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# HOW ORGANIZATIONAL CULTURE SHAPES COMPETITIVE STRATEGIES: A COMPARATIVE CASE STUDY OF TWO E- COMMERCE FIRMS IN CHINA

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# HOW ORGANIZATIONAL CULTURE SHAPES COMPETITIVE STRATEGIES: A COMPARATIVE CASE STUDY OF TWO E-COMMERCE FIRMS IN CHINA

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## Abstract

*Many well-established multinational firms have been attracted to China by its tremendous market size and fast growing economy. While many have succeeded and enjoyed significant returns on their investments, some have failed and suffered significant financial losses. In the e-commerce market, failures seem to be more frequent than successes. In this study, we attempt to find some answers as to why e-commerce market is especially tough for foreign firms by using a comparative case study in which the epic battle of two giants in Chinese C2C market during 2004-2006 is analyzed. We argue that other things being equal, the local firms have an embedded competitive advantage if the management can transform a better understanding of the national culture into an organizational culture of innovativeness and market responsiveness. Such organizational culture, according to the resourced based view, could have significant impact on the competitive strategies and eventually determine the market performance of the firm.*

*Keywords: e-commerce, China, organizational culture, national culture, performance, strategy.*

# 1 INTRODUCTION

In April 2003, a handful of top programmers and managers working for a start-up Internet B2B company called Alibaba in Southern China were summoned by the founder of the company and were given a secret mission: develop a C2C Internet auction site in three months or less to counter the much celebrated entry of eBay into the Chinese market. The new company was named Taobao, meaning “treasure hunting.” At that time, the mission was almost impossible: eBay is the Goliath of the e-commerce world, with its legendary success in the US and other international markets and prowess in marketing and operations, in addition to its army of top developers and deep pockets, while Alibaba, was just an Internet start-up known more to a few international venture investors than to most Chinese consumers and still struggling to survive in the aftermath of the dot com crash.

Yet, after only a little over three years of time, by the end of 2006, Taobao announced that it had 30 million active user accounts, which is about 75% of the total estimated 40 million C2C user market in China, with total customer transactions exceeding 16 billion RMB (approximately 2.07 billion USD). Meanwhile, eBay China announced in late December of 2006 that it would enter a joint venture with a local company by transferring its C2C operation to the joint venture in exchange for a 49% stake in the new company, after three years of continuing declining of market share. During the same time period, the total market for C2C in China had experienced explosive growth: from a mere 6 million users in 2003 to about 40 million users in 2006; Internet users grew from 59 million to 137 million; and the percentage of users who use online shopping also increased from 0.1% in 2002 to 23.6% in 2006 (CNNIC, 2003, 2007).

What’s interesting is that eBay is not the only international IT powerhouse that had experienced difficulties after much publicized entries into the Chinese e-commerce market. Yahoo entered the Chinese Internet e-commerce market as early as 1999. In spite of its concerted effort on offering Chinese language services and its considerable popularity among Chinese email users, it transferred its China operation to Alibaba and paid \$1 billion for a 40% stake in Alibaba in 2005 (Schwankert, 2006). A similar pattern is emerging in the battle between the Internet mammoth Google and the Chinese Internet search engine Baidu. When Google launched its Chinese search engine in 2000, it dominated the Internet search market in China immediately. Now, Baidu is leading Google in three most important and largest Internet user markets: Beijing (51.5% vs. 32.9%), Shanghai (43.9% vs. 38.2%), and Guangzhou (48.0% vs. 28.7%) (CNNIC, 2005).

With billions of dollars at the stake, investing in China is not a trivial decision for multinational firms. Numerous research and case studies have been published on this subject matter. However, having a sustainable and profitable operation after the initial investment is even more critical. While multinational companies like Wal-Mart, P&G, and GE were able to successfully expand their operations and market share rapidly in China, many multinational technology firms started out their China operation with great promises but quickly found themselves surrounded by local competition and stuck in the myriads of legal, political, and cultural constraints and conflicts. Why is that? Why are local firms able to catch up with and eventually surpass the stronger and more experienced multinationals in the e-commerce market?

In this study, we explore the question of why international Internet firms have suffered setbacks and even defeats while trying to grow in the emerging Chinese e-commerce market and offer some insights into how multinational firms could compete with local entrepreneurs. Our discussions are based on a case study we conducted in China that contrasts two exemplar rivals: eBay China and Taobao. We gained access to both eBay and Taobao and interviewed executives and employees in the two companies, ranging from top management team members to customer service representatives. In the following sections, we attempt to make sense of the success of one company and learn the lessons from the missteps of the other, mostly from the cultural perspectives – which we believe are the key to the answers to our research questions.

## **2 RESEARCH BACKGROUND**

### **2.1 The Rapid Ascend of Chinese E-Commerce Market**

The battle between Taobao and eBay China is merely a reflection of the intense competition in the emerging Chinese e-commerce market. The dramatic emergence of the Chinese Internet and e-commerce markets from virtually nothing to stratosphere in less than a decade of time may explain why China is so appealing to foreign multinational Internet companies. Ever since the ordinary Chinese got their first glimpse of the World Wide Web in 1995, the Internet has been sweeping through China like wildfire, in part due to the heavy promotion by the central government aimed at modernizing the nation's technological and economic infrastructures. Internet users have grown from 620,000 in 1997 to 137 million in 2006, according to CNNIC annual surveys. The total value of online transactions was about 1,100 billion RMB (approximately 140 billion USD) in 2006. The figure was estimated to reach 1,700 billion RMB in 2007. The annual rate of growth of online transactions has been more than 50% in last five years (CCIDC, 2007).

As impressive as the numbers may seem to be, China is far from reaching its potentials in the areas of e-commerce and related consumer markets. Considering the fact that the 137 million Internet users account for only about 10% of the population which is dominated by young people with increasingly better educations and higher income, and that less than one quarter of the current Internet users are online shoppers, it is not surprising that companies with long term visions around the world are focusing on China. However, the long history of culture, the still emerging market economy, the unique social and political systems, and the rapid changing demographics in China have proven to be especially challenging to foreign multinationals. While the successes are plenty and in some cases spectacular in the last two decade since China opened its doors for foreign investments and business ventures, the failures are almost equally frequent and impressive. Though there is a rich body of literature on doing business in China, our experience suggests that the cultural factors, especially the interplay between national organizational cultures, have not received adequate attention they deserve. We believe it is this lack of understanding of the intricate relationships between national culture and organizational culture that may have been the main culprit behind many of the failed attempts by multinationals in establishing and growing businesses in the Chinese market.

### **2.2 The Changing Yet Deeply Rooted Chinese Culture**

With a long and rich history, China is unique comparing to the rest of the world in many aspects. Chinese consumers, thus, are quite different from the ones in the developed world most of the multinational companies are familiar with. The unique social-political environment also presents significant challenges to foreign companies who want to compete in the Chinese consumer market. Cultural factors at organizational and national levels are understood as some of the key issues in the management of multinational organizations competing on the global market. However, in the age of Internet and globalization, national subcultures can change rather rapidly, especially among the young, net-enabled, and richer than ever generation. Rapid regional and sub-cultural evolutions have been the hallmarks of the Chinese economic miracle in the last two decades. Such evolutions manifested themselves more acutely in people's attitudes toward financing and debt. In the modern history of China, the banking system based on the idea of credit and debt had never fully developed amid strong negative cultural stigma toward debt in the population. The majority of Chinese considered banks as places to save money rather than means of financing. That's why the consumer loan market remained negligible and the consumer credit systems never existed until a decade ago.

Yet, when the change came, it happened fast and furious. The total number of credit cards issued in China reached 30 million in 2006 in just three short years since major banks started issuing them to the general

population. This number is about a 100% increase over that in 2005 and is expected to double again in 2007 (Zhang, 2007). The credit and debt services industry, though still developing, swept through Chinese consumer markets in the last decade, driven mostly by the explosive consumer demand from housing, travel, and, e-commerce products and services. Some of the aggressive marketing strategies and tactics used by US firms are widely adopted by Chinese banks and financial services institutions. Given its long history and conservative culture, the speed of the change is almost as astonishing as the magnitude of the change.

On the other hand, it would be a mistake to assume the Chinese consumer culture, with the core values of thrifty and self-reliance is being subsumed by the Western consumer cultures in any significant manner. Most of the 30 million credit cards are in the hands of affluent middle and upper class young professionals living in large cities. And over 72% of the Internet users are under the age of 30, according to the latest CNNIC (2007) survey. The majority of Chinese consumers still relies on cash for payment to everyday items and has not got used to the idea of spending on credit. Even for people with credit cards, many are concerned with the security of their cards and bank accounts, and are reluctant to use them when making purchases in not well-established outlets, especially on the Internet. The question, though, is, do these cultural characteristics matter for companies, especially multinational companies who want to compete in the emerging e-commerce market in China? We argue that the case of Taobao vs. eBay China clearly demonstrates that culture not only matters in competition, but also creates competitive advantages if used appropriately in competitive strategies.

### **2.3 The Role of Culture in Organization Performance**

Culture is a complex construct that has been studied at different levels at different contexts, resulting in a diverse definitions, conceptualizations, and dimensions being used in various studies (Straub et al. 2002). While the definition of culture often varies depends on the level of analysis, culture can be defined in terms of the values, beliefs, and assumptions shared by members of one group that distinguish them from other groups (Newman and Nollen, 1996). At the national level, these values, beliefs, and assumptions are often learned in the early childhood of the individuals (Newman and Nollen, 1996). At organizational level, they are often acquired by the group “as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (Schine, 2007, p. 17). In a slightly extension, Leidner and Kayworth (2006) suggest that culture can be analyzed from three aspects: the basic assumptions, the share values, and the cultural artefacts and creations. Basic assumptions are believed to be at the core of culture and represent the belief systems that individuals have toward behaviour, relationships, reality, and truth. This is because these basic assumptions represent cognitive structures or interpretive schemes that individual use to perceive situations and to makes sense of ongoing events, activities, and human relationships, thereby forming the basis for collective action. Shared values represent a manifestation of the espoused beliefs and assumption of individuals identifying what is important to a particular cultural group. These values answer the question as to why people behave the way they do. Symbolically, organizational culture is manifested through artefacts and creations by the individuals and groups within the organization. These artefacts could include such things as technologies, and visible and audible behaviour patterns, as well as myths, heroes, language, rituals, and ceremony (Leidner and Kayworth, 2006).

The influences of cultural factors on individual and organizational behaviour have been a subject of significant amount of research, dating back to more than half century (Denison and Mishra, 1995). Though it is possible to study culture at national, organizational, and group (subunit) levels, in general, cultural analyses fall largely into the first two categories: those at the national level and those at the organizational level. At the national level, cross-culture studies have found that national culture impacts how managers interpret and respond to strategic issues (Schneider and Meyer, 1991), individual work value of managers (Ralston et al., 1997), competitive strategy formulation (Schneider, 1989), management

practices (Newman and Nollen, 1996), new product development (Nakata and Sivakumar, 1996), and user technology acceptance (Srite and Karahanna, 2006).

There seems to be little disagreement in the literature that organizational culture exerts strong, though in some cases subtle, influences on the behaviours of individuals and thus organizations where the individuals congregate and make decisions regarding routine activities and unforeseen events. The next key question is whether and how organizational culture affects organizational performance. According to the resource based view of firms, firms that possess resources that are rare, immobile, non-imitable, and imperfectly substitutable by others could gain sustained competitive advantages over their rivals (Grant, 1991; Barney, 1991). Considering organizational culture as a resource, Barney (1986) suggested that in order for a firm's culture to be a source of sustained superior performance, three conditions must be met. First, the culture must be valuable, in the sense that it must enable a firm to do things and behave in ways that lead to better operational efficiency and effectiveness, such as higher sales and lower costs. Second, the culture must be rare, that is, it must have attributes and characteristics that are not common to the cultures of a large number of other firms. And finally, the culture must be imperfectly imitable, and therefore, firms without these cultures cannot easily change their cultures to include the required characteristics by trying to imitate these cultures.

A number of schemes have been developed to operationalize the culture constructs so that its impact on firm performance can be empirically tested. At the national level, Hofstede (1980, 2001)'s five cultural dimensions is perhaps the most widely adopted scheme. He suggested that national cultures can be measured in Power Distance Index, Individualism-Collectivism, Uncertainty Avoidance Index, Masculinity-Femininity, and Long-Term Orientation. Studies (Srite and Karahanna, 2006; Dinev et al. 2008) show that these cultural indexes can explain behavioural variations of individuals from different countries in the context of technology acceptance and use. At the organizational level, Denison and Mishra (1995) proposed four culture traits: involvement, consistency, adaptability, and mission. On the other hand, emphasizing market orientation as major trait of organizational culture, Hurley and Hult (1998) suggested a seven construct framework for measuring market orientation and innovativeness of organizations. In an empirical study, Homburg and Pflesser (2000) found that firms with market orientation culture achieve better financial performance, especially in highly dynamic market conditions.

Notwithstanding the variations in definitions and operationalizations of the cultural construct at different levels and contexts, the role of culture in shaping the behaviour of individuals and organizations and thus the performance of organizations seems to have been clearly established in the literature. However, we find that there are still significant gaps in the literature about how cultures at the different level interact with each other, and how such interactions influences organizational culture and ultimately performance. More specifically, few studies, if any, have addressed the following questions:

- Is there a relationship between national culture and organizational culture?
- How do the values, beliefs, and assumptions of national culture influence that of organizational culture?
- What's the role of top management in shaping the values, beliefs, and assumptions of individuals in an organization?

In the rest of the paper, we present a case study of two prominent e-commerce companies and use the competitive struggle to illustrate the role of national and organization culture in the formulation and execution of competitive strategies and the relationship between national and organizational cultures.

## 3 RESEARCH METHOD

### 3.1 The Case Study Method

To understand how Taobao were able to defeat eBay in the Chinese consumer electronic auction market and what enabled Taobao to become a fierce competitor in a short period of time under the overwhelming force of a well-established e-commerce powerhouse, we chose to use case study as our research methodology. This is because case study method is considered as most appropriate when “a ‘how’ or ‘why’ question is being asked about a contemporary set of events, over which the investigator has little or no control” (Yin, 2003, p. 9). In recent years, case studies appear frequently IS research literature that deals with broad and complex phenomena (Dubé and Paré, 2003; Paré, 2004). In this study, we followed the case study methodology as outline in Paré (2004), which is inspired by the well-known works of Yin (2003), Eisenhardt (1989), and Miles and Huberman (1994). This methodology calls for a four-stage process of conducting case research: the design of case study, the conducting of case study, the analysis of the case evidence, and the writing of the case report (Paré 2004).

This research was motivated by the reported struggles of multinational Internet companies, including eBay, Google, and Yahoo!, in establishing and growing their Chinese operations. The story of Taobao and eBay China was especially intriguing to us, which led to the decision to use these two companies as our research subjects. More specifically, we used an exploratory positivist case study method to understand the role of national and organizational culture in the formulation and execution of competitive strategies and eventually the competitive performance of the two companies. While there is a rich body of literature on culture and more specifically on organizational culture, the comparative cases of eBay China and Taobao offered a unique opportunity to contract the role of cultures in competitive strategies and company performance for a number of reasons. First, these two companies are the only major players in an emerging e-commerce market segment in China, thus reducing many confounding factors. Second, the competitive outcome was relatively clear and determined within a short period of time (about three years), making qualitative data collection relatively reliable. And finally, we were able to get access to both companies from top level managers to lower level employees, making a comprehensive comparison and understanding possible.

After the companies agreed to be interviewed, we then developed a case study protocol that outlined the objectives of the interviews and the desirable interview targets in each company. To ensure the interviews cover all important aspects of the research and are consistent across interviewees and companies, we draft an initial set of 30 interview questions, 15 were designed for eBay, and 15 for Taobao. These questions were sent to the target companies for approval from their management prior to our visits. In March, 2007, the research team visited eBay China headquarters in Shanghai and Taobao headquarters in Hangzhou. We conducted a total of 14 semi-structured interviews of approximately 60 minute each and took extensive notes during the interviews, using the initial 15-question set as guidance for conversation. At eBay China, we interviewed four top managers of the company, including a senior VP for eBay’s China operations, and VPs for product development and government affairs. At Taobao, we interviewed 8 top managers, including senior VPs for strategy, marketing, operations, and technology, and customer services. To get a sense of the employee perspectives, we also interviewed one product development engineer and one customer service specialist at Taobao. Documents and relevant information about the two companies were also collected from the Internet and other public domains. The interview notes were transcribed and categorized. In order to assure the interviewees privacy and be sensitive to local culture, no interviews were recorded.

### 3.2 The Case Companies

Taobao ([www.taobao.com](http://www.taobao.com)) is a business unit of Alibaba Group ([www.alibaba.com](http://www.alibaba.com)), the largest B2B e-commerce company in China located in the City of Hangzhou. As of 2007 Alibaba has over 4400

employees and is publicly traded in the Hong Kong Stock Exchange. Its main business model is to provide B2B services to small and medium enterprises in China and to provide an Internet platform for foreign and domestic firms to conduct import and export business. In May 2003, Alibaba top management decided to establish Taobao, its strategic response to eBay's entry into the Chinese C2C market. With a clear vision, shrewd business strategies, and highly motivated managers and employees, Taobao quickly developed from a small start-up to the biggest C2C firm in China within less than two years. Taobao had 30 million active user accounts in 2006, which is about 75% of the total estimated 40 million C2C user market in China, with total customer transactions exceeding 16 billion RMB (approximately 2.07 billion USD). The online transactions are increasing with a speed of 256.3% per year and reached 43.3 billion RMB (approximately 5.7 billion USD) in 2007. By the end of 2007 Taobao had more than 53 million active user accounts. It is the biggest online shopping web site in Asia now.

eBay China, also known as eBay-Eachnet, was established when eBay (www.ebay.com) invested 30 million USD to Eachnet, a local C2C firm in China, in 2002 and changed the name to eBay-EachNet(www.ebay.com.cn). Eachnet (www.eachnet.com) was established in August 1999 in the City of Shanghai, China by a local entrepreneur. It was the biggest C2C firm in China in terms of number of members and transactions at that time. In 2003, eBay-Eachnet had 73% of the market share of C2C online transactions in China with a total amount of online transactions over 1 billion RMB (approximately 240 million USD) and 4.3 million active user accounts. In the same year, eBay invested an additional 500 million US dollar to eBay-Eachnet with the object to solidify its stronghold in the Chinese C2C market and fully integrate Eachnet's trading platform into eBay's global infrastructure. The integration was completed in the autumn of 2004. However, during that time, Taobao had break into the market and started to compete head-on with eBay-Eachnet for market shares. Over the next couple of years, eBay-Eachnet gradually lost its market share in the C2C market in China to Taobao. By July 2007, eBay-Eachnet had 16.8 million active user accounts, rank only the 3rd in the C2C online market in China. The amount of online transactions in the third quarter of 2007 on eBay-Eachnet was 1.12 billion RMB, which only accounted for 8.1% of the totally online C2C transactions. In December 2006, eBay management entered an agreement with TOM (www.tom.com), a Hong Kong based e-commerce firm, and established a new joint venture to operate the C2C business in eBay-Eachnet. The new C2C platform started online in August 2007. The domain name was changed back to the former www.eachnet.com.cn, marking an end of eBay's ambitious fray into the Chinese C2C market.

## **4 MAIN FINDINGS OF THE STUDY**

### **4.1 Why Culture Matters for Competitive Strategy**

Given the central role of national culture in consumer psychology and behavior, mishaps in considering cultural factors can be costly and even detrimental in some cases to multinationals operating in a foreign country with strong national cultures like China. In the late 1990s and early 2000s when consumer e-commerce market was emerging, two most devastating obstacles to market growth were the lack of trust between customers and between customers and e-commerce operators, and the lack of mechanisms to complete cash based financial transactions over the Internet. Both were the consequences of a national culture in which business deals had often been negotiated face-to-face inside social networks and guaranteed by individual reputations, and financial transactions had relied on cash based systems with virtually no credit infrastructure at the individual level.

When eBay took over the online auction operation of EachNet in 2003, no special accommodations were made to facilitate the financial transactions between buyers and sellers, other than offering the credit-card backed PayPal service almost one year later. At the meantime, many Chinese e-commerce operators had improvised multiple innovative systems to overcome the challenges of online payment due to incomplete

credit system and deep distrust between online buyers and sellers. These included, among others, cash on delivery, and instant messaging between buyers and sellers. In our interviews with Taobao executives and employees, it was quite clear to us that two of the most important factors that contributed to the phenomenal growth of market share of Taobao had been its implementation of the “Zhi-fu-bao” system, an online escrow service that accepts not only credit cards and bank accounts, but also direct cash deposit, and the “Ali-wang-wang”, an instant messaging system that allows buyers and sellers to chat directly before deals are made. These strategic decisions were rooted in the deep understanding of the Chinese consumer culture and the virtually trustless market environment at that time.

## **4.2 How Values are Instilled into Organizational Culture**

Core values are the soul of an organization. Most, if not all, of the organizations have articulated their core values in one form or another. The challenge is in how to make these values instilled into the organizational norm underlying every individual and organizational decision in everyday work routine. It has been suggested that the core values should be woven into the fabric of an organization: from the first day interview to the last day of work, the values should be reflected in hiring methods, performance evaluation systems, promotion and rewards, and even firing policies (Lecioni, 2002). The question is how such a strategy can be executed effectively in a specific organization. During our visits to eBay China and Taobao, we were struck by the strong similarities and stark differences of the two companies. Employees in both companies, from top executives to software engineers, are the best and brightest young professionals China has to offer, with an average age around 27 years old. Therefore, creating and maintaining an enjoyable work experience and environment where dedication and innovation are highly valued are the hallmarks of their respective organizational culture. Equally as important, both companies considered “customer first” as their core value. Executives and employees clearly understand that in the fierce battle for the C2C market share, the one who owns the customers wins the competition.

The differences between the two companies, however, are as striking as the similarities. eBay China, as a wholly owned subsidiary of eBay, one of the best known brand names in the C2C e-commerce world, resembles its American parent in many ways, including its management philosophy, organizational structure, and business processes, although almost all of its employees and top executives are Chinese. Executives cited the institutionalization of formal structure and processes in decision making and business operations as one of the major changes since eBay took over Eachnet. While open communications between management and employees are emphasized, there was a sense of hierarchy and formality in communication channels. One executive stated that it used to be that an employee could walk into the CEO’s office whenever he needed to, now it is different, even though there are still frequent meetings between employees and managers.

In contrast, Taobao, started by a maverick Chinese entrepreneur with a mission to compete head-on with eBay in the Chinese C2C market, seemed to have accomplished this formidable mission in a natural yet systematic and effective manner: making the core values instilled into its organizational culture. Organizational culture has been a core component in strategic management literature (Fiol, 1991). It is believed to be the spirit that gives life to an organization and forms the basis of the norms of behaviour of employees and management. However, organizational culture must be aligned with its environment and its competitive strategies (Newman and Nollen, 1996). From day one, Taobao management had made a concerted effort to root its organizational culture on the popular Chinese martial art subculture, partially because of the founder’s love of martial art novels, especially the ones by Master Jing Yung. Each employee, on the day hired by Taobao, was given a nickname based on a character in Master Jing’s novels. In fact, all interviewees claim that their real names were almost forgotten in the company since everyone calls the others by their martial art monikers. Every employee, from the CEO to the customer service reps, is also known to customers as a “shop servant” by their nicknames.

Even more interesting is the fact that the core values of Taobao are inscribed into the highly memorable metaphor of a mystical weapon in Master Jing’s martial art novels: the “divine sword of six vines” where

the six vines are used to represent the six core values of Taobao: customer first, team work, embrace change, enthusiasm, integrity, and dedication and professionalism. The combination of the martial art moniker and the “divine sword of six vines” metaphor has made Taobao organizational culture resonant in the mind of every employee. This symbol of organizational value, as shown in Figure 1, is imprinted in the back of the identification card of each employee of Taobao.

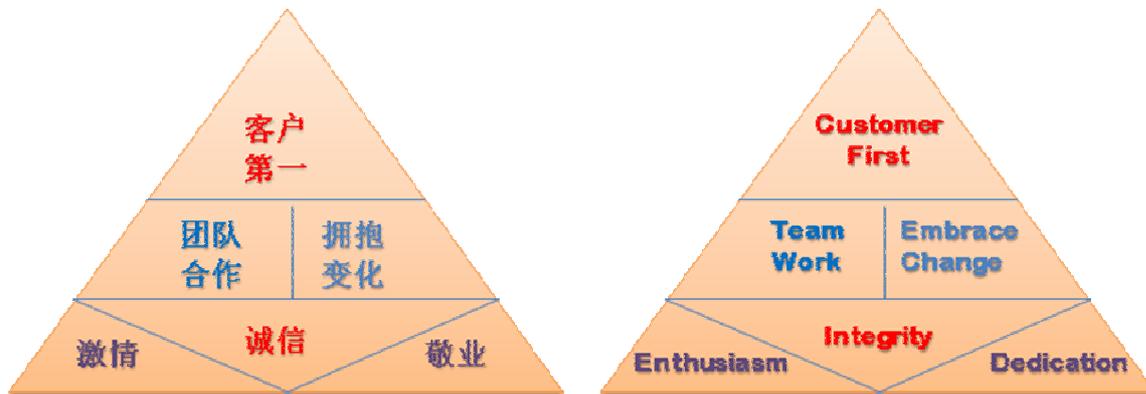


Figure 1: Symbol of “Divine Sword of Six Vines” at Taobao

The metaphor of martial art characters also conveys a number of significant subconscious messages to both Taobao employees and customers and may have created some unintended positive consequences. For example, in the martial art world, the leaders of the gangs were believed to be superheroes with mystical power and supernatural ability. Members would trust their leader with their lives and exhibit unconditional loyalty to the leader and the gang. In Taobao, the top executives usually took the nicknames of the superheroes and became the natural leaders in the virtual world as well as in the real world. One effect was immediately clear in our interviews: the high level of trust in and respect to their top managers by employees, as one interviewee put it: “When our CEO says that we will reach 10 billion RMB in sales next year, we know we will, even though it is 10 times what we have done this year.”

The metaphor of “shop servant” in the martial art world also carries deep cultural connotations for customer relationship management. When a Taobao manager or employee identifies him- or her-self as a “shop servant” with a familiar nickname in Master Jing’s characters, the customers, many of them are readers of Master Jing’s novels, can associate the personalities of the character with that employee or manager, forming an instant bond. Employees, on the other hand, believe that they are the servants of the customers and will do everything they could to make customers happy. This is clearly demonstrated by how Taobao and eBay collected customer feedbacks to their products and services: Taobao requires employees to meet customers in informal and cheerful group meetings in different cities on a monthly basis in addition to formal data analysis, while eBay mainly relied on professional research companies to provide customer survey data every quarter, a common practice by successful American companies.

### 4.3 How Organizational Culture Influences Strategy and Operations

The different organizational cultures between eBay China and Taobao also resulted in, in large, quite different operational styles. Table 1 summarizes some of these differences the two companies. This table by no means offers a comprehensive comparison between the two companies, but a highlight of the main differences in their operation styles observed by the research team during our visit and throughout our interviews.

Cultural Dimension	eBay	Taobao
Internal	• Semi-formal	• Informal

Communications	<ul style="list-style-type: none"> <li>• Corporate hierarchy is perceived</li> </ul>	<ul style="list-style-type: none"> <li>• Direct communications encouraged</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Highly educated and experienced</li> <li>• Professional elite</li> </ul>	<ul style="list-style-type: none"> <li>• Highly motivated college graduates</li> <li>• Consider each other as sisters and brothers</li> </ul>
Executives	<ul style="list-style-type: none"> <li>• Experienced and western educated</li> <li>• Hired from all over the world</li> </ul>	<ul style="list-style-type: none"> <li>• Local college graduates</li> <li>• Mostly promoted from within the company</li> </ul>
Operational strategy	<ul style="list-style-type: none"> <li>• Integrated China operation into the eBay global platform</li> <li>• Implemented corporate policies and procedures in China operations</li> </ul>	<ul style="list-style-type: none"> <li>• Improvised and experienced based</li> <li>• Policies and procedures are adapted quickly based on market and technology environment</li> </ul>
Decision making	<ul style="list-style-type: none"> <li>• Centralized and analytical</li> <li>• Relies on professional market research reports and data</li> </ul>	<ul style="list-style-type: none"> <li>• Decentralized and semi-analytical</li> <li>• Relies on customer feedbacks and focus groups</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Treated as external entities</li> <li>• Emphasize customer services</li> </ul>	<ul style="list-style-type: none"> <li>• Treated as part of the company</li> <li>• Emphasizes co-development</li> </ul>
Attitude toward media	<ul style="list-style-type: none"> <li>• Negative</li> <li>• Avoid if possible</li> </ul>	<ul style="list-style-type: none"> <li>• Positive</li> <li>• Embrace and take advantage of</li> </ul>

*Table 1: Comparing Operational Styles of eBay vs. Taobao*

It may be true that none of the differences alone could result in any significant consequences in the competition between the two companies. It is often the combination of a number of factors that determines the outcome of competition between rivals. However, our impression, during the time at the two companies, and the subsequent analysis and reflection, had been that perhaps the most distinguished consequence of the cultural differences between the two companies is how customers were included in their competitive strategies and operational tactics. In the professional elite and hierarchical culture of eBay China, understanding the unique characteristic and culture of Chinese customers was largely done through commissioned reports produced by professional market research firms. This way, a clear boundary was drawn between customers and the company, and subtle yet critical information could hardly be shown up in the numbers and charts of these market reports.

In contrast, the martial art based organizational culture of Taobao created an organization with a blurred boundary between customers and employees: they are all members of the gangs in Master Jing's novels. Taobao customer service reps and product engineers primarily relied on face-to-face meetings and focus groups to understand what customers want and need. Grass-root movements among customers were organized by enthusiasts to help Taobao develop better and targeted products and services. Some of these customers even played an active role in converting eBay customers into Taobao customers. In the eyes of Taobao customers, the brothers and sisters at Taobao are simply their servants to assist them to accomplish their individual or business objectives with the platform of the Internet. As a result, some of the major technical innovations at Taobao, including the instant messaging service "Ali-wang-wang" and escrow payment service "Zhi-fu-bao," were all aimed at removing the most significant and direct obstacles of doing C2C e-commerce in China and helped Taobao gain significant market shares at the expense of eBay China.

#### **4.4 Lessons Learned for Competing in Chinese E-Commerce Market**

The case of eBay China and Taobao shows the critical importance of understanding national culture and developing a congruent organizational culture in international business competitions. Naturally, organizational culture cannot be purchased locally or imported abroad. It must be built from ground by management and employees together, with a clearly understanding what they want and why they want it. This also implies that local companies with charismatic leaders are likely to have the upper hand against

their international rivals in the e-commerce markets where innovations based on cultural understanding of consumers is critical and brand loyalty is weak. So, is it still possible for foreign international companies to compete effectively in China, especially in the fast changing markets such as e-commerce? We asked each of our executive interviewees this question and the answer was a resounding yes. We then asked executives from both companies to provide some insights into how multinational firms could compete successfully against local entrepreneurs in China. We were expecting a wide range of opinions. And surprisingly, our executive interviewees were remarkably in congruent in many, if not all aspects of their advice. Some of the ideas are summarized as follows.

#### *4.4.1 Localizing Top Management Team*

For most multinational firms, the localization of middle and lower level managers has never been an issue: it is not only a good practice, it is also a necessity. However, when it comes to localizing the top management teams, many firms stumble. They either could not trust local Chinese managers to be the top guys due to many legitimate concerns or illegitimate worries, or they localize in the best way they know how: sending the best performing, American educated Chinese managers in their home country or from other more developed Asian countries or regions, such as Singapore, Hong Kong, and Taiwan, to China, thinking that they must understand the local culture since they are Chinese after all. Employees in these companies call them “paratroopers.” The unfortunate truth is, these paratroopers often lack three fundamental elements that true locals possess: 1) extensive social networks in the local community, 2) deep understanding of what ordinary Chinese consumers want and like; and 3) a sense of belonging with employees.

#### *4.4.2 Fast Decision Making with Distributed Power Structure*

One of the acknowledged strategic mishaps eBay China made during the three years of its existence is the centralized decision structure: most of the strategic decisions on business must be approved by managers in eBay headquarters in Silicon Valley. It often took weeks even months before actions could be taken on the Chinese side regarding new investment, new product and service offering, or responding to market demands. In contrast, Taobao employees and managers could institute changes in products and services in a few hours (web sites were updated twice a day in the early days and twice a week recently). After taking over the operations of EachNet, eBay China also decided to move its servers to the US data center in an effort to integrate EachNet online operations into the global eBay infrastructure. Unfortunately for eBay, one of the unintended consequences of this move was a notable slow down in web site response to customer events such as search and submission. eBay China customers defected to its competitors in thousands afterwards. One manager at Taobao said: “Had eBay China not moved its servers to the US, there might not be Taobao.” Though overly simplified, it shows the devastating impact of this strategic mishap.

#### *4.4.3 Understanding the Role of Media and Social Networking*

One of the issues eBay managers raised was about the “manipulation” of local media for competitive advantage by its competitors. In the eyes of the eBay managers, such actions were not fair plays in the competitive game. What Taobao did and has been doing very effectively is to adopt a positive attitude toward the media and embrace the media. The founder of the parent company enjoys the spotlight and is not afraid of speaking of his mind in public. His high visibility, coupled with the widely publicized martial art organizational culture, has afforded him a mystical charisma among Taobao employees, customers, and potential customers. In a country that has been ruled by kings, emperors, and legendary leaders since the civilization started, having a highly visible celebrity top executive is certainly beneficial in the competition for customers.

It is particularly interesting to note that social networking activities, including online video, audio, and text chatting via instant messaging tools, have been one of the fastest growing segments of the Internet use in

China. This might be attributed to the more feminine inclination of Asian culture (Hofstede, 2001) where social networking is a primary motivation for using the Internet (Chau et al., 2002). The numerous online chat rooms and forums hosted on the Taobao site for its customers have become almost Taobao's own media machine since its employees are active participants in the discussions and postings. The power of word of mouth on the Internet and the headlines in the popular media cannot be overlooked when the foundation of a business is built on winning the hearts and minds of millions of ordinary Chinese.

#### 4.4.4 *Partnership with Strong Locals*

Executives believe that one of the difficulties for international Internet companies is that the foreign brand name advantages are difficult to be ported over to the Chinese consumer market, such as eBay, Yahoo, and Google, as opposed to companies in other consumer product markets, such as Wal-Mart, Coca-Cola, McDonalds, P&G, GE, Sony, etc. When the well-known Internet companies come to China, they basically lose most of their competitive advantages with the exception of their strong financial and technology resources. With little knowledge of the local culture and consumer psychology and the connections to the local society, it is quite challenging to be implanted and flourish. Thus, a better course of action for these companies is perhaps to invest in a strong local company and supply it with its technical know-how and international capital resources. Let the local managers make the strategic and operational decisions in the early stages of growth. When the market and the company become relatively stable, gradually introduce the tested-and-true western management system and practices to assure sustained growth and minimize risk of entrepreneur management style.

#### 4.4.5 *Grow Market First and Profit From It Later*

The executives we interviewed believe that for an emerging market like e-commerce in China, it is more important for a company to focus on growing the market than profiting from the market in the early stages. Ultimately, the one who owns the customers wins the competition. By forfeiting immediate profit from sellers, Taobao now owns 75% of the C2C market in China and the size of that market is more than doubling each year. With its dominant position and the huge market size, it would be much easier for it to make money from value added services in the future. This is also a lesson learned by Microsoft after many years working the Chinese market (Kirkpatrick, 2007). Therefore, foreign companies entering Chinese e-commerce market should be prepared not to collect profit for some time in exchange for a strong foothold in the market. Given the fast growing economy with no signs of slowing down anytime soon, and 1/6 of the world population who are increasingly affluent, such long-term oriented strategy will eventually payoff.

## 5 CONCLUSIONS

The battle between multinational Internet firms and local maverick entrepreneur is far from over, though the latter has clearly won the first round in the e-commerce markets, as shown in the cases of Yahoo, eBay, and Google. For one thing, Taobao has yet to make money, still burning through millions of dollars each year supplied by its parent company Alibaba, now the largest B2B player in China. eBay China is down for the moment, but don't count it out. It has transferred its Chinese C2C operation to a joint venture with TOM Online, and is focusing on developing a totally new C2C market: international C2C e-commerce. eBay China executives have started to institute changes aimed at moving it into a hybrid model that combines the best American management practices with local Chinese culture and market savvy strategies and tactics.

Clearly, eBay China and Taobao are just two examples of thousands of companies that can be classified as multinationals and local competitors, respectively, battling for supremacy in the vast China consumer market from cosmetics to automobiles. However, we argue that they are not idiosyncratic but typical. Thus, they offer a window through which the east and west organizational cultures can be contrasted and

valuable insights can be drawn for other multinational companies interested in establishing and growing market in China. The cultural contrast between eBay China and Taobao is quite clear to us: professionalism vs. enthusiasm, formality vs. flexibility, and steadfast vs. innovative. However, it is not our intention to claim one is superior to the other, because, as it has been demonstrated in the real world, each culture can thrive in its specific context of time and environment. The challenge to managers, especially those in the e-commerce industry where such context is constantly evolving, is how to recognize the context and the change of the context, manage the transition from one culture to another at the appropriate time and in the appropriate manner, and devise the appropriate competitive strategies. We hope the experiences of eBay China and Taobao shed some lights on how to best deal with these challenges.

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