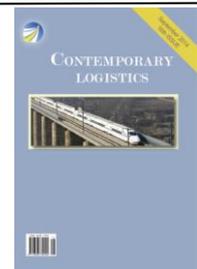




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# Countermeasures of Coping With Lacking of Credibility in E-commerce Under the Background of the International Crisis

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### ABSTRACT

In the period of the international financial crises, E-commerce has become a powerful support of the core competitiveness of Chinese enterprises. However, the vulnerability of our network platform and trading virtual objects result in the lacking of integrity in the E-commerce transaction process. Honesty has become a bottleneck which restricts the development of E-commerce. This article elaborates the development of E-Business Honesty and Royalty from the aspect of restriction of E-Business Honesty and Royalty, summarize the problems in the establishment of credit system, and analyzed the reasons to E-commerce integrity issues. At the meantime, some practical suggestions are given to solve the E-commerce integrity issues on the basis of the successful experience of advanced regions in China.

## 1 Introduction

The counterpart of integrity is Chengxin in China, and it has a long history. Cheng means being sincere in your behavior; and Xin means you should stick to your promises and follow them. Business credit is the self-regulation concept and behavior based on national laws, market rules and business ethics that enterprises establish and implement in business management and marketing operation. The development of information economics and Game Theory has promoted the theoretical research and development of business credit in the field of economics. James Mirrlees and William Vickery have made a groundbreaking contribution to the research of business credit under the condition of asymmetric information. Adverse selection, moral hazard, principal-agent and other theories are important results of researching reasons of the declining of business credit in the asymmetric condition. Reputation model and the three elements put forward by Hart and others researched the mechanism of keeping enterprises' credibility from the perspective of Game Theory. Business credit research not only belongs to economics research areas, but also belongs to business ethics research.

As a comprehensive issue, business credit research has achieved many results in different disciplines. However, there are still some shortages. Economic theory analyzed reasons of the declining of business credit from perspectives of information asymmetry, uncertainty of property rights and so on. The introduction of Game Theory proved the mechanism of integrity in the long-term interests of enterprises. But economic theory can not explain why enterprises have the "integrity intention" problem. Business ethics

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emphasizes the guiding role integrity plays in enterprises' behavior, and complements some deficiencies in economic research. But it can't tell the functions of "business credit capacity, which is the key element, in business credit. The interrelated research under the histography theory in Management is quite fragmented. It should be integrated by the research results and methods of economics, ethics and other perspectives to get a certain systematic research result. To the integrity issue research, scholars have focused on the analysis at the integrity and management level without deep analysis at the system level. And they did the research on theories and specific practical problems respectively without further research on the combination of the two.

## **2 The Main Manifestations of Integrity Scarcity in E-commerce Transaction**

With the popularity of Internet, E-commerce as a new business model draws people's attention all over the world. It's virtual, high efficiency and low cost have been affecting and changing people's life and improving the economic efficiency of the whole society significantly. Nowadays E-commerce is developing so fast at home and abroad that some new security threats are emerging. The security problems brought by E-commerce are much more complex than those brought by traditional business. E-commerce is facing great challenges. One of the more and more prominent problems is the integrity issue in commerce transaction. For example, the quality assurance of goods, the integrity of enterprises, goods delivery, ways to deal with trading disputes, after-sales service of the web, rights of consumers and so on are all threatened. These problems are more obvious in the period of financial crisis. The following are the main manifestations of integrity scarcity in E-commerce transaction.

### **2.1 The quality of goods online can't be guaranteed**

The whole process of E-commerce transactions is taken through a virtual network. Consumers mainly get the information of goods by the pictures and word introductions. So some websites make false advertisements, they exaggerate the functions of their goods. To attract consumers, they may modify pictures of goods, provide shoddy goods, or mislead consumers in the name of authentication, original goods and low price.

### **2.2 The fraud or denial behavior of buyers and sellers**

In the process of online transactions, both buyers and sellers take risks on integrity. Some sellers provide false information online, using the low price to induce consumers. What's worse, some people pretend to be sellers or defrauding by phishing. There are also many buyers who can't keep their promises in the transaction process. They may regret after transaction, give hostile bids, give malicious comments out of revenge, or refuse to accept goods unreasonably when they choose cash on delivery etc. And some websites make use of loopholes in national laws and regulations to play the "edge ball", such as providing huge bonuses and prizes to attract consumers to visit their websites. They even conduct credit card cash-out by payment instruments, and then they try to use the interest-free repayment period to get bank credit funds.

### **2.3 Consumers' privacy can't be protected effectively**

Nowadays some important personal information such as name, sex, birthday, contact ways, jobs are necessary when consumers apply for membership of many websites. But many commercial websites not only focus on the protection of customers' personal information, but also spread it maliciously for commercial purposes, or even sell it as commodities.

### **2.4 The inefficient distribution of logistics**

Since many networks can't afford to distribute their goods, almost all websites ask help from other express companies. However, it is hard for enterprises to control the process in which goods are delivered from the express company to consumers. The delivery time may be longer if something unexpected happened. The long waiting time will make many buyers doubt whether the seller has sent out their goods. As a result, many websites' commitment that they will deliver goods to customers can't be achieved in the settled time, which affects the customer's consumer confidence. It is a prominent issue today.

### **2.5 The after-sales service is difficult to carry out**

To make consumers relax to buy goods, many sites now provide after-sales service and promise to return goods if there are some problems. However, when the quality problems really occur, such commitment can hardly be achieved, especially the digital products which need sending back to be repaired. At that moment, many consumers give up after-sales services. Meanwhile, a practical problem appears: Who will pay for the postage?

## **3 Analysis of Reasons to E-commerce Integrity Issues**

The phenomenon of integrity scarcity in E-commerce is the result of pursuing profits professedly. But there are also cultural, institutional and management reasons behind. The integrity education to the public is weak. There is not enough management in the enterprises. And they lack the integrity and credit protection awareness. Meanwhile the faith incentives and punishment mechanism

are not perfect, and the cost of dishonesty is low. All these result in the unbalance of moral behavior, disorder of market transaction, and hinder the healthy development of E-commerce.

### **3.1 Lack a unified database of credit information**

Enterprises' and individuals' credit information is distributed in banks, business sectors, tax departments, quality inspection departments, courts etc. Each department has its own ways of credit collection and management. They haven't shared resources completely. Enterprises' or individuals' credit information can't be got in each one department. If credit investigation is conducted, the cost increases after repeating investigation.

### **3.2 The evaluation criteria of credit information are not unified**

The management departments have their own evaluation methods. The tax departments divide tax companies into A, B, C, D four information levels. While business sectors divide enterprises into four categories, namely green card, blue card, yellow card and black card. And evaluation methods of financial and quality inspection departments are different. There aren't unified evaluation agencies and evaluation methods. Things always happened that an enterprise may be trustworthy judged by this department, but not according to other department's evaluation. This causes the conflict in evaluating credit levels.

### **3.3 E-commerce activities lack an effective supervision**

There aren't detailed credit files of E-commerce consumers. There are no standardized and unified forms to reflect consumers' credit information and transaction records. The qualification accreditation and identity authentication of enterprises involved in E-commerce are not strict. The credit files are imperfect.

### **3.4 The weakness of legal constraints to integrity and the incompleteness of legal system**

Laws are the defense of social prestige and fairness. It aims to repay the trustworthy persons and punish the dishonest ones. One of fundamental reasons to integrity scarcity in our country is that national laws are not strict enough. There aren't laws connect with credit management directly. Legislations concerning the credit issue are lagging behind. There aren't clear punishment items in laws on false trading, counterfeiting actions, contract fraud, driving up the subject by online auction and so on.

### **3.5 The weak integrity basis of the whole society leads to the low credibility in E-commerce transactions**

The short time of market economy development in China and imperfection of laws lead to the decline of some traditional social honesty and ethics. <sup>[4]</sup> There is much distrust among people, that's the psychological obstacle to E-commerce. At the same time, consumers' psychology of coveting cheap provides opportunities for the unscrupulous persons.

## **4 Suggestions to Solve Problems of E-commerce Integrity**

### **4.1 Integrate credit resources and build a unified platform of credit information**

The government should set up a unified credit management center, and adopt a market-oriented mode of operation to build a technologically advanced, full-featured and unified credit information platform. Connect up this platform and credit management databases of business, tax, quality inspection sectors, and banks etc. Ask these departments to send information they collected to the center platform regularly, and then a unified credit information database of enterprises and individuals can be built. It is convenient for the interconnection of credit information among different sectors, industries and regions, which ensures that information is updated and the inquiry to information is easy.

To build a unified credit information platform, we need to make full use of the successful experience of advanced areas. Meanwhile, we should realize while the government plays the core role in building the platform center, the market also plays a basic and guiding role. After all credit information is the resource in essence, and only the market-oriented allocation method is the most efficient and cost-saving.

### **4.2 Establish a credit incentive and restraint mechanism and raise the cost of dishonesty**

China's market economy is under construction and the credit environment is not so good, so enterprises' and individuals' own moral restraints alone are far from enough. Also it is not wise to build the credit system just relying on the power of the market. We should make full use of government's power to promote the establishment of incentive and restraint mechanisms. On the one hand, we should start encouraging honest behavior and make it a mechanism. The financial sectors can increase credit lines, provide credit loans or open green channels to enterprises and customers with good credit. These enterprises and customers will also be exempted from routine inspections and trials of business and commercial system; they can be provided credit guarantees by credit guarantee agencies with decreased physical security, lower guaranteed rates. Meanwhile, news media should propagate and praise them publicly. On the other hand, we should establish warning and punishment mechanism to dishonest behavior. Once enterprises are

classified as yellow card or black card by business sectors, or D-level judged by tax sectors, they will be warned by the warning system. The dishonest enterprises will be known publicly and be given the administrative punishment by the Administrative law enforcement organs. They will lose the convenience in public service, bank credit and other aspects. Thus the cost of default is increased.

#### **4.3 Develop credit check services actively, and promote the sharing of information resources**

The government should set the model to use credit products. For example, in the procurement, land transaction, bids for financial investment projects, administrative approval, appraising rating, qualification accreditation management, and other matters, the government should promote the use of credit products. Then other enterprises and individuals will follow.

There are two categories of credit information. One is the free information, such as company registration, business scope, number of employees, social public information records and so on. Such information is free to the public. The other is paid information, such as business credit records of enterprises and individuals, quality inspection results, business behavior records, some special credit records on civil, administrative, criminal and other major legal actions.

#### **4.4 Perfect the legal system, and strengthen the law enforcement**

Although E-commerce adopts modern electronic means, the legal issues it generates need resolving by the legislation ultimately. Especially for integrity problems, laws and regulations are the last guarantee. So we need to establish and improve relevant laws and regulations, have clear ideas for integrity establishment, and provide rigid credit rules for the E-commerce by legislation.

#### **4.5 Strengthen the integrity education and enhance the public's credit awareness**

The construction of credit system depends on a higher national moral standards and self-discipline awareness ultimately. Governments at all levels and the mass media should make use of China's traditional credit moral resources, propagate it deep and long, and advocate the integrity widely. Then a modern credit culture fashion will be formed.

Strengthen the integrity education in E-commerce enterprises, guide enterprises and individual business to establish and practice the integrity concept. All these are important to help enterprises and individuals act honestly consciously. At the same time, the integrity education should be the central task to improve the soft environment of investments.

## **5 Conclusions**

With the rapid development of Internet, the E-commerce such as online shopping, online stock trading, online-bank, online marketing and so on are more and more popular. The virtual Internet world provides lots of business opportunities. Meanwhile we should realize that many E-commerce enterprises limited by some conditions do little or nothing in the credit system establishment. Frequently we can find some harmful credit issues in the E-commerce process, such as piracy, fake, and fraud, which have had a bad influence on Chinese enterprises in the overseas markets. To improve enterprises' ability to deal with the financial crisis and stimulate the E-commerce's healthy development, it is necessary for us to solve the bottleneck problem of integrity and establish an honesty environment for the E-commerce.

Credit issue is a pressing problem to be solved in E-commerce security. It affects the further development of E-commerce directly. It is not enough to establish the E-commerce mechanism just from one or two aspects. It is a social system, and all walks of life should try their best. The establishment of credit mechanism must be an organic, multi-level process. We need strengthen the management of enterprises, get the support of techniques. And the public's participation and collaboration, and perfect laws are all needed.

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