

# Chapter IV

## E-Commerce Development in China: An Exploration of Perceptions and Attitudes

**Antonis C. Stylianou**

*University of North Carolina at Charlotte, USA*

**Stephanie S. Robbins**

*University of North Carolina at Charlotte, USA*

**Pamela Jackson**

*Fayetteville State University, USA*

### **ABSTRACT**

*It is widely recognized that e-commerce represents a critical resource for most business organizations. With over 1.3 billion people and double-digit economic growth, China could potentially emerge as the largest Internet and telecommunications market in the world if certain economic, environmental, and organizational barriers are effectively addressed. This chapter develops a descriptive profile of Chinese business managers with respect to their awareness of the technological infrastructure as well as their perceptions and attitudes regarding e-commerce. Management's viewpoint on a variety of environmental, organizational, and personal factors provides insight into the future of e-commerce in China within the framework of organizational commitment to e-commerce driven innovation. Findings indicate that firms interested in engaging in e-commerce in China will find a knowledgeable and supportive business climate; however, e-commerce initiatives may be hindered by constraints imposed by the current infrastructure as well as the political environment.*

## INTRODUCTION

The business potential of e-commerce technologies is seemingly irrefutable given the more than 1.1 billion Internet users worldwide (Internet World Stats, 2007). Of these 1.1 billion users, the largest share, almost 400 million or 36 percent, reside in Asia. Although growth in North America has been steady since the inception of the Internet and it now accounts for 21% of the total, the U.S. share of this global market has been gradually declining (211 million; 19%). In contrast, China, with the second largest Internet user population (139 million; 12.5%), is expected to continue gaining market share (572% growth between 2000 and 2007) (China Internet Network Information Center, 2007). These developments are in line with the rate of adoption theory, which describes the IT diffusion process as initially proceeding through a slow, gradual growth period, followed by dramatic and rapid growth, then gradual stabilization, and finally a decline (Rogers, 1995). With over 1.3 billion people and double-digit economic growth, China could potentially emerge as the largest Internet and telecommunications market in the world if certain economic, environmental, and organizational barriers are addressed effectively. Revenues generated through e-commerce transactions have soared to \$127.5 billion in 2006, an increase of 50% from the previous year and “with an estimated 50 million Chinese engaged in e-commerce, growth is extremely promising” (Rein, 2007). However, Internet-based transactions remain a mere fraction of the total traditional business revenue. In spite of this paucity of earnings, the Internet provides the Chinese with easy access to the outside world and many are eager to embrace this new technology.

Five pivotal environmental or structural conditions adversely affect the development of a viable e-commerce market in China. First, Internet purchases are generally credit card transactions—a payment system that represents a direct contrast to China’s cash-based consumer culture (Rein,

2007; Markus and Soh, 2002; Steinert-Threlkeld, 2000). Credit card penetration continues to be low (only 50 million cards in circulation compared to 1.1 billion debit cards) and “many analysts argue that Chinese consumers are conservative spenders and not willing to buy on credit” (Rein, 2007). However, the trend is showing a dramatic increase in the adoption of credit cards (500% increase between 2004 and 2007) and surveys are showing that the younger generation (18 to 28) is much more willing to purchase items on credit. A second yet related condition stems from the fact that the use of credit cards to make online purchases requires an infrastructure capable of handling electronic payments. China’s substandard IT/electronic payment infrastructure (Markus and Soh, 2002; Steinert-Threlkeld, 2000) creates a somewhat formidable obstacle. According to Li and Suomi (2006), China does not have a nationwide credit card network and there is no centralized settlement system. Third, in the last 10 years, the Chinese government has enacted several pieces of legislation related to various aspects of e-commerce. These include legislation on electronic signatures, taxation, electronic contracts and others (Yan, 2005). At the same time, the government has continued to use and add restrictive/bureaucratic policies such as content regulations and user registration requirements. Current governmental restrictions continue to hamper the development of a vibrant e-commerce market in China (Li and Suomi, 2006; Markus and Soh, 2002; Rosen, 1999). Fourth, China’s logistics and distribution system is inefficient and unreliable (CMIC, 2007). The final structural impediment stems from China’s substandard telecommunication system (Markus and Soh, 2002). Collectively, these structural deficiencies may provide some basis for the fact that very few of the e-commerce initiatives in China have been successful (Martinsons, 2002).

A variety of environmental, organizational, and personal factors are not only instrumental in advancing IT diffusion, but also have a marked

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