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**Synopsis of the Case**

According to the latest statistics from the web traffic tracking agency Compete, Alibaba is one of the world’s largest B2B e-commerce portals with over 2.6 million unique visitors per month. Alibaba’s business centers on providing a trading platform that connects international buyers to millions of small-medium enterprises (SMEs) in China that supply a kaleidoscopic array of products, ranging from agricultural products to aircraft parts. But since its inception, Alibaba has diversified into a wide range of businesses ranging from a consumer-to-consumer (C2C) online auction website (Taobao), an Internet portal (Yahoo China), an online review website for lifestyle products and services (Koubei), and an online advertising trading platform (Alimama). Incidentally, according to the web traffic tracking agency Alexa, these spin-offs, together with Alibaba, are all among the top 100 most popular websites in China, a considerable achievement that belies Alibaba’s humble origins.

The initial manifestation of Alibaba was ChinaPages.com. Launched in April 1995, ChinaPages was a small e-business that provided website development and indexing services to local enterprises. At the time, there were no commercial Internet service providers in China and the general population was unaware of the existence of the Internet. Yet, led by Jack Ma, the iconic founder of ChinaPages and later Alibaba, ChinaPages was able to convince many Chinese firms of the business potential of the Internet and subsequently, to engage its services. For approximately US$3,000, ChinaPages would translate the corporate and product information of their clients into English and send the translation to collaborators in the US who would develop and launch websites based on the information. And as commercial internet access became available over time, ChinaPages developed the technical capabilities required for website development and eventually, took over the role from their US collaborators as well.

In 1997, ChinaPages was merged with a local competitor but due to differences in strategic vision, Jack Ma and eight members of the core development team left the organization. Because of their experience in e-commerce, they were eventually roped in by the Chinese government to develop ChinaMarket, an e-government portal for global firms to locate products, services and business opportunities in China. It was the experience of managing both ChinaPages and ChinaMarket that led to the realization that China’s enormous SME market would benefit immensely from the global exposure afforded by the Internet and back then, there were no B2B platforms that catered exclusively to Chinese SMEs as the costs of joining a B2B platform were prohibitive. With this critical insight, Jack Ma and his core team left ChinaMarket and returned to Hangzhou with the dream of establishing
a B2B e-commerce portal that connected the hundreds of thousands of Chinese SMEs to the world. This led to the founding of Alibaba in March 1999 and at the time, Alibaba was operating out of Jack Ma’s apartment and the entire development team drew a salary of only US$73 a month. Yet, within a short span of 9 years, Alibaba has become a publicly listed multi-national corporation with over 10,000 employees worldwide and an annual revenue of US$207 million. Alibaba’s vibrant and populous digital business ecosystem (DBE) was cited by numerous informants as the primary driver of enterprise agility, which in turn, was crucial to its phenomenal success. To illustrate, a senior executive at Alibaba attested to the integral role of its DBE:

“Our ecosystem is the key to our success... We have a close relationship with our (ecosystem) members ... we know their needs and we are able to meet their needs quickly and effectively... this strengthens our members and enables them to contribute to the collective good... It is a virtuous cycle. When the ecosystem prospers, everyone (within the ecosystem) prospers…”

The development of Alibaba can be summarized into three phases:
3. Developing ecosystem capabilities (2007-Present)

Teaching Objectives

The Alibaba case study can be used as a classroom discussion material for various subjects, such as IT-enabled enterprise agility, digital business ecosystem, strategic management and general IS management and with greater emphasis on the following:

• To understand how DBE is formed and evolved
• To understand what role played by core firm in DBE and how the core firm achieve that role
• To exemplify how DBE can be leveraged to achieve enterprise agility

Assignment Information

The following questions can be brought by for students’ discussion:

1. In the initial phrase, what specific strategic resources and capabilities the focal company, i.e., Alibaba, should hold in order to establish centrality and attain critical mass? Also, what role did Alibaba play in this phrase? What enterprise agility was achieved by Alibaba in this phrase?

2. In the second phrase, Alibaba were centered on the acquisition/development of search engine (i.e. Yahoo China) and community building (i.e. Koubei) capabilities, what’s the purpose of these actions? What’s the difference of ecosystem role played by Alibaba between phrase one and phrase two? What factors do you think push this role change?

3. What strategy did Alibaba adopt in the third phrase? What’s the purpose for applying this strategy? What enterprise agility do you think Alibaba achieved in this phrase?

4. From this case, we can easily find that Alibaba was changing its role along different phrases. Because of that, the nature of the ecosystem changed as well. Can you conceptualize this change by drawing the structure of the ecosystem in each phrase? Please give a brief description of its evolution. (With filled circle representing focal company, other un-filled geometric symbols representing members in the ecosystem)
Suggested Background Readings:


Teaching Plan

Case Introduction

The instructor can start this case teaching by discussing the current competitive business environment and the tough issues being faced by many companies. Briefly speaking, the modern competitive landscape is characterized by hyper-competition, turbulent strategic and operating conditions, increased time-to-market pressures, regulatory changes and rapidly evolving customer demands (McAfee and Brynjolfsson 2008; Overby et al. 2006).

Because of hyper competition and swiftly changing business environment, sensitive sensing of business opportunities and grasping those opportunities are the keys to business success. In another words, enterprise agility, defined as the ability to consistently detect and seize market opportunities with speed and surprise (Sambamurthy et al. 2003), is increasingly viewed as an important determinant of business success for the contemporary firm (e.g. Sull 2009). With the step-shift advances in Information Technology (IT) over the last decade, the potential of IT in enabling enterprise agility has grown considerably (Sambamurthy et al. 2003). Accordingly, the concept of IT-enabled enterprise agility has received increasing attention from practitioners and the academia in recent years (van Oosterhout et al. 2006).

However, even though IT-enabled enterprise agility is so important that almost every contemporary firm needs to have a clear understanding of its business value and practical implementation, many issues are still unclear yet.

- In a significant number of studies, the relationship between the adoption of IT and enterprise agility is treated as a “black box” and implicitly assumed to be automatic (e.g. Donnellan and Kelly 2005; Hovorka and Larsen 2006). Hence, it is still unknown about how IT gives rise to enterprise agility.
- In addition, much of the existing prescriptions for attaining enterprise agility through the use of IT have not been empirically validated (e.g. Overby et al. 2006; Seo and La Paz 2008), and tend to be overly abstract in that they do not provide sufficient indications for practical action (e.g. Holmqvist and Pessi 2006; Zain et al. 2005).
- Thirdly, the reality is that significant changes in the managerial, legal and technological capabilities of organizations at the turn of the millennium have led to a new networked economy that is no longer driven by economies of scale, but the “economics of networks” (Shapiro and Varian 1999). Accordingly, there is a pressing need for a different perspective of IT-enabled enterprise agility, one that accounts for the new dynamics of business competition in the present networked economy (Iansiti and Levien 2004a).
Therefore, the purpose of this study is to examine how enterprise agility can be attained by an organization operating as a core firm in a DBE. The study of Alibaba can help us deeply understand IT-enabled enterprise agility in ecosystem perspective, since Alibaba’s business centers on providing a trading platform that connects international buyers to millions of small-medium enterprises (SMEs) in China that supply a kaleidoscopic array of products, ranging from agricultural products to aircraft parts.

Class Discussion

The instructor can begin the class discussion with the following questions:

1. In the initial phrase, what specific strategic resources and capabilities the focal company, i.e., Alibaba, should hold in order to establish centrality and attain critical mass? Also, what role did Alibaba play in this phrase? What enterprise agility was achieved by Alibaba in this phrase?
   a. The specific strategic resources and capabilities of the focal company in this case are (1) its unique insight of the unmet needs of Chinese SMEs, (2) its superior technical capabilities, and (3) its intimate knowledge of Chinese business practices.
   b. In this phrase, Alibaba mainly adopted the ecosystem role of a keystone service provider. In another words, it “shares value” (Iansiti and Levien 2004a) with the entire ecosystem by providing direct services that lower the barriers of ecosystem membership, which in turn, enables a larger pool of entities to participate in the ecosystem.
   c. In this phrase, the ecosystem is hub-and-spoke in nature, which can be leveraged for a basic “sense-and respond” type of enterprise agility (Overy et al. 2006) through two distinct mechanisms. First, the hub-and-spoke network configuration enhances the sensing capabilities of the core firm as its immediate ties with the other entities in the ecosystem enable the firm to solicit direct feedback, providing it with critical information on the needs of these members (Koka and Prescott 2008). Second, the centrality of the core firm in the ecosystem enhances its ability to respond to detected needs as similar entities within the ecosystem tend to have similar needs, and organizational actions taken in response to the expressed needs of a small subset of members may effectively benefit all entities within the ecosystem concurrently (Blyler and Coff 2003).

2. In the second phrase, Alibaba were centered on the acquisition/development of search engine (i.e. Yahoo China) and community building (i.e. Koubei) capabilities, what’s the purpose of these actions? What’s the difference of ecosystem role played by Alibaba between phrase one and phrase two? What factors do you think push this role change?
   a. In the second phrase, Alibaba wanted to obtain internal organizational capabilities, which meant to disrupt the basis of business competition for existing (i.e. B2B portals) and future (i.e. Internet portals/ search engines) competitors (D'Aveni 1994; Teece et al. 1997). In another words, Alibaba strived to acquire/develop capabilities that enhance internal interactions within the ecosystem and minimized external interactions with entities outside the ecosystem. By doing that, core firm is able fortify the boundaries of the ecosystem by establishing barriers that prevent its network resources from leaking into the external environment.
   b. Compared with phrase one, Alibaba changed from controlling over every member in the ecosystem to providing a platform for interaction among those members. So, in this phrase, Alibaba was a platform provider, and the role was not only sensing and responding, but also monitoring and analyzing.
c. As a result of the rapid growth of its business ecosystem, Alibaba was forced to relinquish its role as a “hands-on” service provider and took on the role of a keystone platform provider. Hence, rapid increasing of players in the ecosystem made it impossible for Alibaba to directly control over every member, because it was inefficient and time-costing.

3. What strategy did Alibaba adopt in the third phrase? What’s the purpose for applying this strategy? What enterprise agility do you think Alibaba achieved in this phrase?

a. The logic of the strategy in phrase three is: developing ecosystem capabilities to foster symbiotic relationships between entities in a healthy business ecosystem. Hence, the strategies enacted by Alibaba in the third phase of ecosystem development were centered on the development of ecosystem capabilities meant for the benefit of its members that conferred little or no direct benefits on Alibaba itself. The strategic intent underlying Alibaba’s strategies and its new ecosystem role was to strengthen their members and enable them to contribute more to networked value creation.

b. The purpose of the strategy can be summarized into the following: (1) by providing the means of capability development for the other entities in the ecosystem, there is increased mutual interdependence between the core firm and the other entities, which enhances ecosystem value creation (Holm et al. 1999) and serves as the foundation for stability, productivity and creativity in the ecosystem (Iansiti and Levien 2004a); (2) by strengthening the organizational capabilities of the other entities in the ecosystem, the core firm enhances its goodwill and social relations with the other entities in the ecosystem, which provide the opportunity, motivation and ability for solidarity and collective action (Adler and Kwon 2002); (3) by facilitating ecosystem capability development and becoming more valuable to the other entities, the core firm simultaneously gains power and control within the ecosystem, and enables greater diversity in ecosystem value creation. In a nutshell, the underlying purpose of adopting such strategy is to foster symbiotic relationships between its members and itself, and to channel the resources and actions of disparate ecosystem entities towards the collective good that enhanced the health and overall competitiveness of the business ecosystem.

c. As the entire ecosystem functions as a single entity, utilizing communal resources and capabilities towards the shared objectives of the ecosystem, individual ecosystem entities may be engaged in the co-production of innovations (Lengnick-Hall 1996), which precipitates a “collective” form of enterprise agility. Collective agility can (1) invalidates the need to sense or anticipate those needs, (2) enables the concurrent development of a near-infinite range of personalized innovations, and (3) provides the strongest assurances that the innovations pursued are in line with its members needs (Tan et al. 2009), since the innovations are tailor-made for ecosystem members by the members themselves.

4. From this case, we can easily find that Alibaba was changing its role along different phrases. Because of that, the nature of the ecosystem changed as well. Can you conceptualize this change by drawing the structure of the ecosystem in each phrase? Please give a brief description of its evolution. (With filled circle representing focal company, other un-filled geometric symbols representing members in the ecosystem)

a.
b. The nature of ecosystem is implied by the role of core organization in the ecosystem. In this case, the role played by Alibaba changed from service provider to platform provider, and finally to utility computing service provider.

At first, Alibaba mainly focused on establishing centrality and attaining critical mass. For doing that, it have to involve itself directly in collating the necessary information published on various electronic BBSs, publishing the relevant information on its website, facilitating access to the information by organizing the information and providing navigational tools, and promoting the information on other websites for international trade. Hence, Alibaba had direct one-to-one relationship with every member in the ecosystem.

Due to increasing growing of members, the ecosystem evolved from one-to-one interaction between core firm and other members to more frequently internal interactions among members. This optimization of the ecosystem helped core firm save more time to coordinate interactions and thus the operations within the ecosystem was more efficient. Therefore, Alibaba could monitor and predict potential business opportunities.

The evolution from platform provider to utility service platform provider was originated from complexity logic. Based on that, Alibaba helped members in the ecosystem to enhance their organizational capabilities, so that they could contribute more to the ecosystem in a "collective way". Finally, Alibaba was able to foster symbiotic relationships between its members and itself, and channel the resources and actions of disparate ecosystem entities towards the collective good that enhanced the health and overall competitiveness of the business ecosystem.

References


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Dr. Pan's primary research focuses on the recursive interaction of organizations and information technology (enterprise systems), with particular emphasis on organizational issues such as work practices, cultures, structures, decision-making, change, strategy implementation that often require qualitative research methods. Specifically, he is interested in understanding the complex issues related to the adoption, implementation and use of enterprise systems within organization.