Ram, J., & Zhang, Z. (2018). An investigation into failure of Internet firms: Towards development of a conceptual model. *Australasian Journal of Information Systems*, 22. doi: 10.3127/ajis.v22i0.1622

Review

The paper published by Ram and Zhang (2018) makes a comprehensive attempt at addressing the factors that contribute to foreign internet business failures operating in China. The issue presented is current and interesting in view of the exponential growth in internet use in China and the remarkable business opportunities presented. Doing business in China is extremely competitive not only for foreign firms (Zhang, 2015), even large local internet firms are not spared (Lee, 2017). However, as highlighted by the authors, what is intriguing is that global titans such as Google, Uber, and eBay have succumbed to local rivals.

Existing studies tend to examine the institutional constraints (e.g. legal and regulatory) faced by foreign firms in China through a political lens (Stevens, Xie & Peng, 2016; Yeo, 2016). Yet, few have drawn insights by combining the established Socio-Technical Theory and the Comparative Theory such as Ram and Zhang (2018). The authors fill the research gap through propositions and the development of a conceptual model, and as such fulfills the call by Li (in press) in a similar study. Therefore, Ram and Zhang's (2018) paper has the potential for contribution to this area by closing the research gap with the provision of internally driven and externally imposed sources.

The authors aim to "*examine and identify some of the possible sources or factors driving failure of Internet firms in general, by learning from the experience of China and build fundamental knowledge on the challenges of operating in a foreign Internet market*" (p.2, para 5). The paper gives several examples in support of each factor of failure to construct the propositions for a conceptual model. It is a different approach considering that existing studies have relied on a multiple case study approach to illustrate the performance of foreign internet firms (e.g. Zeng & Glaister, 2016; Nummela, Saarenketo & Loane, 2016).

While it is possible that failures of technology giants in China often get reported in the media, successes of foreign internet firms could be less well reported. e.g. Mei.com ("Alibaba Group announces strategic investment in Mei.com", 2015) and Coursera (Soo, 2015). Additionally, existing studies allude to regulatory barriers in favor of local firms (e.g. Jiang, 2014), however, such situation is not often the case. For example, among local Chinese firms, Tencent has more political capital than Alibaba (Wang et al., 2016). A balanced view on such cases could be explored in the paper, as well as a discussion on successful practices. As such, the applicability of these practices can be enhanced.

Internet firms tend to introduce new business models and digital disruption. Yet the adoption is also contingent on market maturity and consumer readiness (Weihuan, Arner & Buckley, 2015). Hence, several local firms owe much of their success to late-mover advantage instead (Wu, Ma & Shi, 2010). Moreover, with China rapidly transitioning to an innovation-driven economy, local firms succeed over their foreign rivals by being more innovative and adaptive (Wei, Xie & Zhang, 2017, see also Tse, 2015). Therefore, better market orientation, organizational learning, and ambidexterity that enable local firm innovativeness and adaptiveness would contribute alternatively to the model development (Hurley & Hult, 1998; Steiber, 2018; Lee et al., 2015). For instance, Alipay and WeChat pay are unparalleled technological applications utilizing mobile payment, unique only in China (Ma, 2016).

Finally, the paper is a commendable effort in the attempt to develop a model on understanding foreign internet firm failures in China, considering broad factors that could contribute to such issue. The proposed model provides an important basis for future studies on doing business in China in the new economy. Further investigation of the factors and development of the model are merited and would certainly enrich literature and encourage discussion in this area.

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Response from Ram and Zhang

Thank you for the review and constructive feedback. We sincerely appreciate the reviewer for encouraging comments. Referring to the review where it is mentioned that:

"While it is possible that failures of technology giants in China often get reported in the media, successes of foreign internet firms could be less well reported",

We agree that economical reporting from media could be one of possible explanations where failures of foreign firm are more likely to be reported.

As a matter of contributing to the debate on the example of *Mei.com's* success because they received strategic investments from *Alibaba Group* (Business Wire, 2015), we think that volume of investments received is not necessarily a measure of success. In reality, some foreign giants (e.g., Uber) received even stronger financial supports, yet still failed (Hook, 2016).

Also, it will be worthwhile to point out here that *Mei.com* received their share of investments in 2015 when the Chinese government was encouraging entrepreneurship and investments in "new business" via a national scheme sponsored by the Central Government (Zhang, 2015). It resulted in an "investment boom" in which venture capitals, angel investors, large or even small companies invested in several early-stage firms, especially Internet firms. In addition to investing in *Mei.com*, *Alibaba* also invested in dozens of other firms in that year, which strengthens the argument that *Mei.com's* success may not necessarily be attributed to the strategic investment. It should also be noted that *Mei.com* didn't receive any more funds afterwards.

Secondly, while both *Mei.com* (Business Wire, 2015) and *Coursera* (Soo, 2015) may have a large customer base, but considering overall market share their success may not be that significant. *Mei.com* has 2 – 3 thousand of orders per day and 3 million registered users (Sun, 2015), which is unparalleled to *Alibaba*, who has more than 30 million orders per day (Wieczner, 2015). Similarly, *Coursera* with 1 million users (Soo, 2015), takes up only approximately 1% market share in China's online education market and less than 2% in Higher Education (CNNIC, 2016; iResearch, 2018). In comparison, *New Oriental* who partnered with *Tencent* had 8.8 million online users in 2014 and nearly 20 million currently (iResearch, 2018; New Oriental Education & Technology Group, n.d.). That is in addition to their larger off-line customers base with huge future potential.

Nevertheless, the two examples quoted in the review have shown the potential of foreign Internet firms in China. Interestingly, both firms have partnered with local giants, *Mei.com* with *Alibaba* (Business Wire, 2015; Sun, 2015), and Coursera with NetEase (Soo, 2015). It also strengthens the viewpoints in the published paper that partnership with local firms is crucial for foreign firms' success in China (Ram and Zhang, 2018).

Furthermore, the dominating market share of *New Oriental* over *Coursera* might be contributing to validate the significance of the factor "*competitors' strategic leverage*" proposed in the paper, owing to local firm's stronger network and lager customer base (Ram and Zhang, 2018).

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