.

There are many types of 3D printing technology that can be used for dental applications, such as Selective Laser Sintering (SLS), inkjet printing, Stereolithography Apparatus (SLA), Digital Light Processing (DLP) and Fused Deposition Modelling (FDM). SLS is a technique for metal 3D printing. It requires a high-power laser source to emit the laser beam on the metal powder and sinter the metal powder in situ. A high-power laser source is very pricey, so an SLS printer can cost more than 300,000 US dollars. Therefore, only large dental laboratories have enough cases and are able to afford one. The inkjet printing technology is a developing technology that can be used to print ceramic materials in the future. The principle of this technology is to print binder from a Piezoelectric Printing head to bind ceramics powders together. After burning and sintering in the oven, a ceramic restoration can be obtained. This technology is still under development and is currently not used in the dental industry.

DLP and SLA are the two most commonly used technologies in dental 3D printing. Both techniques are used to print resin, but the DLP uses a projector while the SLA uses a laser as the light source to cure the photopolymerisable resin. The projector equipped with a DLP 3D printer projects black and white masks, which correspond to the shape of the slices of the object to be printed, layer by layer. In contrast, an SLA 3D printer emits a laser beam at once, and for each layer, it takes time for the laser

beam to form a 2D mask from a dot. When the light in DLP or SLA 3D printer irradiates on the photopolymerisable resin, the initiator in the resin is activated and initiates the photopolymerisation, so the resin can turn into a solid from a liquid.

The reason why DLP and SLA 3D printers interest dentists are because resin can be used for so many dental applications, including provisional restorations, denture base, occlusal splint, surgical guides, dental models and even models for clear aligner. In view of the potential of DLP and SLA 3D printers, many 3D printing companies already well known in the industry and the DIY markets have entered the dental market, for example 3D Systems, Stratasys, EnvisionTech, DWS and Formlabs. Among all the products released by these companies, Form 2, Formlabs' latest 3D printing model, gained a lot of attention from the dental community. The market price of the printer from Form 2 is only 3499 US dollars, which is a price that almost all dentists and dental technicians can afford. Furthermore, the recent partnership with 3 Shape in 2017 makes Form 2 seamlessly integrated with 3 Shape's CAD/CAM software. In Taiwan, two electronics companies, Young Optics and Delta Electronics, entered the dental 3D printing industry. Young Optics is a professional company with a focus on the light engine of projectors. It not only manufactured and sold 3D printers under its brand MiiCraft, but also allowed other 3D printing companies to sell the same MiiCraft 3D printers under their respective brand names. Delta Electronics is the largest company in power supply manufacturing. Its 3D printer debuted in 2017, and will be available on the dental market by the end of 2018.

In addition to the 3D printer manufacturers, there are also companies who benefit from 3D printing techniques. Align Technology's brand "Invisalign" is the leading brand in the clear aligner market. The idea of the clear aligner is to simulate a series of teeth movements from their original position to a well-straightened dentition, and these simulated dentitions are printed from the 3D printer. An elastic thermoplastic material is heated and pressurised onto the 3D-printed models to form clear aligners. For a whole clear aligner treatment, around 100 clear aligners are needed. Furthermore, the printed 3D models for clear aligner applications do not have to be as accurate as the 3D models for the dental

prosthetic applications. Therefore, it has a lower entry barrier and thus a big market for the 3D printing industry.

8.6   CBCT and Implant Planning Software

Dentists have been using 2D periapical and panoramic radiography for decades. The problems of the 2D radiography system are its inherent distortion factors and the inability to demonstrate 3D spatial anatomical structures. The early 3D radiographic imaging systems introduced into dentistry were medical-grade CT, which were very expensive and required a high dose of radiation. CBCT provides information on 3D anatomic structures, quantity and quality of bone, and the location of blood vessels and nerves. It requires a comparatively lower radiation dose as compared to conventional CT scans. During imaging, the CBCT scanner rotates around the patient's head for around 200 degrees; meanwhile, a cone-shaped source of X-ray radiation is projected through the area of interest onto an X-ray detector on the opposite side to obtain a few hundred sequential planar projection images of the field of view (FOV) for further reconstruction. The reconstructed 3D digital images are composed of "voxels" of the anatomic data. Unlike the intraoral and desktop scanner, CBCT saves files in DICOM (Digital Imaging and Communications in Medicine) format. DICOM is a standard for medical images and is used in almost all hospitals worldwide. Any standard DICOM file can be exchanged across hospitals and dental clinics. Therefore, CBCT serves as a powerful tool for practices, dental laboratories and image centres. With so many advantages, it is gradually becoming part of the standard procedures for implant dentistry, orthodontic procedures, wisdom tooth removal surgery and even endodontic procedures. In the dental market, there are many CBCT manufacturers, including Carestream, Planmeca, Imaging Sciences International, Sirona and Gendex Dental Systems. All these companies provide CBCT with comparable resolutions and software functions.

For a dentist who does not have much experience in implant surgery, it is hard to place an implant with the correct angulation. Even for

experienced periodontists, errors on the implant angulation can occasionally occur that damage important anatomic structures, such as the inferior alveolar nerves and maxillary sinus. With CBCT, implant location, implant diameter, implant length and the angulation of the implant placement can be planned using implant planning software, such as Simplant® (DENTSPLY Implants), NobelClinician® (Nobel Biocare), Invivo5 (Anatomage), TxStudio™ (i-CAT), coDiagnostiX™ (Dental Wings), Planmeca Romexis® (Planmeca) and Blue Sky Plan (BlueSkyBio) to name a few.

The implant planning software allows dentists to visualise the simulated implant in all directions. Its resolution is high enough that dentists can see the periodontal space of the adjacent tooth and even the trabecular structure of the bone. With the segmentation function, it is possible to select a specific anatomical structure for further processing. For example, a tooth adjacent to the proposed implant can be selected and virtually extracted or become half transparent in order for the dentist to have a better inspection of the proposed implant. Also, the virtual abutment on the proposed implant can be positioned, and the space between the virtual abutment and the opposite dentition estimated. Once the implant position and orientation are finalised, the surgical guide can be precisely fabricated using CNC milling or 3D printing. According to the literature, the error of the tip of an implant is 1 mm on average, provided that a surgical guide was used during surgery (Van Assche et al. 2012).

With the implant planning software, surgical guides can be fabricated based on radiographic information of the patient to guide dentists for more accurate implant placement. The surgical guide can be made in-office, by dental technicians, or even by companies that specialise in this kind of services. In recent years, an implant surgery navigation system based on optical tracking mechanism has become available in the market. Compared to the implant surgery navigation system, the surgical guide offers a much cheaper option with nearly the same functions. Although CBCT is still a pricey instrument, the benefits that it provides to implant surgery make the return of investment the fastest compared to that of other equipment of digital dentistry.

8.7 Discussion: Impacts of Digital Dentistry on Dentists and Dental Technicians

8.7.1 Impacts of Digital Dentistry on Dentists

Every new technology evolved is a double-edged sword. The advantages of the digital technology are that dentists are able to diagnose and treat patients efficiently, as described in the sections above. In this section, the disadvantages associated with digital dentistry are explained in detail. The first thing is the learning curve. Most dentists never learned the principles and the applications of digital dentistry when they were students. Some clinicians are willing to try the new technology, but they do not have the full understanding of how digital equipment works; therefore, bad experiences may mislead them to the conclusion that digital technology is not ready yet. In contrast, those early adopters who thoroughly understand this technology consider it as an opportunity. For them, digital dentistry is not just technology, but also a marketing strategy and a tool to save chair time. Those early adopters also have the opportunity to dominate the continuing education market for digital dentistry. Nowadays, patients are well informed, and they would rather go to a dentist who is tech-savvy than someone who is old fashioned.

The second disadvantage of the digital dentistry is the cost. At the time of writing this article (2017), it is still difficult for dentists to afford all the technologies available. Dentists could face negative financial results if they cannot estimate the benefit and return of the digital technologies and thus overinvest on them. It must be understood that every equipment has its service life, after which it is not economical to keep the equipment running. Therefore, it is important to get value from the equipment during the period of service life. For example, until recently, the overall benefits of digital impression were just above the level below which it does not make sense for many dentists to purchase the equipment. The "overall benefit" here refers to the time saved, the acceptable accuracy and a better workflow compared to the conventional way of an impression. In Taiwan, to start a dental practice with five dental chairs with a CBCT and other essential equipment (no CAD/CAM machines) costs at least 400,000 US dollars. With CAD/CAM machines, the cost is

even higher. This total cost is beyond the range that a young dentist can afford. Therefore, large corporations are investing in more and more digital dental clinics in Taiwan.

In addition to the cost of the equipment, there is an extra cost that dentists must know about. For example, if a dentist had so many cases that he invested on a CNC milling machine in his practice, he must also hire a dental technician for CAD and to operate the CNC milling machine. In addition, a high-pressure air compressor, an air filter and drying system, and a high-power vacuum machine are essential accessories to a CNC milling machine. Also, a high-temperature sintering furnace is necessary if a dentist intends to fabricate a zirconium dioxide restoration. In addition to the hardware cost, another hidden cost that is sometimes underestimated is the annual licence fee or subscription fee. For instance, 3 Shape charges an annual subscription fee for all of their intraoral scanners, some of their desktop scanners, CAD software (all modules) and orthodontic software. The subscription fee is 1500 euro for either their DentalDesigner™ Premium software or D900 DentalSystem™ premium scanner.

As mentioned before, the open system digital impression/CAD/CAM system has provided us with a cheaper solution for digital dentistry. However, despite these savings, dentists may encounter the "compatibility issue" between different brands. This "compatibility issue" is caused due to differing software design philosophies, the different data field in certain databases or even different nomenclatures to the same objects. Luckily, this incompatibility can be solved during a software update. However, before their newly established digital dentistry workflow becomes smooth enough for daily practices, dentists have to spend some time to optimise the parameters for each equipment.

8.7.2   Impacts of Digital Dentistry on Dental Technicians

Not only does digital dentistry affect dentists, it also affects dental technicians and as a result influences capital concentration. The barrier to prevent the small capital from entering the automated production is the

disadvantage of digital dentistry. Small dental labs, staffed by four to five dental technicians or fewer, may not have the buying power to get the equipment with the latest technology at a lower price as compared to a large laboratory. Therefore, these smaller laboratories could probably end up closing their business due to the inability to compete in price. For mid-size and larger labs, it will be easier to carry on with business. Despite it being a huge financial burden to continuously upgrade the equipment and train technicians to update their knowledge, with the well-trained technicians coupled with a smooth workflow, it is possible to increase production and keep costs competitive, which is the biggest advantage of digital dentistry. Another way for a dental laboratory to maintain their business and levels of the product quality is to be "bought out" by large corporations. In Taiwan, because of the low gross profit margin of the electronics industry, many electronics companies looked for new venture opportunities, and it turned out that they entered the dental market by the acquisition of a large dental laboratory.

With a flattening world, it is easier to send the work of dental technicians overseas, most commonly in China. There are laboratories in China which hire more than 4000 employees in the factory. For most dental laboratories in the developed countries, the biggest expense is labour. While offshoring can save quite a few labour expenses and get a lower price in the dental prosthesis, good communication and quality of the products and the materials that the offshore factory offers may not be achieved easily. Therefore, a domestic dental laboratory has to compete with the offshore laboratory only by increasing the quality and enhancing communications with the local dentists.

8.8   Conclusion and the Future of Digital Dentistry

Digital dentistry is still in its budding stage; therefore, many young dentists grab every opportunity to absorb the knowledge and experiences in digital dentistry. In view of this trend, School of Dentistry, National Yang-Ming University, offered the first full-semester digital dentistry course for undergraduate students in Taiwan. The course not only drew

the attention of the undergraduate students, there were also many senior dentists who audited the course. It can be foreseen that the digital dentistry course will become a required subject for undergraduate dental students.

There are still many developing technologies, especially the dynamic motion capture, artificial intelligence (AI) and multicolour 3D printing, which will further improve the dental workflow. Using intraoral scanner and CBCT, it is only possible to recreate the inter-maxillary relationship in a static state. It means that during jaw movement, such as chewing, the occlusal interference cannot be totally eliminated during CAD stage. A jaw motion tracking device can record the jaw movements and detect abnormality of the temporal mandibular joint. With the jaw motion tracking device, the dynamic occlusal adjustment will be applied during the CAD stage, and the removal of the dynamic occlusal interference can avoid the tedious occlusal adjustment during the delivery of restorations.

Automatic restoration design, automatic treatment plan making and prediction of the border of the complete denture, can be some of the roles that AI will play in dentistry. The restoration design and treatment plan making are highly dependent on dentist's experiences. For newly graduated dentists, help from AI can enormously reduce the complications of a poorly made treatment plan. In order to obtain enough data from patients, manufacturers of the intraoral scanners, such as 3 Shape and 3 M, upload the scanned data to their server after completion of the scanning. It is still unknown what kind of AI applications they are developing now; however, more companies have seen the potential of the dental database and collect them as much as possible.

Multicolour 3D printing is a potential technology in the dental laboratory. For an aesthetic restoration, the current digital way is milling a ceramic block with the closest shade, followed by manual staining, texturing and glazing by technicians. It is labour intensive, and restorations made this way have characteristic colours coming from the surface instead of coming from "inside". With the multicolour 3D printing of ceramics, this problem may be solved in the future. A technician can design the colour of a restoration to simulate the colour of dentin and enamel, transparency of mamelons and the surface texture of the teeth.

Digital dentistry is not just hype. When properly implemented and invested, digital technology will be beneficial to dentists, dental technicians and patients. Despite many clinicians still lacking confidence in the digital dentistry now, many third-party entities, such as dental laboratories, image centres and continuing education institutes, can collaborate with dentists for better clinical outcomes. As the technology advances, the flattened learning and lowered cost will lower the barrier for dental community to enter the digital dentistry. This will happen very soon.

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9

Alibaba: Jack Ma's Unique Growth Strategy and the Future of Its Global Development in the Chinese Digital Business Industry

Young-Chan Kim

9.1 Introduction

In 1999, there were 18 gold diggers who scoured the World Wide Web, in search of a new innovation that would shape the face of digital commerce. They were based in a small apartment in the city of Hangzhou, and led by a man of great persistence, Jack (Chinese name—Yun) Ma, a graduate of a second-tier university in Hangzhou, which he had been admitted to after two failed attempts at the Chinese university entrance exams, the Gao Kao. Since 1999, however, the company has been at the forefront of the developments in Chinese e-commerce—eventually becoming one of the most successful IT-derived industries to come into existence, in terms of their IPO rate which stood at US$68 a share, valuing the company at $168 billion. This is Alibaba, the first e-commerce company that formulated transactions that exceeded $1 trillion in value, in 2012 (*The Economist* 23rd March 2013c).

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In July 2000, the company was featured in *Forbes*, as its choice for the standout B2B firm of the year, and it was again lauded as being one of the 'Best of the Web,' in 2001. Ma himself was further credited as being one of the 100 Global leaders for tomorrow by the *World Economic Forum.* However, at that time, Alibaba.com solely derived its revenue from online advertising, and had been operating in the red before 2001, when they eventually recorded their first ever profit on a cash-flow basis. Thus, one can conclude that Alibaba's role as the 'middle man', was neither elaborate nor as capitally profitable as it was initially portrayed. Being only a platform which matched sellers to business buyers, there was no unique mechanism which would have allowed for them to generate an operating profit.

On the contrary, as a result of the 'dot-com' burst, external manufacturing firms, especially in America, began to actively seek cheaper goods manufacturers. Thus, they started to utilise Alibaba, which gradually allowed Alibaba to increase its market presence, as well as its market share due to the sudden considerable increase in demand. As such, it can be said that it was indeed the influence of external factors—such as the dot-com bubble—which stimulated Alibaba's rise and not the successful implementation of a direct strategic objective, as initially perceived. In addition, China's admittance into the World Trade Organisation (WTO) in 2001, allowed small and medium firms to finally open their doors to American businesses—for which Alibaba served as the gateway. It was through these channels that Alibaba became a household name in the e-commerce industry and not through specifically targeted growth strategies, as stated in Ma's interview with Ignatius when he said, '…there were three reasons why we survived. We had no money, no technology, and no plan'.

Despite the supposed lack of a distinct growth objective, it was a well-recognised fact that Ma's role in Alibaba, as the founder and CEO, served as the fundamental driving force that has turned Alibaba into a global leader in the digital business industry, which is the focus of this research. His ambition and appetite for greater success has been the foundation of Alibaba's development to this day—which has culminated in them acquiring a variety of digital companies, ranging from mobile companies

and logistics to entertainment companies, including even a football club. Ma's aptitude has allowed for multiple 'successful entrepreneurial projects which are the results of a search and matching process between entrepreneurs looking for funds and capitalists looking for new ideas to finance' (Cipollone and Giordani 2013). This research will therefore attempt to explicate how Jack Ma drove Alibaba into becoming a leading company in the digital age—a process that was actualised through (a) the traditional Chinese way of conducting business; (b) Ma's animal spirit; and (c) consistent movement towards becoming a brick and mortar store through various merger and acquisition initiatives.

9.2   Alibaba's Interpretation of the Traditional Chinese Ways of Doing Business

The e-commerce industry in China has been impeded greatly by inefficient telecommunication lines, ineffective payment processing mechanisms, poor quality products, unreliable delivery, and fundamental concerns about one's security as well as the lack of trust which stems from a poor legal/regulatory system (Martinsons 2008). Under this poor digital environment, Alibaba was the only e-commerce company which originated and developed in China. Shirley Lin at Goldman Sachs called Alibaba a 'localness', while John Wu, the technology specialist from Yahoo, stated of Alibaba's uniqueness that '…there are a lot of Internet companies that were started by people who had studied in the US and returned to China…Jack Ma has been in China all his life' (Clark 2016). One of the most distinguished strategic agendas that Ma employed was 'developing an internet company in the Chinese way'. In comparison to the front runners in the market—such as Sina, headed by Wang Zhidong from Beijing University; Sohu, led by Chaoyang Zhang from Tsinghua University, who then did a PhD at MIT; and NetEase.com, headed by Lei Ding, each of whom based their business models on US internet systems—Alibaba opted to seek out what Chinese people needed on the website and how you could interlink with small and medium enterprises, which Jack Ma had learnt while at the quasi-state-owned China

International Electronic Commerce Centre (CIECC). He wanted to build a platform for someone like himself, who knows neither coding nor any computer-based languages, and who does not possess any spectacular mathematical analysis skills; he wanted instead to build a business for the international market, 'to make it easy to do business anywhere' (Alibaba. com, 2017). For this, Ma chose particular growth and development strategies, unique only to those accustomed to the typical Chinese ways of doing business.

9.2.1   Four Transactional Phases Adopted by Alibaba

Four distinct phases can be identified when analysing the mechanics of Alibaba's developmental process: information, negotiation, payment and delivery. They are connected and sequenced according to the trading rules that govern the Chinese e-market (Zhao et al. 2008b). From the outset of Alibaba's growth, such phases were instrumental in assuring their status as a trustworthy and credible firm that has allowed them to develop into a global leader in e-commerce.

9.2.2   Alibaba's Information Phase

Ma's experiences, during his time at ChinaPages.com and during the first stages of Alibaba's existence, were focused on providing information-based services to users mainly in China. The period involved the aggregation and publication of significant amounts of information, regarding the state of the e-market. The ability to process such information allowed potential buyers and sellers to readily exchange business contents—leading to customisation and personalisation, both of which gave Alibaba the competitive edge in the ever-developing e-commerce industry.

To begin with, in 1995, with the invention of the World Wide Web, a new paradigm of e-business opened up for Mr. Ma, which allowed him to identify a supposed loophole that he was able to idealise and exploit in his pursuit to revolutionise the e-commerce industry in China. This caused him to initiate a small e-commerce business, which

went by the name of 'ChinaPages.com', and provided website development and indexing services to local entrepreneurs. However, due to the differences in their strategic vision, Ma and eight members of the core development team eventually left the organisation in favour of a new idea.

This eventually led to the formation of 'Alibaba.com', which was essentially alike in terms of its function to ChinaPages.com. As a result, we can acknowledge that there was an evident deprivation of strategic innovation. This was perhaps due to the fact that at the outset in 1999, Ma and his team had only an initial budget of 500,000 RMB, 200,000 of which came directly from Ma's pocket.

As such, during the information phase, Alibaba faced significant problems in adjusting to the B2B/B2C environment in China. The Chinese ways of doing business are far more complicated and less straightforward than the traditional Western routes, as shown in eBay's case. Some of the fundamental issues with eBay in China were the delivery failures and cash-return policies, as a result of their free-returns policies and the lack of trustworthy credit which allowed for the rise in deception—whereby product information and delivery statuses were often falsified with eBay having to compensate for such occurrences. The case of Mobike (a bicycle-sharing scheme) demonstrated that Chinese society still needs to tighten the control on their business morals. It was thus the introduction of the 'TrustPass' membership scheme that allowed Alibaba to combat such problems, allowing for both buyers and sellers to utilise their services with ease.

As such, the 'TrustPass' scheme that Alibaba offers, was perceived to be Alibaba's first-credited success strategy. Chinese businesses typically refrain from allowing commercial credit primarily due to the lack of reliable means to evaluate an individual's creditworthiness. Therefore, the scope of a business is typically determined through personal discretion and the social requirements, rather than the present economic forces (Martinsons 2008). Hence, the introduction of such reliable trust networks between both the buyers and sellers allowed for the building of greater security between vendors—forming a mutually beneficial relationship in the process.

9.2.3   The Negotiation Phase

It is integral for managers, especially those from firms in the e-commerce industry, to synthesise the present IT technologies—such as account management, negotiation procedures such as bidding and tendering, as well as the systems involved in contract signing. The fundamental issues that the e-commerce industry needs to address is to draw up a comprehensive set of impartial rules that seeks to create an efficient platform of exchange—an efficacious process that serves to mutually benefit both vendors and customers while also offering secure transactional facilities.

B2B/B2C e-commerce businesses, where buyers and sellers from all over the world engage in the process of exchange through various online and offline platforms, facilitate and maintain the state of markets (Bakos 1998; Dai and Kauffman 2002), helping firms and consumers alike, surpass the typical distribution channels, and extend their influence and appeal globally (Senn 2000). In order to initiate an effective mechanism of international trade, mutual trust between both suppliers and buyers is critical, more so in the e-commerce industry due to the evident asymmetry where buyers have fragmented information about the suppliers. As such, buyers hold the risk of purchasing from unwarranted suppliers, which further impacts the nature of the transaction between the two parties (the risk is applicable to both sides, as suppliers also face issues such as non-payments by buyers). In such situations, trust is 'an important lubricant' for economic exchange to occur (Arrow 1974, p. 23). The dichotomy in both time and space between the vendors and vendees in global e-commerce further elevates the potential risks that are related to asymmetrical information—which increases the value of trust.

'TrustPass' Membership

'TrustPass' membership is a pay service that is directed to the seller, founded by Alibaba—which serves as a guarantee, through a third-party certification authority, in identifying the creditworthiness of the respective members. In comparison to Amazon or eBay, who place greater focus on the buyer, Chinese B2B firms are highly concentrated on sellers, which

led Alibaba to implement the TrustPass scheme to ensure the security of their vendors. It allows the system to detect and eradicate the issue of falsification, allowing for greater security in making transactions for buyers while gradually increasing the supposed 'brand image' for the sellers. As such, through the scheme which involves the sellers having to sign up to partake in business, Alibaba serves as the guarantor for their products which allows them to steadily increase their market presence, while providing the added security for the buyers. It can further result in sellers gaining a competitive advantage over their rivals, should they be deemed as being more 'reliable'.

Over 87% of Alibaba's clients globally across the past two years exclaimed that that they were concerned about the notion of trust regarding the nature of their goods; thus, Ma, as stated above, exploited this as a loophole to gather capital. The 'TrustPass membership' that was consequently introduced involved the firms paying a deposit of 2300 RMB, which guaranteed their status as a trustworthy firm. Thanks to the success of the scheme, Alibaba managed to reap 6 million RMB in profits, by the end of 2002.

As such, the 'TrustPass' scheme includes:

*Online Services***:**

1. Unique registration numbers: having their own credit profiles, sellers can add up their credit; the higher the credit levels, the higher the sellers will be on the purchase list.
2. Personalised online resource tools: only available for 'TrustPass' members—can essentially act as shop owners in promoting their products.
3. Powerful search factors: can find out the buyers information, increase their business chances and appeal to wider audience.
4. Can leave messages to the buyer, ask questions and communicate with greater ease with the buyer.
5. Can use *Zhifubao* to protect profits; can get promise of compensation.
6. There exists a 'TrustPass' website, which is easily readable to the buyer; seller can update information at any time which can be instantly read by the buyer—increases loyalty in the process.

*Offline Services***:**

1. Fair, impartial information—in promoting their company and products.
2. Conference; chances to diversify into doing global business.
3. Training; offers business technology, experiences to increase profit successes.
4. Sense of community; by holding different types of platforms, can teach you how to handle business-related issues, both online and offline.
5. Professional services by staffs online—8 hours per day for 365 days.

What Is the Benefit?

1. It lets the buyers find out where the sellers are, by increasing their priority in the website search rankings, having different types of promotions listed which increases the selling platform and customer appeal.
2. It collates brands to create a big online market; according to a 2005 academy report, Alibaba already holds approximately 87.2% of the B2B market share.
3. It has lots of buyers and thus fresh buyer searching information, which is updated every 2 hours—giving buyers access to the latest information.
4. According to the data from Alibaba (2010), 85% of buyers and 92% of sellers have readily adopted the 'TrustPass member' scheme, and consider it to be of fundamental importance when engaging in transactions.

The 'TrustPass' initiative is symbolic of the traditional Chinese ways of thinking—Chinese people love to compare and enjoy spending money on the latest products. Alibaba thus knows how to attract the buyers' attention by helping the 'TrustPass members' create aesthetically pleasing webpages, and providing wider access to their products through greater marketing networks.

Alibaba itself remained in the 'wilderness' not only because of the limited 'TrustPass membership applications' but also due to the lack of a distinct strategy until May 2003, when they first introduced the online shopping mall, '*Taobao*'—which put them on the road to success.

Taobao

In May 2003, a 'free' platform where one could trade merchandise, free from fees and other commissions, was born. This was Taobao, Alibaba's creation which went from strength to strength—soon displacing eBay China, as the key player in the booming e-commerce industry. Taobao today holds approximately 75% of the total market share with 1.1 trillion RMB (US$178 billion), despite it being a late entrant into the industry. They achieved this through the generic Chinese methodology, whereby they prioritised the voice of the audience through extensive review systems which allowed other buyers to gain a credible insight into the product before deciding to purchase it for themselves.

The unique nature of Taobao, such as its concentration on the sino-ethnic market specifically, was fundamental to its growth. Similar to the principle of Chinese takeaways, which are present all over the globe, Taobao enrolled the services of sino-ethnics around the world, as a supplier of multi-national products. This permitted them to minimise the service costs—allowing them to supply a large volume at a reduced price. Next, the fact that the services of sino-ethnics were used minimised the value of foreign traders—as shown by the fact that 96% of Taobao merchants were of Chinese origin according to an anonymous source close to the company.

Contrary to popular belief that Taobao has the capacity to become the global leaders in the e-commerce industry, it is essentially a Chinese firm for Chinese people, as shown by the fact that it is dominated by sino-ethnics—which reduces the need for foreign investors. Furthermore, the website itself is displayed in Chinese only, which laments the fact that it is primarily concentrated on the Chinese market.

Next, the 'free' nature of it meant that merchants and customers alike flocked to Taobao to shift their goods to the global audience. It was the

ideal way in which small businesses could generate a substantial profit without being suppressed by taxes. Furthermore, unalike its competitors such as 'Amazon.com.cn', Taobao prioritised small-sized businesses, which enabled it to rapidly increase its market share.

On the other hand, although Taobao itself is officially a free service, as demonstrated by the 'TrustPass', in order for a business to actively compete, it needs to spend for it to standout from its rivals. As such, if profits are the motive, spending is necessary.

The 'TrustPass', in essence, was an internet marketing strategy, which was offered to members to give them priority and 'kudos' among their competitors. Next, it enabled their items to be displayed in front of their competitors resulting in a larger volume of sales. On a platform that processes 40 million visits per day, with 4.87 million registered users, priority is a vital element to success. Furthermore, post the initiation of this scheme, subscribers can gain access to 'Aliwang wang', an instant messenger platform that permits the buyer and seller to communicate instantly with greater ease. This essentially results in the formation of a 'virtual community', whereby the buyers and sellers are mutually benefitting each other through such liaisons. Such a reduction in the asymmetrical power relationships between the buyers and sellers has further worked in Taobao's favour. The payment structure, which Alipay invented, whereby the payment is held until the buyer has confirmed the receipt and authenticity of the product, was further warmly embraced by Chinese C2C businesses. Such decisions were actualised with ease since Alibaba's roots were originally in the trading directory industry—which allowed them to link buyers from around the world with Chinese suppliers, providing the blueprints for a Chinese-originated transnational C2C business.

Hence, Alibaba endeavours to profit through the aforementioned 'TrustPass' scheme—acting as the guarantee for products, increasing revenue and interest through added security. Creation of Alipay, a secure money transaction mechanism, ensures that capital is safe. Despite the registration process being free, the 'TrustPass' incurs an annual charge (2300 RMB in 2012, for instance), which is necessary to increase sales in the face of significant competition. Furthermore, the detailed information on the supply and demand of goods through the created platform

means that effective communication can take place between merchants and buyers from China to across the globe. Through such means, Alibaba has managed to gain a significant amount of market share in a relatively short period of time, while maintaining and increasing their credibility in the process. This is because the absence of a registration fee will encourage new members to join with ease—with those wanting greater security and credibility opting for the TrustPass membership. Whereas other money transferring mechanisms all request commission, Easy monetary transactions through Alipay further ensure that people are more willing to engage with the platform. And the fact that the aesthetics are also pleasing, alongside the ever-present customer services team, *Xiaoer*, makes the experience more appealing. Once people are used to the system, Alibaba gradually start charging for their services, meaning that they are more willing and able to upgrade. The creation of *Yuebao*—the online savings platform where consumers could deposit funds at any given instance for future use—gives Alibaba access to greater funds within their system.

9.2.4   The Payment Phase

During the payment phase, monetary transactions take place between the buyers and sellers. Typically, consumers tend to demand credible and secure payment services that are further flexible. Reducing the potential risks that are associated with transactional issues, as well as the ability to support a variety of payment methods offered by financial institutions from around the world, is the usual solution offered to tackle the above matters. As the financial systems in China are being modernised, the e-commerce industry especially needs to offer a competitive alternative through which it could increase both the volume and value of the transactions.

The concept of capital flow is exhibited through Alibaba's attempt to rival the traditional banks' methods of saving. *Yuebao* is a contemporary method of saving where consumers could save money on an online platform through which they would receive interest, albeit small, on a daily basis, which has made it a preferred method of conserving funds than

simply depositing it in banks. The incentive of daily interest being accrued, meaning that users will see incremental increases to their funds on a day-to-day basis, made it far more appealing as even those with limited funds reserves could partake in the scheme. The minimum required amount is 1 RMB, and even this accrues interest—prior to the introduction of *Yuebao,* the concept of saving was unfeasible for the average Chinese person, especially those on lower incomes. Hence, this gave those on low incomes the opportunity to attain happiness through saving while giving those on middle incomes the happiness of spending through saving—a victory on two fronts of the market for Alibaba. Furthermore, the ease of transferring money without the worry of commission has benefitted Alibaba's case against rival banking systems, so much so that more than a trillion RMB has been deposited into *Yuebao* to this date. In addition, the added convenience of *Yuebao* that it is a simple online platform has made it more accessible to the many—especially in rural areas where access to physical banks are restricted. As such, Alibaba through *Yuebao* has altered the ways in which people perceive the act of saving—in the sense that they view saving from an investment mindset rather than as a simple method of storing money, which was the case before.

9.2.5   Alibaba's Delivery Phase

The delivery phase involves the actualised delivery of goods from the suppliers to the buyers, which makes up the fulfilment process alongside the payment phase. The transportation of bulk goods involves the synchronisation of multiple entities—ranging from various means of transportation and storage providers—to banks and customs agents. Being an emerging industrial economy, China currently lacks the sufficient infrastructure to effectively supplement the rapid rises in the demand for online commerce. The ensuing challenges for managers and directors alike has been ensuring that each of the different entities in the process have ready access to the information, products and services involved in the whole transaction procedure. Collaboration is therefore critical in obtaining eventual customer satisfaction in the e-commerce industry.

Before Alibaba created the *cainiao* distribution network in 2013, there were five well-known logistics companies in China—*Sitongyida, Shunfeng, Zhongtong, Yuantong* and *Shentong.* Each company had its own networks and its own regional advantages. This was, however, completely synchronised by Alibaba.

From the outset, Alibaba's logistical intentions were evident through the partial ownership of the *xingchen* delivery in early 2010, as well as it launching *wuliubao* in 2011, which sought to use third-party warehouses and delivery networks to deliver their goods. Due to the evident difficulties in logistical management through third-party networks, Alibaba aimed to create their own logistics network through the aforementioned *cainiao* system, through the collaboration between big data and outsourcing networks which led to the increased efficiency in delivery allocation.

Jingdong, a rival e-commerce firm, adopted an alternative business plan which sought to minimise such delivery costs through the use of their own warehouse systems which house the products from vendors and third-party sellers, whereas *cainiao* seeks to collaborate with delivery companies instead. Further, the companies involved in the delivery process with Jingdong mainly service Jingdong's clients, whereas *cainiao's* delivery partners, such as delivery company *tongda*, service other non-e-commerce firms also. Such logistical benefits to operating their own warehouses, however, have led Alibaba into becoming a 'brick and mortar' store themselves through further collaborations.

9.3 Alibaba and the Government: A Long-Lasting Relationship?

9.3.1 Trust

Chinese culture is often characterised by its particularist sentiments—where great importance is placed on building up trust through interpersonal relationships, which are particularly difficult for foreigners to partake in (Trompenaars 1993, Hickson and Pugh 2001). The neo-institutionalist views of trust (Zucker 1986, Lane and Bachmann 1996)

consider it as being the critical factor that determines the nature of such relationships—between both the trusters and the trustees.

Generally, neo-institutionalist research on trust (Zucker 1986, Lane and Bachmann 1996) has often explicated the supposed embeddedness of trusters and trustees in social and economic systems, in addition to the institutional support provided by various rules and norms, if and when they are seen as being effective, and how they promote trust relations. It further corroborates Luhmann's (1979) interpretation of the presence of a 'system trust', as being a sort of abstract trust which upholds the relationship between two individuals.

As Lerner alluded, 'every hub of cutting-edge entrepreneurial activity in the world today had its origins in proactive government intervention (2010)'. As such, Alibaba also sought to bridge such trustful relations with powerful politicians—seeing it as a method to exploit the institutional regulations that restricted the development of B2B or C2C businesses. The existence of stringent rules made political involvement in business more and more severe (Hellman et al. 2000). Through such political interventions, which tended to be more private than direct, Alibaba first began to expand—with increasing numbers of political figures wanting to benefit from the boom in entrepreneurial venture capitalism.

As soon as Jiang Zemin, a fundamental figure in the Party, came to power, he immediately opted to welcome business leaders into the Party, allowing them to influence economic policies and partake in decision-making procedures. Yet, when considering the relationship between Chinese businesses and politics, it is vital to differentiate between the value of political connections and the direct effects of political participation, which represents an explicit commitment and direct involvement in a country's political process, especially in transition and developing economies, where entrepreneurs are often motivated to participate in politics.

Ties between business and politics often serve as a key factor in determining the eventual success and development of firms in China—especially in the case of high-profile prospectively global companies who wish to pursue major initial public offerings. Alibaba, whose revenues totalled US$8.46 billion in the year ending March 2014 alone,

was no exception—with political favours being key to their growth into the largest e-commerce firm in China. Often referred to as being the eastern equivalent of eBay, Amazon and PayPal combined, it is perceived to have benefitted from the grace of certain controlling figures in the Party hierarchy that has allowed for such rapid growth in a relatively short time period.

Alibaba's first major political ally could be seen as being the aforementioned former president Jiang Zemin, and his grandson Jiang Zhicheng. This is because the first person that Alibaba opted to work with was Jiang Zhicheng (English name—Alvin), and his private equity firm Boyu Capital which was based in Hong Kong. Indeed, Boyu Capital headed a 2012 funding initiative on Alibaba's behalf which successfully led to the repurchasing of approximately half of Yahoo's share in the firm, which at that time stood at 40%. Despite the firm only being founded in 2010, Boyu Capital attracted a considerable assortment of high-profile investors such as Asia's then richest person, Li Ka-Shing, as well as the leading sovereign wealth fund Temasek Holdings Private Limited from Singapore. In 2010, Alvin graduated with a bachelor's degree in economics from Harvard and joined Goldman Sachs as a private equity analyst; nine months later, he left to launch Boyu Capital on the 21 September 2010 with a team of leading financiers.

By mid-2011, Boyu Capital purchased a controlling stake in Sunrise Duty Free—which controls the duty-free stores in all the international airports in both Shanghai and Beijing. Boyu paid US$80 million for a 40% share in the duty-free enterprise, which eventually quadrupled in value within three years—with some estimating Sunrise's value at US$1.6 billion, giving Boyu a considerable return on their investment. Many, however, assumed that it was indeed due to Alvin's personal connections—through his grandfather and ex-president Jiang Zemin, who was known to have historic ties to the duty-free industry and to the head of Sunshine especially. Such a perception of Alvin increased his appeal to potential investors who believed that he could readily gain access to the lucrative, but strictly controlled, state sector and convert the assets into highly profitable investments. Regardless of the validity of such thoughts, however, his link with Alibaba was a source of considerable gain for the firm, who were under considerable financial pressure to avoid the threat

of a potential M&A from Yahoo, who were willing to form a deal with Microsoft systems through Carol Bartz, the CEO of Yahoo at that time. In 2012, Ma met Alvin which led to him joining a financial consortium led by China Investment Corp (CIC) in order to raise some of the US$7.1 billion that Ma needed to buy back half of Yahoo's 40% shareholding in Alibaba. The CIC consortium received a 5.6% stake in Alibaba, in return for raising the relevant capital to buy back the shares—which led Alibaba to be valued at around $38 billion. After the IPO, Boyu Capital's investment in Alibaba as a part of the CIC consortium had increased more than four-fold within a three-year period.

Although the extent of Ma and Alibaba's ties with Jiang Zemin's political allies are indeed unclear, Boyu Capital's prominent fundraising ability meant that they along with Athena China Limited, a subsidiary of Boyu, were at the forefront of Alibaba's IPO prospects. Athena China, incorporated in the British Virgin Islands, is controlled by Prosperous Wintersweet Limited, which was also incorporated in the British Virgin Islands, which is in-turn a subsidiary of the Boyu Capital Fund, registered in the Cayman Islands—which exemplifies the scale of Boyu's involvement in Alibaba.

Furthermore, an investment firm run by the son of former premier Wen Jiabao, Winston Wen, further holds shares in Alibaba, as does one of China's major sovereign wealth funds, Citic Capital, and the state-owned firm CDB Capital, whose vice-president during that period, He Jinlei, is the son of the former anti-corruption chief He Guoqiang, according to the New York Times. As such, this was representative of the political interconnectedness of Alibaba which granted them extensive favours that greatly stimulated their growth.

Then there was the loan given to them by China Development Bank, which was also state-owned, of US$1 billion, a portion of the September 2012 fundraising initiative—which Boyu was further involved in. Chen Yuan, the son of former Party economic heavyweight Chen Yun, headed the China Development Bank at the time, again explicating the benefits that Alibaba's political ties gave them.

Alibaba's IPO, which was one of the most noteworthy public offerings ever from China, further gave Boyu Capital a considerable financial boost, as no other China-focused firm with such as short history managed to partake in a deal of this significance. This further signified that

Alibaba's political relations were in essence a win-win situation with both parties benefitting in their respective ways. Such institution-based trust, however secure it may seem, is indeed a 'fragile trust', because it is so heavily reliant upon extrinsic predictability and deterrence, rather than 'resilient trust', which is intrinsically motivated by goodwill. This form of trust has been evident between Boyu Capital and Alibaba since the IPO; but, despite its supposed fragility, it will not 'break-off' in a Chinese business-orientated society.

9.3.2 Face (*mianzi*)

In typical Chinese society, a person's reputation and social standing fundamentally revolves around the prospect of 'saving his/her face', especially one's business face (*mianzi*)—being integral in businessmen-politician relationships. Indeed, *'mian'* refers to the surface of an object (Hu 1944)—something that Ma so intricately preserves in his interactions with both political and governmental figures.

During a speech at Columbia University in 2011, Ma exclaimed that should Google wish to succeed in China, it should respect the rules and regulations of the domestic government. This is 'face' issue if you want to do business in China. Since Xi's rise to power, Alibaba had the utmost respect for the government's policies and engineered their objectives to benefit not only their business aims but the government's industrial initiatives also. Since the Second World Internet Conference in China, where Ma stood next to Xi, Ma became a key business associate—accompanying Xi on various overseas trips. The economic significance of Alibaba and the contribution that it has made in China, ranging from the creation of 10 million direct jobs and 3000 billion RMB in turnover, greater than that of Walmart in the US, meant that Alibaba was now integral to China's economic growth especially in the e-commerce industry. In addition, in line with the central government's rural development plans, Alibaba further expanded their online shopping experience to cover the rural regions also—aiming to promote domestic trade in the process, bridging the gap between locally sourced products and urbanised

consumers, while enhancing the living standards of rural merchants in the process.

Aside from the economic implications, it was often showcased that Ma wholeheartedly respects Xi's personal wishes. President Xi's commitment to nurturing Chinese football, as shown by the China State Council's announcement of a reformation and development programme that would benefit the standard of Chinese domestic football as well as the sports industry itself, was readily pursued by Ma. Alibaba proceeded to purchase a 50% stake in Guangzhou Evergrande Football Club and entered into an eight-year contract as the Presenting Partner of the FIFA World Cup through E-Auto, Alibaba's internet car brand, to promote and increase the public interest in football.

Furthermore, as per Xi's media integration development plan in 2014, Alibaba bought the Hong Kong-based English newspaper South China Morning Post at the end of December 2015. This investment allowed the newspaper to become an official English platform that gave foreigners an insight into the Chinese development phases, acting also as a gateway for propaganda. Alibaba's acquisition of the newspaper was further perceived to echo the leader's call to strengthen the power of international discourse, while giving Alibaba the continuous political backing it needed (Shih and Qi 2016).

According to Fan et al., 'political connections have often been identified by looking at the background of the CEO or Board Director'. Fan finds that such connections can in turn be detrimental to the value of the state-owned enterprise (SOEs). 'Political participation, on the other hand, means that business owners actively participate in politics…in other words, political participation can also be seen as a direct result of an act by the business owner' (2007).

At the same time, Ma's daily schedule was dependant on that of local politicians; so it was apparent that he was indeed seasoned in building relationships with local government officials. According to Tang and Ward, it can be expressed by the saying '*gong gong shao le, popo hai hen duo*' (there are now fewer fathers-in-law, but still too many mothers-in-law), which alludes to the fact that Ma's determined endeavours to uphold his 'face' have led to him continuously working to appease local political figures, despite there being less direct intervention from senior authorities in the Party (2003).

Ma further holds that 'it is important to distinguish between the value of political connections and the effects of political participation' (Feng et al. 2015). As far as Alibaba is concerned, the state of its political relationship was well explicated in an interview with Bloomberg on the day of Alibaba's IPO, where Ma said the following regarding his relationship with the Chinese central government: 'being a global company, dealing with any government is difficult. Always trying to stay in love with the government, but do not marry them'. This illustrates Alibaba's continuous efforts to keep the government on its side.

Again, Alibaba's continuous political links with the Party's heavyweights—including Alvin Jiang; He Jin-Le, son of He Guoqing, secretary of the Central Commission for Discipline; Liu Le-Fei, son of Politburo Standing Committee member Liu Yunshan; Wen Yunsong, son of former Premier Wen Jiabao; and Jeffrey Zeng, son of former economic minister, Zeng Pei-Yan—were evident in the fact that they all became Alibaba's shareholders. Alibaba's relationship transcended across the senior level to the second and third generations of Party leaders also, who further became Alibaba's shareholders when they eventually IPO-ed on the New York Stock Exchange.

9.4   Ma, Alibaba and His 'Animal Spirit'

Alibaba is not unique from the perspective of western digital companies—it can simply be perceived as being a compilation of eBay and Amazon; a B2C/B2B platform, through Taobao and T-Mall; as well as PayPal, through Alipay (Yuebao, Zhifubao); and finally a Google directory for small and medium-sized businesses that operate in China. As such, in order for Alibaba to survive in such a rapidly developing market, a differentiating factor—in this case, Ma's 'animal spirit'—was crucial in their development.

First and foremost, Alibaba from the outset began with very little capital assets in 1999—when their initial budget stood at 500,000 RMB, 200,000 of which came directly from Ma's pocket. As such, in comparison to other digital e-commerce firms, Alibaba failed to attract potential investors due to the supposed absence of a vision.

Despite experiencing various mediocre successes, Alibaba.com was operating in the red until 2001 with its sole source of revenue being from online advertising. As such, it was Ma's spirit for success—like that of other successful Asian businessmen, such as his mentors Jerry Yang from Yahoo and Masayoshi Son from SoftBank—that fuelled his entrepreneurial drive for the past decade.

During the competitive rivalry period with NTT in Japan to increase internet speed and lower production costs, Son was told that he was crazy. He noted, 'we had no experience, no capital, not even technology. I just had anger. Sometimes anger helps. It's a source of energy' (Record's Code Conference in 2014). This was emulated by Ma as shown during his interview with Ignatius, when he mentioned that 'there were three reasons why we survived…we had no money…we had no technology and had no plan'. This animal sprit was one of the fundamental reasons behind Son's decision to invest in Alibaba at the first stage of investment. In 2017, during the Bloomberg Global Business Forum, Masayoshi Son said that 'he was drawn to Alibaba not because of the business model or technology, but because of the charisma and leadership of its founder, Jack Ma'.

Furthermore, Ma displayed his predator's instinct even before Alibaba—while he was working as a translator for Beijing's central government as well as being an internet analyst. In November 1997, Ma began to work as the general manager of Info-Share Technology, a state-owned firm under the CIECC which was part of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). In this post, Jack designed and developed MOFTEC's official website www.chinamarket.com.cn, which was launched in July 1998. Although this job allowed him to synthesise and process internationally sourced data into a synchronised website, it was unappealing to businesses because of its inability to facilitate orders from overseas buyers due to the lack of sufficient payment-processing methods. Due to various government regulations, CIECC had access to limited knowledge with regards to information sharing and collaboration—which was what Ma had envisaged. He knew that there was an opportunity to make profit, but it was beyond his authority; he later recalled that 'it was too tiring doing e-commerce in the government. E-commerce should start with private enterprises…

everything was changing very quickly. If I stayed in Beijing I could not do something really big' (Clark, 89). Just looking at potential business opportunities without partaking in them, was wholly against what Ma had dreamed. It was then that he thought of forming Alibaba, leading him to intricately learn how the government functions in Beijing—hoping to learn what the demands of the world would be once Chinese business markets became globalised. It would be a difficult job without the constant backing from the government and the lack of a strategic vision—despite this, he ultimately decided to leave and return to his hometown of Hangzhou.

His dream of exploiting the internet commerce industry was confirmed when he met Jerry Yang, the founder of Yahoo, in Beijing while working as an interpreter. 'The treasure owned by information' was what Ma realised after meeting Jerry, and for the next two years, his animal spirit drove him to experiences that filled him with information. When Joe Tsai was told by his family friend, Jerry Wu, about Ma, it was simple and straightforward: 'he is kind of crazy…he has got a big vision' (Clark, 99). In 1999, when Alibaba was founded, there was neither office nor company; it was just a single website. Yet, Ma managed to successfully persuade Yang, Tsai and later Mr. Son, who emphasised that 'it was the look in his (Jack Ma's) eyes, it was an "animal smell"…it was the same when we invested in Yahoo…when they were still only five or six people. I invested based on my 'sense of smell'. What Masayoshi Son smelt was indeed Ma's animal spirit which was soon further demonstrated during the SARS crisis in China. Alibaba itself remained in the 'wilderness', until May 2003, until the introduction of the online shopping website 'Taobao', which gradually put them on the road to success.

In 2003, an outbreak of SARS caused major disruptions across China—to both its people and to the retail industry, in particular. One of Alibaba's staff contracted it after attending a fair in Guangdong, resulting in the forced isolation of Alibaba's headquarters, which resulted in 500 of its staff immediately carrying the office equipment to their own homes to continue the work. It led to widespread interruptions across China, not only for Alibaba but for many other companies who just had to close down their businesses. As such, all the traditional retail stores were shut down by regulation, with the only hope being online

internet-based businesses. Indeed, before SARS internet use had started to spread rapidly across China, but the opportunity for online shipping had never been so big until now. Everyone was therefore online when Taobao first launched and that was when the value of internet shopping was first acknowledged.

Alibaba as an internet service company, before the SARS outbreak, already employed various means to boost cooperation and teamwork to encourage the best in every member. For instance, they once held several karaoke competitions through the internet, to encourage lonely single staff members to combat their psychological isolation problems. SARS thus essentially brought together all the company employees, bringing back the initial entrepreneurial passion and fervour that they had during the outset. Before the outbreak, Ma had already planned to prepare for a product launch, and so a team was created by chance as there were so many manufacturers in the industry that had closed down due to SARS. Indeed, it was Ma's hungry spirit that led his team to work so closely together; word has it that the 'treasure' that catalysed Alibaba's rise was born during this period. The effects of SARS proved to be devastating with around 800 people dying and thousands more being infected; the Chinese government ordered the cities, streets and public transport and the underground to be blocked. Yet, they unknowingly found a way to benefit the e-commerce industry, with people interacting through messenger users, as they were confined to their homes and needed information and entertainment. People were further searching for knowledge about the disease through the internet, at the same time finding solutions to avoid and combat the disease—allowing for China's internet presence to multiply and form the foundations for the e-commerce industry to develop.

There is a further critical point in line with Ma's 'animal spirit' on Alibaba. One of Alibaba's greatest risks was its reputation for selling 'fake products'. The scale of counterfeit goods on Taobao was far bigger than Ma had imagined, with it unknowingly offering millions of fraudulent products such as handbags and tools for sale. Despite this, Taobao, Alibaba's main retail site, managed to raise US$4394 billion in total revenue, in the year 2014 (Schuman 2015). It was Ma's spirit for success which led him to accept the reality that the existence of fake products was

inevitable—spurring him on to develop the 'TrustPass' scheme which developed a mutually credible relationship between both the buyers, sellers and Alibaba as a platform.

9.5   Conclusion

China is in the midst of a drive towards industrialisation, modernisation and informationisation (Zhao et al. 2008a). As such, Alibaba can be considered as having the first-mover advantage—in the sense that it was essentially fortunate to have benefitted from rapid developments in the e-commerce industry. Prior to China's admission into the WTO, the Chinese e-business industry was indeed rather fragile; Wong, a Fortune 500 chief executive, asserted during the period that the e-commerce market in China was 'hopeless' (Martinsons 2002). From the westernised perspective of US firms in particular, there was little scope for China to succeed in the e-commerce industry. Despite this, the rare instance where Chinese firms have prevailed in the e-commerce industry, have mainly been focused on electronics networks—with greater cooperation among the complementary services and products providers, more so than the typical electronics market (Malone et al. 1987). It was Jack Ma's strategic innovation that led him to become one of the world's leading businessmen. He knew from the outset what Alibaba could, and could not do. He, therefore, started from the Chinese way of thinking and kept moving in the traditional Chinese way.

Despite such evident successes, each of Alibaba's new acquisitions are met with a beating in the stock market because of the investors' lack of confidence in the company's future (Shih and Qi 2016); yet, Alibaba's overall growth trajectory has been meticulously planned by Ma's traditional Chinese mindset—his strategic decision making has been proven to heavily rely on forces other than reason alone (Akerlof and Shiller 2009).

One of Alibaba's greatest achievements since the introduction of Taobao is the fact that Alibaba managed to synchronise all the *Huaqio* (Chinese citizens who live outside of China) and foreign-born ethnic Chinese into a single entity with a shared Chinese business mindset,

when they are part of the global consumer consortium. Alibaba still heavily relies on the influence of the ethnic Chinese, who live all over the world. As such, Alibaba's innovative entrepreneurship can be seen as being the by-product of a successful correlation between digital platforms and global Chinese consumers.

Further, Ma's attempts to combat the problems of social mobility, through the exploitation of the fact that the majority of Alibaba's vendors are those from poorer rural regions, have allowed these individuals to benefit from Ma and Alibaba's animal spirit through which they have restructured their business aims in order to ultimately increase their social standing, which has in turn paved the way for socio-economic development across such areas across China. Such a change in the business sentiment to emulate Ma's animal spirit mindset will ultimately prove to benefit Alibaba going forward—who have based their business strategies around the influence of predominantly ethnically Chinese people.

This objective to synchronise the Chinese ethnics living abroad into one business unit, further coincides with Xi's ongoing 'One Belt One Road initiative', which prioritises connectivity in increasing China's bid to formulate a global trading network that is centred around the influence of ethnically Chinese individuals. Through the promotion of government-initiated objectives, Alibaba seeks to maintain and prolong their relationship with the central government that has been the foundations for their early development and growth.

Business conduct in China is often based around the concept of being reasonable, *heli*, rather than strictly legal, *hefa*. Personal reputations and the ability to get assistance within a guanxiwang (relations network) thus depended on reasonable conduct (Tang and Ward 2003). Jack Ma was the first person to be aware of the ways of conducting digital business in China—ensuring that, through policies mentioned afore, his strategies always had the support of the political environment, which is essential for firms to succeed in the Chinese digital business industry.

Alibaba chose to IPO on the NYSE in the US, due to their hope of being regarded as a blue-chip company in the Chinese digital market rather than a money hungry small or medium-sized enterprise that endured a sudden growth surge. Traditionally, the NYSE does not favour small, medium or relatively new companies, which made Ma perceive

that initiating the IPO on the NYSE will further explicate the extensive history of Alibaba, as well as showing the fact that they are now a global contender in the digital business market.

Ma told the press after stepping down as the CEO of Alibaba that 'I did many correct things. It is just luck, not because I am energetic or capable' (SCMP, 13 July 2013). As such, it was Ma's ability to successfully bridge the gap between small and medium young entrepreneurs looking for new business opportunities, with the available B2B providers, which led to the formation of a new platform for globalisation purely originated from the Chinese traditional way of doing business.

As far as a traditional Chinese business entrepreneur is concerned, Ma summarised his influence well by stating, 'eBay may be a shark in the ocean, but I am a crocodile in the Yangtze River. If we fight in the ocean, we lose but if we fight in the river, we win'. Now Alibaba too is in the ocean, but we are yet to see how something that was so reliant on local fish for food can cope with their new environment going forward.

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10

Conclusion: The Sino Digital Economy: Development History, Current Status, and Challenges Going Forward

Chung-Shen Wu and Chih-Yuan Weng

10.1   Introduction

Estimated to have a population of more than 1.3 billion, China had over 700 million Internet users by the end of 2015, 92% of whom were connected via mobile phones (see Fig. 10.1). China's cross-border e-commerce has maintained a growth rate of about 30%, with turnover growing from CNY (Chinese yuan, the basic unit of the RMB) 800 billion (around US$ 123 billion) to CNY 5.2 trillion (around US$ 0.8 trillion) between 2008 and 2015, irrespective of the recent global financial crisis and the consequent sluggish growth in international trade. With as much as 40% of the local online consumers purchasing goods from abroad, cross-border consumer e-commerce accounted for more than 6% of China's total consumer e-commerce in 2015, amounting to an estimated CNY 259 billion (around US$ 40 billion) in 2015. Given that the global

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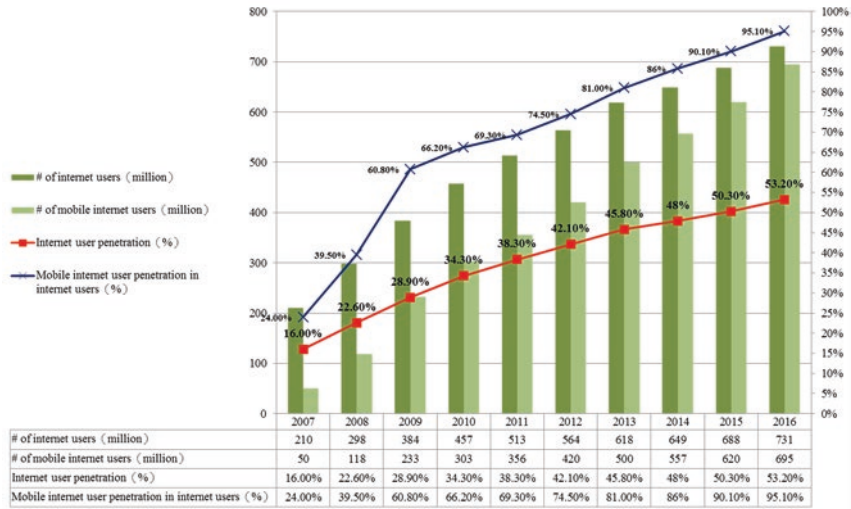
Fig. 10.1 Population and penetration rate of Chinese internet users/mobile internet users over 2007–2016. (Source: National Bureau of Statistics of China, extracted by Ali Research (http://unctad.org/meetings/es/Contribution/dtl_eWeek2017c11-aliresearch_en.pdf))

business-to-consumer (B2C) cross-border e-commerce market is forecasted to reach $1 trillion by 2020, China will then become the world's largest B2C market (International Trade Centre 2016).

In the first half of 2016, according to the China Electronic Commerce Research Center, China's e-commerce transactions accounted for about 30% of GDP, amounting to CNY 10.5 trillion. By providing more than 2.85 million jobs, China's e-commerce industry has not only brought about a fundamental restructuring of the economic order, but has become a new engine of growth in the "new normal" economy characterised by a relatively stable state of low growth, as contrasted to the past business cycle (Wang et al. 2017).

In synergy, there has also been a rapid growth in the Taiwanese e-commerce market over the past few years, with the market size growing to US$ 37.6 billion in 2016, and a five-year average growth rate of 10–20%. However, Taiwan's e-merchants are generally small-scale in terms of size, and instead of maintaining their own websites, 81.6% run

their business on e-commerce shopping platforms, such as the PCHome, Yahoo! Kimo, Momo, and Rakuten online malls (ITA 2017).

We will begin this chapter by briefly reviewing the development history of the digital economy across the Taiwan Strait. Next, we will compare and contrast the current status of the digital economy between China and Taiwan. Last but not least, we will end this chapter by pointing out the opportunities and challenges ahead, for China and Taiwan, respectively.

10.2   China's E-commerce: A Brief History of the Development

With the Internet coming to China in 1994, the Chinese e-commerce market first emerged in the 1990s, but rapid growth only occurred after 2008. Noting the significant role played by the Chinese government in creating an environment for e-commerce to thrive and setting up regulations and policies to support the sector, both Lin (2017) and Yue (2017) identified four stages of the e-commerce development, marked by milestones of innovations and major policies, which have been described next.

10.2.1   The Initial Stage (1996–2000)

Nanjing Focus Technology Development Company was established at Southeast University in January 1996, as the first B2B (business-to-business) e-commerce business in China. It was not long before Alibaba started in 1999, whose main business relations were also B2B. In April 2000, HC International launched an HC business website, also known as the HC network today. Since then, Alibaba has dominated the market in the south of China, and HC took over the market in the north.

Also in 1999, not only did the earliest domestic B2C e-commerce site (the 8848 website) and the first C2C (consumer-to-consumer) service website (EachNet, later integrated into the eBay network) come out, but the online payment method was also made possible for the first time via the online bank-

ing business operated by the China Merchants Bank and the China Construction Bank. In 2000, Joyo, the B2C industry leader in China, was founded (and subsequently acquired by Amazon in 2004), and the establishment of the China Electronic Commerce Association was officially approved by the government, marking the recognition of e-commerce as a specific industry sector and presaging the e-commerce's accelerated development.

10.2.2   The Accelerated Development Stage (2001–2007)

In March 2002, eBay invested US$ 30 million in EachNet.com and became the first foreign investor to enter the Chinese e-commerce market. Similarly, Alibaba invested CNY 100 million in May 2003, to establish its C2C business model, that is, Taobao, which signed a logistics supply agreement with YT Express in 2005 and set the stage for the rapid development of the Chinese e-commerce industry.

On the other hand, Jingdong Multimedia Network was established in January 2004, rivalling Alibaba in the B2C sector. Before long, a large US B2C platform (Amazon) acquired Joyo Net for US$ 75 million in August 2004. Roughly at the same time, Alibaba launched Alipay in October 2004, providing a third-party online payment solution.

Essentially, the National Development and Reform Commission and the State Council Information Office jointly issued China's first e-commerce development plan on June 1, 2007, called the *Eleventh Five-Year Plan* of e-commerce, thus establishing e-commerce strategy and mission at the national policy level, and marking the advancement of the e-commerce industry in China to the standardisation stage. On December 17, 2007, furthermore, the Ministry of Commerce announced the "*Opinions of the Ministry of Commerce on Enhancing the Regularized Development of Electronic Commerce*" (Qin et al. 2014).

10.2.3   The Standardisation Stage (2008–2014)

Benefiting from its huge domestic market, the scale of China's online shopping had increased from CNY 128.18 billion in June 2008 to 1.3

CNY trillion in 2012, according to the China Internet Network Information Center (CNNIC: http://www.cnnic.cn/). On the other hand, the standardisation of e-commerce in China was achieved by the gradual formation of the management system of the e-commerce industry placed on national policy agendas. Key policies to promote and regulate the e-commerce development in China during this period include "*Specification for E-Business Model*" and "*Service Specification for Online Shopping Transactions*" drafted by the Ministry of Commerce on April 24, 2008, the "*2010 Government Work Report*" released by the State Council underpinning its support for e-commerce and "*Interim Measures for the Administration of Online Commodity Trading and Relevant Service Activities*" issued by the State Administration for Industry and Commerce in 2010, "*Guiding Opinions for the Development of E-commerce in the Twelfth Five-year Plan*", "*Guiding Opinions on the Establishment of National E-commerce Demonstration Base*", and the "*Third Party E-commerce Transactions Platform service specification*" formulated by the State Council in 2011. By the deadline for a legislative outline for China's e-commerce in 2014, as requested by the Financial and Economic Committee of National People's Congress (NPC) in 2013, more and more government agencies launched policy-based management systems for e-commerce, such as "*Opinions on Strengthening the Coordination of the Supervision of Domestic Online Trading Websites and Actively Promoting the Development of E-commerce*" jointly issued by the State Administration for Industry and Commerce and the Ministry of Industry and Information Technology; the "*Work Plans for the E-commerce Product Quality Improvement Action*" issued by the General Administration of Quality Supervision, Inspection and Quarantine; "*Guidance on the development of mobile payment business of People's Bank of China*" and an "*Announcement on the strengthening the management of commercial banks and third party payment mechanisms cooperation business*" issued by the People's Bank of China; "*Relevant issues on the Pilot Project of the coordinated development of E-commerce and logistics express*" jointly issued by the State Post Bureau, the Ministry of Finance, and the Ministry of Commerce; and the "*Notice on the Entrepreneurship Leadership Program for National University Students*" jointly issued by the Ministry of Human Resources and Social Security.

At the same time, China's cross-border e-commerce retail and/or overseas consumer business (B2C/C2C) became a new model and started to boom, which was characterised by a large number of SMEs (small and medium-sized enterprises) and network operators directly participating in international trade, and largely attributable to an increasing number of global Internet users, as well as improved systems of cross-border payment, logistics, and other services.

10.2.4   The Globalisation Stage (2015–)

2014 could be regarded as the most influential year for China's global e-commerce, to the extent that the majority of the domestic business platforms have come up with their own global capital development strategy since then. For example, soon after Jumei shares were traded on the New York Stock Exchange in April 2014, Jingdong went public on NASDAQ in May and became the second largest business platform in China. Afterwards, and most notably, Alibaba was listed on the New York Stock Exchange subsequently in September 2014 as the largest IPO in American history.

Additionally, most regions in China also started to implement a cross-border e-commerce development strategy since 2013, such as Zhejiang Province (with Hangzhou and Ningbo as the main pilots), Guangdong Province (creating the first cross-border e-commerce model city in South China), Fujian Province (featured by e-commerce cooperation between Fujian and Taiwan), Gansu Province (establishing an "online Silk Road" with the support of Holmes Border Cooperation Center), Guangxi Province (promoting cooperation between China and Vietnam), Heilongjiang Province (focusing on opening cross-border trade with Russia in the Suifenhe Border Economic Cooperation District, also known as SBECD), and Xinjiang Bazhou (facilitating exports to the Middle East and East Asia according to the "e-commerce development plan").

In order to accelerate the development of cross-border e-commerce in China, domestically, the State Council issued "*Guiding Opinions on Promoting the Healthy and Rapid Development of Cross-border E-commerce*"

(https://www.mizuhobank.com/fin_info/cndb/economics/briefing/pdf/
R216-0029-XF-0105.pdf) in 2015. At the international level, the "APEC
Cross-border E-commerce Innovation and Development Initiative" was
proposed by China and then was unanimously approved at the 22nd
APEC Economic Leaders' Informal Meeting held in Beijing in November
2014. Furthermore, the Free Trade Area of the Asia-Pacific (FTAAP), also
spearheaded by China at the 2014 22nd APEC meeting in Beijing, was
approved two years later at the 2016 24th APEC meeting in Lima, Peru.

10.3   Current Trends in China's E-commerce and Cross-Border E-commerce

According to both Lin (2017) and Yue (2017), the current development
of e-commerce in China can be summed up in the following four trends:

1. **An explosive growth in e-commerce transactions**: China's total
   e-commerce transactions had increased from CNY 20.8 trillion in
   2015 to CNY 28.9 trillion in 2016 (excluding Hong Kong, Macao,
   and Taiwan), with a growth rate of 38.9%. Notably, on November 11
   (Single's Day), 2017, the biggest online shopping day for the Chinese,
   Alibaba surpassed last year's CNY 120.7 billion total after just twelve
   hours of sales. At the end of the day, Alibaba set another Single's Day
   record after the e-commerce giant sold CNY 163.8 billion of prod-
   ucts, boiling down to an impressive 39% increase on last year's sales.
2. **A strong growing trend of online shopping** (see Fig. 10.2): The per-
   centage of total retail sales of consumer goods accounted for by online
   shopping rose significantly from only 0.01% in 2001 to 14.3% in
   2016. As the online retail sales in China began to surge in 2009 and
   2010, the average annual growth rate has been 45.94% for the past
   five years. Thanks to the popularity of smartphones, there has been a
   dramatic increase in the proportion of mobile e-commerce purchases,
   from 1.5% in 2011 to 68.2% in 2016.
3. **A quick penetration of O2O (online-to-offline) model into the
   traditional industries**: Since 2014, department stores have started to
   focus on O2O, where customers are identified from online channels

	2012	2013	2014	2015	2016
The number of online shoppers (100 million)	2.42	3.02	3.61	4.13	4.67
The number of online payment users (100 million)	2.21	2.6	3.04	4.16	4.75
Usage rate of online shopping (by all Internet users)	42.90%	48.90%	55.70%	60.00%	63.80%
Usage rate of online payment (by all Internet users)	39.10%	42.10%	46.90%	60.50%	64.80%
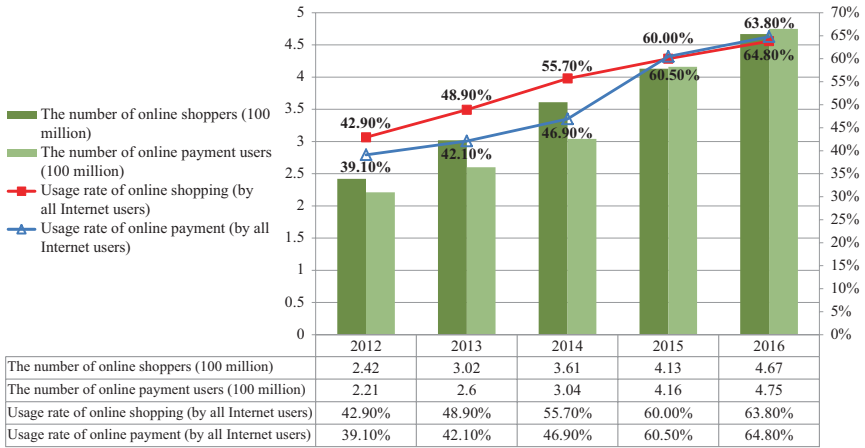
Fig. 10.2 Size of online shoppers and online payment users from 2012 to 2016. (Source: Ernst and Young (2017))

to make purchases in physical stores. Within five years since 2011, O2O users' penetration rate was 35.9% net for Wuhan Leisure, 23% for Shenzhen online flight booking, and 19.4% for Beijing online car services.

4. **The development of agricultural e-commerce**: The Central Committee of the Communist Party of China (CPC) and the State Council issued the "*Opinions on Deepening Rural Reform and Accelerating Agricultural Modernization*" in 2014, emphasising the importance of strengthening the e-commerce platform for agricultural products. After the implementation of the comprehensive demonstration project of e-commerce extended to rural areas since 2014 (Huang et al. 2015), a National Agricultural Products Information Service platform was established, followed by more and more new models: farm to consumer (F2C), consumer to business (C2B), consumer ordering from the farm (C2F), community supporting agriculture (CSA), and so on.

In the Total Retail report released in 2017, PwC Hong Kong (2017) also identified three core themes characterising the recent developments in the Chinese e-commerce market. First of all, the increasing maturity of businesses in using data analytics and omnichannel technologies has created a "new retail normal", rendering a seamless consumer journey between

online and offline channels. Secondly, instead of seeing e-commerce as a transactional environment, brands and retailers are pursuing "content driven commerce" by incorporating social engagement and storytelling into the core of their customers' digital experience. Last but not least, e-commerce, social, and emerging technologies are driving "new growth avenues", that is, breakthrough growth opportunities, across the food, luxury, and sports retail categories, to the extent that the e-commerce market seems to have reached its relative state of maturity in certain areas like clothing and electronics.

Cross-border e-commerce, on the other hand, pertains to transactions between customers and suppliers in different countries, which are made possible via electronic trading platforms and cross-border logistics to deliver the goods. Since 2010, the proportion of cross-border e-commerce transactions in the amount of total import and export trade in China has increased year on year, with an annual growth rate of more than 20% over the past six years. The first five target countries/regions for China's e-commerce in 2015 were the United States (16.5%), the European Union (15.8%), the ASEAN countries (11.4%), and Japan (6.6%) (Fang 2017; Wang et al. 2017).

With low transaction costs accompanied by a strong consumer demand, in essence, B2B accounted for 88.5% of China's cross-border e-commerce transactions in 2015. In contrast, the corresponding proportion for B2C was only 11.5%, with the main bottlenecks being factors such as lack of logistical infrastructure, the after-sales services, contradictions and frictions in the customs clearance and inspection and quarantine (Yue 2017).

10.4 Challenges Ahead for China's Cross-Border E-commerce

With the fundamental goal of achieving sustainable growth for China's international trade through the development of cross-border e-commerce, the *Guidance on the Promotion of Cross-border E-commerce in a Healthy and Rapid Way* (General Office of the State Council 2015) pointed out that, given the advantages of China's manufacturing power,

promoting cross-border e-commerce, characterised by "Internet + International Trade", may be conducive to infer the expansion of overseas marketing channels and will therefore result in an excellent performance in imports and exports (Wang et al. 2017).

However, after considering transaction costs in terms of the traditional comparative advantage model, Wang et al. (2017) argue that, in theory, the growth of cross-border e-commerce will not necessarily facilitate international trade. They claim that cross-border e-commerce could boost tariff and transportation costs as it concerns international trade; therefore, the change in total transaction costs is still relatively undetermined and could be minimal. According to the results of their empirical analysis on the data from China's 31 regions from 2011 to 2015, they found that cross-border e-commerce improved the growth of international trade by overcoming some obstacles associated with transaction costs, but the positive effect did not show incremental growth over time, which they suggested could be due to poor implementation of favourable policies in trade or regional disparity in trade infrastructure, together with trade shrinking after the global financial crisis in 2008.

In fact, the government's pro-innovation policy may not contribute directly to firm performance. Analysing data from 203 foreign trade companies in China, Chen and Yang (2017) demonstrated that enterprise innovation pertinent to cross-border e-commerce plays a mediating role in transforming government pro-innovation policy (such as laws, bonded area support, and policy of introducing technology) into firm performance. Among the various components of enterprise innovation, in essence, both institutional innovation and business-model innovation play a full mediating role between government's pro-innovation supportive policy and firm performance, while the mediating effect of technological innovation is only partial. Defined as any transaction completed via mobile electronic devices (Tiwari and Buse 2007), "m-commerce" offers extra functionality, such as location and localisation services, to the existing e-commerce function (Junglas and Watson 2008). Even though mobile commerce has become the major e-business model like traditional e-commerce, the industry of cross-border m-commerce in China is still underdeveloped due to the lack of national support (Chen and Yang 2017).

There are several other deficiencies that may seriously restrict the healthy development of China's cross-border e-commerce, such as slow and poor customs clearance, a complex and confusing tax rebate scheme, risky and unreasonable mode of foreign exchange settlement, expensive and inefficient international logistics and distribution networks, unclear and imperfect government supervision, and the lack of after-sales service and a means of reporting transaction disputes (Fang 2017; Yue 2017; Yue et al. 2017).

10.5 The Case of Taiwan: Well-Established Digital Foundation

According to the OECD (2017), China, Taiwan, Korea, Japan, and the United States accounted for between 70% and 100% of the development of the top 20 cutting-edge ICT from 2012 to 2015, with Korea and Japan innovating throughout the whole spectrum of ICT. Between 2010 and 2115, the number of AI patents increased significantly for Korea, China, and Taiwan, as compared to the same rates observed during 2000–2005. R&D) corporations based in Korea, Japan, Taiwan, and China were responsible for about 70% of all AI-related inventions owned by the world's 2000 top corporate R&D investors and their affiliates, compared to 18% for US-based companies. Finally, the importance of the extended ICT footprint (or "ICT-EF") can be considered in terms of ICT-related domestic value added as a share of the total economic value added (or GDP). With the East and Southeast Asian economies accounting for some of the highest shares in 2011, the ICT-EF measure reveals that ICT value added represented 20% of GDP in Taiwan (no. 1) and 18% in Singapore (no. 2), which shows that both nations are particularly reliant on the manufacturing of ICT-related goods (OECD 2017).

10.5.1 Vibrant Domestic E-commerce in Taiwan

According to Market Intelligence & Consulting Institute (MIC) (http://shin-chun.taiwantrade.com.tw/CH/industryreportdetail/0/2341), the e-commerce

market size amounted to NTD 1 trillion (approximately, US$ 33 billion) in 2015, and the worth of B2C e-commerce and C2C was estimated to be NTD 613.8 billion and NTD 393.1 billion, respectively. Between 2014 and 2015, the growth rate was 16% for the former (B2C) and 11% for the latter (C2C).

Moreover, MIC also estimated an average expenditure of NTD 27,715 in 2016 spent by consumers on online shopping, with an increase of 28% from NTD 21,681 in 2014. Similarly, there had been an increase in the share of an average shopper's online expenses (as a percentage of total expenses) from 12% in 2014 to about 18% in 2016 (https://mic.iii. org.tw/IndustryObservations_PressRelease02.aspx?sqno=464). The role of the mobile phone device is noteworthy in facilitating e-commerce development in East Asia as well as Taiwan. In essence, for Taiwan, there has been an increasing trend for consumers to make their purchases using mobile devices, given that 13.2% of consumers aged 12–65 had placed orders in 2015 using mobile devices in comparison to only 9.2% in 2014. However, the share of mobile payment adoption in the total electronic payments is somewhat lower (26%) in Taiwan, relative to its neighbouring economies such as Korea (77%), Hong Kong (65%), and China (56%) (Pasadilla et al. 2017).

There are numerous factors that can account for the remarkable growth in Taiwan's e-commerce, such as the strong Internet user base and infrastructure in the economy, as well as the regulations and legislative reforms to stimulate e-commerce. For example, the Consumer Protection Act, amended in 2015, ensures the consumers' entitlement to a seven-day trial period. In addition, the Personal Information Protection Act, in effect since 2010, has brought about specific regulations governing personal data security in the e-commerce sector (Pasadilla et al. 2017).

10.5.2 Unfledged Cross-Border E-commerce in Taiwan

While the purchase, via e-commerce, is mainly motivated by its great convenience in Taiwan, access to foreign products has not been among other motivations for making online purchases. Specifically, only 17% of consumers in Taiwan reported in 2016 to have made an online purchase of goods internationally. Of these individuals, about 73% had made their

purchases from China, followed by Japan (40%), the United States (23%), and Korea (13%) (Pasadilla et al. 2017).

While several initiatives, such as the Yahoo Hong Kong-Taiwan cross-border e-commerce platform, may help products from Taiwan reach a wider foreign consumer base, the cross-border e-commerce in Taiwan still has a lot of room to grow. According to the 2016 Yearbook released by Taiwan government, cross-border online retail transactions only comprised 3.6% of the economy's total e-commerce transactions. The government aims to boost the share of cross-border online retail transactions to 5% by 2020, equivalent to an increase from the current NTD 18 billion (approximately US$ 600 million) to NTD 45 billion (US$ 1.5 billion) (Pasadilla et al. 2017).

10.5.3 Challenges Faced by Taiwan's SMEs for Cross-Border E-commerce

According to Pasadilla et al. (2017), there are at least three main challenges that SMEs in Taiwan have to face when selling via cross-border e-commerce (also see Fig. 10.3):

1. **Challenges involving branding and marketing, packaging, pricing, and advertising**: Branding and marketing activities are not only key to success in sales but even more important for e-commerce because of the greater intensity of competition in attracting online buyers' attention. For sellers in Taiwan, at a minimum, they need to translate their products' packaging to the language in the target markets (maybe except for the Chinese market). In order to make a profit, SMEs also need to take into account other costs related to online selling (e.g., storage fee and logistics cost) when managing their pricing strategies. Finally, not all SMEs have the time and skills for networking activities, which could nonetheless be necessary especially when platform operators try to arrange product bundles to boost sales of groups of products together.

2. **Challenges pertinent to online advertising, data sharing, and fake traffic**: Online sales rely heavily on big data analysis that helps predict
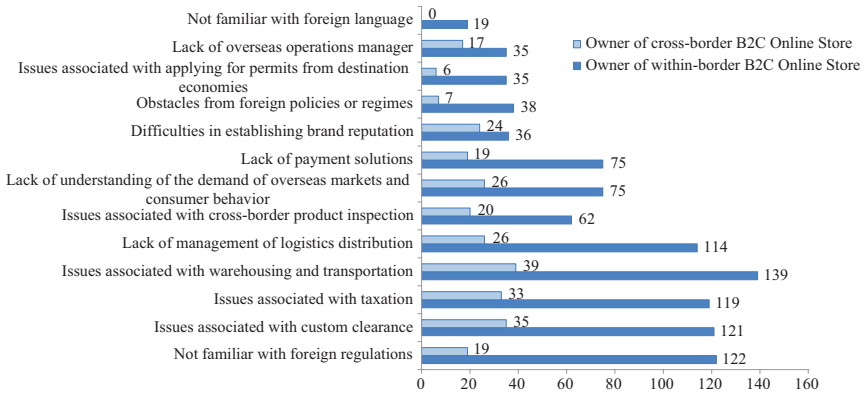
Fig. 10.3 Top five (potential) obstacles identified by owners of online shopping store for participating in cross-border e-commerce. (Source: Department of Commerce, Ministry of Economic Affairs (2017). *Taiwan's B2C Online Store Business Survey, 2016* (http://www.cnra.org.tw/edm/2016b2c.pdf))

the interest of potential buyers and makes targeted advertising possible. In certain economies, however, the use of bots to create fake traffic nullifies advertising efforts. Since marketplace platform operators tend not to share customer information to sellers, either because of data privacy or for a strategic purpose, some firms may need to set up their own online platform in order to engage better with customers. However, it is not straightforward to do this cross-border because local business registration is required for e-commerce platforms in many economies.

3. **Challenges associated with foreign regulations, policies, and regimes**: While online sellers from other economies are able to sell to buyers in Taiwan, for example, Taiwan's SMEs may fail to sell back to consumers in those economies that block Taiwan's websites or marketplace platforms for whatever reason. Customs regulations also vary from economy to economy, which could significantly increase the landed cost of the product, on top of the mark up from taxes and duties. Businesses also hate the lack of predictability, typically resulting from customs discretion.

10.6   Concluding Remarks

Cross-border e-commerce provides a new type of trading platform, where the imports and exports of products will be finally acknowledged by the digitalisation and "electralisation" of presentation, negotiation, and conclusion of a business, thus making it much more convenient for consumers to purchase commodities across political and administrative borders in comparison to traditional marketing models (Guo 2017).

Despite the initial advantage of e-commerce, which was to provide better access to foreign trends unavailable in Taiwan's traditional retail market, Taiwanese users of e-commerce platforms have come to value convenience over accessibility, with an increasing focus on expedient delivery. There has also been a dramatic growth in bilateral trade and economic exchanges across the Taiwan Strait, notwithstanding the political and military tensions between Taiwan and mainland China. In fact, at least in 2016, Taiwanese online shoppers did cross-border shopping most actively in China (72.7%), followed by Japan (40.4%), the United States (22.9%), and South Korea (12.8%) (Guo 2017; ITA 2017).

Finally, in order to help Taiwan's SMEs overcome obstacles and increase their competitiveness in selling via cross-border e-commerce, various kinds of assistance have been provided by the government, business associations, as well as major platforms. For example, in addition to providing financial and management assistance, the Small and Medium Enterprise Administration (SMEA) as well as the Taiwan External Trade Development Council (TAITRA) also provide ICT guidance services to SMEs, particularly on how they can be more accessible in online searches. Notably, the Legislative Yuan promulgated an amendment to the Value-Added and Non-Value-Added Business Tax Act, which came into force on May 1, 2017. Consequently, foreign enterprises without a fixed place of business in Taiwan are now required to pay Value-Added Tax (VAT) for selling electronic services to domestic individuals. In response to the OECD's Base Erosion and Profit Shifting (BEPS) recommendations, the intent of the amendments was not only to counteract a series of similar measures in economies such as Korea, Japan, New Zealand, South Africa, and the EU, but to ensure a level playing field by equalising tax treatment

for both local and foreign e-commerce companies as well as providers of digital content, applications, and other cross-border services (Pasadilla et al. 2017).

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