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The Role of Dynamic Capabilities in the Strategic Adjustment Process of Internet Financial Enterprises in China

ZHAO Guijun

Doctor of Management

Supervisors:

PhD Nelson António, Professor Emeritus,
ISCTE University Institute of Lisbon

PhD XIAO Wen, Professor,
University of Electronic Science and Technology of China

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Marketing, Operations and General Management Department

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BUSINESS
SCHOOL

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I declare that this thesis does not incorporate without acknowledgment any material previously submitted for a degree or diploma in any university and that to the best of my knowledge it does not contain any material previously published or written by another person except where due reference is made in the text.

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Abstract

In China's Internet finance industry, companies face a complex and uncertain environment that poses significant adaptive challenges. The strictness of regulatory policies, the rapid development of technological innovation, and the sharp changes in consumer preferences have profound implications for the survival and development of enterprises. Many Internet finance companies have struggled to cope with these challenges, leading to hindered business development, a significant decline in profits, and even withdrawal from the market. This thesis focuses on how Internet finance companies make strategic adjustments to adapt to the complex and variable external environment and investigates the role of dynamic capabilities in this process.

The research categorizes the strategic adjustment process into three phases: strategic analysis, strategic planning and selection, and strategic implementation and evaluation. Throughout this process, the three components of dynamic capabilities—sensing capability, seizing capability, and transformation capability—have been identified as crucial success factors. Sensing capability assists the company in rapidly and accurately identifying changes in the external environment. Seizing capability enhances decision-making and execution efficiency through decentralized management and resolution mechanisms. Transformation capability mitigates the challenges of resource acquisition by facilitating flexible resource allocation and effective training mechanisms, expediting the deployment of new strategies.

The findings indicate that Internet finance enterprise, through effective strategic adjustments, has sustained business growth and core competitiveness despite the impact of external environmental changes and regulatory policies. This study also reveals how dynamic capabilities ensure the success of the strategic adjustment process and their indispensable role throughout it.

Keywords: Suning Finance, Internet Finance, SBU, dynamic capabilities, strategic adjustment process

JEL: L1, M3

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Resumo

Na indústria de financiamento pela Internet da China, as empresas enfrentam um ambiente complexo e incerto que apresenta desafios de adaptação significativos. A rigidez das políticas regulatórias, o rápido desenvolvimento da inovação tecnológica e as mudanças acentuadas nas preferências dos consumidores têm implicações profundas na sobrevivência e no desenvolvimento destas empresas. Muitas delas têm enfrentado dificuldades no seu desenvolvimento e até mesmo a retirada do mercado. Esta tese estuda este problema, analisando as estratégias utilizadas por uma empresa de financiamento pela Internet para se adaptar à envolvente externa, complexa e variável, e investiga o papel das capacidades dinâmicas nesse processo.

A investigação categoriza o processo de ajustamento estratégico em três fases: análise, planeamento e seleção, e implementação e avaliação. Ao longo deste processo, as três componentes das capacidades dinâmicas — capacidade de percepção, capacidade de apreensão e capacidade de transformação — foram identificadas como fatores cruciais de sucesso. Enquanto a capacidade de percepção ajuda a empresa a identificar de uma forma rápida e precisa as mudanças no ambiente externo, a capacidade de apreensão melhora a eficiência da tomada de decisão e da execução por meio de mecanismos de gestão descentralizada. Por seu lado, a capacidade de transformação mitiga os desafios de aquisição de recursos facilitando a sua alocação flexível e mecanismos eficazes de formação, acelerando a implementação de novas estratégias.

Na empresa de financiamento pela Internet estudada os resultados indicam que, através de ajustamentos estratégicos eficazes, foi possível manter o crescimento e a competitividade, apesar do impacto das mudanças externas e das políticas regulatórias. Este estudo revela ainda como as capacidades dinâmicas permitem o sucesso do processo de ajustamento estratégico e o seu papel indispensável ao longo deste.

Palavras-chave: Suning Finance, Internet Finance, SBU, capacidades dinâmicas, processo de ajuste estratégico

JEL: L1, M3

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摘要

在中国互联网金融行业，企业面临着一个复杂且充满不确定性的环境，这构成了企业适应性的巨大挑战。监管政策的严格性、技术创新的迅猛发展以及消费者偏好的急剧变化，对企业的生存和发展产生了深远的影响。许多互联网金融企业在应对这些挑战时显得力不从心，导致业务发展受阻、利润显著下降，甚至不得不退出市场。本文聚焦于互联网金融公司如何进行战略调整以适应复杂多变的外部环境，并探究了动态能力在这一过程中的作用。

本文将战略调整过程划分为三个阶段：战略分析、战略规划与选择、战略实施与评估。在整个过程中，动态能力的三个组成部分——感知能力、把握能力和变革能力——被确认为关键成功因素。感知能力帮助公司快速准确地识别外部环境的变化。把握能力通过去中心化的管理和争议解决机制提高决策和执行效率。变革能力通过促进灵活的资源配置和有效的培训机制，缓解资源获取的困难，加速新战略的部署。

本文的研究结果表明，互联网金融企业通过有效的战略调整，在外部环境变化和监管政策的影响下，可以有效地保持业务增长和核心竞争力。本研究还揭示了动态能力如何确保战略调整过程的成功及其在整个过程中不可或缺的作用。

关键词：苏宁金融，互联网金融，SBU，动态能力，战略调整过程

JEL: L1, M3

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Acknowledgements

I am a student of the class 2019 in the DOM project. Three months after entering the school in September 2019, we encountered the once-in-a-century COVID-19 pandemic. Over the three years of pandemic prevention and control, I faced many challenges: as a doctoral student, I had to diligently advance my academic progress; at the same time, as a manager, I had to deal with changes in policies and economic situations, leading the team to innovate, break through, and actively seek change. Through a combination of online and offline methods, I successfully completed all courses and conducted the proposal, progress oral defence, and writing of my doctoral thesis.

I sincerely express my gratitude to my Portuguese supervisor, Professor Nelson from the ISCTE. In the process of my academic exploration, Professor Nelson not only provided invaluable guidance in determining the research direction, topic selection, constructing the thesis structure, and choosing research methods with his outstanding knowledge and rich experience but also led me with his rigorous academic attitude and spirit of excellence. At every stage of the thesis writing, he gave meticulous review and suggestions, helping me reach higher levels in academic thinking and expression. Professor Nelson's careful guidance saved me from many detours in my academic journey. I will forever be grateful and cherish this unforgettable teacher-student relationship.

In the journey of writing this thesis, I also want to thank my Chinese supervisor, Professor Xiao Wen from the University of Electronic Science and Technology of China. Professor Xiao, with her rigorous scholarly attitude, set an example for me. Her teachings, like a gentle spring rain, are gentle yet full of strength, inspiring me to continually pursue depth and breadth in my academic endeavours. Professor Xiao's guidance not only solidified my research but also greatly enriched my perspective of thinking. This gentle and encouraging guidance not only had a significant positive impact on my doctoral career but also on my future development path. I will forever remember this precious time spent with my teacher.

Many thanks to the collaboration project between the ISCTE and the University of Electronic Science and Technology of China for the management doctoral program, which gave me the opportunity to become a doctoral student in management, fulfilling my dream after many years, and receiving systematic learning and improvement in management

knowledge from teachers in both China and Portugal.

I express gratitude to the executives and department heads of various SBU at Suning Finance for their strong support in my thesis interview work, allowing me to collect a large amount of authentic data for subsequent statistical analysis and conclusion output.

Finally, I want to thank my spouse and son, Zhang Ruihan, for their understanding and support during my doctoral studies, creating a positive family atmosphere and encouraging me to complete various learning and research tasks during my learning.

致谢

我是 2019 级 DOM 项目的学员，2019 年 9 月入校三个月后，我们就遭遇了百年难遇的新冠疫情。疫情防控的 3 年里，我面临着许多的挑战：作为一名博士研究生要认真的推进相关学业进度；同时作为一位管理者，要应对许多政策和经济形势的变化，带领团队创新突破、积极谋变。我通过线上与线下结合的方式，顺利的学完所有课程，并进行了博士论文的开题、中期答辩和写作。

在此真挚地表达我对我的葡方导师——葡萄牙里斯本大学学院的 Nelson 教授，深深的感谢。在我进行学术探索的过程中，Nelson 教授不仅以他卓越的学识和丰富的经验，在确定研究方向、选题、构建论文框架以及研究方法的选择等方面提供了无比宝贵的指导，更以他严谨的学术态度和精益求精的精神引领我。论文写作的每一阶段，他都予以细致入微的审阅与建议，帮助我在学术思考与表达上达到更高层次。Nelson 教授的悉心教导，让我在学术旅程上少走了许多弯路。我将永远怀着感激之情，珍惜这段难忘的师生缘分。

在撰写这篇学术论文的旅途中，同样感谢我的中方导师——电子科技大学的肖文教授。肖教授以其严谨的治学态度为我树立了榜样，她的教诲如同细雨春风，温柔却又充满力量，激励我不断追求学术的深度与广度。肖教授的指导不仅让我的研究更为扎实，也极大地丰富了我的思考视野。这种谆谆善诱的指导方式，不仅对我的博士生涯，更对我未来的发展道路有着不可估量的正面影响。对于这段珍贵的师生时光，我将永远铭记在心。

非常感谢葡萄牙里斯本大学学院和电子科技大学的管理学博士合作项目，让我有机会成为管理学博士生，圆了自己多年的梦想，并得到中国和葡萄牙多位名师的教诲，系统性的进行了管理学知识学习和提升！

感谢苏宁金融各 SBU 高管、部门负责人对我的论文访谈工作的大力支持，让我能收集到大量真实的数据，便于后期的统计分析和结论输出。

最后，感谢我的爱人和儿子张锐涵，在我读博期间，对我的理解与支持，营造了良好的家庭氛围，鼓励我完成博士期间的各项学习和研究。

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List of Acronym

SBU	Strategic Business Unit
SN	Suning
PBoC	The People's Bank of China
KPI	Key Performance Indicator
ABS	Asset-Backed Securities

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Chapter 1: Introduction

1.1 Research background

1.1.1 Current situation and characteristics of China's Internet finance industry

Since 2000, China's Internet finance industry has basically experienced two decades of development. The first decade (2000-2010) was the period of rapid development of the PC-based Internet, and the second decade (2010-2020) was the golden decade of the development of the mobile Internet. When the infrastructure is gradually complete, everything is connected with Internet, and information technology is constantly changing and upgrading, Internet finance, a young industry, also shows its integration and technology. With the help of the Internet, digitalization and information technology, Internet finance has been growing rapidly. Internet finance has two growing paths: one is with the help of Internet technology and information and communication technology, traditional financial institutions carrying out various types of online financial business and services; the other is that Internet enterprises make use of Internet traffic, technology accumulation, or apply for financial business qualifications, cooperate with financial institutions, and finally achieve the full coverage of financial business. Generally speaking, Internet finance mostly covers capital financing, transaction, payment, investment, financial management, information service, which is one of the innovations of new financial business mode since of the 21st century (Shen & Huang, 2016).

Meanwhile, the supervision of Internet innovation and exploration in the field of finance had also been strengthened, especially on the development and evolution of Internet platform financial activities based on the later way, which requires all parties to be more prudent. On the one hand, strengthening norms and governance, anti-monopoly and unified supervision were of great importance to the Internet platforms in 2020. The Central Economic Work Conference at the end of the year clearly proposed to strengthen anti-monopoly and prevent disorderly expansion of capital. It also stated that financial innovation must be carried out under the premise of prudent supervision. On the other hand, P2P, third-party payment, Internet lending, Internet insurance, Internet deposit and other specific businesses have been tightened, removed and suspended in 2020. In short, after two decades of development,

Internet finance has finally come to slow down.

First of all, as supervision being stricter, and institutions having been differentiated and transformed, “strict supervision and looking for transformation” was the mainstream trend of e-commerce industry in 2019. In 2019, “Establishing a long-term mechanism to prevent and resolve risks” was still the priority of the regulators. In view of the problems exposed in some institutions, such as illegal lending practices, violent debt collection, invasion of citizens' privacy, they continued to issue documents and implemented supervision so as to effectively safeguard the legitimate rights and interests of consumers. Only in 2019, the number of paper issued by various institutions regarding the e-commerce industry has reached a number of 6. Even the industry giant Ant Group was influenced by the new regulation. With Ma Yun and other actual controllers of Ant Group being questioned by the regulators, the listing of Ant Financial was forced to be postponed. As the supervision of e-commerce finance industry continued to be stricter, in November 2020, Liu Fushou, the chief lawyer of China Banking Regulatory Commission, mentioned in the regular policy briefing of the State Council that the risk situation of Internet finance has been fundamentally improved. The number of P2P loan institutions in China has dropped from peak period's 5000 to 3 at present. The scale of lending and the number of borrowers have declined for 28 consecutive months, and operating platforms in China have nearly been extinct. Details are shown in Table 1.1.

Table 1.1 Documents about the Internet finance issued in recent years

Time	Issuing Organization	Regulatory Document	Content
Feb.15	The State Internet Information Office	Regulations on Managing Blockchain Information Service	It aims to clarify the information security management responsibility of blockchain information service providers, standardize and promote the sound development of blockchain technology and related services, avoid the security risks of blockchain information services, and establish effective legal basis for the provision, use and management of blockchain information services.
Oct. 22	Supreme Court, Supreme People's Procuratorate, Ministry of Public Security and Ministry of Justice	Opinions on Handling Criminal Cases of Illegal Loan	It aims to punish the criminal activities of illegal lending by law, effectively maintain the order of the national financial market and social harmony and stability, effectively prevent illegal lending induced criminal activities involving gangs and evils, and protect the legitimate rights and interests of citizens, legal persons and other organizations.
Nov. 8	National Internet Finance Association Of China	Notice Enhancing Awareness of Personal Information	It provides guidance to member organizations to enhance their awareness of personal information protection, adhere to compliance and prudent operation, and prevent and correct violations of personal information protection

		Protection and regulations. Carrying out Business by Law	
Nov. 15	National Internet Finance Association Of China	Notice on Strengthening the Deposit and Management of Online Lending Funds	The commercial banks that have passed the evaluation shall carry out the online loan fund deposit and management business in strict accordance with the relevant rules and regulations as well as the standards for the deposit and management of online loan funds. The commercial banks that fail to pass the evaluation shall not continue to carry out the business.
Dec. 3	National Internet Finance Association Of China	The Pilot Project of Filing Management of Mobile Financial Client Application Software in Financial Industry	Each experimental institution shall complete the material submission and filing application of the first batch of pilot client software through the client software filing management system by the end of 2019. The association would issue the list of the first batch of client software that has passed the filing on a selective basis after completing the filing review.
Dec. 27	The People's Bank of China	Measures for Implementation of the People's Bank of China's protection of financial consumers' rights and interests (Consultation Paper)	When collecting debts from financial consumers, a financial institution shall not take any method that violates laws, regulations and social morality, damages social public interests, or infringes upon the legitimate rights and interests of financial consumers or a third party. If a financial institution entrusts a third party to recover debts, it shall explicitly prohibit the trustee from using the recovery method mentioned in the preceding paragraph in the written agreement, and urge the trustee's collection behavior to be supervised.

Source: Documents issued publicly by all departments

Secondly, as supervision becomes stricter, financial service license has become a scarce resource. Each e-commerce financial giant arranges the financial license by initiating the establishment or equity participation, which lays the foundation for the subsequent business.

Thirdly, licensed institutions have accelerated the establishment of financial technology companies. This is to adapt to the rapid integration and development of emerging Internet technology and financial industry. Especially for traditional banks, they enjoy the advantages brought by licensed institutions. However, their development still faces the main problems of lacking financial technology and Internet sense.

Fourthly, Internet financial institutions, especially the licensed ones, are looking for new Internet flow portals from the inside out to achieve transformation. Due to the high industry entry threshold, Internet companies that entered the industry in early stage are facing the difficulties such as stagnation of license issuance, and the limited development of financial business. However, their high-quality Internet flow is the advantage that can provide

application scenarios for license holders. The cooperation of license holders and Internet flow platforms can increase new flow inlet and achieves transformation.

1.1.2 Development and distribution of Internet finance industry

In 2017, with tighter regulation and intensifying competition, Internet financial giants such as Ant Financial announced the transformation from "FinTech" to "TechFin", shifting from strategy to technology, exporting customized solutions for traditional financial institutions, Internet companies and Fintech companies. De-financialization, deleveraging, and developing technology to empower financial institutions and governments have become the main ideas of Internet finance companies since then.

The user-centered business logic of the Internet continues to drive down marginal costs.

By the end of December 2020, China had had 989 million Internet users, and the Internet penetration rate had reached 70.4 percent, accounting for about one-fifth of the total number of the world. Compared with March 2020, the number of new Internet users reached 86.4 million in just six months, and the Internet penetration rate increased by 5.9 percent. The popularity of smartphones has further increased the Internet penetration rate in China, with the number of mobile Internet users reaching 986 million by the end of 2020, accounting for 99.7 percent of the total Internet users (Shen & Huang, 2016).

The huge number of smartphone users has promoted the prosperity and development of China's third-party payment industry. In November 2020, Guo Shuqing, chairman of the China Banking and Insurance Regulatory Commission, said in the Singapore Fintech Festival 2020, "With the popularity of electronic payment, especially mobile payment, China has achieved full coverage of basic financial services in both urban and rural areas. Even in the most remote rural areas, every adult owns his or her own bank account. The penetration and scale of mobile payments in China is the highest in the world, with deposits, withdrawals and remittances arriving almost in real time. Online consumption is booming, making life more convenient for urban and rural residents." In January 2021, the People's Bank of China, issued the "Non-bank Payment Institutions Regulations (draft)", the central bank has redefined the payment business, the contactless payment silver ordinance of the original "three-point method" (prepaid card, bank cards online payment), into the "dichotomy" (stored value account operation and payment transaction processing). We will strengthen anti-monopoly regulatory measures in the payment sector, clearly define the scope of relevant markets and the criteria for determining the dominant market position and maintain fair competition in the

market order.

Despite the tighter regulation and thin profit, digital payments, the most important entry point for Internet finance, is still the business direction that many Internet companies are targeting. Ant Financial, JD Digital and Suning Finance are all important fintech companies in the Chinese market. They all rely on e-commerce platforms to develop and carry the expectations of digital and financial platforms. With payment business as the starting point, they have high hopes for payment financial business. The payment business of Ant Financial accounts for 45% of the revenue business (X. M. Zhang & Choi, 2019) and the payment business of Suning finance accounts for 95% of the total transaction volume (SuningFinance, 2020). Therefore, it can be seen that the development of e-commerce finance takes users as the core, continuously attracting more users to join, expanding the audience circle, and thus driving the reduction of marginal cost.

In recent years, with the vigorous development of fintech, technology has become the biggest driving force of innovation in the financial industry. Both banking institutions and emerging financial platforms are competing in the new track of fintech, relying on technology to carry out all-round business innovation and empowerment, and looking for new growth points. Ant Financial, JD Digital and Suning Finance all attach great importance to the investment of technical funds and the cultivation of technical personnel. From the perspective of technology investment, in 2019, Ant Group's R&D expenditure accounted for 8.8% of its operating income; JD.com's R&D expenditure for the same period accounted for 14.1% of its current operating income; and Suning's financial technology investment has exceeded 1 billion yuan. In terms of the proportion of technical personnel, among the over 16,000 employees of Ant Group, more than 64% are technical R&D personnel. As of June 30, 2020, there were 9,989 employees in JD Digital Division, among which R&D personnel and professionals accounted for about 70% of the total employees. Suning Financial technicians accounted for as high as 63%.

It can be deduced that no matter Ant Financial, JD Digital, or Suning Finance, they are constantly increasing the investment in data and technology and have built extremely high barriers in the e-commerce finance industry.

1.1.3 Differences in the development of e-commerce financial enterprises

Different e-commerce finance group exhibit diverse business segment contributions among their respective Strategic Business Units (SBUs).

The SBU sections of Ant Financial, JD Digital and Suning Finance all include digital payment business, loan business, wealth management business and insurance business. However, due to different resource bases, the SBU proportion of each e-commerce company is different. Ant Financial, which relies on Alibaba's e-commerce business and huge flow, focuses on micro-loans and financial management, while JD Digital focuses on project services by relying on B-side enterprises. Suning Finance, which is relatively small and lately developed, focuses on payment business and tries to drive the development of other businesses by taking payment as the flow inlet.

The core advantages of e-commerce finance are different:

The core competitiveness of Ant Financial is to take accounts as the core, payment as the entrance, scene as the moat, and data as the future space. Relying on Alibaba's huge e-commerce business, Ant Financial focuses on the digital upgrade of the life service industry with the advantage of natural traffic, and financial services is an important part of it. Financial services scenarios include payment, wealth management, insurance, credit, consumer loans and other innovative application scenarios. Life service scenarios include food, medical care, entertainment, travel, campus and a variety of convenience services.

The flow entrance of JD Digital Division comes from JD. A long-term, stable, and mutually beneficial business mode has been established between JD Digital Division and various segments of JD Group. JD Group has its own complete self-management system and high user stickiness. In terms of business model, JD is more inclined to "To B" and "To G" business. As the digital payment business volume of JD Digital Division is relatively small compared with Alipay, JD Digital Division can only make up for the weak payment scale by fully providing services and mining the commercial value of B-end customers (financial institutions, merchants and enterprises), which makes the consumption attribute of Ant Group's business structure stronger than that of JD Digital Division.

Relying on offline physical stores nationwide, Suning Finance has become an important development module of small and micro business finance and supply chain finance.

1.1.4 Special situation of Suning E-commerce Finance

Different from traditional e-commerce companies, Suning Group, the parent company of Suning E-commerce Finance, started as an offline entity. Suning Group was established in 1996, and its business scope includes household appliances and electronic products. In July 2004, Suning Appliance Co., Ltd. was successfully listed. On December 21, 2015, it took over

the original Jiangsu Guoxin Sainty Football Club. In January 2017, Suning acquired all shares of Tiantian Express with a valuation of 4.25 billion and purchased Dia China in April 2018. On June 23, 2019, Suning.com announced that it acquired 80% of Carrefour China and became the controlling shareholder of Carrefour China. At present, Suning.com covers more than 602 million users. Suning has 27 Suning squares, 70 Suning Tesco squares, 240 Carrefour supermarkets, more than 1400 Suning convenience stores and more than 5900 retail clouds, creating a diversified scene ecology of online and offline integration.

Suning Financial Services is developed based on Suning's business network. In January 2011, Suning Yifubao Network Technology Co., Ltd. was approved to open, and Suning's third-party payment business was officially launched. In December 2012, Suning Microfinance Co., Ltd. was approved to open, launching the Internet microfinance business. In the same year, Suning Finance Business Department was established, marking Suning's new start in financial business. In 2014, the investment and wealth management business were launched, and Suning Insurance Co., Ltd. was approved to open. In 2015, Suning Consumer Finance Company was approved to open. At the same time, in order to increase Suning Finance's professional research capabilities in the field of Internet finance, Suning Finance Research Institute was established in November 2015. In 2016, Suning Financial Services (Shanghai) Co., Ltd. was formally established. In the same year, Suning Finance started fund sales business and financial leasing business. In June 2017, Suning Bank officially opened. In December 2017, Suning Finance completed its B round of financing and introduced 13 strategic investors, including Yunfeng, Gimpo, CICC, Everbright, and Shenzhen Capital, with a post-investment valuation of 32.3 billion RMB. In December 2018, Suning Finance completed Series C financing, with a post-investment valuation of 56 billion RMB. In 2019, Suning Financial Guarantee (Tianjin) Co., Ltd. was established, and Suning Financial Services (Shanghai) Co., Ltd. was renamed as Shanghai Suning Financial Services Group Co., Ltd. In February 2020, Suning Finance received the highest AAA subject rating in China.

As a leading financial technology group in China, Suning Finance is on the path to becoming a leader in China's financial O2O, relying on Suning's massive online and offline user groups, unique O2O retail model, and a full value chain business model from procurement to logistics. A series of well-known products such as Suning Payment, Fast Supply Chain Loan, Leye Loan, Willful Loan, Willful Payment, Lingqian Bao, Suning Smart Investment, Suning Extension, Suning Card, to provide consumers and enterprises with all scenarios and more inclusive Financial service experience.

So far, Suning Finance has more than 90 million card binding users. Relying on the ecosystem flow of Suning Tesco app, PP sports app and offline store passenger flow, and expanding the payment range through travel scenarios, Suning finance has obtained 90 million + card binding members, 1 trillion + overall GMV and 300 billion + cumulative loan investment. Suning finance is developing at a high speed.

Suning Finance focuses on “5+1” core business: Supply Chain Finance, SME Finance, Consumer Finance, Payment, Wealth management and Financial technology output. Suning Supply Chain Finance is based on the multiple industries built on Suning.com, comprising smart ecosystem with “omni-channels, all customers, and all categories”, providing fast, convenient, and low-cost one-stop financing solutions to more than 300,000 suppliers and their upstream and downstream merchants within the Suning system provide. Up to now, the cumulative transaction scale of Suning's supply chain finance has exceeded 250 billion RMB. Micro business finance mainly serves all kinds of small and micro enterprises and merchants, such as Suning Yuntai merchants, retail cloud franchise stores, after-sales logistics service providers, and provides online, low threshold and low interest rate loan services for small and micro merchants in view of their difficulties such as difficult and expensive financing. Since being launched, Leye Loan has lent more than 10 billion RMB to nearly 12,000 small and micro merchants. Consumer finance business is positioned to help the consumption upgrading of “people's better life” and fully serves individual users of Suning system. At present, Suning Consumer Finance Division has a total of 6.02 million customers (3.57 million using Renxing Loan and 2.45 million using Renxing Payment), and the customer credit has reached 73.8 billion RMB (42.9 billion in Renxing Loan and 30.9 billion in Renxing Payment); Consumer Finance Company has a total of 6.23 million customers and customer credit of 117.5 billion RMB (61.9 billion in Renxing Payment and 55.6 billion in Shengxin Loan). In terms of wealth management, Suning's wealth management services have more than 40 million users and a transaction scale of more than 1 trillion RMB, Suning extended insurance services to 8 million customers, with sales of 5.5 billion RMB, ranking first in the industry. As the basic business of Suning Finance, payment has received over one million merchants, activated more than 120 million members, the transaction scale exceeded 2 trillion, and the single-day transaction amount exceeded 4 billion. At the same time, Suning Pay has laid a solid foundation for supply chain finance, micro-business finance, consumer finance, wealth management and other businesses. In terms of financial technology output, Suning finance, based on rich product clusters, stable product performance and reliable product security, focuses on financial industry and government departments, focuses on exporting products

such as intelligent marketing, intelligent risk control, intelligent analysis, financial AI and blockchain, and provides product deployment and technical support services.

1.1.5 The core differences between Suning Finance and Ant Financial and JD Digital

The scale of e-commerce is different.

Ant Financial is supported by Taobao and Tmall. In 2021, Taobao's latest user scale has reached 874 million. Taobao and Tmall payments need to use Alipay under Ant Financial, JD Digital is supported by JD e-commerce, and JD has active users in 2021 The number increased to 500 million. The number of Suning e-commerce users who provide support for Suning Finance is quite different, which results in a much smaller customer base that Suning Finance can attract through e-commerce.

Suning Group, the parent company of Suning Finance, has a large amount of offline business.

Unlike the parent company's pure e-commerce company Ant Financial and JD Digital, Suning Financial Services also includes more offline suppliers. At the same time, because of the support of a large number of offline electrical appliance stores, Suning Finance may have more advantages in offline service scenarios and service quality.

The age of employees is older, and the executive managers lack experience in Internet industry.

As of June 30, 2020, JD digital had 9989 employees. The data show that the post-80s employees accounted for 95.5%, of which the post-90s employees accounted for 48.7%. In contrast, the average age of Suning financial employees is about 42, which is older.

1.2 Research problem and questions

In China's internet finance industry, the environment faced by enterprises is complex, dynamic, and filled with uncertainty, setting a high adaptability threshold for companies within the sector. This industry is continuously impacted by stringent regulatory policies, rapid technological innovation, and significant shifts in consumer preferences. These factors collectively form an external environment with profound implications for the survival and development of enterprises.

In the face of these challenges, many internet finance companies have struggled to respond effectively, leading to hindered business development. Some companies have even experienced significant profit declines, business contraction, and ultimately had to exit the

highly competitive market. This indicates that adapting to the rapid changes in the external environment is crucial for the sustained development of e-commerce finance enterprises.

For example, in the P2P business, which represents China's internet finance sector, over 10,000 P2P platforms have launched, with more than 5,000 operating simultaneously at its peak, and an annual transaction volume of approximately 3 trillion RMB. In July 2019, Lufax announced the cessation of its online lending business, while other traditional giants like Paipaidai fully transitioned to loan facilitation platforms. By the end of 2019, regulatory approaches to P2P governance became unified, and local financial supervision bureaus across provinces issued "Risk Warning Letters for the Online Lending Industry," leading to the complete eradication of P2P lending businesses within their jurisdictions. By mid-November 2020, all P2P lending institutions in China had ceased operations, marking the end of a 13-year P2P era (Caishi, 2021).

In addition to P2P, online microloans, another representative service of internet platforms, are also in decline. As of the end of December 2020, there were 7,118 microloan companies nationwide. By the end of 2022, the number of operating companies further decreased to 5,958. The number of microloan companies in China has dropped from a peak of 8,673 in 2016 to about 5,958 currently, a reduction of 2,715 companies, or 31.3% (Miao, 2023).

In the internet finance industry, enterprises are like ships navigating stormy seas, constantly facing the test of turbulent waves. In this context, decision-makers often find themselves in a dilemma when formulating strategies. On one hand, they need to respond swiftly to adapt to rapid market changes. On the other hand, they must maintain a long-term perspective to ensure the sustainable development of the enterprise. They have to make significant decisions affecting the future of the company with limited information and resources. Each decision could be crucial for the survival and development of the enterprise, but it could also mark the beginning of its decline.

Moreover, internal coordination and execution present major challenges. In the pursuit of rapid adjustments, enterprises can easily encounter internal chaos and conflicts. Issues such as poor communication between departments, uneven resource allocation, and employee resistance can all become obstacles to strategic adjustments. Additionally, rapid changes often necessitate large-scale organizational restructuring, which involves not only the reallocation of personnel but also deep-seated changes to corporate culture and values. The difficulty and complexity of these changes are self-evident. This sense of difficulty and helplessness in decision-making is a reality that every internet finance enterprise must confront during its development.

Against the background of the ever-changing market, it has become a valuable research topic to delve into what factors have enabled some e-commerce financial enterprises to adjust their strategies and optimize their structures, so as to achieve sustained and sound development. This thesis draws on Suning Finance's strategic business units and aims to explore and analyze how e-commerce financial enterprises make strategic adjustments under the fierce market competition and ever-changing external environment, as well as what factors play a crucial role in the process, influencing and determining the success of strategic adjustments. Through this study, we expect to provide insights to other firms in the same industry to help them identify and leverage their dynamic capabilities to optimize their strategic decisions as a way to maintain their competitiveness in the rapidly changing market environment.

What is the strategic adjustment process under external environmental changes?

Taking Suning Finance's three strategic business units (SBUs) as the analysis objects, the evolution of Suning Finance's core resource capabilities for the SBUs is analyzed from the perspectives of resource-based view and dynamic capabilities, by examining their existing external business environment, internal resources, and capabilities. Under the perspectives of resource-based view and dynamic capabilities, Suning Finance's core resource capabilities are in a state of change.

When the external environment changes, the impact of the external environment on the core abilities of the SBUs is assessed. By evaluating their own abilities and the resource requirements for reconstructing core abilities, the organizations can reinvent their core capabilities through strategic choice, adjustment, and implementation, ultimately regaining their core competitiveness under the changing external environment.

How do dynamic capabilities influence the strategic adjustment process?

Dynamic capabilities refer to the action orientation of an organization that continuously integrates, reconfigures, updates, and rebuilds its resources and capabilities, with a primary focus on upgrading and transforming its core capabilities in response to the constantly changing environment to achieve and maintain a competitive advantage.

When the external environment changes and each SBU needs to make strategic adjustments according to the external changes, the three aspects of dynamic capabilities: sensing capability, controlling capability, and transformative capability effectively influence the entire strategic adjustment process, promoting and accelerating the construction process of core competitiveness.

1.3 Study design

The type of case study used in this thesis is a single-case study. The units of analysis are the three SBUs under Suning Finance. By comparing the strategic adjustment processes of the three SBUs of Suning Finance in the face of environmental changes, a general strategic adjustment process and the key driving factors that influence the success of the adjustment are identified.

The thesis utilizes various types of data, including semi-structured interviews, questionnaires, and secondary data. Detailed data types and methods of use will be introduced in Section 3.3.

The main analytical methods used in this thesis include several qualitative research approaches: pattern matching, study of single case, and constructivist interpretation. The strategic adjustment process paradigms for the SBUs are primarily induced using pattern matching. Study of single case is applied along with the replication logic, adjusting and revising the theoretical assumptions through the contrast of constructs from different SBUs, ultimately obtaining a universal strategic adjustment process.

Additionally, the thesis analyzes the interview data through constructivist interpretation to obtain the key driving factors that affect the strategic adjustment capability of the SBUs. Employ qualitative research via in-depth interviews to measure the core competencies of each SBU and their impact on dynamic capabilities.

1.4 Research framework

According to the entire conceptual framework, this thesis is organized and researched in five sections.

The first chapter is mainly an introduction. This chapter elaborates on the research background and goals, proposing the research questions: a study on the competitive strategy of e-commerce finance SBU from the perspective of ecology. With the rapid development of internet finance, especially e-commerce finance, in recent years, contradictions and problems have emerged one after another. From the perspective of ecology, the tangled relationship between e-commerce finance SBU and the external environment, industry collaborators and competitors, and consumers is formed. The introduction part explains the scope of this research, the problems to be solved, and the design and framework of the research.

The second part is a literature review, divided into three sections: The first section is

about the study of e-commerce finance and financial ecology, which mainly explain the definition and category of e-commerce finance and the development of the e-commerce finance industry. The second section is mainly about the concept and theory literature of SBUs, from the definition of the concept and content of SBUs to their origin, development, and characteristics. The third section is a literature review of the theoretical development of competitive strategy.

The third part is mainly explanations of research design and methods. This section will meticulously analyze data types and sources, data use rules, and strive to objectively carry out data collection work.

The fourth part is the core part of this thesis. The first section mainly studies the strategic choice and adjustment made by the consumer finance SBU under the impact of the epidemic and the negative news of Suning.com Group. The second section mainly studies the wealth management SBU, how to carry out the reconstruction of its own capabilities, the choice and adjustment of strategy, implementation, under the stricter external environment, especially the regulatory environment. The third section mainly elaborates on how Suning Payment SBU chooses, assigns strategic goals, and achieves competitive advantage in a tremendously changing external environment.

The fifth part is the conclusion of the thesis mainly concluding the discussion and verification within the thesis to solve relevant problems. This chapter will also elaborate on the limitations of the study.

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Chapter 2: Literature Review

2.1 E-commerce finance and financial ecology

2.1.1 Definition and scope of e-commerce finance

2.1.1.1 Background of e-commerce finance

With the popularization and development of mobile Internet and information technology, the financial service industry has begun to be impacted and deeply affected by the mobile Internet. Many financial service models that rely on the mobile Internet are also emerging, and Internet finance has also attracted extensive attention. Under the current development of market economy, Internet finance is gradually presenting a vigorous development trend. Depending on the rapid development of Internet finance, many traditional product industries have obtained unprecedented survival and development. Today, the new development model of China's Internet financial products industry based on the Internet e-commerce platform is receiving universal attention because of its unique creativity and efficiency.

E-commerce financial services refer to a type of financial service that can be facilitated through networks with P2P capabilities, e-commerce service platforms, etc., as the financial foundation and service carriers.. The e-commerce financial services to be provided by E-commerce Internet Finance Co., Ltd. mainly include: e-money payment for Internet enterprises, Internet enterprise credit, supply chain financing finance, cooperative financing of pre-sale commodity orders, cross-border e-commerce cooperative financing finance, bank account prepayment and savings, payment financial instruments, mobile online payment. The main feature of e-commerce online finance is that it has changed the current enterprise operation and management mode of traditional e-commerce finance through financial network platform and financial institution website, thus greatly improving the information service level and product quality of traditional financial industry.

The reality of commercial activities and economic essence are combined with each other. It is an integral circular economic activity that promotes the integration of commodity flow, logistics, capital flow and information flow. Traditional e-commerce mainly relies on the commodity flow and information flow based on mobile Internet and service network (X. H. Wu, 2016), while the emergence of e-commerce finance accelerates the rapid turnover of

commodity flow, logistics and capital flow. Further data analysis shows that in many traditional online e-commerce commodity trading activities, capital flow only refers to one-way capital flow, for example, for B2B online e-commerce: it flows working capital from one commodity supplier to another commodity supplier through an online e-commerce trading platform, but for B2C and C2C, it transfers funds from a retailer to a consumer, and flows to other retailers and consumer sellers through an e-commerce marketing service platform on the Internet.

2.1.1.2 Definition of e-commerce finance

In essence, e-commerce finance has completely changed the one-way operation mode of funds in previous e-commerce activities. Among a variety of mobile internet financial operation modes (N. Wang & Wang, 2014), the mobile internet financial services carried out by e-commerce enterprises have the advantages of wide coverage, high participation and great influence on society and economy. This mode of closely connecting the previous e-commerce, Internet and finance (Ning & Liu, 2015) has also completely changed the previous form of one-way operation of e-commerce capital (Y. J. Liu, 2021) and realized the circulation and turnover of capital flow in the whole e-commerce ecosystem (Chang, 2015).

E-commerce network finance is a major innovative technology product based on the mutual coordination and combination of modern traditional e-commerce and modern Internet Finance in China. Because China's e-commerce network finance, based on the characteristics of traditional and modern e-commerce, forms a big data including the information in traditional historical commodity transactions and other external transaction data, and makes full use of advanced information technologies such as cloud computing, and service transactions are realized in this economic environment where financial risks are safe, efficient and controllable. For example, when a large consumer or supplier is short of funds, a large e-commerce financial platform provides instalment loans or mortgage guarantees to requesters, and directly provides and pays all its funds to requesters on time. These financial services are the basic guarantee based on e-commerce finance and in compliance with the relevant provisions of the national implementation laws to ensure that requesters can continue to enjoy various types of financial services of this e-commerce financial platform and comply with relevant national implementation laws and regulations. However, if the demander meeting the capital requirements fails to pay and complete the instalment repayment on time, all its business activities on this e-commerce financial platform are likely to be subject to certain legal restrictions. For example, the sellers of the third-party platform may face the huge risk

of forced temporary closure of some e-commerce stores.

2.1.1.3 Development advantages of e-commerce finance

The emergence and rapid development of China's overseas e-commerce business finance industry are mainly due to four aspects: the huge transaction volume of China's e-commerce, the overseas financing difficulties of small and micro financial enterprises, the less international transaction management costs of e-commerce business finance, and the risk reduction of information sharing.

Firstly, e-commerce has a huge trading volume. According to the 2012 China e-commerce market data monitoring report released by China E-commerce Research Center, China's B2B e-commerce transaction volume reached 6.25 trillion yuan, accounting for 12.03% of the total GDP in 2012; the transaction scale of online retail market reached 1320.5 billion yuan, accounting for 6.37% of the total retail sales of social consumer goods in 2012. The huge e-commerce trading volume shows that e-commerce finance has broad prospects (H. L. Huang, 2013).

Secondly, it is difficult for small and micro individual enterprises to directly finance: it is generally difficult for small and micro individual enterprises to successfully obtain direct enterprise financing from the state-owned equity financing market, and it is also difficult to rely on commercial banks and other financial institutions to indirectly obtain enterprise financing, so they have no choice but to choose private enterprise lending. The main reasons for this may be that China has been supported by the policies of western developed countries for a long time, the credit policy is backward, the credit policy of commercial and financial banks is seriously limited, the loan proportion of private enterprise financing is high, the risk is high, the pre financing cost is high and the cost remains high.

Thirdly, the marginal cost of e-commerce credit finance transaction is low: because Alibaba e-commerce credit finance does not have its own entity transaction station, it can effectively reduce the marginal cost of service transaction. At the same time, for the mobile terminal and the Internet, it can also effectively make full use of the massive big data of the mobile Internet (H. L. Huang, 2013). According to statistics, compare the service transaction cost methods of Internet banks and other different forms of Internet financial institutions (Y. J. Li & Wang, 2014), the method of greatly reducing the service transaction cost has more obvious competitive advantages.

Finally, information sharing can reduce risks: information technology represented by the Internet has greatly reduced information asymmetry (H. L. Huang, 2014) and enhanced risk

controllability in the transaction system design of some Internet platforms (such as eBay and Taobao). It can not only easily obtain all kinds of information of both parties, but also put the capital flow of many transaction topics under its monitoring. Compared with the traditional financial model, it greatly reduces the cost of risk control. At the same time, using advanced Internet technology, it can screen and standardize the data outside the e-commerce platform, supplement and cross verify the external data, so as to reduce the risk (H. L. Huang, 2013).

2.1.1.4 Elements of e-commerce finance

The development of e-commerce Internet financial business requires the integration of four basic service elements for a comprehensive service and participation. Internet big data, e-commerce financial platform, providers of capital financial services and demanders of capital financial services (H. L. Huang, 2014), which are the four basic service elements. Although the e-commerce financial platform must be a service provider of capital directly or indirectly, it may not or may only be a service demander of capital directly.

Big data: big data of e-commerce platform is an important basis for the normal operation of the whole e-commerce financial business;

E-commerce financial platform: e-commerce platform is a core environment and node for us to maintain the normal operation of e-commerce financial business in China. On the one hand, we need to make full use of the Internet and big data to guarantee the fund supplier on the e-commerce platform; on the other hand, we need to strictly supervise the capital flow and normal operation of each project on the e-commerce platform, to ensure the normal and safe operation of e-commerce financial business in China (B. Liu & Chen, 2018).

Capital flow requesters: all individual consumers, third-party payment online stores, product R & D suppliers who want to participate in the operation activities of Internet entity e-commerce and online financial industry should be the most likely requesters of huge capital flow.

Fund provider: at present, in China's traditional e-commerce enterprise finance, the operation form and fund source of the fund provider can be relatively diversified, which can be divided into four financing forms: (1) China's e-commerce financial platform provides financial funds by itself. Generally, China's e-commerce financial platform will establish a small loan management company or a professional financial department by itself; (2) Establish an Internet financial e-commerce platform. This refers to the new business model of using financial big data to directly provide credit guarantee for commercial banks and other financial institutions, providing financial services directly by commercial banks and other

financial institutions, and taking the financial Internet to provide services for the financial industry (H. L. Huang, 2014); (3) To establish an Internet financial e-commerce platform, it is necessary to hold the business license of China's banking industry and have the service function of directly absorbing enterprise financing, providing mortgage loans to small and medium-sized enterprises and individuals with small funds financed through Internet e-commerce; (4) Establish an e-commerce credit platform to provide a credit risk rating or target price for various credit financial products and services of all kinds of professional users on the credit platform, including credit guarantee, so that all kinds of professional investors can achieve asset investment and financial transactions through participation on this online e-commerce service platform.

2.1.1.5 Scope of e-commerce finance

China's e-commerce banking supervision is a new financial system and management mode for the supervision of some businesses and overall operation. At present, many technologies and business layouts of China's banking industry and other e-commerce financial giants in this new financial service industry have begun to show an all inclusive state of development (B. Liu & Chen, 2018). From the perspective of the development trend of mixed operation mode of financial brands in China's Internet industry, there is an obvious strategic common point among financial brands mainly represented by e-commerce financial companies such as Taobao, Jingdong and Suning. Industry experts and researchers have repeatedly point out that the e-commerce financial industry often has the inherent development tendency of various mixed service trade business models, mainly because various types of mobile Internet and financial service products are formed step by step around the strategic layout of mixed trade. The e-commerce credit platform is mainly used to connect individual consumers downstream and small, medium, and micro financial enterprises upstream. For different service objects, the small and micro e-commerce financial platform can divide the service objects into individual credit of downstream consumers and individual credit of small, medium, and micro financial enterprises.

2.1.2 Development of e-commerce financial industry

Looking at the current situation of e-commerce finance, it is found that e-commerce finance is in a period of rapid development. With the support of China's encouraging policies, the development of e-commerce finance is very optimistic (B. Liu & Chen, 2018). Major e-commerce finance enterprises need to continue to conduct more in-depth research on payment

methods, logistics services, promotion platforms and the professionalism of staff in various departments, so as to provide strong support for the improvement of e-commerce finance. At the same time, E-commerce finance continues to improve the R & D and quality of commodities, and the development of e-commerce finance plays a strong role in promoting China's economic development (B. Liu & Chen, 2018).

2.1.2.1 Development prospect and trend of e-commerce finance

(1) Development trend of vertical deepening:

With the increasing improvement of the infrastructure of e-commerce finance, the rationality and standardization of market order are gradually maturing, and various problems hindering the healthy development of e-commerce finance in China can be alleviated in practice.

(2) Development trend of professionalization:

The wide application of professional websites for consumers and other vertical service enterprise websites is promising. Nowadays, China's online e-commerce service platform has great market development potential. One is the trend of international specialized services for different enterprises and large customers; the other is for the development trend of international professional service demand of different individual and enterprise consumers. While being able to provide a set of professional service product line and after-sales service in line with high-level international professional service technical standards to meet customer needs, we also need to pay attention to fully meet the different characteristics of different consumers' personalized service needs. These two key aspects are undoubtedly crucial.

(3) Development trend of personalization:

People have more and more demand for all kinds of personalized commodity customization and consumption information sharing and pay more and more attention to the consumption participation of all kinds of personalized customized commodities. With the rapid popularization of mobile terminals and the Internet, people also put forward personalized development requirements for the financial services provided by the e-commerce financial industry.

(4) Development trend of internationalization:

China's e-commerce financial products and services industry is bound to go to the world, which has a developmental impact on promoting foreign investment, economic, information, scientific and technological cooperation in various countries and regions. E-commerce finance will effectively stimulate the growth trend of China's foreign trade. Moreover, the most

important advantage of the Internet is that it can surpass the limitations of human time and space, and can effectively break all kinds of tangible or intangible obstacles between countries and regions. The development of e-commerce finance provides a good period for China's small, medium-sized and micro enterprises to further explore overseas and domestic markets. At the same time, foreign e-commerce financial companies and enterprises will also work harder to open up new tracks for the Chinese market (Qi & Liu, 2009).

2.1.2.2 Risk and supervision of e-commerce finance

E-commerce online finance and other different types of Internet online financial service products are considered to be innovative online financial service products, facing special financial risks of different financial types. How to effectively analyse their risks and effectively prevent and control these financial risks, it has become an important technical key factor that determines whether the Internet online financial products industry can succeed. The risk factors affecting e-commerce online finance mainly include interest rate liquidity price risk, price fluctuation risk of interest rate bond exchange products, market interest rate fluctuation price risk, as well as special financial risks in many different aspects such as financial technology, business and regulations, including but not limited to: 1. technical risk: a) quantitative lending risk, b) huge risk of technical security of financial information network; 2. business risk: a) internal operational security risk, b) reputation risk of commercial banks, c) relevant legal risks.

E-commerce finance also involves relevant national laws such as consumer rights and interests protection law and privacy rights and interests protection law. The protection of consumers is still in a vacancy zone. When there is an economic dispute between buyers and sellers in commodity transactions, because the court or arbitration must make judgment according to the existing national laws and regulations, these are likely to lead to a controversial judgment, resulting in the failure to effectively protect the legitimate rights and interests of the parties, which greatly increases the transaction cost (H. L. Huang, 2013).

For various regulatory means and methods of Internet e-commerce finance, we should adopt the principle of positive and prudent supervision, carry out functional supervision of various financial professions, strengthen the protection of financial enterprises and consumers, and improve the information disclosure level of e-commerce financial enterprises and companies.

2.2 Strategic business unit

2.2.1 The concept and content of strategic business unit (SBU)

SBU, short for strategic business unit, academically refers to a relatively independent business unit or a collection of related business units within an enterprise. A strategic business unit is defined as a secondary business unit that is divided and established based on products, regions, customers, and markets operated by an enterprise. The business unit system is a profit center controlled by the headquarter of an enterprise. It launches its own products and has independent markets, enjoying a certain degree of operational autonomy and implementing independent operation and accounting. Both fulfilling the functions of profit production and management, and also shouldering the responsibility for the market and the products, this unit acts as a leader in terms of product design, manufacturing and sales.

McGee, J. and T. Sammut-Bonnici, by conducting research in the enterprises, contended that the strategic business unit (SBU) is an organizational sub-unit, which acts more like an independent business in many main aspects, including the formulation of its own strategic plan and marketing strategy. Aligning with the freedom allowed by the management department, the SBU can share the corporate identity of its parent organization or develop its own brand identity. This is because in large, diversified organizations and multinational companies, a one-size-fits-all strategic approach is insufficient, so dividing the company's operations into SBUs can improve efficiency and market attention. Overall, SBUs are considered a viable form of organizational division because they ensure that products and product lines receive special attention as if they were developed and sold by independent companies (Sammut-Bonnici & McGee, 2014). Driven by its own mission and independent from the mission of the parent company and other SBUs in the organization, a SBU operates its business in a competitive market space. The advantage of operating through the SBU is that it will create a strategy-focused management structure that will not be distracted by the company's broader product portfolio. Of course, companies may encounter some disadvantages when organizing departments through the SBU structure.

Ansoff, perceived as the “father of strategic management”, was the first one to establish the concept of SBU, while the first to use SBU was attributed to Alfred P. Sloan, president of General Electric Company (GE). He first proposed the strategic business unit (SBU) management model in the 1920s (Shang, 2014), reorganizing and rectifying the company in the form of a business unit system, and decomposing the internal functional departments of

the company into a series of relatively independent business units or a collection of related business units with certain resources and clear strategic goals through integration and optimization. Each SBU sets a manager in charge of resources, responsible for strategic and profit decisions. This is mainly proposed as a new management model to solve the problems of disconnection in management concerning goal setting and implementation, assessment and compensation, and incentives and improvement. Therefore, the business unit system is also referred to as the "Sloan Model" (Sloan Model). Many companies such as Panasonic and other companies in Japan began to follow suit, adopting the business unit system as an important means to implement diversification strategies and sustainable growth strategies, and achieved good market effects and competitive advantages. In the academia, some scholars also simply call it business units. Specialized management departments, differences in policies and operations, independent profit accounting and functional structure organization are the salient features of the Strategic Business Unit (SBU).

In China, based on the SBU practice in Hai'er, Zhang Ruimin explored a step further on the basis of Ansoff's concept. Hai'er has made every employee an SBU, a subject of independent management and innovation, making every "cell" full of vitality. Hai'er believed that only in this way can the strategy be implemented to every employee, whose strategic innovation will ensure the realization of the group's strategy (Z. W. Yang, 2008). SBU, in this case, helps Hai'er to level up the role of every employee as a partner in all processes of the enterprise, with the expectation that these SBUs will do all the work at their respective locations as an operator and ultimately make profits, making the gains of the company as the sum of $SBU1 + SBU2 + SBU3 + \dots$. Under such cases, it is possible to generate greater driving force for Hai'er Group to enable the efficient development of this large SBU. X. Y. Hu and Yang (2006) analysed the specific method of Hai'er SBU management based on the difference between functional management and SBU management mode, and pointed out that this research on advanced management concepts and methods has great influence on the innovation of flat management of an enterprise in the knowledge economy. They believe that the fundamental difference between functional management and SBU lies in the fact that the former is a traditional command-based management, which is a repetitive reference of the matter, where the relationship between employees is purely hierarchic; on the contrary, SBU operations are more employee-oriented, meaning that the leaders play a supportive role and rely on a mechanism established to solve similar problems. The rationale behind it is the enthusiasm and creativity encouraged by this system may speed up the innovation that satisfies the individualized need of the customers; or sometimes the speed for innovation is

quantified to each employee, forcing them to secure a customer as fast as possible. At the same time, it is pointed out that the change in the concept should be prior to the SBU management. M. Wei and Teng (2005) analysed the relationship between Hai'er's market chain reengineering and SBU construction, believing that not only did Hai'er Group reconstruct its main and auxiliary processes according to the market-oriented model in the process of its market chain process reengineering but also constructed a market chain business entity (SBU) in an attempt to create an innovative environment for "self-management" for every employee, pushing the reform of Hai'er's market chain process reengineering to a new height. In-depth study of the internal mechanism of this management model and its overall impact is of significance to the promotion of the organizational reform and management innovation in Chinese enterprises.

In addition, Philip Kotler, a prominent figure in marketing, summarized SBU from three perspectives. He believes that SBU is firstly a functional department different from the general department; secondly the department has its own specific competitors; and finally, the department has its own managers who are responsible for making strategic and profitable decisions (Barich & Kotler, 1991). Therefore, incorporating the research done by scholars of this field, this thesis defines the strategic business unit, also called a functional unit, as the cell of the enterprise as well as the most basic organizational unit, acting as the foundation of a large organizational structure of the enterprise.

2.2.2 The origins, implications, and features of SBU

2.2.2.1 The origin

The internal marketization of an enterprise is to introduce market mechanisms into the enterprise through the reengineering of the enterprise management mechanism, with various departments within the enterprise as the main operating body of the enterprise internal market, in order to establish an enterprise management model that effectively combines unity and flexibility. It is seen as an in-depth derivative of the advanced western theories in market economy. This model can not only overcome the disadvantages of bloated organizational structure and chaotic management, but also help reduce enterprise costs and improve enterprise market resilience. From a realistic perspective, with the development of 5G technology and the gradual and extensive use of the Internet, blockchain, big data and cloud computing, market transaction methods have undergone significant changes, which resulted in reduced transaction costs and improved market transaction efficiency. In the meanwhile, the

diversified development of enterprises, the intensified competition between enterprises, and the emergence of mergers have led to rapid expansion of the enterprises; such an expansion has further complicated the internal management coordination, thus increasing organizational costs but reducing overall efficiency. These factors have forced companies to change the traditional organizational structure and management methods, introducing market means into the company and reshaping the management model to a more effective organizational form (J. Yang, 2009). As a result, the boundaries of enterprises have become increasingly blurred, which means when market mechanisms are introduced into enterprises, a unified but flexible internal management model may come into being through the effective cooperation formed by the authority of the enterprise- the visible hand- and the market mechanism- the invisible hand, ultimately contributing to enhanced corporate efficacy and competitiveness.

On the other hand, the vast majority of enterprises may encounter multiple problems ranging from bloated institutions, poor internal communication, slow response to external changes and management chaos after they have gone through a rapid development stage due to the renewal of management concepts and management models. These are symptoms commonly seen in the large companies. Despite so, SBU is an ideal choice for the radical cure of the "diseases bothering the large entities". SBU management can be attributed as a major factor for the success in GM Group and Hai'er, two of the enterprises that can benefit from adopting such a mechanism (Z. W. Yang, 2008). Through SBU management, the management team of the large enterprise may be able to improve the internal management system, change the power structure, and adjust the disparity between the power, responsibilities and interests of employees and the management team, so that all employees are exposed to the market challenges directly, thereby improving the overall efficiency. This may become a new choice for the development and transformation of all enterprises in the future.

2.2.2.2 The implication of SBU

The significance of the strategic business unit is that it facilitates the survival of the enterprise and helps the enterprise break through the bottleneck that is supposed to appear in the traditional organizational structure. The clear goals, the platform and resources provided by the company, the workflow and the distribution relationship (that is, the income of each member is linked to his or her labour yields, which in turn contributes to the labour yields of the company) constitute the four components of a strategic business unit. What lies in the core of SBU is the transformation of the enterprise from the one oriented by division of labour to

customer-oriented, setting meeting the demand of the customers as the highest standard. The mode of strategic business unit requires enterprises to respond quickly to market changes and make timely adjustments to meet customer needs. In fact, essentially customer-centered, this management model relies on both the development of modern network technology and well-developed work processes, perceiving innovation as a core feature, aiming to establish a new business management model and organizational form, finally achieving higher comprehensive strength.

Barich and Kotler (1991) believed that a SBU should contain three characteristics: (1) It is relatively independent of other business departments and different from general functional departments; (2) It has its own competitors in the market; (3) It has a responsible manager in charge of the SBU's strategic and profit decisions. Thomson et al. (2007) maintained that a SBU is a collection of business branches formed on the basis of strategies that are important to all business operations in the group. These elements may refer to a series of value chain activities in order to ward off the same competitors, emphasizing the same kind of competitive advantage, namely either low cost or difference, or equals the technology-based opportunities to further develop.

However, Peters and Rodabaugh (1988) emphasized the role of SBU in the successful operation of enterprises. When analyzing the key to EDS Corporation's success, he pointed out that the foundation of an SBU is the project, and a department must meet specific criteria to be called an SBU. These criteria are: (1) specific tasks that distinguish the unit from other SBUs; (2) a special competitor; (3) unique overarching plan that is different from any other plan; (4) distribution of resources in the key areas; (5) average scale (Peters & Rodabaugh, 1988). At the same time, they also believe that the implementation of SBU can ensure that the company enjoys a certain market competitiveness, and can also stimulate the enthusiasm and work efficiency of the person in charge of the SBU.

Put forward in the early 1970s, the concept of SBU has achieved significant strides, with the endeavour of scholars for fifty years, growing into a more practical model, although the drawbacks go hand in hand with the development.

SBU features have many advantages. They mainly include that first of all, this organizational structure has both a high degree of stability and adaptability. Apart from that, senior leaders can get rid of complicated and specific tasks and evolve into efficient decision-making bodies, and each business department can give full play to their enthusiasm and creativity, eventually creating more benefits for the enterprise. Another advantage is that an independent business department is conducive to training management talents and preparing

high-quality reserve cadres for the enterprise. Meanwhile, SBU being an independent profit center is convenient for the evaluation of the business department and employees in charge of the department. The establishment of departments based on products can exert positive effects on improving labour productivity and economic benefits of the enterprise. The final benefit worth mentioning is that it is convenient for horizontal comparison and competition among various business divisions, which is conducive to enhancing the vitality and promoting the overall development of the enterprise.

However, the problems created by SBU should also be discussed. To begin with, as the interests of each business unit are highly independent, each department might be too self-centered to take others' interest into account. Besides, the establishment of multiple functional departments not only can easily cause redundancy, but also increase expenses to a certain extent. This model has also set higher requirements for the management team of the headquarter. If the conflicts are not handled properly, chaos may arise. The overfocus on each unit itself may pose challenges to the collaborative relationship between departments, creating problems for cross-department business operations.

In terms of the practical application of SBU, in 1971, General Motors (GE) reorganized its 175 divisions into 49 categories and established 49 SBUs (see Figure 2.1), simultaneously incorporating GM's first multi-factor business portfolio matrix into the management. GE classifies each business based on two dimensions, namely market attractiveness and business advantage. The former is divided into high, medium, and low levels while business advantages are categorized into strong, medium, and weak levels making the matrix consist of nine parts. The three grids in the upper left corner represent strategic business units with solid market attractiveness and business advantages, by increasing resource investment in which, the company adopts investment/expansion strategies and promotes their continuous development and growth. The three grids in the lower right corner represent strategic business units with weak market attractiveness and business advantages. The company should adopt a harvest/abandon strategy, that is, to minimize investment and further resource input while trying to maintain revenue, and give up such business if necessary, selling them to other enterprises. The three grids on the diagonal from the lower left to the upper right indicate that the overall attractiveness of the strategic business unit is at a medium level, the overall strategy to which is to adopt a selection/profit strategy. By this it means that the company must develop selectively and invest in business of high profitability but low risks, and meanwhile they have to give up those hopeless SBUs.

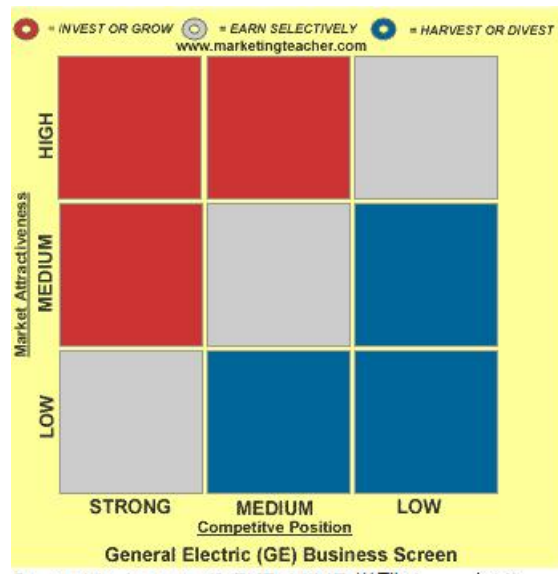


Figure 2.1 GE matrix

The first enterprise in China that employed SBU mechanism was Hai'er Group, which is highly a representative case. Zhang Ruimin carried out the "Internal Simulation Marketization" reform in Haie'r in 1998 and officially called it "SBU" in 2001. What lies in the center of this reform is to make every employee under every business unit of Hai'er a SBU, treating each of them as a partner or boss and removing subordinate relationship in the company. The only relationship underscored is the market and customers (J. Yang, 2009). Each SBU operates independently and is responsible for its profits and losses, compensation for losses, and profit commissions. Tang et al. (2010) took Hai'er Group's SBU system as the object, using field investigation and descriptive case research methods, and based on theoretical literature analysis, analyse the five main points of the "process" of Hai'er SBU system. They also offered an interpretation on how Hai'er SBU, as a management control system, differs itself from the western SBU in terms of concept, mechanism innovation and management integration. This analysis reveals that Hai'er and other Chinese companies contribute to the research on management theories and paradigm when it comes to strategic implementation, operation, process and employee incentive.

2.2.3 The development of Strategic Business Unit

The development of SBU can be divided into four parts:

2.2.3.1 SBU and strategic management

Lawrence and Lorch (1967) and many other scholars pointed out that the decentralized management of SBU has a close tie with the uncertainty of business environment and the

relationship between the technology and the SBU within every department of a company. Also, this management plays a crucial role in the efficiency of SBU, since its focus can be varied due to the strategic differences in company's departments. With the analysis of 121 SBU, Govindarajan (1989) suggested that the strategy of SBU is intensely associated with the backgrounds, the models of control and problem-solving mechanism in SBU. Sammut-Bonnici and McGee (2014) stated that SBU is a subsidiary unit of a company, for it can make its own strategic plans and marketing strategies. SBU can either borrow its parent company's image or design a new one, depending on the authority given by the company. For companies, using SBU to differentiate its business can not only increase the efficiency and gain more market attention, but also broaden the business, making it more diverse. Besides, SBU could generally have its own strategic planning in finance, marketing and selling. Instead of the loss of product portfolio strategies, SBU can develop its own organizational structure focusing on strategic planning. Yet, there may be some dark sides of SBU. Independent unit means hiring more senior officers, leading to more expense and difficulties in management. In other words, SBU should keep in line with the parent company's objectives, so the strategies made by SBU should be applied in a cooperative manner with other departments. In the field of strategic management, abundant theorists put intensive efforts in the close strategic relationship between SBU and competition. Malekzadeh et al. (1989) believed that in order to integrate four strategic factors- environment, competition strategy, structure and strategic methods, the company needs to formulate the determining factors that have impacts on each factor's dimension.

Under this condition, SBU is allowed to design a "strategic structure", a choice under some special conditions. This approach will allow the SBU to design a "strategic configuration", consisting of choices made in a specific environment along the dimensions of the competitive strategy, structure, and technical strategy to achieve unique sustainable competitive advantages. Research shows that some of the combination of the four factors may bring profits for competitions. Other combinations may, however, lead to competitive disadvantages, internally or externally. The five dimensions simultaneously take the three elements of technology strategy and other dimensions into consideration, allowing a unit to design a strategic internal and external configuration coherence.

The existence of environment, strategy, and structure matching were empirically tested in 1988 and it was confirmed that strategy is the alignment of the main force structure with the environment (Miller et al., 1988). Porter (1985) held that strategic structure depends on the following measures: SBU, pursuing certain competitive strategies in order to obtain

advantages during competition, relies mainly on the strategies made by the chief officers for the environment and methods. The relationships formed are actually complementary in nature. Hall and Saias (1980) believed that the differences between SBU and its competitors lie in positions of the delivered cost, the differentiation, the product, and the scale of market. Depending on these three factors, there probably are eight different combinations for competitive strategic methods. However, Karnani (1984) found that, in potential combinations of competitive strategies, low-in-difference and high- in-cost combination could have detrimental effects in terms of marketing and finance. Therefore, it is possible to form a reasonable combination of competitive strategies, environmental, structural and technological strategies. Mueller and Tilton (1969) held the view that in an unstable environment, a unit may try to design a competitive strategy based on highly differentiated positioning, high delivery cost positioning, and focused on product/market width. This is a common combination, especially for companies in the early stage of product cycle. The cost of delivery may be high, as long as the target customer perceives the value of the additional cost.

Although the literature described the organization between product and service contributes to the service orientation, it has failed to fully address the orientation of organizational structure. However, Gibson et al. (2012) studied the service orientation of the organization structure from the perspective of SBU, concluding that the service orientation of the organization structure was mainly based on the overall and abstract level, rather than on the detailed organizational functions. Organizational functions are necessary activities that a company must engage in in order to create, produce and sell products or services (Suda, 2004). For example, the key roles of capital goods manufacturers are the development, management, sales and manufacturing of products. Homburg et al. (1999) believed that combining organizational functions with the distinction between the product and service businesses can bring about positive prospects to SBU. An SBU is defined as a relatively autonomous unit, where the management of the SBU has control over at least three or more of the following functions: marketing, sales, production, research and development, accounting, finance, and human resources.

2.2.3.2 The control mode enforced by the headquarter

Porter (1985) held the view that, under the mode of SBU, group strategy is clearly divided into two levels: corporate strategy and business strategy. Based on the sources of competitive advantage and strategic objectives, each SBU can only choose one strategy from either cost leadership, differentiation, or focus strategy to obtain a competitive edge. It should be noted

that a cost leadership strategy requires an organization structure with high efficiency, whereas a differentiation strategy requires an organization with high flexibility. Faulkner and Bowman (1992) also pointed out that, instead of being considered as a whole to analyse the relationship between the organization and the strategy, the SBU should be determined firstly for its value chain, whose diverse functions should be used as the analysis object to determine what kind of organization is needed under different strategies. There is no perfect organizational structure design for a specific strategy or a special type of enterprise, which means that the organizational structure can both be profitable for a certain enterprise and harmful to another similar enterprise, although successful companies in a particular industry tend to adopt similar organizational structures. For example, companies that produce consumer goods tend to set up organizational structures based on its products. Small businesses tend to set up organizational structures based on functions that feature centralization, while medium-sized companies generally implement a segmented organizational structure that feature decentralization, and large companies use SBU or matrix organization structure (David & David, 2016). With the development of the enterprise or the combination of multiple basic business strategies, the organizational structure of the company will experience the process of growing from simplification to complication.

2.2.3.3 Personality and ability of SBU general manager

Kerr conducting research and analysis on the character and ability of corporate management, such as the general manager, based on behavioural science, believed that the personality and ability of SBU managers have a significant impact on organizational performance (Gupta, 1987). Gupta and Govindarajan (1984) launched a survey of 58 SBU general managers in “Fortune 500” companies and revealed that the more SBU general managers with marketing experience, the more they prefer to take gambles and tolerate uncertainty. They also found that this type of manager is conducive to “building” a strategic SBU, but may be detrimental to “harvest” strategic SBUs. Govindarajan (1989) was investigating the performance of companies with different organizational forms, combining the data of 121 surveyed SBUs, and they drew a conclusion that, in order to achieve excellent performance, it was necessary to coordinate the selection of the general manager with the strategies of business unit (SBU). This demonstrates the interaction between the competitive strategy and multiple choices in management including functional background, controlling points and problem-solving style, affecting the effectiveness of SBU. Homburg et al. (1999) explored the relationship between the consensus among senior executives and SBU-level performance, as well as factors which

possibly affect the strength within the relationships of a company. These scholars used research data from three different countries and found that the consensus can accelerate the performance of SBU, even under different strategies, but it may fail when adopted for low-cost strategies. In addition, the relationship between the consensus of the differentiation strategy and performance is negatively affected by market vitality. Thus, by identifying the conditions under which consensus has a positive impact on performance, the research clarified and expanded previous consensus research. The findings revealed that for managers, investing in time management to achieve consensus is more important than low-cost strategy and it is particularly important to use a differentiated strategy in a stable environment, especially true for the current organizational behaviours due to which the performance may be subject to changes.

2.2.3.4 The relationship between SBU and organizational behaviours

Chandler, through analysis on the innovative response to the problems arising from the cross-sector coordination in the enterprises such as DuPont, Motorola and others, in the 1920s, believed that the multi-department structure is compatible with the diversification strategy. For large enterprises with multiple product lines and scattered in multiple regions that may face the problem associated with coordination and control. The multi-sector structure is believed to satisfy the complexity of large enterprises, enabling senior officers to monitor the performance of each business unit more accurately through decentralization, which may help solving such problems as overload of management and information (Chandler, 1962). When studying the business structure of a company and its overall performance relationship, Golden and Brain R found that the relationship between SBU strategies and its performance is associated with how SBU and the senior officers interact. This interaction, improperly conceptualized before, is characterized by centralization, which examined another view that SBU decides what kind of decisions and activities should be initiated. Referring to the results of the research on 496 SBUs, it showed that the performance of SBU could be improved under the following conditions: first, SBU with external strategic orientation controls the environment, monitors activities and conducts strategic decision-making analysis. Second, SBU with internal orientation should control operations and related activities (Golden, 1992). The poorer performance of SBU might be caused by those unimportant business strategies and activities. Therefore, it is suggested that the relationship between the company and the SBU can promote or inhibit the implementation of the SBU's expected strategy. Two studies done by Vorhies, Douglas W; Morgan, Robert E; Autry, Chad W et al., concerned strategies

for single -industry and multiple- industry business. These two studies empirically investigated the strategic business unit product-market strategy (differentiation, cost focus and product-market scope), marketing capabilities (architecture and professional capabilities and their integration) and business unit performance (market effectiveness and subsequent annual target cash flow), and a series of controls. Focusing on solving the problems from the perspective of the resource endowment theory, this research also aimed to deepen the understanding of how the key company-level marketing capabilities can contribute to the realization of the strategy, so as to further promote the viewpoint based on the resource element endowment theory (Vorhies et al., 2009). Specifically, the study tested 7 hypothesis and yielded strong evidence that, structure and professional marketing capabilities and their integration actively regulate the product-market strategy and the derived relationship with business department performance. Compared with studies undertaken to date, the survey is combined with data, measured objectively; because the collected second-hand data contains resource level (input) data and the subsequent year's financial data, the results of this study should earn a higher degree of validity than similar empirical studies in the past.

For the part of organizational management of SBU, Han and Chang studied the nature and characteristics of the control of subsidiaries of multinational companies in South Korea. They found that after gradually recognizing the differences between SBUs, the business level gains more and more attention from research on the relationship between headquarters (HQ) and SBU. The premise of most studies is that the upper and lower levels of each subsidiary are different, so the relationship between each headquarter and subsidiary faces different problems associated with control. The research concluded that the control mechanism adopted by the headquarters should be made different based on the specific characteristics or background of each SBU or subsidiary. This view of differentiated control implicitly assumes that the headquarters are supposed to manage its subsidiaries in different ways. However, the headquarters actually controlled over the SBU and its subsidiaries with no difference. In contrast, studies, following a unified measure, have pointed out the difficulty in cross-subsidiary differentiated control and in changes of corporate control methods. These conflicting views indicate that it is necessary to make changes on whether the headquarter controls its subsidiaries in a different or unified manner (Han, 2011). The purpose of this research is achieved by in-depth case studies. Qualitative and inductive field research is used to analyse the control mode and generate factors that affect the control style of the SBU or subsidiary headquarters.

In order to conduct a comprehensive analysis and comparison of the corporate control

styles of SBUs or subsidiaries, this research focuses on a company and its two foreign subsidiaries with comparative characteristics. The company chose for the case study is headquartered in South Korea and is one of the world leaders in its business field (industrial products). Based on the concept of differentiated control, the research has identified variables such as competition strategy, strategic mission, local environment, and subsidiary capabilities as specific contingent events that affect the relationship between the headquarters and the subsidiary. Correspondingly, two totally different subsidiaries of the company were selected from these four dimensions aiming to test the explanatory power of these two conflicting views. Then Hwalsik and Chang collected different types of data through interviews, observations, documents and making records. They, following grounded theory methods to analyse field data, verified them through triangulation, which provided a solid foundation for theoretical development. Based on existing theories and initial data, a working framework was developed to continuously compare emerging theoretical explanations with the evidence in the data. This iterative process of shuttling back and forth between data, relevant literature, and emerging theories, has further perfected the framework and theoretical explanations. As the result suggests, the strategic control is a unique and prominent practice of control under SBU or headquarters subsidiary background. In addition, the headquarter uniformly applies control mechanisms in its business and adopts different strategies and environments. The study found that the case company has strong cultural control over its SBU or subsidiary through extensive management of personnel transfer and the introduction of a headquarters-style management of human resources. It also uses a formal performance evaluation system and an informal communication network for output and behaviour control. Although a formal strategic control system and process has been established in the case company, it shows weakness in terms of strategic control. These control mechanisms are almost uniform among different subsidiaries. Combining this result with the continuous observation of the sample companies, the research concludes that the unified control perspective is more realistic and more convincing. The headquarters will not easily change the management style, because it has been formed for a long time and represents the company's business and organizational views. Therefore, it is difficult for the headquarters to adjust its management style according to the needs of different SBUs or subsidiaries. Based on more analysis, scholars have been aware that there are many reasons why the headquarters cannot control subsidiaries in different ways. In addition, the dominant logic and internal configuration concepts partially help explain the application of the unified control mechanism to subsidiaries. It also clarifies the various factors that lead to unified control, such as the versatility of the headquarters

control system and its unique capabilities, the same control structure and communication channels between the headquarters and the SBU or subsidiaries, and the social pressure brought by equality as well as the inertia from the headquarters, further discussing how each factor affects the unified control from the headquarters. Despite the limited generalization, given the intense focus dedicated to only one company, this research can represent a comprehensive survey of methods concerning multinational companies' SBUs or subsidiary control. It turns out that, contrary to the widely accepted differentiated matching method, the headquarter controls SBUs or subsidiaries with different characteristics in a unified way.

In addition, Fan Libo and Teng Wenzhi explored the internal SBU operating mechanism of the organization from the possibility to allow employees to establish a sense of autonomous management. Research showed that building a SBU system can stimulate employees' sense of independent innovation, assist the maintenance of customer relationships, increase corporate profits, and accelerate corporate development. The essence of SBU is to end the traditional relationship between business entities and individual employees, providing a platform for development for both the entities and individual employees. Fan Libo and Teng Wenzhi believed that SBU management equals superiors making market space and resource platform (status level, advanced information, problem solving channels, support process) available for the employees supervised. SBU itself, on the other hand, based on users' opinions, innovatively solves problems and obtains incentives from users' satisfaction which is regarded as spiritual incentives, while benefit commissions are regarded as material incentives (Fan & Zhang, 2006).

Yang Kaiming deemed that the SBU operating mechanism is first to break the boundary between the manager and the managed, and at the same time emphasize the initiative of the employees, who obtain resources through resource allocation and the power to make decisions, growing to be the "partner" or "manager" of an enterprise (K. M. Yang, 2006). Fan Libo and Zhang Zhongyuan pointed out that the biggest difference between SBU operating mechanism and functional management lies in the recognition that the latter is segmented management, where every one, perceived as a managed individual, shoulders specific tasks and follows the management of the superiors, not responding to the market (Fan & Zhang, 2006). What should be underscored about SBU's operating mechanism is, however, the "one ticket to the end" business process, which means everyone is responsible for the effect of the market. Through the occlusal relationship of the market chain, every employee is able to initiate operation. After the market effect is achieved through operation, employees "earn" wages through revenue commissions. Li Huijie believed that the center of the SBU innovation

mechanism is that the company can provide innovation platforms and resources and that employees can operate on their own. He believed that the premise of establishing a SBU innovation mechanism is business process reengineering (BPR). The SBU innovation mechanism differs itself from any other management mechanism in terms of cultural innovation, with informatization as the means, and the agile manufacturing system as the backup point (H. J. Li, 2005).

Li Haijian and Guo Shumin emphasized that self-management of employees is to make each employee an independent strategic business unit, namely SBU. Because every SBU is a capital, market, learning, innovation, and profit unit, after perceived as SBU, employees will develop from a small SBU to a large SBU as his/her ability is further advanced with career development, and then be responsible for SBU operations body (H. J. Li & Guo, 2008). After the employees are in charge of the SBU business body, they will change from “small managers” to “big managers”, able to collaborate with other departments, mobilize more resources, coordinate various small SBUs through the network, and build a borderless organization within the enterprise. While achieving greater market goals, a group of qualified “managers” have been created. At the same time, the operator of the SBU business entity is equivalent to the “leader” in the network-setting goals, designing rules, integrating various SBU modules, and eventually becoming a “big manager”. Most scholars believe that SBU is essentially consistent with management by objectives, with the focus on self-management and the formation of a conscious management system. Hai'er's SBU management model is proposed to have the dual benefits of “internal corporatization” and “external marketization” simultaneously, that is, to unify strategic goals and improve labour efficiency. One of the keys to the success of the SBU is that labour transactions need to be more efficient, and the transaction costs of the simulated market needs to be lowered to avoid the double disadvantages of “internal corporatization” and “external marketization”— the rise in administrative costs and transaction costs (J. Yang, 2009). They believe that SBU does not need to be specified to everyone, but can be started with a department or team, for example, from a sales department suitable for SBU. In addition, SBU does not need to be promoted in the entire company, but only in some positions before the achievement of the expected effects.

2.3 Competitive strategy theory

2.3.1 The emergence and development of strategic theory

The term “strategy” has a long history and originated from the military and diplomatic categories. It refers to the wisdom and art of defeating the enemy under the conditions of confrontation. In China, the word strategy originated from the art of war, which refers to the ingenuity of the generals, that is, “strategy of war.” (B. N. Yang, 2011). As early as the end of the Chun Qiu Period in Chinese history, Sun Wu, a well-known military scientist in China, created "The Art of War by Sun Tzu" based on war experience and strategic philosophy. The book is praised by scholars at home and abroad as a classic that guides politics, military affairs, and commerce. The strategic thinking contained in it still has a profound guiding significance to this day. In the West, the root of strategy comes from ancient Greece. The original meaning of "strategy" in English is "general", which is the commander. It was later used to express "the art and science of commanding an army." The "On War" written by Carl von Clausewitz in the 19th century summarized many war experiences and was hailed as the foundation of modern Western military theory. The book put forward the author's propositions on strategy and strategic elements, and formed it, which is a systematic summary of military theory (Gong, 2005).

Until modern times, the content of strategy has expanded from the field of war to all aspects of society, such as politics, business, and technology. With this expanding field, the concept of strategy has become more and more abundant (Jin, 2014). Alfred Chandler defined strategy in "Strategy and Structure: Several Chapters in the Growth of American Business Enterprises" published in 1962. The author believes that strategy is to determine the basic long-term goals of the enterprise and the measures adopted to achieve these goals, including action and allocation of resources.

Since the 1960s, there has been an upsurge of strategic research in management circles. Peter Drucker discussed three basic issues of corporate strategy in "Management Practice" in 1954: What is our company? What should our business be? Why? He clearly stated that strategy is a matter of deciding what the organization will do and how it will do it (Luo, 2009). Andrews (1997) pointed out that strategy can be divided into four parts: market opportunities, company strength, personal values and desires, and social responsibility. Among them, market opportunities and social responsibility are external factors, based on the situation, while company strength and personal values and desires are internal factors. According to Andrews,

companies should allocate and optimize their resources, form their own unique advantages, and give play to their advantages in competition. At the same time, Ansoff (1987) first proposed the concept of corporate strategy, which is divided into three categories: strategic decision-making, management decision-making and business decision-making. He believes that strategy is a strategic decision made by an enterprise to adapt to the external environment and the business activities it is currently engaged in and will be engaged in in the future. That is, the strategy is a "connection" that runs through the activities of the enterprise, products, and markets, involving products, market scope, growth vector, competitive advantage and synergy. Because of Ansoff's outstanding contributions to the study of corporate strategic management, he is known as the father of strategic management.

With the in-depth study of strategic management theories by many scholars, strategic management theories have shown different schools. In 1999, Henry Mintzberg sorted out ten schools and raised a question: "These schools study different strategies, process, or study different parts of the same process? The author believes that these ten schools reflect the objective laws of strategy formation from different perspectives, complement each other, and jointly constitute a strategic management system (Luo & Li, 2002). The ten strategic schools mainly include design school, planning school, positioning school, entrepreneur school, cognitive school, learning school, power school, cultural school, environmental school and structural school. According to Rao (2009) these schools complement each other's research on strategic management, constantly enriching the strategic management system, and pushing the entire theory forward.

From the perspective of its development process, strategic management theory has roughly gone through several stages of evolution: classic strategic management theory with environment as the research object; industry-driven competitive strategy theory; competitive strategy theory from the perspective of resource base; dynamic capabilities competitive strategy theory from the perspective; marginal competitive strategy; collaborative symbiosis strategy theory in the digital age (Feng, 2011).

To sum up, in the development of strategic theories, the above theories have some insufficient research hypotheses and research methods (mainly based on ideas and lack of effective scientific analysis tools), but they still have important theoretical and practical values, and different perspectives promote the enrichment of strategic theories, and play a certain guiding significance for future research.

2.3.2 Industry-driven competitive strategy theory

The industry-driven competition strategy theory can also be called the industry positioning theory. The theory is based on the analysis of the industrial structure and believes that the essence of the enterprise's competitive strategy is the result of the analysis of placing the enterprise in the industrial environment. The industrial structure has a significant impact on the rules of competition and the strategies that companies can potentially choose (Jia, 2003). The competitive strategy theory based on industrial structure was put forward by Michael Porter in the 1980s. Porter believes that the profitability of an enterprise depends on the choice of strategy. The choice of strategy is mainly based on the following two points. One is to choose attractive and high-profit industries, and the other is to establish a competitive advantage in the selection of industries. On this basis, Porter proposed the five forces model. Porter believes that the combined forces of the five major competitiveness determine the competitiveness of the industry. The five major competitiveness is the threat of new entrants, the threat of alternative products or services, the buyer's bargaining power, and supply (Ding, 2010). Porter believes that the goal of business units to implement competitive strategies in the industry is to find the best positioning in the industry. After seeking the best positioning, companies can better determine the direction of competitiveness and maintain competitiveness. Porter's (1985) competitive strategy theory from the perspective of the industrial environment focuses on the analysis of external opportunities and threats to enterprises, inheriting and carrying forward the environmental perspective of Ansoff (1987). Ansoff (1987) published a book on corporate strategy that believes that the strategic behaviour of a company is the process of perception and interaction with the environment, and the process of changes in the organizational structure caused by this.

The three important components of corporate strategy are environment, strategic model and organization (Ling & Gu, 2015). Porter (1985) proposed that the core of strategy is to obtain competitive advantage. Strategic decision-making consists of two parts: First, the industry and industrial structure outlined by the five-force model. Enterprises need to analyse the opportunities and threats of the environment. Choosing to enter attractive industries or industries under the construction of the Five Forces Model; Second, even in the same industry, the different positioning of the company affects the profitability of the company. Based on the above two points, Porter proposed three competitive strategies: first, total cost leadership strategy, which emphasizes the realization of the company's total cost leadership policy in the industry through a series of policies in each department. The total cost leadership strategy

emphasizes, well, strictly control costs and various operating and management expenses, and emphasizes cost minimization. As long as the cost of the enterprise is low enough, it can obtain an above-average enterprise return rate. Second is a differentiated competition strategy, which refers to a competitive strategy that is achieved by providing unique products or services recognized by the industry and meeting the differentiated needs of some subdivided groups of people. The differentiated competition strategy improves the customer satisfaction and brand loyalty of the target customer group by providing differentiated demand satisfaction. Also, due to the improvement of customer satisfaction, it also reduces the sensitivity of customers to prices, thereby creating profits for the company. This has also created industry barriers, which is the third concentration strategy. A concentration strategy refers to a strategy that focuses on specific customer groups, product sub-categories or regional markets. Compared with competitors implementing large-scale layout strategies, users of this strategy focus on specific industries or users or Regional populations can achieve differentiation by meeting the needs of specific groups of people, or they can achieve low cost by reducing costs to serve the population; or through low cost and differentiation, both ways to export services and products to meet the needs of specific groups of people (J. Wang & Yuan, 2019).

To sum up, Porter's competitive theory from the perspective of industrial structure explains how to find a competitive advantage in a competitive environment. Porter's innovative research has caused strategic management theory to focus on the external industrial environment, and made important contributions to the classification and analysis of competitive strategies. However, we have also seen that Porter's competitive strategy thinking under the industrial structure has certain limitations. It emphasizes the impact of an industry or industry analysis on the competitiveness and performance of a company but ignores the internal resources of the company and the character of the decision maker on corporate performance. This means that Porter's theory cannot explain why an unattractive industry can have a highly profitable company, or an attractive industry can allow poorly managed companies to appear (X. B. Wu & Xu, 2006). At the same time, Porter emphasized the static view when analysing the company's environment or strategy, ignoring the dynamic nature of the company's strategy and the dynamic relationship of organizational behaviour.

2.3.3 Competitive strategy theory based on the resource-based view.

2.3.3.1 Industrial organization theory and resource-based view

In the 1980s, with globalization and rapid technological development, firms were faced with changing markets and fierce competition. During this period, Strategic Management Theory received widespread attention, with Industrial Organization Theory (I/O) and Resource-Based View (RBV) becoming the two main frameworks for explaining the competitive advantage of firms. At the heart of the Industrial Organization Theory is Porter (1980)'s Five Forces Model, first introduced in his book, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. Porter's five forces model states that a firm's competitive advantage is primarily affected by the structure of the industry in which the firm operates, including the threat of potential new entrants, the bargaining power of suppliers, the bargaining power of consumers, the threat of substitutes, and competition among competitors in the same industry. According to Porter, by analyzing these forces, firms can develop strategies to meet the challenges in the external environment in order to gain a competitive advantage.

Different from I/O which emphasizes the external environment, RBV puts forward a different idea: a firm's competitive advantage stems from its unique internal resources and capabilities. The concept of RBV can be traced back to Penrose's (1959) book *The Theory of the Growth of the Firm*, in which she proposed that a firm is not just a unit that produces goods and services, but also a collection of resources. However, it was not until 1984, when Wernerfelt formally articulated the theoretical framework of RBV in his paper "A Resource-Based View of the Firm", that this viewpoint began to gain more attention in the academic community. As Wernerfelt (1984) pointed out, compared with the external market conditions, a firm's internal resources and capabilities are crucial to its competitiveness, and the value, scarcity, inimitability and irreplaceability of resources are the key components of competitive advantage. Barney (1991) in his paper "Firm Resources and Sustained Competitive Advantage" further extends RBV by emphasizing the VRIN attributes of resources, that is, valuable, rare, inimitable and non-substitutable. He argues that only resources that possess these attributes simultaneously can provide firms with sustained competitive advantage.

The fundamental difference between RBV and I/O theory is that RBV emphasizes unique resources and capabilities within the firm. Unlike Porter's focus on industrial structure to analyze the external competitive environment, RBV argues that it is the unique allocation of a firm's internal resources that is the key to achieving and sustaining competitive advantage. Although the two provide different strategic perspectives, in practice, firms often combine the

two to develop a complete competitive strategy. For example, a firm may first use the Five Forces Model to assess the external environment and then utilize RBV to identify and arrange its unique resources to differentiate itself in the marketplace.

To summarize, RBV provides a framework for a resource-based strategic analysis that focuses on a firm's internal structure; in contrast, I/O theory analyzes the structure of an industry and its external environment in a traditional manner. RBV has not only been explored in depth in academic research, but also impacted the formulation and execution of firm strategies. By understanding and applying RBV, companies are able to identify their core resources and develop strategies accordingly to achieve competitive advantage and long-term success.

2.3.3.2 Origin and development of the resource-based view

RBV has been built upon a series of theoretical contributions, starting with the early work of Selznick (1997) and Penrose (1959), through the theoretical foundations laid by Wernerfelt (1984), and ultimately developed and refined by Barney (1991), Peteraf (1993) and other researchers.

First and foremost, Selznick (1997) introduced the concept of "internal competitive resources" in his work *Leadership in Administration: A Sociological Interpretation*, emphasizing the importance of organizational uniqueness and internal systems in maintaining competitive advantage. He argues that organizations need to develop unique capabilities in response to the environment and to become "institutions with distinctive characteristics". This is an early manifestation of RBV. Although Selznick did not directly construct RBV, his ideas laid the groundwork for subsequent understandings of the role of resources and capabilities within organizations.

Penrose (1959) sketched out RBV in her book *The Theory of the Growth of the Firm*, and pointed out that a firm is not just a unit of production but a collection of resources. She suggested that the "resources" of a firm include not only tangible assets but also intangible resources such as human resources and managerial capabilities. According to her theory, the growth of an enterprise is limited by its management capacity, and the difference in management capacity of different enterprises determines the disparity in their growth rate. This has had a profound impact on the development of RBV as it brings the importance of resources and capabilities into the discussion of firm growth and competitive advantage.

In his paper "A Resource-Based View of the Firm", Wernerfelt (1984) first explicitly introduced the term "Resource-Based View" as an independent theoretical framework for

analyzing firms' competitive advantage. He stresses the importance of focusing on a firm's internal resources and capabilities as opposed to analyzing industrial structure. As he argues, firms can derive competitive advantage from their unique pool of resources, especially those that cannot be easily copied or purchased by competitors. His work provided the theoretical guidance for RBV, marking the theory as a prominent strategic management theory.

Following Wernerfelt, Barney (1991) expanded and deepened RBV in his paper "Firm Resources and Sustained Competitive Advantage". He specified the certain conditions that can make resources a source of competitive advantage, suggesting that resources' value, scarcity, inimitability and non-substitutability, as in the VRIN framework, form the basis of a firm's ability to gain and maintain competitive advantage. Barney's theoretical work contributed to the development of RBV and has become a key theory in the field of strategic management.

Finally, Peteraf (1993) further summarized and organized the theory of RBV in her paper "The Cornerstones of Competitive Advantage: A Resource-Based View". She proposed RBV's "four conditions," including superior resources (heterogeneity within an industry), ex post limits to competition, imperfect resource mobility, and ex ante limits to competition. Her work not only summarizes the key points of RBV, but also suggests how to assess whether resources can be a source of sustained competitive advantage.

2.3.3.3 Resource based view (RBV) and organizational performance

The link between the RBV and organizational performance has always been an important topic in strategic management research. Empirical studies have offered significant support for RBV, revealing how the strategic management of resources affects organizational performance. The following literature review will explore this topic based on a range of key literature in this field.

Firstly, Hansen and Wernerfelt (1989) reveal that economic and organizational factors including the strategic management of resources, have a significant impact on firm performance in their study "Determinants of Firm Performance: The Relative Importance of Economic and Organizational Factors".

In his study "How Much Does Industry Matter?", Rumelt (1991) found that the impact of resource endowment on firm performance varies across industries. This shows that in addition to the resources themselves, the application of the resources and the context of the industry in which they are allocated are vital to performance.

In their study "The Resource-Based View of the Firm in Two Environments: the

Hollywood Film Studios from 1936 to 1965”, Miller and Shamsie (1996) further examined the varied impact of resources (e.g., intellectual and physical assets) on organizational performance in both fixed and uncertain environments. Their finding demonstrates the importance of keeping a balance between resource attributes and environmental dynamics.

Barney (1991), in his groundbreaking work “Firm Resources and Sustained Competitive Advantage”, discussed in detail how firms can gain and sustain competitive advantage by acquiring and retaining valuable, rare, inimitable and non-substitutable resources. This provides a theoretical foundation for understanding how resources translate into organizational performance.

In “Empirical Research on the Resource-Based View of the Firm: An Assessment and Suggestions for Future Research”, Newbert (2007) assesses the results of empirical research on RBV and provides suggestions for future research directions. He emphasizes the characteristics of resources and their relationship with performance, following the criteria of efficiency and effectiveness of resource use.

Furthermore, Sirmon et al. (2007) explore how firms should manage resources to create value in “Managing Firm Resources in Dynamic Environments to Create Value: Looking Inside the Black Box”. They prioritize the portfolio and dynamic management of resources.

Finally, Peteraf and Barney (2003) in “Unraveling the Resource-Based Tangle” explore the details and intricacies of RBV, in particular how the theory relates to acquiring, combining, and retaining resources and how these processes translate into performance.

The previous literature focuses on how RBV has evolved to explain the complex relationship between resource management and firm performance. Through these studies, scholars are gradually unlocking the “black box” of resource management and shedding light on how management practices affect resource value creation and firm performance.

2.3.3.4 The core of RBV: Strategic resource allocation and management

In the concept of RBV, the allocation and management of strategic resources is at the core of enterprises to build and maintain competitive advantages. As Grant (1991) points out, the key to competitive advantage lies in the ability to effectively identify, develop, and deploy resources within the enterprise, and integrate these resources into unique capabilities and core competencies. This requires businesses to think strategically about how to organize and coordinate their assets to create value and performance that cannot be easily replicated.

Grant (1991) emphasizes the following main points in his discussion of resource management framework:

Resource Identification: Firms first need to clearly identify their internal resources. This includes all readily available assets, capabilities, organizational processes, corporate attributes, information and knowledge.

Resource Assessment: After identifying its resources, the firm needs to assess them to determine their value and uniqueness in the marketplace and whether they meet the VRIN criteria for delivering a competitive advantage to the organization, i.e., Valuable, Rare, Inimitable, and Non-substitutable.

Resource Prioritization: After the assessment, companies need to prioritize their resources, putting more emphasis on those that maximize value creation and scarcity for the business. The key objective of this step is to manage the direction and volume of resource investment, prioritizing investment in those resources that will best help the company consolidate and extend its competitive advantage.

Resource Integration: After assessment, firms should consider how to integrate these key resources so that they complement each other and create synergies. This means that different resources and capabilities need to be organized together to form specific competencies, and through the combination of these competencies to deliver unique customer value.

In particular, Grant emphasizes that the management of resources is not merely a static process, but should be dynamically adjusted in response to changes in the external environment in order to continuously create and sustain competitive advantage.

Grant's theory has become the basis for many companies' strategic planning. However, how companies implement these strategic plans in practice remains a challenge, which is the concern of Sirmon et al. (2007). To address this concern, they have proposed a framework for strategic resource management that focuses on managing resources in dynamic environments by tapping deeper into the "black boxes" of business operations to understand how value is created.

The framework emphasizes five key activities of resource management:

Resource and Opportunity Selection: Companies need to select those resources that are best suited to their current and long-term needs considering both the external environment and internal conditions.

Resource Allocation and Reorganization: Apart from the initial allocation of resources, companies also need to reallocate resources to adapt to new challenges and opportunities as time and circumstances change.

Resource Leveraging: It concerns how limited resources can be used to maximize impact, including the use of existing resources to create greater market opportunities and business

expansion.

Capacity Building and Regeneration: Capacity should be built based on resources. Meanwhile, how to sustainably develop and regenerate resources and capacity should also be taken into consideration in order to respond to changes in the environment.

Resource Acquisition: Resource management is not only about optimizing existing resources, but also involves enhancing the resource pool through strategic resource purchases, partnerships, strategic alliances, and mergers and acquisitions.

According to Sirmon et al. (2007), these activities help firms to transform resources into capabilities and achieve efficient use of resources through good resource allocation and reorganization. In this way, firms can ensure that they combine resources with market opportunities to create lasting value so as to build and sustain competitive advantage.

2.3.4 Competitive strategy theory based on dynamic capability theory

2.3.4.1 Origin and development of dynamic capabilities

As a theoretical concept, the theory of Dynamic Capabilities has been developing continuously in the field of strategic management since the mid-1990s. This concept deals with how a company can adjust its resources and capabilities to maintain a competitive advantage in a rapidly changing market.

The origin of the concept of Dynamic Capabilities can be traced back to a paper named “Dynamic Capabilities and Strategic Management” by Teece, Pisano, and Shuen in 1997, which presented an early definition of Dynamic Capabilities and described dynamic capabilities as a company’s capabilities to consolidate, build, and reconfigure resources in response to a rapidly changing environment. This paper not only laid the foundation of Dynamic Capabilities but also provided a theoretical framework for the follow-up research.

In 2000, in the paper “Dynamic Capabilities: What Are They?”, Eisenhardt and Martin further the elaboration of Dynamic Capabilities. They believed that dynamic capabilities are not rare, but their forms vary from companies to companies, and therefore, researchers should regard dynamic capabilities as a specific kind of process pattern. Besides, they pointed out that while dynamic capabilities can be achieved in different ways, they always serve the resource reallocation process of a company.

Later, in the paper “Deliberate Learning and the Evolution of Dynamic Capabilities”, Zollo and Winter (2002) emphasized “learning” as a key factor in the formation and evolution of dynamic capabilities. They believed that through systematic knowledge accumulation and

coding process, organizations would be able to develop dynamic capabilities to adapt to environmental changes.

On that basis, Helfat and Peteraf (2015) proposed “The Role of Dynamic Capabilities in Strategic Management”, which further refined the concept of Dynamic Capabilities. In particular, they related dynamic capabilities to the management capability and the decision-making process.

In “The Dynamic Resource-Based View: Capability Lifecycles”, Helfat and Peteraf (2003) brought the theory of RBV to a dynamic perspective in response to a rapidly changing environment of competition. The Dynamic Resource Base View (DRBV) they put forward emphasized the role of dynamic capabilities in business strategy and performance. Dynamic capabilities refer to the capabilities of a company to integrate, construct and reconfigure its internal and external resources to cope with the rapidly changing environment. Owning and utilizing such capabilities provides companies with requisite adaptability and competitiveness especially when markets and technologies are changing rapidly.

In the research “Dynamic capabilities: A review and research agenda”, C. L. Wang and Ahmed (2007) proposed a multidimensional model of dynamic capabilities and emphasized the role of these capabilities in continuous innovation and adaptability. In the paper “Dynamic Capabilities: A Review of Past Research and an Agenda for the Future”, Barreto (2010) completed the literature review of the field of dynamic capabilities and meanwhile expounded future research directions. In addition to proposing a more refined definition of dynamic capabilities, he also called on scholars to address the problem existing between the empirical research and the conceptual clarity of this theoretical framework.

To sum up, the aforementioned articles provide an in-depth understanding of the origin and development of Dynamic Capabilities. Since the theory was initially put forward by Teece et al., it has gone through development, refinement and continuous evolution. By exploring the performance and the role of dynamic capabilities in different market and organizational environments, researchers have provided valuable insights into how companies can build and maintain their competitive edge in dynamic markets.

2.3.4.2 Definition and evolution of dynamic capabilities

The concept of dynamic capabilities has been pivotal in strategic management literature, explicating how firms achieve and sustain competitive advantage in dynamically changing environments. Introduced by Teece et al. (1997) in their seminal paper “Dynamic Capabilities and Strategic Management”, dynamic capabilities are defined as the firm’s ability to integrate,

build, and reconfigure internal and external competences to address rapidly changing environments.

Evolving from this foundational work, Teece (2009) advanced the concept in his book “Dynamic Capabilities and Strategic Management: Organizing for Innovation and Growth”, wherein he explores how dynamic capabilities aid firms in innovation and growth. Teece (2009) postulates a framework of ‘sensing-seizing-reconfiguring’ to guide firms in identifying and capitalizing on new opportunities.

Further examination and systematic review of the research on dynamic capabilities were conducted by Barreto in “Dynamic Capabilities: A Review of Past Research and an Agenda for the Future”. Barreto (2010) emphasizes critical aspects of research in dynamic capabilities such as conceptual clarity, measurement, and theoretical consistency.

In “The Elephant in the Room of Dynamic Capabilities: Bringing Two Diverging Conversations Together”, Peteraf et al. (2013) attempt to bridge the gap between two divergent discussions within the dynamic capabilities discourse. They explore the dissension between theoretical and practical conversations and propose an approach to unify these debates.

Recent scholarly work, including Peteraf and Barney's “The Dynamic Capabilities Framework: Strategic Implications and Pitfalls” (McNabb & Lee, 2020), continues to delve into the theory, discussing the strategic implications of the dynamic capabilities framework and noting potential pitfalls.

Advancing the discourse, Eisenhardt and Martin (2000) in their article “Dynamic Capabilities: What Are They?”, suggest that dynamic capabilities are not idiosyncratic and firm-specific but rather span across industries and markets, manifesting in detectable patterns of strategic behavior. This view challenged the initial notion of dynamic capabilities as unique and firm-specific, underscoring the necessity to investigate the underpinnings of capability formation and manifestation within various organizational contexts.

More recent studies, such as Helfat et al. in “The Dynamic Capability Research Agenda” (C. L. Wang & Ahmed, 2007), build upon the initial theorization to propose that it is essential to understand the microfoundations of dynamic capabilities, thereby focusing on the role of individuals and their interactions within the process of capability development and deployment.

Zahra et al. (2006) in their work “Entrepreneurship and Dynamic Capabilities: A Review, Model, and Research Agenda”, expand the application of dynamic capabilities into the realm of entrepreneurship. They identify how entrepreneurial firms develop dynamic capabilities

and argue for the role that these capabilities may play in venture performance and adaptability.

This expansive body of literature collectively signifies a critical shift in management research that emphasizes not just firm resources and static advantage, but the managerial and organizational processes that enable a firm to renew its competences and adapt to changing environments. Despite the advancements, scholars such as Arend and Bromiley (2009) in “Assessing the Dynamic Capabilities View: Spare Change, Everyone?” caution against possible tautologies and call for empirical testing that rigorously examines dynamic capabilities and their direct linkage to firm performance.

The surveyed literature indicates that the concept of dynamic capabilities has undergone several evolutions and expansions since its initial proposition in 1997. From an early focus on how enterprises adjust existing capabilities to deal with changes, the discourse shifted to emphasize how they perceive the environment and engage in appropriate resource orchestration and reconfiguration to create new developmental opportunities. The development of the dynamic capabilities theory has deepened our understanding of how companies can realize long-term competitive advantages and has provided practical guidance for strategic management. As more researchers contribute to this field, the theory of dynamic capabilities will continue to evolve and be refined.

In sum, the dynamic capabilities literature has progressed from formative definitions to a more nuanced understanding of the complexities and contingencies that influence the effectiveness of capabilities in varying strategic scenarios. This progression reflects a maturation of the concept and lays the groundwork for scholarly inquiry that intersects theoretical rigor with practical relevance. The narrative established through this review not only reflects the chronological development but also the thematic enrichment that dynamic capabilities scholarship has experienced, thereby providing a comprehensive vision for continued interdisciplinary research within this domain.

2.3.4.3 Dynamic capabilities and organizational performance

When it comes to the discussion about the sustainable success and competitiveness of modern enterprises, the relationship between dynamic capabilities and organizational performance becomes an important topic.

The work by Teece et al. (1997), “Dynamic Capabilities and Strategic Management”, can be viewed as the starting point for understanding the relationship between dynamic capabilities and organizational performance. They proposed that the dynamic capabilities of a company, that is, the capabilities to adapt, integrate, and reconfigure its internal and external

resources, are the key to gaining and maintaining its competitive advantage, thereby affecting organizational performance.

In the study “Dynamic Capabilities: What Are They?”, Eisenhardt and Martin (2000) further elaborated the definition of dynamic capabilities, defining dynamic capabilities as a set of specific strategic and organizational processes that enable a company to adapt to changes. It is pointed out that a company’s performance is affected by its capability to quickly change the allocation of resources, which is particularly significant in dynamic markets.

Helfat and Peteraf (2003), in their study “The Dynamic Resource-Based View: Capability Lifecycles”, further linked the perspective of dynamic capabilities to the concept of organizational performance, explaining how dynamic capabilities evolve and influence enterprise performance over time.

Carmeli and Tishler (2004) explored in their paper, “The Relationships Between Intangible Organizational Elements and Organizational Performance”, the relationship between factors that are difficult to quantify but prevalent in organizational assets (such as employee skills and knowledge) and firm performance. Their findings suggested that by effectively managing these seemingly intangible resources, companies can improve their overall performance through their dynamic capabilities.

Wilden et al. (2013), through their research “Dynamic Capabilities and Performance: Strategy, Structure and Environment”, analyzed how dynamic capabilities affect organizational performance under different strategic, structural and environmental conditions. They found that the increase in environmental dynamics requires a higher level of dynamic capabilities in order to achieve better performance.

To sum up, the aforementioned articles reflect that researchers are constantly exploring the relationship between dynamic capabilities and organizational performance. It can be concluded that although there are challenges in determining the exact relationship between dynamic capabilities and organizational performance, the existing studies generally reveal the positive impact of dynamic capabilities on organizational performance. These studies not only highlight the importance of resilience and resource management, but also show how management decision-making optimizes long-term enterprise performance in different contexts through the development of dynamic capabilities.

2.3.4.4 Framework and elements of dynamic capabilities

In the article “Explicating Dynamic Capabilities: The Nature and Microfoundations of (Sustainable) Enterprise Performance”, Teece (2007) took a closer look at dynamic

capabilities. In particular, he emphasized three core capabilities that enterprises need to develop and apply in order to gain and maintain competitive advantages in a rapidly changing environment of competition, namely Sensing, Seizing, and Transforming. Following is a review of the literature concerning these three capabilities:

Sensing

In Teece's paper, Sensing is described as a prerequisite for companies to identify and assess external opportunities and threats. It includes observing market trends, technological advances, changes in customer needs and others. Teece pointed out that this is not just a passive reception of information, but an active process of searching, learning, and interpreting, which allows companies to detect and react quickly to changes in the market before their competitors, thereby enabling them to gain a first-mover advantage.

Seizing

Once opportunities are perceived, companies are expected to grasp and exploit those opportunities. Teece mentioned that Seizing involves developing new business models, making necessary strategic decisions, and making the most of existing capabilities. In addition, it may require a reallocation of resources to adapt to new business models and market requirements. This step is the key to transforming perceived opportunities into real financial returns, and involves aligning the structure, processes, and strategies of a specific company with market opportunities.

Transforming

Changes in the market and the technology environment are continuous, so companies must adapt to or dominate such changes, which requires the transforming capability. Teece believed that Transforming is the most critical dynamic capability for companies to maintain their competitiveness. It allows companies to adapt to long-term changes in the market environment through internal and external restructuring, which involves adjusting and realigning resources, capabilities, and structures. Transforming may involve changes in organizational culture, as well as the absorption and integration of new technologies (Teece, 2016).

These three capabilities are not isolated; they are interdependent and work together. Teece (2007) emphasized that the key to the sustainable success of a company lies in the coordination of these three dynamic capabilities. Companies find opportunities through Sensing, grasp opportunities through Seizing, and maintain long-term competitive advantages through transforming.

Although it is still relatively obscure when it comes to the specific operation of dynamic

capabilities, Pavlou and El Sawy (2011) delved into the “black box” of dynamic capabilities in his research, revealing its core components and bringing new understanding to the theory. The highlight of Pavlou’s research is his analysis of the internal operation of dynamic capabilities, which reveals how companies must constantly review and adjust their resource mix to maintain their competitive advantage. According to Pavlou and El Sawy (2011), dynamic capabilities include the following capabilities:

Sensing Capability

In new product development (NPD), a business unit senses the market environment to gather market intelligence, including market demand, competitor actions, and new technologies, to identify new product opportunities, and to decide whether to conduct early exploratory research activities to pursue new product prototypes (Roseno et al., 2013; Zabel et al., 2023). The three basic routines of sensing capability include generating market intelligence, disseminating market intelligence, and responding to market intelligence. Sensing capability enables NPD units to reconfigure their existing operational capabilities, first by generating market intelligence to increase the potential to identify new market opportunities, then by disseminating intelligence to improve response to customer needs, and finally by responding to intelligence to drive product innovation and explore new product opportunities that better meet customer needs (Cyfert & Krzakiewicz, 2016; Kump et al., 2019; Matysiak et al., 2018).

Learning Capability

Learning capability is defined as the capability to use new knowledge to reform existing operational capabilities (Cyfert & Krzakiewicz, 2016). When NPD units identify market opportunities, they must respond by learning as well as creating new knowledge and skills, and restructure existing operational NPD capabilities to develop new products. There is a two-way interaction between sensing and learning, as learning improves the capability of NPD units to sense new opportunities. These two capabilities are different, with the former focusing on gathering new market intelligence and the latter focusing on using market intelligence to create new knowledge (Gnizy et al., 2014). The four basic routines of learning capability include acquiring, absorbing, transforming, and utilizing knowledge, and are related to concepts such as innovative problem solving, brainstorming, and creative thinking. Learning helps a team to be more proactive by enhancing “creativity” and serves as a driver for reconfiguration and innovation through updating existing operational capabilities (Pulsiri & Vatananan-Thesenvitz, 2021).

Integrating Capability

Integrating capability means the capability to integrate personal knowledge into the new operational capabilities of the unit. This capability is critical for NPD, as individual knowledge needs to be integrated at the collective level to deploy newly configured operational capabilities (Teece & Pisano, 2003). For NPD units, the integration of individual knowledge and interaction patterns into collective systems is central to the reserve and use of newly configured operational capabilities. The basic routines of integrating capability include the contribution, performance, and interconnectedness of individual input. These three basic routines facilitate the daily reconfiguration of operational capabilities through common activities. Research suggests that teams with stronger integration skills are able to better cope with new situations, and moreover, the integration of knowledge is seen as a part of the foundation of dynamic capabilities (Fukuzawa, 2015; Teece, 2007).

Coordinating Capability

Newly configured operational capabilities require efficient coordination of tasks and resources as well as synchronization of activities. Coordinating capability enables NPD units to deploy reconfigured operational capabilities by managing tasks, activities, and resources; it is defined as the capability to coordinate and deploy tasks, resources, and activities in new operational capabilities. Basic routines for coordinating capability include allocating resources to tasks, appointing right persons to perform right tasks, identifying complementarities and synergies between tasks and resources, and coordinating collective activities. Coordinating capability facilitates the reconfiguration of operational capabilities by allowing NPD units to identify, combine, and allocate resources, assign right persons to right tasks, and better synchronize their tasks and activities (Fukuzawa, 2015; Teece, 2009, 2010).

2.3.4.5 Critique and future development of dynamic capabilities

Barreto (2010) proposed a critical review of the existing documents concerning dynamic capabilities. He pointed out that there are some problems in the research, such as inconsistent definition of dynamic capabilities, lack of exact representation and insufficient empirical basis for verification. These problems together result in the complexity and difficulty in the theoretical and quantitative study of dynamic capabilities, and limit the application of this theory in practice. Peteraf et al. (2013), through the investigation of historical documents, pointed out that the origin and development process of dynamic capabilities was diverse and tanglesome, leading to differences in understanding. There are significant differences in the understanding of the component elements and the operation of dynamic capabilities, and it is the “elephant in the room” for the research field, which reveals significant differences that

exist in discussions but are often overlooked.

As for the direction of future research, Barreto (2010) argued that future research should focus on sorting out and standardizing the definition of dynamic capabilities, and developing effective and operational measurement methods on this basis. Meanwhile, he also called for more cross-industry and cross-cultural comparative studies to verify the universality and applicability of dynamic capabilities. Petera et al. (2013) emphasized the importance of a more in-depth historical investigation and theoretical basis for the study of dynamic capabilities. By better understanding the past, researchers can more intelligently plan the trajectory of future research. Peteraf et al. (2013) argued that it is crucial to integrate the two main topics of dynamic capabilities, namely the content and process of capabilities as well as the generation and evolution of capabilities. They encouraged researchers to explore how the two topics relate and influence each other so as to provide a more comprehensive understanding of the complexity of dynamic capabilities.

The theory of Dynamic Capabilities undoubtedly has a profound impact on understanding how companies adapt to the changing environment. However, there are many deficiencies in the definition, operation and empirical research of the theory. Future research needs to be carried out in terms of conceptual definition, quantitative measurement and empirical verification, and to seek more answers in the micro basis and specific management practices of dynamic capabilities. Considering that strategic flexibility in dynamic environment has increasingly become the core of enterprise competitiveness, the further development of dynamic capabilities may provide a more solid and practical theoretical foundation for the field of strategic management.

Chapter 3: Research Methods and Design

This chapter introduces the research methodology and design of this thesis. The methodology was a single case study. We will then introduce the study design: primary data are collected mainly through online questionnaires, semi-structured interviews; secondary data mainly comes from the public earnings reports, internal communication emails and meeting minutes of the research company. At the end of this chapter, methods of data processing are also described.

In this study, we adopt a single case study approach with Suning Finance as our research subject. By examining how its three Strategic Business Units (SBUs) make strategic adjustments in the face of significant external environmental changes, we can draw several key considerations for using a single case study methodology. Firstly, it affords the researcher an in-depth exploration of a case, yielding detailed insights into organizational behavior and processes. Secondly, the single case study is well-suited for exploratory research, capable of unearthing new theories and hypotheses in nascent areas. Thirdly, it presents a comprehensive perspective capturing the complexity and dynamism of the case, which aids in the construction of new theories and the extension of existing ones. The emphasis of this research on the dynamic capability process model for SBU strategic adjustment in response to external environmental changes makes a single case study method particularly apt.

This study examines how the SBU analyses the impact of regulatory policies on products/services, how to analyse the impact of policies on the industry, formulates new product operation strategies while considering the risk/return balance, and implements new strategies in a short period of time. Finally, retrospective data and real-time data related to operational strategy adjustments were used, which improved the economic viability of the case study and provided insight into the long-term process (Leonard-Barton, 1990).

3.1 Research methods: case studies

Theoretical construction is the core activity of organizational research. Case studies are commonly used as a research method in social science disciplines and applied professions. The essence of case studies, which is the core intent of each type of case study, is to present a decision-making process or series of decisions: Why was the decision made? How are

decisions made? (Yin, 2015).

Yin (2009, 2015) later described the case study design methodology. He sees case studies as a research strategy and classifies case study methods while introducing the need to replicate logic in multiple case studies. His approach also emphasizes the need to introduce the reliability and validity of concerns in experimental study design into case studies.

In conclusion, a case study is an empirical study. The main focus is to delve into phenomena (i.e., "cases") that are occurring in real-life environments, especially when the boundary between the phenomenon to be studied and its environment is not very clear. Therefore, case analysis is suitable for scenarios where the processing process is relatively complex, there are many variables to be studied, and it is difficult to measure and describe by quantitative analysis methods. Case studies require data gathering through multiple sources and bringing all of it together for cross-analysis. Therefore, it is necessary to put forward theoretical hypotheses in advance to guide data collection and analysis, reduce research workload and avoid detours (Yin, 2004).

Case studies are research strategies that focus on understanding dynamic processes in a single context. Case studies can be single or multi-case and can employ nested study designs with multiple levels of analysis (Yin, 2011).

Case studies typically use a combination of data analysis methods, such as documentation, interviews, questionnaires and field observations. Data can be qualitative, quantitative, or both.

Case studies can be used to achieve different research objectives, including providing descriptions, testing theories, or constructing theories (Eisenhardt, 1989).

The case study advocated by Eisenhardt (1989) consists of eight steps:

During the start-up phase, the initial definition of the research question is critical to constructing the theory from the case study. Without a research focus, it is easy to get lost in the massive amount of data. Determining some ideas in advance based on speculation also helps to form the initial research design of the theory construction, which can help researchers measure the ideas more accurately in the research process. If these ideas prove important as the research progresses, the empirical foundation that forms the theory will be more solid. However, theory-building research should be carried out as ideally as possible without any ideas and hypotheses to be tested, because preconceived theoretical ideas or propositions can bias the researcher or limit the discovery of new conclusions.

Case selection is an important part of using case construction theory. As with hypotheses testing research, the concept of the overall is equally crucial here. Appropriate choices can

control for external variation overall and help to limit the scope of findings. The case studies used theoretical sampling rather than statistical sampling. The selected case should replicate the findings of previous cases or expand on emerging theories.

Researchers who construct theories often use a combination of data collection methods. Interviews, observations, and documentation are frequently used methods for qualitative analysis, but researchers are not limited to using these methods. Including the use of some quantitative data (Yin, 2009), the two can create synergistic effects. Quantitative data can help reveal relationships that are not easily detected by researchers and can confirm or falsify the conclusions obtained in qualitative data. Qualitative data can reveal the logic and rationale behind the correlation relationships reflected by quantitative data. Case studies are best conducted with multiple investigators, so that the case can be viewed by different observers from different angles, which may lead to a more objective analysis of the data.

A distinctive feature of the application case building theory is that data collection and data analysis are overlapped. Because doing so takes full advantage of data collection: the freedom to make appropriate adjustments during the analysis process. Adjustments can be made to add data collection tools or to add analytical cases. In this way, researchers can take full advantage of the uniqueness of characteristic cases and emerging new themes to refine the final theory.

Data analysis includes intra-case analysis and cross-case analysis. In-case analysis typically includes a detailed description for each case. However, there is usually no fixed pattern for intra-case analysis. In fact, there are as many methods as there are researchers (Eisenhardt, 1989). In general, intra-case analysis is to treat each case as an independent individual, and then analyse the unique patterns of each case until a universal model is found across cases.

The counterpart to intra-case analysis is cross-case analysis. There are three methods of cross-case analysis, one is to select some categories or dimensions, divide the cases into different groups, and then look for similarities within the group and differences between groups. The second method is to pair the cases and then list the similarities and differences between each pair of cases. The researchers then explore the subtle similarities and differences between the cases. Such comparisons may lead to new categories or concepts that were not anticipated. The third approach is to separate the data by source. For example, some researchers collate observation data, some researchers collate interview data, and some collate questionnaire survey data. If patterns from one data source are confirmed by other data sources, the factual basis for conclusions can be strengthened. If the conclusion is conflicting, then the contradiction between the evidence can be resolved by further exploring the reasons

behind the conflict.

The first step in forming a hypotheses is to refine the idea. This includes refining the definition of the idea and establishing evidence to measure the idea in each case. The definition and measurement of ideas are gradually formed in the process of data analysis, unlike factor analysis, the idea of case analysis may vary from case to case, and qualitative data is difficult to summarize. Therefore, tables are often used to summarize and present the evidence behind each idea.

The second step in forming a hypothesis is to verify that the relationship between ideas matches the evidence in each case. Each hypothesis is tested on a case-by-case basis, and each case can support or not support the hypothesis (Yin, 2004). In "copy" logic, relationships between variables are repeatedly verified through cases to improve the credibility of their validity.

A characteristic of theoretical construction is the comparison of the concepts, theories, or hypotheses developed with the existing literature. Explore what they have in common, what are the differences, and why. Doing so helps to improve the internal validity, universality, and theoretical level of the case study construction theory.

When the theory reaches saturation or the possibility of improving the theory is relatively small, the repeated comparison of theory and data can be stopped. The final product of the case study construction theory is finally obtained.

Similarly, Yin (2004) proposes the following six steps for the case study.

At the planning stage, it is necessary to judge whether the case study method is suitable for research, mainly based on three prerequisites: whether the research needs to answer the "how" or "why" question; whether the investigator had very little control over the subjects and activities studied; The focus of the study is whether it is what is happening now.

During the design phase, attention should be paid to the construction of theoretical assumptions, and the analysis units should be clearly defined to design case details. At the same time, researchers should also determine whether to have a single case study or multiple case studies according to the actual situation.

At the collection stage, evidence should be integrated using different data sources to form an "evidence triangle" to verify the plausibility of the findings. There are six main sources of data for case studies, namely documents, archival records, interviews, direct observations, participant-observation and physical artifacts. Data from different data sources has different advantages and disadvantages. In the case study, researchers will select one or more sources to collect the necessary data. At the same time, there is a need to establish a database of case

studies and develop a chain of evidence. It allows external observers of case studies to follow the relevant evidence from the beginning of the research question to the final conclusion.

During the analysis, researchers can use five analysis techniques, including pattern matching, explanation building, time-series analysis, logic models and cross case synthesis, to analyse selected cases using one or more of these analysis techniques based on all primary and secondary data collected in the previous phase.

In the sharing phase, researchers need to write case study reports, and for the quality of the research reports, researchers need to iteratively revise and compare the theory and data until it is perfect enough (see Figure 3.1).

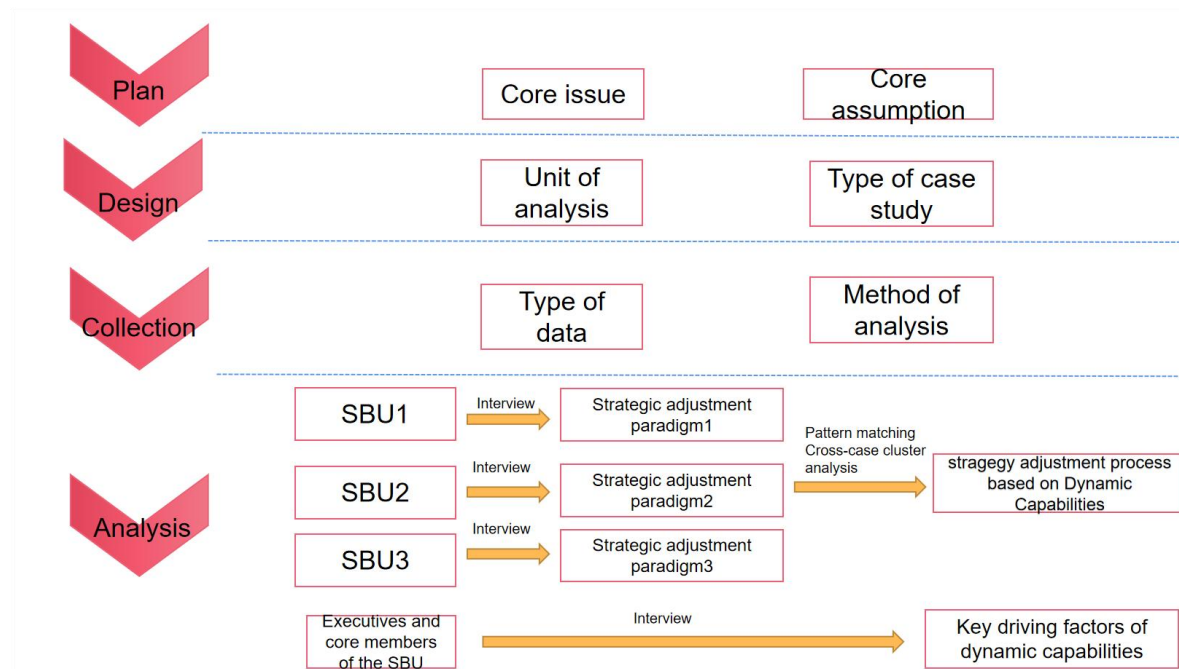


Figure 3.1 Case study design of this thesis

3.2 Case studies

We spent two years studying the product/business strategy adjustment of Suning Finance's three business units in the face of major changes in the external environment. Suning Financial is divided into multiple business units, each of which acts as a profitable unit and has its own strategic and operational control of the business. The company implements a product divisional structure, or M-shaped organizational structure (Woodcock et al., 1994), which is not divided by geographical area, but by product/service type, market (e.g., end user), and each business unit is responsible for the national market. We select the business unit according to the following criteria (see Table 3.1): (1) The business unit has experienced

significant changes in the external environment. The impact of this change led to significant changes in the industry, and the industry was reshuffled. Or the change has a very large impact on the current business unit, seriously affecting the current shape of the business unit's products/services. (2) Try to select different types of business units in the face of environmental changes to increase the differences in business scenarios of business units, and then increase the generality of this study. (3) Try to select the cases of business units at different points in time to reduce the mutual influence of different business units in the face of strategic adjustment. As a result, the strategic adjustment process of the business unit in the event of major changes in the external environment can be seen more clearly.

Table 3.1 Interview summary for the three interviewed SBU

Name of the division	Products/ Services	Changes in the external environment	Expected number of interviews
Wealth Management Division	Provide customers with wealth management product sales services	the new regulations on asset management	7
Consumer Division	Finance Provide customers with online micro-loan business	The COVID-19 Pandemic and Suning.com's Reputation Crisis	5
Payment Division	Services Providing payment services to customers	Regulatory compliance is becoming stricter	7

3.3 Data sources

The author interviewed members of the senior management team of each business unit, including the general manager of the division and other deputy general managers. The senior management team typically includes the general manager of the business unit and the heads of various functional areas (e.g., sales, IT, finance, product).

The data source includes three aspects: (1) and the initial interview with the general manager of the business unit. (2) semi-structured interviews with the senior management team of the business unit, and (3) Second-hand information

Interview with the general manager of each business unit: the general manager of each business unit is interviewed in a semi-structured manner. The interview begins with the general manager of the division asked to describe the recent changes in the external environment that have the greatest impact on the division. Secondly, the general manager of the business unit is required to describe the impact of the change event on the business unit, including but not limited to product form, sales, channel situation, customer situation, etc. It

then describes the division's response strategy, including the strategy development process and the considerations for strategy development. Then describe how to implement new product operation strategies in business units, and affect the evaluation of landing efficiency and effectiveness, and the key driving factors affecting the landing effect. Finally, the evaluation of the effect of the adjusted strategy.

Executive Interviews: after the initial interview with the business unit manager, this is followed by a semi-structured interview with each member of the top management team. The interview consisted of 12 questions with no firm answers. According to the inductive research method, researchers can add some questions to improve the effectiveness of the interview during the interview. Interviews typically last anywhere from 43 to 120 minutes.

The senior personnel interview is first asked to describe their division of labour in each functional area of the business unit, describe their interpretation of the external environment, their impact on their functions, and the sources of information. Describe how the business unit forms a new product operating strategy from its perspective and what are the key drivers for shaping new decisions. In this way, the process of how the division develops a new product operation strategy is described.

The second part is to understand how the new product operation strategy is implemented, the modules that each functional department is responsible for and the actual role it plays. It focuses on describing what difficulties have been encountered in the process of implementing the strategy and how to overcome them. Those key factors in the organizational alignment process are the most critical drivers for whether the adjustment is quick and effective.

Each interview was conducted in tandem and was co-chaired by two investigators, one of whom was responsible for the interview and the other who took notes and filled in the gaps in the questions. Immediately after the interview, the investigators then checked each other's facts and recorded their impressions. We follow some rules of intra-case analysis (Yin, 2009). The "24-hour" rule requires that meticulous interview records and images be completed within one day of the interview. The second rule is that the interview transcript should include all data, regardless of whether they were obviously important at the time of the interview. The third rule is to record at the end of the interview record the comments on each public "How does this interview compare with previous interviews?")

Secondary and other data: we looked at available industry reports and internal documents and made informal observations. Including internal reports on policy research and judgment, notification letters and rectification letters issued by regulatory authorities to business units, internal organizational structure adjustment notices, internal meeting minutes, etc.

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Chapter 4: Data Analysis and Results

Suning Finance is recognized as the financial services arm of the esteemed Suning Group of China. Its mission is to cater to individuals and businesses with an extensive array of financial products and services. As a diversified modern service conglomerate, Suning has evolved from being anchored in retail, to expanding into e-commerce, finance, logistics, and technology, signifying the Group's strategic transition from a pure-play retailer to a comprehensive services provider.

Boasting a diverse product portfolio, Suning Finance enables loans, payments, asset management, insurance, securities, and banking services, determined to exploit technological innovation to augment service efficiency while harnessing big data and artificial intelligence to curate precise, personalized offerings. In the context of the internet finance era, leveraging mobile connectivity, extensive data analytics, and cloud computations has become integral to Suning Finance's role as an important growth engine within the Group.

More than an independent financial services provider, Suning Finance serves as the linchpin in the Suning Group's omnichannel, all-encompassing service strategy. The two entities engage in a tightly-knit interplay and a mutually supportive relationship. Amidst fiercely competitive markets, sustained innovation and resource synthesis are instrumental for Suning Finance in providing stalwart support to Suning Group's diversified operations and digital transformation initiatives, operating with relative independence in its organizational framework, process workflows, strategic blueprinting, and service provisioning in contrast to the Group at large.

Given the financial strains endured by Suning Group in the recent epoch, catalysed by the global pandemic and subsequent liquidity challenges, there has been a substantial reconfiguration within its five Strategic Business Units (SBUs). The dissolution of the Micro-Finance and Supply Chain Finance SBUs has precipitated a focused examination of the extant Consumption Finance SBU, Wealth Management SBU, and Payment SBU. This study aims to scrutinize these entities, which remain operative and pivotal to the Group's financial services division.

We have obtained a large amount of primary data through in-depth interviews with the executives and heads of relevant departments of the three SBUs of FinanceSN, and also

collected a large amount of secondary data from a variety of sources, which provided rich and comprehensive data for this study. With the abundant data sources, the grounded research of this dissertation adopts the method of triangulation to improve the credibility and validity of this study, and comprehensively verify the core categories and theoretical models drawn in the research. In order to ensure data validity, we presented a formal letter of introduction and confidentiality undertaking to the interviewees before each interview, so as to allay the interviewees' concerns.

4.1 Analysis of strategic adjustment of Consumer Finance SBU

We conducted interviews with five heads or executives from the Consumer Finance SBU (details in Table 4.1), from which we explored the patterns: we found the general process of strategic adjustment in the face of environmental changes and how dynamic capabilities affect strategic adjustment and ultimately help the SBU obtain new core capabilities; we also found some other low-dimensional capabilities that affect the dynamic capabilities: for example, innovation capabilities, good partnerships, aligned goals and values, and technical capabilities. The combination of these capabilities contributes to the generation of dynamic capabilities, which in turn accelerates the process of strategic adjustment and leads to the formation of new core capabilities in the organization.

Table 4.1 In-depth interview summary for Consumer Finance SBU

SBU	Interviewees	Data Format and Quantity	
		Transcript	Audio recording
Department of Customer Finance	General Manager A	18,000 words	110 minutes
	Product Director B	20,000 words	120 minutes
	Operations Director C	13,000 words	61 minutes
	Marketing Director D	15,000 words	58 minutes
	Risk Management Director E	12,000 words	55 minutes

4.1.1 Strategic turning points in Consumer Finance

Despite the stark difference between SBUs and traditional business entities in organizational structure and management style, the essence of their operational logic still falls into the category of business, and therefore they still share the similar process of strategic management. From the data analysis, it is found that the strategic management process of SBUs can be divided into three stages: strategic analysis, strategic planning and decision-making, and strategic implementation and evaluating.

As revealed in the interviews, there are two external environmental changes that have had

a significant impact on the development of Consumer Finance SBU in the last few years: the reputational crisis of Suning.com at the beginning of 2020, and the economic crisis caused by the COVID-19 pandemic in 2021.

These two environmental changes have had a large impact on Consumer Finance SBU and caused its adjustments in strategies. Meanwhile, these adjustments have achieved a varying degree of success, which would work together with the new changes in the external environment to alter the direction of the next round of strategic adjustment. When the result of adjustment is desirable, with the new changes in the external environment, a certain strategic choice will be strengthened; otherwise, when the result of adjustment is undesirable, with the further deterioration of the external environment, SBUs would rethink their own strategic choices, re-examine their own core capabilities, evaluate their own deficiencies, cultivate the core capabilities they lack internally, or look for a partner with corresponding core capabilities to cooperate with, integrate different core capabilities, and then make a strategic choice for the next round of strategic adjustments. or look for partners with corresponding core capabilities in the ecosystem to cooperate and integrate different core capabilities, so as to reconstruct their own competitive advantages.

4.1.1.1 Strategic adjustment under Suning.com's reputation crisis

In 2020, Suning Group encountered the reputational crisis of Suning.com which brought reputational damage to the whole Suning Group. FinanceSN was not an exception. As part of FinanceSN, Suning Consumer Finance SBU was doubted by investors and some withdrew the money they invested in FinanceSN.

When Suning Consumer Finance SBU encountered shareholder divestment and weakened market confidence, the company's management faced unprecedented challenges. They needed to rebuild the trust of shareholders and the market and take steps to address the funding gap, and they knew that they had to act quickly to turn the situation around.

First, they decided to sit down and communicate face-to-face with shareholders, explaining in detail the predicament the company was facing and the reform measures being taken, and informing shareholders that Suning.com's debt crisis would not affect the development of FinanceSN, let alone Suning Consumer Finance SBU. Through transparent communication, they attempted to restore shareholders' confidence in the company's future prospects and forced divesting shareholders to reconsider their decision.

In the meantime, in response to the erosion of market confidence, the management of Suning Consumer Finance SBU decided to enhance the company's image and reputation.

They began to increase their efforts in publicity by actively working with the media to release positive news and answer the public's questions about the company's prospects.

Their efforts achieved some results, but in the end, as measured by the SBU management, their funds available for lending dropped by 30-40%.

4.1.1.2 Assessing the impact of changes in the external environment on core capabilities

The scale of lending funds is a lifeline for a lending company. When Suning Consumer Finance SBU faced the predicament of declining available funds, they had to take a series of emergency response actions. These actions include 1) reducing the number of people they lend to: in the pre-lending stage, they raised the barrier to entry and adjusted downward the pass rate of risk control, so that only a small number of applicants can receive a loan; in the post-lending stage, they put on hold the loan limit for customers who was past due on a loan once for a long time or frequently; 2) adjusting downward the amount of money they lend: for new customers, the loan limit was reduced by about 20% compared with the previous one; for old customers, before the last loan was paid off, they were not allowed to raise new loans.

After operating for a period of time, the management of Suning Consumer Finance SBU found that there was a significant drop in the satisfaction of their clients, and a large number of customers were lost. In the face of this situation, Suning Consumer Finance SBU initiated a customer survey and found that users had the following main complaints about their loan products: Firstly, the total loan amount was limited and failed to meet the borrower's needs, and thus borrowers had to go to other institutions to borrow to make up the gap, some of which even gave up using Suning Consumer Finance's Application and turned to other competitors' products to borrow money. Secondly, the process of lending was slow. As many customers borrowed money from Suning Consumer Finance SBU in urgent situations such as when buying mobile phones, electric vehicles and other valuables or paying medical bills, they prioritized the timeliness and efficiency of borrowing. Due to the lack of funds, Suning Consumer Finance SBU sometimes released loans slowly, greatly affecting the customer experience. Some customers even complained to customer service that they could not pay their medical bills on time because of the untimely disbursement of loans, thus adversely affecting their timely treatment. Thirdly, the validity period of the loan limit was short. Previously, the validity period was generally six months. That is, within six months the loan can be withdrawn and used at any time, and a drawdown of cash only required a simple process of approval. The success rate was over 90%. But then the period of validity was shortened to mere one month. Many old customers were not aware of the above changes, and

as a result, when they were in urgent need of money, they need to go through cumbersome procedures, and the review time usually took about half an hour. Moreover, some old customers were even rejected by the re-examination process when they were borrowing, resulting in receiving no loan at all, which to a large extent affected the customer experience.

After discussions within Suning Consumer Finance SBU, it was agreed that the decline in lending funds had affected their core capabilities.

As can be seen from the chart below, the impact of Suning.com's public opinion crisis has led to a reduction in Suning Consumer Finance SBU's funding resources, which, in turn, caused a decline in core capabilities in terms of loan amount, withdrawal efficiency, credit limits and approval rates. Ultimately, it resulted in the reduction in core competitive advantages and the loss of customers, as shown in Figure 4.1.

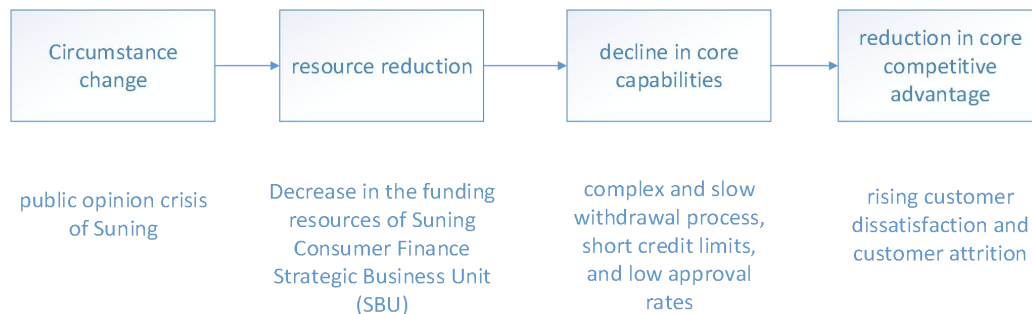


Figure 4.1 The impact of public opinion on Suning's Consumer Finance SBU core competencies

4.1.1.3 Developing new strategy to gain competitive advantages

Suning Consumer Finance SBU agreed that the decline in capital strength has begun to reduce their core capabilities. In the long run, it would eventually affect their core competitiveness. As a result, Suning Consumer Finance SBU began to formulate a new strategy to enhance their financing capability. After collecting information and researching, two strategic directions were identified:

1. Issuing ABS
2. Conducting syndicated loan business with other financial institutions

Scheme 1: Issuing ABS

Faced with the challenge of the financial gap, Suning Consumer SBU sought a way to issue asset-backed securities (ABS) to fill the funding gap. However, they did not anticipate that it would be a journey full of difficulties and challenges.

At the beginning, Suning Consumer Finance SBU encountered challenges from credit rating agencies. Suning.com, a retail giant owned by Suning Group, experienced a public opinion crisis, which made the issuance of ABS even more difficult.

Suning.com, a well-known retailer, was caught in a public opinion crisis due to financial difficulties and internal management issues. Negative news in media reports and social media caused damage to Suning Group's reputation, which negatively impacted Suning Micro-loan's credit rating and borrowers' confidence.

When the rating agencies rated Suning Micro-loan's credibility, they conducted a comprehensive investigation into Suning Group's negative public opinion and assessed its relevance to Suning Micro-loan. This caused the rating agencies to remain cautious about Suning Micro-loan's ratings and lowered its credit rating.

Affected by the public opinion crisis, the market acceptance of Suning Micro-loan's ABS was further reduced. Investors were concerned that Suning Group's woes might have a negative impact on Suning Micro-loan's business and solvency, which in turn rendered them skeptical about investing in ABS.

For Suning Micro-loan, the public opinion crisis not only caused it to face a funding gap and credit rating dilemma, but also aggravated its financial pressure and brought risk management challenges. In this case, Suning Micro-loan needed to proactively communicate with rating agencies and provide sufficient information and materials to minimize the negative impact on its ratings. In the meantime, they also needed to proactively respond to the public opinion crisis by strengthening their internal management, improving their financial status and enhancing their public relations measures in order to restore investor confidence and market trust.

In addition, regulatory constraints have also caused some trouble for Suning Micro-loan's ABS issuance. Regulators were becoming more and more stringent in their regulatory requirements for asset-backed securities, and paying more attention to the supervision of small loan companies. Thus, Suning Micro-loan was required to meet a large number of regulatory requirements, including information disclosure and risk management, which increased the company's operating and time costs.

All these difficulties have led to Suning Micro-loan's ABS issuance project being hindered. The financial gap and credit rating issue undermined investors' confidence in Suning Micro-loan's ABS, resulting in ineffective fundraising results. Suning Micro-loan had to review its business strategy and explore other financing sources to cope with the financial pressure.

Resources needed: a good reputation, the ability to find good rating companies, high-quality assets, and clear accounting data.

Scheme 2: Syndicated loan business with other financial institutions

An alternative way to raise funds is to partner with other financial institutions to jointly lend to customers. In syndicated loan, lenders provide loans to the borrower according to the agreed interest rate and repayment schedule based on the different proportion of funds they have invested. The borrower is required to repay each lender in accordance with the agreed repayment terms.

In terms of the process, the borrower user applies for a loan from Suning Consumer Finance SBU, and then the SBU and the financial institution respectively conduct a risk control review of the customer. If the customer passes the review, the SBU and the syndicated loan funders respectively lend to the customer according to the agreed ratio. The repayments are also returned to Suning SBU and the joint lenders respectively according to the proportion of capital contribution, as shown in Figure 4.2.

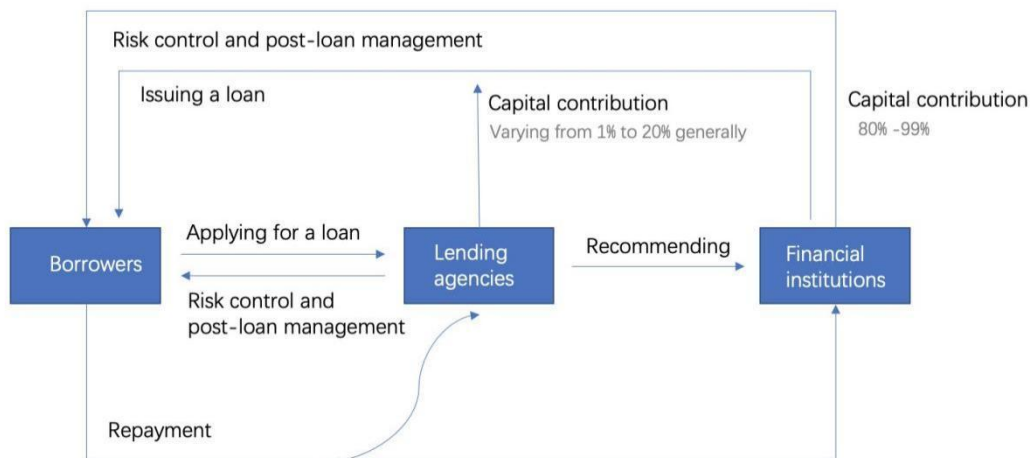


Figure 4.2 Transaction structure for joint loans

Since syndicated loan is directly issued to the customer by the funders, and the risk control review is conducted independently, the quality of the loan assets is the key to determining whether a joint funder can be found. As long as the borrower has accumulated enough loan-related data that is open to the lender's bank for review, the longer the loan has been issued, the more customers there are, and the more data on risk has been accumulated, the easier it will be to find the right syndicated loan partner.

Another key factor affecting the possibility to find a syndicated loan funder is the percentage of loan deposit. In the cooperation mode of syndicated loan, generally speaking, in order to avoid moral hazard, a certain percentage of money will be deposited with the co-lending partner by the lending institution, which will be used to cover the loss in case of overdue repayments. As long as the risk data of the loan assets is stable, and the amount of the loan deposit is higher than the overdue loss measured based on the risk data, the probability of

loss in the syndicated loan business is extremely low for the joint lenders, which means they will be more willing to invest in syndicated loan.

4.1.1.4 Evaluating schemes to make decisions

Ultimately, Suning Customer Finance SBU has to select one of the above two schemes as the final implementation plan. The evaluation centers on whether the resources required by the scheme match the resources that the SBU has.

Scheme 1: In terms of the issuance of ABS, it is necessary for both the issuing body and the parent company to have a good reputation, as well as high-quality assets, a longer operating time, and sufficient data to prove the quality of the assets. The assets of Suning Consumer Finance SBU are of high quality, and it has accumulated 4-5 years of experience since it started operation in 2016, and hundreds of thousands of customers borrow money on its application every year, which offers a large amount of user data. In addition, its risk performance has been stable, with the non-performing loan rate controlled at a low level. However, Suning.com's crisis has led to downgraded rating of the public on the whole Suning Group. Suning Consumer Finance SBU has also consulted a number of securities firms, yet under the influence of the crisis, it is difficult to get a high main rating and pass the regulatory approval. Even if it passes the regulatory approval, only a small number of customers would purchase ABS, and the scale of financing would be limited.

Scheme 2: As for the issuance of syndicated loans, since the SBU and other lenders jointly provide loans to their customers, the requirements for the main body credit of Suning Group is much lower compared to ABS. Since the loans are lent to customers, the historical performance and risk level of the assets should be carefully assessed and observed, and in addition to the requirement for high-quality assets and good risk-control capabilities, strong technical capabilities are also needed. That is because when the customer applies for a loan, it is necessary for the SBU and the funders to jointly conduct online big data risk control audits, and when lending, it is necessary to jointly release the money to the customer's account instantly, all of which requires strong technical capabilities to support. This includes 1) how to design the data flow after the customer submits the relevant document so as to ensure that the risk control systems of both parties start operating simultaneously. 2) how to collaborate on providing the loan to the customer after they receive the approval so as to ensure that the whole process is fast without any major risk incident. Suning Consumer Finance SBU itself is an Internet financial enterprise with a strong development team and technical strength. Though it did not have much experience in issuing syndicated loan, it is familiar with the

similar structure of Internet micro-loans, and able to quickly strengthen the technical capabilities required by syndicated loan. Furthermore, to issue syndicated loans, the SBU should be equipped with the commercial capability to negotiate with various financial institutions, provide information and materials, and lead the technical transformation of both sides. Only in this way would it be able to find the right partner among a large number of financial institutions and promote the implementation of the syndicated loan project. Lacking the required personnel and organizational structure, Suning Consumer Finance SBU needs to compensate for such capabilities.

In the end, considering the capabilities required by different schemes and the current resources and capabilities the SBU possessed, issuance of syndicated loans was selected as a reinforcement scheme to develop financing capabilities.

Summarizing the above strategic decision-making process of Suning Customer Finance SBU, it can be abstracted into the following process mechanism in Figure 4.3:



Figure 4.3 Strategic planning and decision-making process for the Consumer Finance SBU under the influence of public opinion

4.1.1.5 Implementing the scheme and evaluating the results

Having made the decision to issue syndicated loans, Suning Consumer Finance SBU organized a business team to conduct roadshows and communicate with financial companies to explore the possibility of cooperation. Finally, Xiamen International Bank and Shanghai Rural Commercial Bank were determined as the funders of the syndicated loan, and a cross-functional technical team was set up to align with the technical personnel of the two banks, which ultimately led to the launch of the syndicated loan. In total, the syndicated loan helped the SBU raise more than 6 billion RMB, effectively bridging the funding gap and alleviating the decline in core capabilities caused by the financial problem.

Nevertheless, after a year of operation, the financial data showed that the syndicated loan

product increased profits for Suning Consumer Finance SBU, leading to new excess rent. Eventually, at the annual meeting, the Group recognized the direction of this adjustment and believed that the syndicated loan product had brought new core competitiveness to Suning Consumer Finance SBU (see Figure 4.4).



Figure 4.4 The strategic implementation and evaluation process for the Consumer Finance SBU at under the influence of public opinion

4.1.2 Strategic adjustment during the COVID-19 pandemic

At the beginning of 2020, China experienced the outbreak of COVID-19 pandemic. Instead of ending as soon as expected, the pandemic continued to spread and the entire 2020 was shrouded in gloom. Social life was severely restricted and people's daily life were forced into stagnation.

The economic impact of the pandemic cannot be ignored. Enterprises were facing financial difficulties and supply chain disruptions, with many small and micro-enterprises closing down and a large number of workers being laid off. Meanwhile, consumer demand has weakened, market demand has shrunk, and some industries have been hit hard.

4.1.2.1 Assessing the impact of changes in the external environment on core capabilities

After the onset of the pandemic, the repayment ability of Suning Consumer Finance SBU encountered huge challenges and declined significantly. The pandemic led to a series of economic difficulties and financial pressures that prevented many customers from repaying on time.

First, the pandemic limited normal business operations and personal income. Many businesses were forced to shut down and workers lost their jobs and stable incomes. The deteriorating business conditions of the self-employed made it difficult for them to fulfill their lending agreements on time, and their repayment capacity dropped considerably.

Second, the pandemic has caused a serious decline in purchasing power. Faced with reduced wages, the risk of unemployment, and concerns about the future, people began to tighten their consumer spending. Many customers prioritized purchasing daily necessities and reduced non-essential expenditures such as credit card repayments and loans. This makes quality customers reluctant to use financial leverage for overspending.

As the repayment ability of Suning Consumer Finance SBU's customers declined significantly, risks began to escalate on a large scale, bringing serious pressure and challenges to the SBU's operations and financial status.

A large number of customers were unable to make repayments on time, leading to an increase in non-performing loans. After the outbreak of the pandemic, customer delinquency rates increased two-fold, the NPL rate increased by 40%, and the new NPL balance for the year was 3.1 times that of last year. This posed a huge threat to asset quality and financial stability, and further affected the company's reputation and competitiveness in the financial market.

The management of Suning Consumer Finance SBU held a number of business meetings, and finally reached a consensus: if the risk could not be controlled effectively and continued to deteriorate, it would also trigger a break in the capital chain and a liquidity crisis. With the increase of non-performing loans, the SBU might face the situation of unpayable debts and blocked capital inflow. The tightening of capital liquidity would further weaken the company's ability to operate, which might lead to an inability to continue to meet customers' borrowing needs, affecting the company's revenues and profits in the end.

In short, with the advent of the pandemic, the quality of Suning Consumer Finance SBU's customer resources has declined to a large extent, and people's repayment ability has been seriously impacted. And the large number of overdue repayments and high NPL rate indicated the SBU's weakened risk control capability. This resulted in the decline of the SBU's core capabilities: huge losses for years and liquidity depletion eventually led to business stagnation (see Figure 4.5).

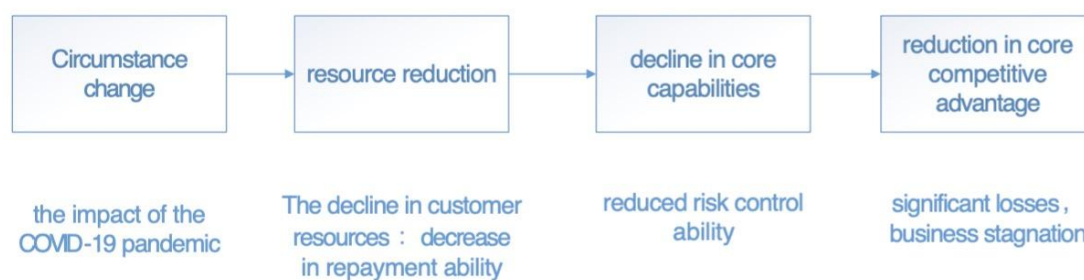


Figure 4.5 The impact of the COVID-19 crisis on the core competencies of the Consumer Finance SBU

4.1.2.2 Re-strategizing to gain competitive advantages - Strengthening risk control capabilities

Suning Consumer Finance SBU unanimously agreed that the decline in customer quality has

begun to reduce the core capabilities of the SBU. In the long run, it would eventually affect the SBU's core competitiveness. As a result, it began to develop a new strategy to enhance its risk control capabilities. After collecting information and researching, it was determined that it should prioritize risk control capability building.

Strengthening the construction of its own risk control capabilities

Faced with uncontrollable risk, Suning Consumer Finance SBU first thought of how to strengthen its risk control to ensure that the risk would not expand. After many rounds of internal discussions and meetings, as well as external experts' analysis of the current business, the risk control capability model that met Suning Consumer Finance SBU's requirements was finally identified. Specifically, it contains the following aspects:

1. A group of excellent talents in the field of big data and risk control;
2. Excellent risk control modelling capability;
3. Scene-based strategy development capability;
4. Excellent post-loan management and collection capability;
5. Excellent customer analysis capability;
6. Excellent data acquisition and analysis capability.

After self-assessment and introspection, the following aspects were identified to improve the SBU's risk control capabilities.

Against the backdrop of a significant decline in the repayment ability of Suning Consumer Finance SBU, the company would take the following measures to improve its risk control capabilities:

To enhance risk assessment and monitoring: a better risk assessment model should be built to accurately assess customers' repayment capability and credit status. By monitoring customers' financial status and behavioural data, it can detect credit risk warning signals in a timely manner so that the SBU can take quick and effective measures to cope with the risks.

To strengthen customer communication and support: the SBU should maintain good communication with customers, understand their actual situation and difficulties, and provide personalized repayment solutions and supportive measures in a timely manner such as flexible repayment arrangements such as deferred repayment, interest-free extension and interest reduction in order to help customers tide over difficult times.

To strengthen overdue repayment management and collection capabilities: a systematic overdue management process should be built to follow up on overdue customers and take collection measures in a timely manner. Technical means should be adopted to enhance collection efficiency, such as automated messages, phone calls and email systems, to ensure

that overdue accounts are paid back as soon as possible.

To strengthen compliance, risk control and internal control system: the SBU should ensure that its business operations are in compliance with relevant laws, regulations and business norms, establish a comprehensive compliance and internal control system, strengthen supervision and control of risk management, and avoid misconduct and potential risks.

To strengthen cooperation with external organizations: cooperative relationships with credit agencies and financial technology companies should be built to share data and information, so as to obtain more comprehensive and accurate information on customers' credit and financial status, and improve the precision and accuracy of risk control decisions.

To enhance employee training and professional capacities: regular risk management trainings should be conducted to enhance employees' awareness of risk control and professional knowledge, improve their judgment and ability to handle risk events, so as to ensure the effective execution of risk management work.

A brief summary of the above process:

Firstly, Suning Customer Finance SBU determined to enhance its risk control capabilities and determined that the strategic direction is to enhance its risk control capabilities by strengthening its own capability building.

Secondly, Suning Customer Finance SBU assessed the resources and basic capabilities needed to enhance its risk control capabilities, including a team of risk control professionals, excellent risk control modelling capabilities, excellent collection capabilities, accurate customer analysis capabilities, and a variety of third-party data sources. All these enable Suning Customer Finance SBU to create a 360-degree portrait of users.

Thirdly, Suning Customer Finance SBU assessed its own resources and capabilities, and identified the resources and capabilities that need to be filled. By holding an inspection meeting and hiring external experts, Suning Customer Finance SBU made an inventory of its own capabilities, further confirming that it has possessed the following resources and capabilities: a team of risk control professionals, certain risk modeling abilities, and a combat-capable collection team which is yet not intelligent. However, there is no customer analysis team to create an accurate portrait of the customer; there is insufficient connection with external data sources, and the second-generation credit information has just been accessed recently.

On the basis of identifying its existing capabilities, Suning Customer Finance SBU also confirmed the resources and capabilities that need to be filled (see Table 4.2): to recruit a senior risk control professional to lead the team and the direction; to reorganize and expand

the current risk modelling team to enhance risk control modelling abilities; to set up a dedicated user research team to enhance the capability of KYC (know your customer); to enhance the connection, evaluation and procurement of external data sources, and to optimize the existing data strategies.

Table 4.2 Strategic planning and decision-making process of Suning's Consumer Finance SBU to enhance its risk management capabilities during the COVID-19 crisis

Identify the capabilities need to be strengthened.	the resource/capability that required for plans	Identify the Firm's Resources/ capabilities	Identify the resource and capabilities gaps Which need to be filled
the risk control capabilities of Suning Financial Services Business Unit (SBU) need to Be enhanced	1、A team of excellent big data risk control professionals. 2、Excellent risk modelling capabilities. 3、Excellent loan management and collection capabilities. 4、Excellent customer analysis capabilities. 5、Excellent data acquisition and analysis capabilities.	1、Several dozen professional big data risk control professionals 2、average risk modelling capabilities 3、Have a certain collection capability, but lack sufficient intelligence. 4、Lack customer analysis capability. 5、Insufficient external data sources, inefficient utilization.	1、Recruit senior experts in the risk control field. 2、Strengthen strategy and model development capability. 3、Strengthen KYC (know your customer) capability 4、Strengthen intelligent collection capabilities. 5、Strengthen data resource capabilities.

4.1.2.3 Implementing strategies and assessing results

When Suning SBU determined the strategy of improving its risk control capabilities by enhancing its own capabilities, it quickly supplemented its own resources and capabilities through a series of initiatives. Within less than six months, it recruited a vice president of risk control from a leading financial institution to lead the entire risk control team, which was then reorganized and divided into three independent modelling teams, including the credit investigation modelling team, third-party data source modelling team and loan modelling team, to strengthen the modelling capability of Suning Customer Finance SBU from different angles. Meanwhile, the selected product manager, the selected user research manager, and the current risk control manager together formed a user research team to conduct a detailed analysis and portrait of the users of Suning Customer Finance SBU as well as identify each user scenario, the purpose of customer loan, and behavioural characteristics. Finally, a data procurement team was set up to connect with all third-party data sources on the market, to assess and test the data, and to enhance the capability to evaluate users.

However, the improvement effect did not meet expectations. While the overall risk

performance was stronger than before, the entire business remained in a loss-making situation. As a result, Suning Customer Finance SBU once again stood at a crossroads, choosing the next direction forward, see Figure 4.6.



Figure 4.6 The strategic implementation and evaluation process of Suning's Consumer Finance SBU in strengthening its risk management capabilities during the COVID-19 crisis

4.1.2.4 Re-strategizing to gain competitive advantages - Acquiring risk control capabilities from outside

In the short term, when Suning Customer Finance failed to effectively establish new core capabilities by strengthening its own capacity building, it shifted its attention to the outside, namely how to cooperate with other organizations in the ecosystem and borrow their risk control capabilities to improve its weak links and further regain core competitiveness.

Through a short period of research and assessment in the industry, by communicating and negotiating with other leading institutions in the industry, Suning Customer Finance SBU finally confirmed a cooperation model that can borrow the risk control capabilities of other institutions, namely the platform loan product, a variant of the loan assistance product. Under this mode, Suning Customer Finance SBU does not need to invest and pay a deposit. When a user applies for a loan from Suning Customer Finance SBU, it will directly transfer the customer to other financial institutions which will conduct independent risk control review and post-loan management for the customer, and the risk will be borne by the financial institutions themselves. After the customer pays the interest, the certain financial institution pays the service fee to Suning Customer Finance SBU according to the proportion agreed in the contract. In this mode, Suning Customer Finance SBU charges the interest paid by the customer, with the customer's risk fully borne by the financial institution, see Figure 4.7.



Figure 4.7 Loan facilitation transaction structure

The main core capabilities required by the online loan business include marketing capabilities, capital capabilities and risk control capabilities. Under the mode of syndicated loan, Suning Customer Finance SBU is responsible for the construction of marketing capabilities and risk control capabilities. However, under the mode of platform loan, it is only responsible for the construction of marketing capabilities, see Figure 4.8.

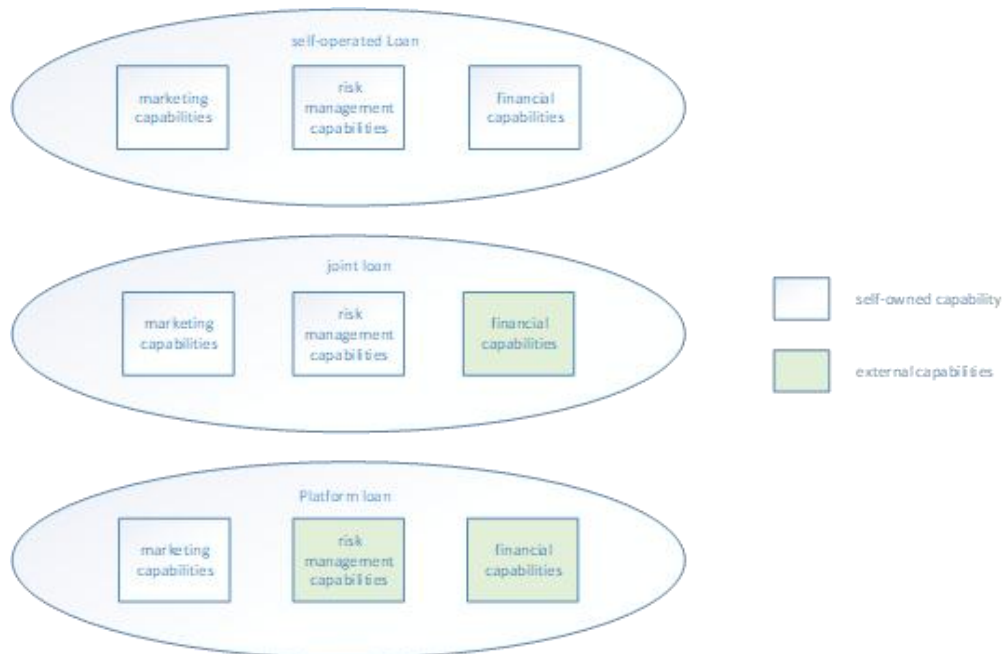


Figure 4.8 Comparison of core competencies for self-built and outsourced loan facilitation and joint loan services

Under the mode of platform loan, although the risk control capability is completely outsourced, the profitability depends entirely on the marketing ability of Suning Customer

Finance SBU, as it can obtain corresponding income only when customers borrow money and pay interest in its cooperative financial institutions. Therefore, it is very critical to accurately identify target customers and recommend them to the proper platform. Besides, according to the principle of value chain creation, the majority of customer interest will be allocated to the cooperative financial institutions since the capital and risk are mainly borne by them. In other words, only a small part will be allocated to Suning Customer Finance SBU. During the marketing process, the operation capability is very critical and the key to the success of this business mode is how to reach customers at a lower cost and guide customers to use loans more efficiently.

In fact, through the use of external consultation and through peer communication, the marketing capability of Suning Customer Finance SBU has shown quite good competitive advantages as follows:

1. Mature product mode. The products of As-you-wish Loan and As-you-wish Payment have run for many years, thus knowing the customers on the platform very well. Together with the KYC team formed earlier on, Suning Customer finance has made a comprehensive analysis and a 360-degree portrait of users, and now it has a deeper understanding of the composition of customers, the scenarios of using loans, and the motivations for spending them.

2. Huge membership resources of the Group. The membership resources of the whole Suning Group are shared within the whole system. After so many years of operation, the number of members of the whole Suning Group has reached up to as 600 million, accounting for about 40% of the entire population of China. As long as Suning Consumer Finance SBU makes full use of these resources, it will be able to quickly obtain a large number of customers.

3. Strong technical capabilities. Suning Customer Finance SBU has been sparing no effort to promote the construction of technical capabilities. In response to the current Internet wave, it has reserved a lot of intelligent capabilities on marketing, including the analysis model of user behaviours, the use of intelligent reach tools (intelligent robots and intelligent IVR tools).

After evaluation, Suning Customer Finance SBU also needs to enhance the following capabilities:

1. More comprehensive user analysis capabilities. At present, Suning Customer Finance SBU has a better understanding of the users who apply for self-owned products. For example, it has a full cognition of the short-term temporary inter-bank lending scenario with the loan amounts of no more than 50,000 yuan. But in order to cooperate with other financial

institutions, it must explore more users and more scenarios, such as what customers who borrow more than 100,000 yuan may be like, how to deal with customers with higher/lower interest rate tolerance, etc.

2. Development and use of more efficient intelligent tools. For the huge silent member resources at present, Suning Customer Finance can only rely on intelligent tools to activate these resources in a broader, efficient and low-cost way.

3. Efficient business connection and technical connection capabilities. Due to the decrease in income, it is necessary to make full use of every opportunity brought by customers. If a financial institution is unwilling to give customers a satisfactory amount or interest rate, Suning Customer SBU needs to recommend customers to other institutions quickly. For one thing, this can meet the borrowing demands of customers; for another thing, it can make full use of customer resources to ensure that each customer can create interest income, see Figure 4.9.



Figure 4.9 Strategic planning and decision-making process of Suning's Consumer Finance SBU in leveraging external risk capabilities

4.1.2.5 Implementing strategies and assessing results - Acquiring risk control capabilities from outside

When Suning Customer Finance SBU determined to develop platform loan products to “outsource” risk control capabilities, it immediately began to implement the established strategic plan, setting up a cross-functional project team consisting of business staff, IT technicians, AI technicians, user research staff, and product managers, to push the entire project forward. In three months, it cooperated with Baidu to complete the launch of the first platform loan product, and then successively connected with the leading platforms of China’s Internet finance such as Huaibei, 360, Mashang Consumer Finance, etc. In the beginning, it

pushed the mature customers of As-you-wish Loan and As-you-wish Payment products to other financial institutions. In the later stage, the AI technical team cooperated closely with Baidu and 360 teams to jointly model and recommend suitable customers for the products of Baidu and 360. Meanwhile, within 4 months, the IT technical team optimized the products and technical structure of Suning Customer Finance SBU, and developed an independent intelligent routing module of customers. A customer can be pushed to multiple capital for credit and loan, so as to meet the borrowing demands and optimize user experience.

Six months after the syndicated loan product was launched, it realized a profit. After one year of operation, it helped Suning Customer Finance SBU to turn a profit. Finally, via the intelligent marketing capabilities, it also achieved a qualitative leap, reducing a single customer's marketing costs by about 30%, which accounted for 50% of the cost of diverting a customer in the current market. Thus, super profits were realized. In the interview, the senior management of SBU believed that the development of platform loan mode is successful and brings competitive advantages, as shown in Figure 4.10.



Figure 4.10 The strategic implementation and evaluation process of Suning's Consumer Finance SBU in leveraging external risk capabilities

4.1.2.6 Strategic adjustment model of Suning Customer Finance SBU

By integrating the influence of the public opinion on Suning.com and the impact of the pandemic faced by Suning Customer Finance, we summarized and abstracted out the general process of strategic adjustment as follows.

There are three stages: strategic analysis stage; strategic planning and decision-making stage; strategic implementation and evaluating stage.

Strategic analysis stage: assessing whether the changes in the environment will lead to a decline in certain resources and capabilities of the company, and whether these resources and capabilities will affect the change of core competence of the company and even lead to the decline of core competitiveness.

Strategic planning and decision-making stage: identifying the core capabilities that need to be enhanced based on the results of the strategic analysis stage; developing options to enhance core capabilities in line with the internal and external information collected; assessing the resources and capabilities required for each option and the current capacity gaps

that the company needs to fill; eventually selecting a plan that maximizes the use of the existing resources of the company and minimizes the capacity gap as a strategic plan.

Strategic implementation and evaluating stage: testing the strategy quickly on a small scale; assessing whether the strategic goals and expectations of the company are met after the periodic results are achieved. If so, expand the scope of the test. If not, return to the strategic planning and decision-making stage, and re-formulate the implementation strategy, see Figure 4.11.

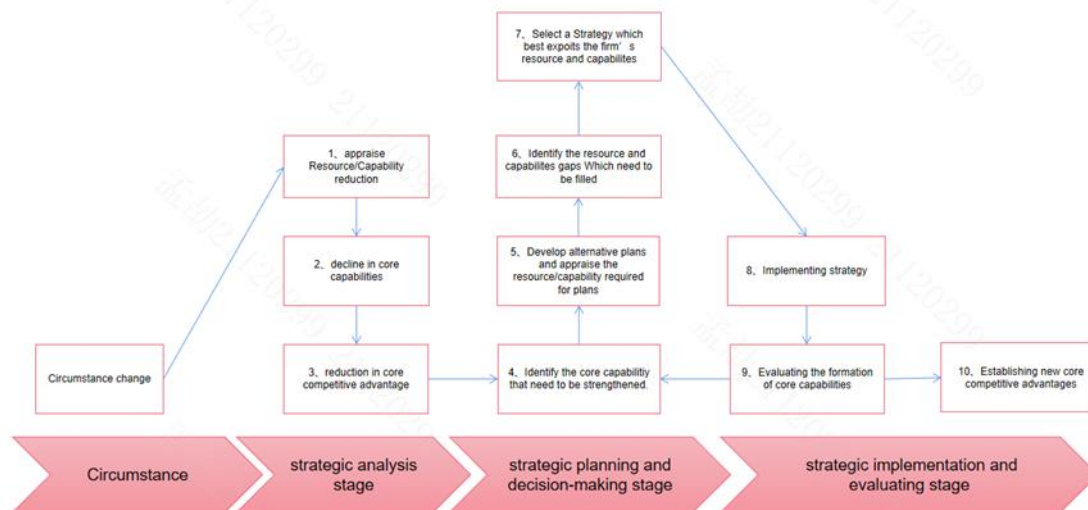


Figure 4.11 Process flowchart of the strategic adjustment process

4.1.3 Influence of dynamic capabilities on the strategic adjustment process of Suning Customer Finance SBU

In the above content, we described the whole process of strategic management of Suning Customer Finance SBU in the face of changes in the environment. Suning Customer Finance completed rapid assessment and adjustment when facing two major changes in the environment. For the first time, faced with the influence of the public opinion on Suning.com, it completed the re-formulation of the strategy within 2 months, and then spent another quarter on the search for syndicated lenders, business negotiations, business model design, and technology connection and launch. It took less than six months to complete the whole strategic adjustment. This fully shows that Suning Customer Finance SBU is a business unit with dynamic capabilities, being capable of quickly adjusting its business mode in the face of changes in the environment and finally building its new core competitiveness.

4.1.3.1 The role of sensing capability

The Sensing Capability refers to an enterprise's sensitivity and capability to perceive the external environment. This capability enables enterprises to identify and understand potential opportunities and threats, as well as changes and trends in the industry (Teece, 2007). The sensing capability of Suning Customer Finance SBU is reflected in the following aspects.

1. Setting up a special department to monitor the ecological environment of the industry. At the macro level, Suning Finance has set up the Financial Research Institute consisting of two important research departments. One is the Policy Research Department that is dedicated to analyzing and studying changes in the financial macro environment and predicting the direction of future industry development. It regularly issues industry research reports on a monthly basis and sends them to the senior management of the Group. At the micro level, Suning Customer Finance SBU specially arranges a post for competitive product analysis in the Product Department, which is specialized in investigating the product situation of other financial institutions in the industry, including the product model, business process, user experience and so on.

2. Setting up a specialized user research post. In the Product Department of Suning Customer Finance SBU, there is a specialized post responsible for user research. The functions of this post contain three parts: taking charge of the KYC user portrait and being responsible for the in-depth research on user types and loan scenarios; being responsible for the analysis of user feedback, especially tracking the negative evaluation of users, and deeply analyzing user pain points; conducting regular user surveys, including questionnaires and in-depth interviews, and finding out user ideas on a regular basis.

3. Enforcing the "Field" mechanism in senior management. As required by Suning Group, all SBU executives must visit customers or partners every month to communicate with them and understand what is happening in the industry, and share the information with other core members of the Business Department after returning to the company.

The resources that Suning Customer Finance SBU has invested in the sensing capability have played an important role in the strategic adjustment.

First of all, the sensing capability can assist Suning Customer Finance SBU in quickly and accurately assessing the impact of the environment, including the decline of certain capabilities and the negative effect on core competitiveness. For example, faced with the influence of the public opinion on Suning.com, Suning Customer Finance SBU noticed the rapid rise in negative user evaluations, found the anomaly at the first time, and immediately

began its targeted user research activities. Through questionnaires and in-depth interviews, Suning Customer Finance SBU verified that the decline in funds not only affected the scale of business, but also brought a series of user experience problems: the failure in meeting the quota requirements of customers caused customers to seek loans from multiple financial institutions and even give up using the product of Suning Customer Finance; loan stability deteriorated—many customers used the loan product in the scenario of Suning.com, and generally it was required to give customers loans immediately after they purchased the product to complete the transaction—and a long wait time caused customers to directly refuse to purchase the product. This series of problems exposed that the decline of financial resources led to the decline of the core capability to serve customers, ultimately led to the decline of the core competitiveness of the entire product, and further led to the strategic reconstruction of Suning Customer Finance. During the pandemic, through tracking and analyzing the counterparts in the industry, Suning Customer Finance SBU confirmed that the entire industry had been affected by the pandemic, and the risk control capabilities of all companies had been challenged.

Secondly, the sensing capability can assist Suning Customer Finance SBU in finding the right direction of strategic adjustment. In the case of the public opinion on Suning.com, Suning Xiaojin SBU made an alternative plan of issuing ABS and developing a syndicated loan mode with reference to its counterparts, learning how to issue ABS from Jiebei in evaluating the program and learning how to design syndicated loan products from Mashang Customer Finance. In the case of the pandemic impact, the inspiration of the platform mode came from a visit to Baidu's senior management as the sparks erupted when the senior management of both sides discussed changes in the industry.

Thirdly, the sensing capability can assist Suning Customer Finance SBU in correctly evaluating the resources needed to build core capabilities and make correct decisions. In the case of the public opinion on Suning.com, Suning Customer Finance SBU confirmed the crucial role of the main body's credit problem in the issuance of ABS through good relations and frequent interactions with regulators, and finally determined the development of the syndicated loan mode. In the case of the pandemic impact, it is through the profound insight of the industry that Suning Customer SBU found that the cost of activating silent members of Suning.com accounted for only about 70% of the normal cost of customer diversion in the industry, which strengthened the confidence in the platform loan.

4.1.3.2 The role of seizing capability

The Seizing Capability refers to an enterprise's capability to seize opportunities and take action. This capability is related to the spirit of innovation and the action drive of the enterprise, which enables it to quickly take advantage of opportunities and implement corresponding strategies and actions to achieve competitive advantages (Teece, 2007).

The seizing capability of Suning Customer Finance SBU is reflected in the following two aspects.

1. The innovation capability of the business mode. Suning Customer Finance SBU has a special product development department, which is specialized to analyse the product mode and user groups of its own and of its counterparts, and to explore the differences between the two sides in terms of business modes, users, functions and other aspects. In addition, Suning Customer Finance SBU values innovation, and personnel from the general manager to marketing and product leaders all believe that innovation is the core driving force for Suning's development. The value of innovation is manifested in two aspects. For one thing, there is a fault tolerance mechanism for innovation. Innovative products and projects are assessed separately with easier index, higher positive incentives and lower negative incentives. For another thing, the SBU advocates iterative thinking, namely advocating trying time after time and expanding success little by little.

2. The capability to make quick decisions. It takes no more than two months for Suning Customer Finance SBU to make any major decision since Suning Finance implements the decentralized management and the bottom-up decision-making mechanism. Faced with problems, Suning Customer Finance SBU firstly selects and transfers the core staff and experts from every department to form a temporary team to study the problem and quickly develop solutions; then, they discuss the problem and solutions at the internal meeting of Suning Customer Finance SBU and submit the approved result to the leaders of the Group. Secondly, the departments share common goals. The core index of Suning Customer Finance SBU is profit, so the profit index will be disassembled and distributed to various departments, so that everyone can work together toward the same goal. Thirdly, there is a mechanism for resolving disputes. In the face of the objections from the departments with damaged interests, other departments fully respect their demands and find a scheme that does not harm their interests as a pilot scheme. The progress of reform is publicized in real time to prevent unnecessary misunderstandings caused by opacity. Plans are made to address the concerns raised by opponents.

The seizing capability of Suning Customer Finance has played an important role in the strategic adjustment.

First of all, the seizing capability can assist Suning Customer Finance SBU in developing a more appropriate strategic plan. For example, in the case of the public opinion on Suning.com, Suning Customer Finance SBU creatively used the business mode of syndicated loan instead of simply trying to improve its financing capability, so as to yield twice the result with half the effort. In the case of the pandemic impact, it developed the business mode of platform loan in response to the changes in the development of the industry. Instead of directly enhancing its own risk control capabilities, Suning Customer Finance SBU obtain external risk control capabilities by enhancing the marketing capability, so as to form its new core competitiveness.

Besides, the seizing capability can assist Suning Customer Finance SBU in making quick decisions to solve problems before they get worse. In the case of the public opinion on Suning.com, the project team led by the Product Development Department spent half a month on developing all the plans for syndicated loan. Subsequently, all the plans were discussed in the weekly meeting and the approved one was sent to the Group. Then, the leaders held a group-wide discussion three days after receiving the plan, and within seven days a decision was formed and issued. The whole decision-making process took less than one month. In the case of the pandemic impact, decision-making is relatively complicated. Since the mode of platform loan damaged the interests of the Risk Control Department, it led to the opposition of this department. In the face of this situation, Suning Customer Finance SBU found a balance point for pilot test, namely to start with the customers rejected by the Risk Control Department and then push them to other financial institutions for credit. During the test, the business department strictly adhered to the bottom line, only pushing the customers rejected by the Risk Control Department to other financial institutions and publicizing the data of the pushed customers in real time to make it convenient for the Risk Control Department to check at any time. When the test results and data were good, it timely synchronized the information to the Group and the Risk Control Department and meanwhile discussed with the Risk Control Department to expand the pilot scop, for example, the current silent customers were to be included in the pilot test. Through the pilot expansion and under the supervision and consent of the Risk Control Department, the new mode was fully applied.

4.1.3.3 The role of transforming capability

The Transforming Capability refers to an enterprise's capability to reconfigure internal

resources to adapt to changes. This capability allows enterprises to flexibly adjust and reorganize internal resources to adapt to changes in market conditions and competitive requirements (Teece, 2007). The transforming capability of Suning Customer Finance SBU is reflected in the following aspects.

1. Suning Customer Finance SBU has the capability of quickly adjusting its organizational structure. Flat and cutting-edge, the organizational structure of the SBU only contains four front departments, namely marketing, product, risk control and science and technology, and the remaining intermediate and backstage functions like finance and legal compliance are uniformly provided by the Group. This is to ensure that Suning Customer Finance SBU can mainly focus on the business, and that when the strategic direction is determined, the organizational structure can quickly change with the strategy.

2. Suning Customer Finance SBU has the capability of efficiently integrating resources. When the SBU determines the strategic direction and submits it to the Group for approval, it can transfer the resources of the whole Group, including human resources, technical resources, financial resources, business resources, etc., so as to efficiently realize the rapid integration of internal and external resources.

3. Suning Customer Finance SBU has a good coordinating capability reflected in three aspects. First, the innovation strategy is implemented in the form of a cross-function team. The team leader is the head of the SBU, and the team members are the heads and core members of various departments involved in the new strategy. Second, efficient communication is achieved through meetings. The SBU advocates efficient meetings so as to ensure efficient internal transmission of information and avoid information asymmetry that reduces the execution efficiency. Detailed measures include strictly limiting the meeting time to half an hour, severely limiting participants and only allowing those who need discussing to attend the meeting, and only reporting the matters that need to be known by other departments or those that need assistance from other departments, with the unrelated matters omitted. Moreover, the decision formed at the meeting or the further work are recorded and followed up by the meeting secretary. Generally, it is required to push forward the work within a week. Third, the collaborative culture is promoted. The management of Suning Customer Finance SBU promotes two values internally. One is to emphasize simplicity, sincerity, efficiency and win-win. All employees are required to be sincere and efficient in communication, and to achieve mutual benefit in collaborative matters, regardless of the interests of other departments. The other is to advocate solving the problem first, then locating the cause, meanwhile developing a mechanism to avoid the recurrence of the same problem and finally

settling the liability. In the assessment and promotion of employees, the focus is on assessing whether their values are in line with the values of the company, and on appointing employees with appropriate values.

The transforming capability of Suning Customer Finance has played an important role in the strategic adjustment.

The transforming capability of Suning Customer Finance can assist the company in reducing the difficulty of acquiring certain resources and in improving the scope of strategic choices. For example, in the case of the public opinion on Suning.com, the SBU lacked business resources—including business professionals and customers—to connect with financial institutions in the development of the syndicated loan mode. However, after evaluation, the SBU discovered that there were such talents in other business departments of the Group and resources of corresponding financial institutions in the senior management. In other words, it was not that difficult to obtain business resources. Therefore, the syndicated loan mode was finally chosen.

The transforming capability of Suning Customer Finance can assist in accelerating the deployment of new strategies. When the SBU decides to implement the new strategy, it immediately sets up a cross-function team for the implementation syndicated loan. The team leader is the person in charge of the SBU, and the team members are the person in charge of the Product Department, the person in charge of the Marketing Department, the seconded business experts, and scientific and technological personnel. The KPI of each person is directly linked to the success or failure of the project. The team synchronizes the progress and promotes progress through weekly meetings, and gathers the strength of the whole Group to coordinate the stuck points in the promotion process. For example, in implementing the platform loan strategy, Suning Customer Finance SBU did not have the corresponding technical reserves for joint modeling, but Jinke Company (another division under the Group) possessed the corresponding scientific and technological products, so the Group directly arranged Jinke Company to transfer the product technology to the SBU for free. Finally, the business negotiation, mode design and technology connection were completed within 3 months.

4.2 Analysis of the strategic adjustments made by the Wealth Management SBU

We conducted in-depth interviews with seven heads and executives from the Wealth

Management SBU (see Table 4.3), expecting to understand from the interviews what the biggest external challenges and changes the Wealth Management SBU faced from 2019 to 2022, as well as how the SBU made strategic adjustments in the face of changes in the external environment and the results of those strategic adjustments. In addition, we also attempt to discover, in this general process, how dynamic capabilities influenced the adjustment process and ultimately helped the SBU acquire new core competencies.

Table 4.3 Personnel information for in-depth interviews in the Wealth Management SBU

SBU	Interviewees	Data Format and Quantity	
		Transcript	Audio recording
Wealth Management SBU	General Manager A	18,000 words	110 minutes
	Head of Product Department B	20,000 words	120 minutes
	Head of Online Marketing Department and Membership Department C	13,000 words	61 minutes
	Head of Offline Sales Department D	15,000 words	58 minutes
	Head of Investment Advisory Department E	12,000 words	55 minutes
	Expert of Investment Advisory Department F	11,000 words	43 minutes
	Head of Risk Compliance Department G	11,500 words	51 minutes

4.2.1 Strategic turning points for the Wealth Management SBU

After interviewing the general manager of the Wealth Management SBU and the heads of various departments, we learned that in terms of the external environment, in 2018, China Banking and Insurance Regulatory Commission issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (hereinafter referred to as the Guiding Opinions), which has had the greatest impact on the Wealth Management SBU in recent years. This new regulation has specifically regulated the business scope and product requirements for the entire Wealth Management SBU. As a result, many of the products operated by the SBU in the past no longer met the new requirements and must be removed. After these products were taken off the shelves, the Wealth Management SBU had to make the strategic choice, including a series of thoughts and layouts ranging from product planning, the change of sales channels to organization adjustment. Through the strategic choice, the SBU found a path that suited its development, reconstructed its team and organization, and finally formed new core competitiveness.

4.2.1.1 Strategic adjustment under the new regulations on asset management

The China Banking Regulatory Commission (now consolidated into the China Banking and Insurance Regulatory Commission) and other regulators co-issued the Guiding Opinions on

Regulating the Asset Management Business of Financial Institutions (hereinafter referred to as the Guiding Opinions) in 2018, which was formally implemented at the end of April 2019.

The Guiding Opinions imposes comprehensive regulations and restrictions on the asset management business of financial institutions in China, covering a number of aspects as follows:

1. Product classification and investment scope: it stipulates the restrictions on the classification standards and investment scope of asset management products, including non-standardized debt products, equity products, and financial derivatives;
2. Investment restrictions and risk control: for different types of asset management products, investment ratio restrictions, leverage ratio control, netting requirements, risk management requirements are stipulated;
3. Investor appropriateness management: it emphasizes that financial institutions should ensure investor appropriateness based on the customer's risk-bearing capacity, investment knowledge, experience and other factors;
4. Fund-raising, and its method and time limit: for different types of asset management products, the management requirements for fund-raising, including its method and time limit, are stipulated.
5. Risk and liquidity management: it strengthens requirements for financial institutions on risk and liquidity management in asset management business;
6. Transitional period provisions and regulatory requirements: it provides financial institutions with transitional periods and transitional arrangements, and clarifies the regulatory requirements and examination procedures of regulators.

Overall, the Guiding Opinions aims to regulate the asset management business of financial institutions, strengthen risk control and protection for investors, and improve the transparency and stability of the asset management industry. This new regulation has a far-reaching impact on the asset management business of financial institutions.

4.2.1.2 Assessing the impact of changes in the external environment on core capabilities

The impact of the Guiding Opinions on wealth management SBU was enormous because 80% of the business conducted by the Wealth Management SBU is non-standard business, which needed to be gradually removed in accordance with the new regulations. This means that 80% of its business could not continue, and the Wealth Management SBU would face a product shortage.

More seriously, the non-standard business of Suning Wealth Management SBU turned out

to be competitive in the market because of the following advantages: firstly, the interest rate is high, about 50 BP more than the same type of products on the market; secondly, the term is short, with a number of products with terms of 1 month, 3 months, 6 months and 12 months; thirdly, the purchasing experience is sound, with a better control of risk and no failures. This means that Wealth Management SBU's flagship products could no longer be offered for sale, and its ability to provide customers with high-value products would be drastically reduced. Many interviewees mentioned (Interviewee A/B/C/D) that the day after the Guiding Opinions was released, Wealth Management SBU made a prediction that if it was not able to effectively respond to the crisis, it would result in a 60% loss of customers and massive loss of its profits, as shown in Figure 4.12.

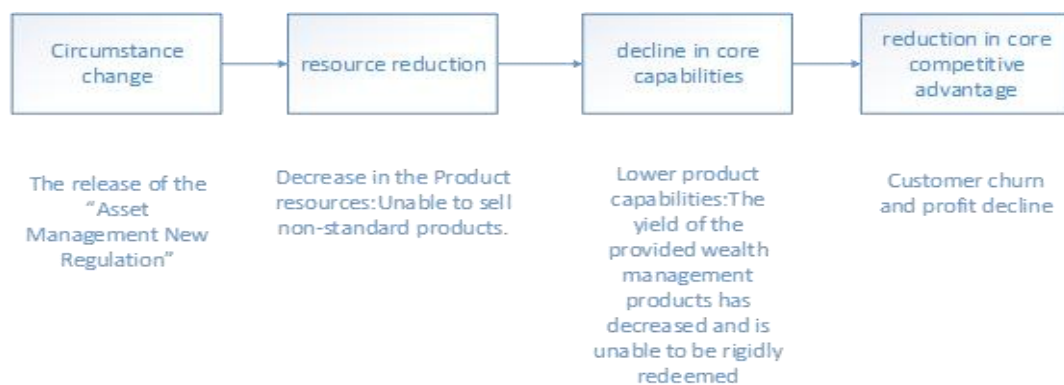


Figure 4.12 The impact of new asset management regulations on the core competencies of the Wealth Management SBU

4.2.1.3 Re-strategize to gain competitive advantages – Improving marketing and service capabilities

The Guiding Opinions requires the Wealth Management SBU to be compliant and licensed, engage more deeply in the market competition for standardized products, and conduct business in accordance with compliance requirements. It is necessary to pay more attention to enhance marketing capabilities related to customer experience, market analysis, investment advisor companion, so as to grasp the essence of wealth management.

In the face of changes, Wealth Management SBU was in trouble, as mentioned by Interviewee A.

In the face of the above-mentioned changes, the new adaptation plan must first focus on the existing license and compliance. Wealth Management SBU had two important licenses: fund distribution qualification and private placement license.

If the new development strategy is to draw on the private placement license, it is necessary to promote more equity funds due to the fluctuations in the market, because equity

funds have relatively high gross margins and high entry thresholds, which is a territory less explored in the field of wealth management. Another direction is to utilize the fund distribution qualification, that is, to improve online operations targeting long-tail customers, striving to achieve a comprehensive gross margin of 2-3% by attracting a large number of customers online.

As stated by Interviewee A, the resources of Wealth Management SBU did not support the parallel development of the two directions, so a question of which direction to choose is in front of the management of the Wealth Management SBU.

Option 1: endeavouring to develop investment advisory business

Investment advisory business is a business in which investment advisors provide investment advice and portfolio management services to clients. The main goal is to help clients achieve their investment goals and tailor investment solutions according to their risk tolerance, investment preferences and financial status, and ultimately help clients preserve and increase their asset value. The service scope of investment advisory business includes but is not limited to the following aspects:

1. Investment consulting: Investment advisors provide investment advice and strategies to clients by analysing market conditions, industry trends and performance of individual assets. They may provide customized investment solutions according to clients' specific needs.
2. Portfolio management: Investment advisors are responsible for managing clients' investment portfolios, including asset allocation, security selection, and trade execution. They will optimize and adjust the portfolio according to the client's objectives and risk preference in order to pursue the best investment returns.
3. Market research and analysis: Investment advisors will conduct market research and analysis to understand the macroeconomic environment, industry trends and performance of individual assets. These studies and analyses can provide the basis for investment decisions and help clients better grasp market dynamics.
4. Risk management: Investment advisors are responsible for assessing and managing the risk of the investment portfolio. They will formulate appropriate risk management strategies based on the client's risk tolerance and investment objectives in order to protect the client's investment funds.

Interviewee B and interviewee D said in the interview that in view of the above service contents, the Wealth Management SBU must be required to possess strong marketing ability and customer service ability, which mainly include the following resources and ability building:

1. Professional team and talent: Institutions need to build a professional investment advisory team, including investment advisors, research analysts and risk management experts, with rich investment experience and professional knowledge. These talents should have the relevant academic background and qualification, and continue to undertake professional training and learning to maintain their investment ability and industry insight.

2. Personalized service ability: Institutions need to have the ability to provide personalized services and to deeply understand the customer's financial status, investment goals, risk tolerance and family background, in order to tailor investment programs and services for customers. This includes the establishment of a perfect customer information management system, a strong customer portrait ability, an intelligent recommendation system, so as to understand the needs of customers at any time and recommend suitable wealth management products according to the characteristics of customers.

3. Ability to obtain quality products: Institutions are expected to formulate appropriate asset allocation strategies and investment plans according to customers' risk preferences, investment objectives and market environment, which requires them to own the ability to conduct in-depth research and analysis of different asset classes and markets, to understand the product situation of the entire market, and to be familiar with the product characteristics of each institution.

4. High-quality investment research and market analysis capabilities: Institutions need to have strong investment research and market analysis capabilities, being able to conduct in-depth market research and analysis and grasp market trends and investment opportunities. This requires the investment research team to have rich industry knowledge and analytical skills, as well as advanced research tools and data analysis capabilities.

5. Trust and relationship management ability: Building good trust and relationships with high net-worth customers is very important. Institutions need to have good communication and relationship management abilities, being able to build long-term relationships with customers and respond to customer needs and questions in a timely manner.

6. Technical capability: With the development of technology, institutions need to own advanced technical and digital capabilities to improve business efficiency and customer experience. This includes the construction and application of investment trading systems, data analysis tools, customer relationship management systems and other ones.

In the past, the Wealth Management SBU was mainly engaged in the design of non-standard products and online + offline sales, and its main ability was focused on product design. Meanwhile, it also had an offline team that other Internet wealth management

platforms did not have, as is told by interviewer D. After several rounds of strategic seminars and consultation with third-party consulting companies, it has been confirmed that the Wealth Management SBU has some capabilities and gaps to be filled:

1. Professional investment advisory capability: the Wealth Management SBU has an offline team that has been engaged in the sale of wealth management products for many years and is very experienced in this field. However, the experience mainly lies in the sale of debt wealth management products, and the capability to sell equity products needs to be trained again. This requires the original offline team to carry out knowledge transformation and capability innovation, as mentioned by interviewee D in the interview.

2. Personalized service ability: Relying on Suning Finance, the Wealth Management SBU has strong AI technology capabilities and is now able to recommend wealth management products suitable for different customers through big data technology and AI technology. However, the sale of equity wealth management products is mainly completed by investment advisors. It is also an indispensable part of the completion of transactions for investment advisors to identify the customer needs, to understand the financial situation of customers, and to win the trust of customers through professional insights

3. Ability to obtain quality products: The Wealth Management SBU frequently conducts information exchange with peers in the same industry and regularly visits major institutions, thus having a relatively good understanding of the situation in the industry and being able to quickly grasp first-hand information about the development of new products, which is mentioned by both interviewees B and C. However, the SBU mainly focused on fixed-income products and institutions before, so it now needs to re-expand the institutions and resources of equity products, understand the supply dynamics, and ensure that the best-quality products can be selected.

4. Trust and relationship management ability: This ability is the strength of the Wealth Management SBU. The interviewer D, the person in charge of offline sales, told us that the Wealth Management SBU can provide 24-hour advisory services by relying on the local sales team, and provide on-site services at any time according to the customer demands, so as to win the trust and unanimous praise of customers. It is the ability that the Wealth Management Business Department has been accumulating.

5. Technical capability: After years of operation, the Wealth Management SBU has a certain technical foundation, including a 360-degree CRM management system, a recommendation system suitable for different customers, and a user label and portrait system, so as to ensure timely response to customer needs and achieve industry-leading user

experience and operational efficiency.

Option 2: striving to develop online wealth management services

Online investment and wealth management refers to a financial mode that uses the Internet platform for investment and wealth management. Through the online investment and wealth management platform, individuals and institutions can easily invest and purchase wealth management products, and realize the appreciation and preservation of assets.

Online investment and wealth management has the following characteristics:

1. Online platform: Investors can invest and conduct wealth management anytime and anywhere via computers, mobile phones and other terminal devices. There is no need for physical counters or brokers to intervene, thus improving the convenience and flexibility of investment.

2. Diversified investment products: Online investment and wealth management platforms usually provide various types of investment products, such as stock funds, bond funds, money funds and others. Investors can choose suitable investment products according to their risk tolerance and earnings targets.

3. Flexible operation interface and tools: Online investment and wealth management platforms usually provide convenient operation interface and various investment tools to facilitate investors to trade, query and manage assets. Investors can keep abreast of market dynamics, make trades and adjust their investment portfolios.

4. Low-threshold participation: Compared with traditional wealth management, online investment and wealth management usually has a lower initial investment amount and participation threshold, so that more people can get the opportunity to participate in investment and wealth management activities.

In general, online investment and wealth management provides more choices and better convenience by utilizing the advantages of Internet platforms and technologies, enabling investors to make investment and wealth management more independently.

The Wealth Management SBU has been engaged in the sale of online wealth management for many years and is now well versed in this field. It has also developed strong online wealth management skills, including:

1. Strong technical capability: The Wealth Management SBU has a strong technical team of 100 persons, which, since 2012, has developed web pages and apps for online wealth management and accumulated rich experience in online wealth management products.

2. User experience capability: User experience is an important aspect of online wealth management services. Financial institutions need to provide convenient and fast services

including user registration, investment, inquiry and transaction, to provide users with personalized advice and customized services. The SBU has a dedicated product/user experience team to design, optimize and improve user experience, so that users can understand the characteristics of a wealth management product more quickly. The entire purchase process has been optimized, which can be completed within one minute.

3. Market operation capability: Financial institutions need to own good market operation capability, carry out market research, brand publicity, user promotion and other activities, and establish a good market reputation and user reputation. Online wealth management services have commonality with other Internet businesses as they all need to well conduct transformation and retention through online marketing customers. The core lies in how to acquire more customers at low cost. The Wealth Management SBU has been engaged in customer acquisition in the field of Internet wealth management since 2012, starting from scratch until it has tens of millions of users with rich experience in Internet customer acquisition and a deep understanding of online wealth management users.

Interviewer A mentioned in the interview that the above capabilities alone are not enough to support the transformation of online wealth management business. The biggest impact of the “Guiding Opinions” is the change of products sold, which puts higher requirements on the following two capabilities: customer acquisition capability and product capability.

1. The enhancement of the customer acquisition capability. With the release of the “Guiding Opinions”, the original non-standard business cannot be carried out, and currently only standard wealth management products are available in the market. The biggest impact on the Wealth Management SBU is that the gross profit rate of the original non-standard products is about 2%, but now the gross profit rate of the standard products is only about 0.2%. It means that to maintain the original scale of sales and profit margins, the SBU must expand the scale of sales to more than 10 times. At the same time, after years of development, the industry has entered a period of slow development. According to the report released by Huajing Industry Research Institute, the number of Internet wealth management users basically reached saturation in 2020, maintaining the scale of 160 million. It shows that the entire industry has passed the rapid development period and entered the Red Sea stage of the stock market, which puts forward high requirements for the improvement of customer acquisition capability.

2. The recultivation of the product capability. Because of the original focus of products of the Wealth Management SBU placed on non-standard wealth management, the relatively little attention paid to standard financial products, and the failure in forming cooperation with the

leading fund companies and securities companies in the market, it is necessary to reestablish a business team to cooperate with the leading wealth management companies in the market. However, since there is a big gap between the volume of the SBU itself and that of the leading online wealth management platform, some good public placement products have long been divided up by major wealth management platforms. Therefore, how to obtain the marketing qualification of good wealth management products remains a major challenge for the Wealth Management SBU.

4.2.1.4 Assessing the scheme and making decisions

Ultimately, the Wealth Management SBU should choose one of the above two schemes as the final established implementation scheme. The core of the assessment lies in the matching degree between the resources required by the scheme and the resources possessed by the SBU, as well as the resources required for improving capabilities and the corresponding difficulties.

Scheme 1: For the development of investment advisory business, the Wealth Management SBU has already possessed some basic capabilities, including an offline team skilful in battle, the member of which understand the concept of service, gain the trust of users, and work hard for the appreciation of users' assets. Meanwhile, the SBU has strong technical capabilities, including artificial intelligence capabilities, which enable them to quickly provide different user diagnoses and user portraits for different users, and to recommend suitable product mix according to users' risk preferences and product preferences. In terms of the relative lack of product capacity, the private placement market is different from the public placement market, as the information flow of private placement products is not as good as that of the public placement market, and therefore the role of commission agencies is more important. At the same time, the sales of private placement funds are more dependent on the service capabilities of commission agencies, and service is the exact area of expertise for the SBU, so it is not difficult to obtain high-quality private placement products in the market. As for the professional investment advisory capability, since both the labour market and the training market are open markets, it is preferred to recruit some senior investment advisors and arrange them in each region, and to introduce a set of training courses from external training institutions to assist the original team in transforming itself.

Scheme 2: For the continued development of Internet wealth management business, the existing veteran players of the SBU are the first echelon to enter the market. Therefore, the SBU has accumulated abundant Internet wealth management capabilities, including the cognition of Internet wealth management users, the mastery of Internet user experience

capability, the ability to complete a wealth management transaction in one minute, and a strong technical team to support and maintain the platform. However, with the new regulations of wealth management, all the original online-sales products are removed from shelves, so it is necessary for the Wealth Management SBU to find products suitable for online sales again. Nevertheless, the market pattern of public placement product has been formed, and it is difficult for the SBU to snatch the sales agent right of high-quality products from the current leading platforms. Besides, the gross profit margin of the public placement products is so low—only one-tenth of that of the original non-standard products—that it is required to expand the client base tenfold to make the business profitable, which, however, is difficult to achieve in a saturated wealth management market.

In the end, based on the capabilities required by different schemes and the resources/capabilities currently available to Suning Wealth Management SBU, interviewees A, B, D, E and F all selected Scheme 1 in the interview, i.e., to develop investment advisory business. Meanwhile, under this scheme, a special investment advisory department needs to be set up to improve professional investment advisory capabilities and support the landing of this strategic direction, as shown in Figure 4.13.

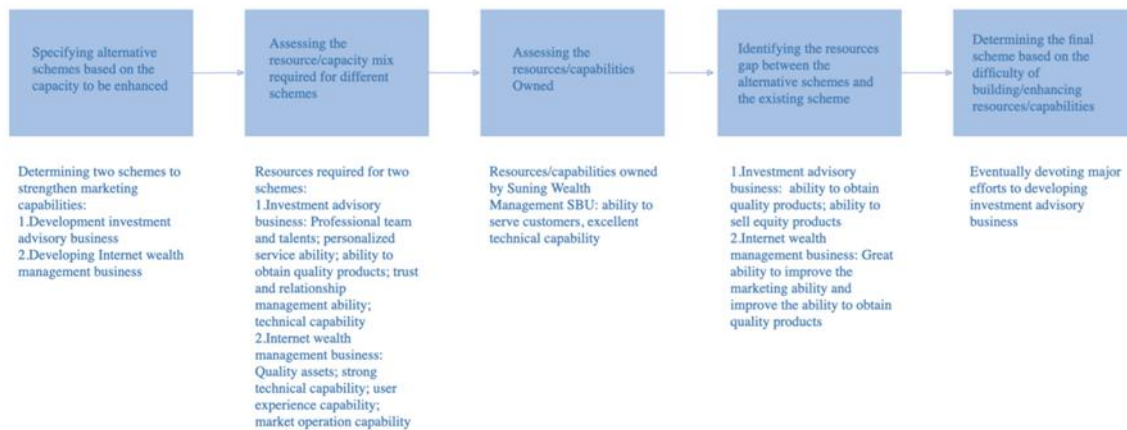


Figure 4.13 The strategic planning and decision-making process of the Wealth Management SBU under the new asset management regulations

Based on the summary of the strategic decision-making process of Suning Wealth Management SBU above, the following process mechanism can be drawn:

4.2.1.5 Implementing the scheme and assessing results

After determining the development direction, the Wealth Management SBU immediately reorganized resources according to the strategic scheme. For one thing, it set up a business

team to investigate various financial companies and securities institutions and sign business cooperation. For another thing, many senior investment advisers had been recruited to form the core force in each region. At the same time, the SBU cooperated with training institutions in the market to jointly develop a set of training course system for private placement advisers, and included the course learning in the KPI of each adviser, so that the learning is linked to income. Advisers were required to study every weekend and take exams every month to assess the grades, and therefore, their professional competence was rapidly improved

After one year's operation, the financial data finally shows that private placement investment management had become a new growth point of Suning Wealth Management SBU, accounting for one third of the profit of 2021 and growing by 100% in 2022. In the new wealth management field, the SBU has formed its new core competitiveness, as shown in Figure 4.14.

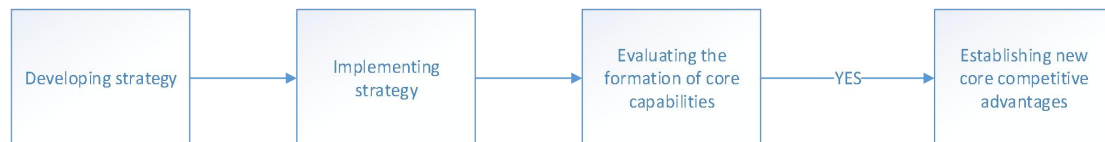


Figure 4.14 The strategic implementation and evaluation process of the Wealth Management SBU under the new asset management regulations

4.2.2 Influence of dynamic capabilities on the strategic adjustment process of Suning Wealth Management SBU

In the above section, we described the whole process of strategic management of Suning Wealth Management SBU in the face of changes in the environment. Faced with major changes in the “Guiding Opinions” on asset management, the SBU made rapid assessment and adjustment. Within 3 months after the introduction of the policy, the SBU completed the re-formulation of the strategy, and then within another 2 months, the training institution was determined with a new curriculum system. Within 6 months, 10 senior advisers were recruited successively. By the end of the year, the business volume accounted for 1/4 of the total business volume of the SBU. The data fully shows that Suning Wealth Management SBU is a business unit with dynamic capabilities, which can quickly adjust its business mode in the face of environmental changes, and finally build the new core competitiveness. Then, this chapter will focus on how dynamic capabilities affect the strategic adjustment process of Wealth Management SBU.

4.2.2.1 The role of sensing capability

The sensing capability of Suning Wealth Management SBU is reflected in the following aspects.

1. Setting up a special department to monitor the fluctuations in policy. Similar to the Customer Finance SBU, the Wealth Management SBU achieves the monitoring and interpretation of policies mainly from the Financial Research Institute of Suning Financial Group. There are two important research departments in the Institute, and one is the Policy Research Department that is dedicated to analysing and studying changes in the financial macro environment and predicting the direction of future industry development. It regularly issues industry research reports on a monthly basis and sends them to the senior management of the Group. Therefore, half a year before the introduction of the “Guiding Opinions”, the Wealth Management SBU had already known its general content, and the coping strategies for it had been put on the agenda since then. Hence, after the policy was officially released, the SBU was able to quickly complete its business transformation.

2. Setting up a specialized user research post. In the Wealth Management SBU, there are two posts responsible for user research. One is the user analysis post taking charge of the KYC user portrait and the in-depth research of users’ risk preference types and their preferred wealth management products, further providing the most suitable products for users so as to achieve personalized service. The other is the user experience post responsible for studying users’ favorite writing method, such as the introduction copy for financial products and the risk disclosure copy. Besides, it is responsible for designing the entire transaction process to ensure that users can complete the purchase most quickly.

3. Enforcing the “Field” mechanism in senior management. As required by Suning Group, all SBU executives must visit customers or partners of the same business every month to communicate with them about what is happening in the industry, and share the information with other core members of the Business Department after returning to the company. The Wealth Management SBU carries out this concept to the extreme, visiting partners of the same business or receive visits from them.

The resources that Suning Wealth Management SBU has invested in the sensing capability have played an important role in the strategic adjustment.

First of all, the sensing capability can assist the Wealth Management SBU in quickly and accurately assessing the impact of the environment, to be more specific, the influence of the “Guiding Opinions” on the business scope. The Financial Research Institute continues to

collect information on policy fluctuations, and when there are signs of policy fluctuation, it will immediately intervene to follow up and continue to monitor the development of the situation. Therefore, half a year before the introduction of the “Guiding Opinions”, the Wealth Management SBU had already obtained the general content of the new guiding opinions, and the coping strategies for it had been put on the agenda since then. Hence, after the policy was officially released, the SBU was able to quickly complete its business transformation.

Secondly, the sensing capability can assist Suning Wealth Management SBU in properly assessing the resources needed to build core competencies and further making right decisions. The SBU attaches great importance to the collection of industry information and the judgment of future development direction. Each week, it conducts the communication with partners of the same business about market conditions and the overall development of the industry. In the choice of developing investment advisory business or continuing to develop Internet wealth management business, it is precisely because of its understanding of the industry situation that the SBU figures out that it is difficult for Internet wealth management business to achieve explosive growth under the current industry situation. In the meantime, based on the communication and exchanges, the SBU confirms that it is difficult to obtain the marketing qualification of the leading public placement products. Limited by these two elements, the SBU eventually determines that the road of continuing to develop Internet wealth management business is impassable. However, based on the insight of the entire industry, there are more and more high net worth clients in China, and investment advisory business is an important growth point in the future. Through frequent exchanges, the SBU has a good understanding of most equity private placement products in the industry, thus being confident to find the best products with the best growth among the numerous private placement products, which greatly improves the ability to obtain quality products.

4.2.2.2 The role of seizing capability

The seizing capability of Suning Wealth Management SBU is reflected in the following two aspects.

1. The innovation capability of the business mode. The Wealth Management SBU has a special research and development department for wealth management products, which is used to analyze the product modes and user groups of its own and its peers of the same business, as well as the differences between the two sides in terms of business modes, user types, product types and sales modes. In addition, the values of the Wealth Management SBU are the same as that of the Customer Finance SBU, which advocate innovation. Its values of innovation are

manifested in two aspects. On one hand, there is a fault tolerance mechanism for innovation. The SBU has set up separate assessment for innovative products and projects, allowing more easy-to-do indicators, high positive incentives, and low negative incentives. On the other hand, the values advocate the empowerment of technological innovation for business modes. The Wealth Management SBU believes that in order to win in the current private placement market, compared with traditional private placement marketing agencies, it is necessary to give play to the advantages of the Internet, especially the advantages of artificial intelligence, and that the key to gain competitive advantages is to target user portraits, user labels, and user preferences. Ultimately, AI technology has played a good role in identifying users' preferences. In the communication between the advisor and the customer, AI technology helps the advisor to better recommend the products that the customer is interested in, shorten the communication time with the customer and improve the customer experience. Moreover, technology empowerment enables customers to feel the professionalism of the SBU's advisors, which enhances the sense of trust.

2. The capability to make quick decisions. There are two main reasons for the quick decision making of the Wealth Management SBU. First, it implements the decentralized management and the bottom-up decision-making mechanism inherited from Suning Finance. Second, it carries out the flat management. There are more than 300 employees in the SBU but there are only three levels, grass-roots staff, department manager/team leader, and general manager/core management. Therefore, faced with problems, the core members and experts of various departments are deployed to form a temporary team to study the problem and quickly develop solutions. After the discussion is approved, it is submitted to the group leader for further approval. Then, each department has a common goal with clear and reasonable goal design, and then cooperates with each other. Since the core indicator of the SBU is profit, the profit indicator will be disassembled and distributed to each department, so that everyone can form the joint force to achieve the same goal.

The seizing capability of Suning Wealth Management SBU has played an important role in the strategic adjustment.

First of all, the seizing capability can assist Suning Wealth Management SBU in developing a more appropriate strategic plan. Through the innovative thinking of business mode and the separation of core competitiveness, the SBU creatively designs the wealth management business mode combined with investment advisory that integrates both online and offline advantages. That is, it provides service to users through offline professional wealth management advisors and Internet AI capabilities. Via the Internet AI capabilities to screen

preferred products and the targeted marketing provided by offline professional advisors, this mode obtains differentiation advantages. Compared with traditional financial enterprises, it possesses the advantage of Internet technology; compared with the Internet platform, it possesses strong offline sales capability and professional financial capability. Thus, the core competitiveness gets formed.

In addition, the seizing capability can assist Suning Wealth Management SBU in making quick decisions. It is told by interviewee A that when faced with changes in the external environment, the SBU quickly forms a team, composed of the management and the core members for rapid response, which will determine the strategic direction within one month's research and discussion. Senior executives of Suning Finance attend each strategic discussion so that when the strategic decision is handed over to the Group for further discussion, the core management can quickly understand the corresponding background and the whole decision process, thus ensuring the efficient discussion on the rationality of the whole scheme as well as the fastest decision making.

4.2.2.3 The role of transforming capability

The transforming capability of Suning Wealth Management SBU is reflected in the following aspects.

1. Suning Wealth Management SBU has the capability of quickly adjusting its organizational structure, which is reflected in two aspects. For one thing, there are more than 300 employees in the whole Wealth Management SBU but there are only three levels, grass-roots staff, department manager/team leader, and general manager/core management. For another thing, the SBU consists of four front/middle office department, namely Online Marketing Department, Offline Sales Department, Product Planning Department, and Risk Compliance Department. The remaining back-office functions, such as finance and legal compliance, are provided by the Group in a unified manner to ensure that the SBU is able to mainly focus on its business. When the strategic direction is determined, the organizational structure can quickly change with the strategy.

2. Suning Wealth Management SBU has the capability of efficiently integrating resources. When the SBU determines the strategic direction and submits it to the Group for approval, it can transfer the resources of the whole Group, including human resources, technical resources, financial resources, business resources and other ones so as to efficiently realize the rapid integration of internal and external resources.

3. Suning Wealth Management SBU has a good coordinating capability reflected in two

aspects. First, the innovation strategy is implemented in the form of a cross-function team. The team leader is the head of the Wealth Management SBU, and the team are consisted of the heads and core members of various departments involved in the new strategy. Second, efficient communication is achieved through meetings. The SBU advocates efficient meetings so as to ensure efficient internal transmission of information and avoid information asymmetry that reduces the execution efficiency. As is mentioned by several interviewees, detailed measures include strictly limiting the meeting time to half an hour, severely limiting participants and only allowing those who need discussing to attend the meeting, and only reporting the matters that need to be known by other departments or those that need assistance from other departments, with the unrelated matters omitted. Moreover, the decision formed at the meeting or the further work are recorded and followed up by the meeting secretary. Generally, it is required to push forward the work within a week.

The transforming capability of Suning Wealth Management has played an important role in the strategic adjustment.

First, the transforming capability of Suning Wealth Management can assist the company in reducing the difficulty of acquiring certain resources and in improving the scope of strategic choices. Interviewer A mentioned in the interview that in terms of the construction of the capability to obtain quality products, various executives of the Group contact the leading securities company or private placement fund, and make use of the entire group and personal influence to make a connection for the Wealth Management SBU and promote the introduction of quality products.

Moreover, the transforming capability of Suning Wealth Management can assist in accelerating the deployment of new strategies. As the core members of the investment advisory department, Interviewees E and F both mentioned a detail, that is, when the Wealth Management SBU determined to implement the new strategy, it immediately establishes the Investment Advisory Business Department and quickly sets up a cross-function team for business implementation; the team consists of the head of the Production and Research Department, the head of the AI Engineering Department, the head of the Online Marketing Department, the head of the Offline Sales Department and the head of the regional sales team. Each person's KPI is directly linked to the success or failure of the project team, and the team synchronizes the progress and promotes progress through weekly meetings. At the same time, under this large project team, there are several subproject groups, such as the training project group which is composed of the Production and Research Department, Offline Sales Department, and regional team leaders. The training project group is responsible for writing

the entire course of the sales of investment advisory products, and is responsible for teaching it to the offline regions to complete sales. Another example is the KYC project team, which consists of the core members of the Production and Research Department, the Engineering Department, the Online Marketing Department and the Offline sales Department. It is responsible for conducting label portraits for all users calculating the most suitable products for a certain class of customers via AI technology. The Offline Sales Department is responsible for testing the actual effect and giving feedback. It is through this form of one large project team with several subproject groups that the Wealth Management SBU completes its rapid transformation.

4.3 Analysis of strategic adjustments in the Payment SBU

In-depth interviews were conducted with seven key position holders and executives from the Payment SBU to understand the biggest external challenges and changes faced by the unit from 2019 to 2022, as shown in Table 4.4. The focus was to explore how the unit adjusted its strategy in response to changes in the external environment, the process of these strategic adjustments, their outcomes, and how dynamic capabilities influenced the adjustment process, ultimately leading to new core competencies.

Table 4.4 Personnel information for in-depth interviews in the Payment SBU

SBU	Interviewee	Data Format and Quantity	
		Transcription (thousand words)	Audio (minutes)
Payment SBU	General Manager A	15	68
	Assistant to General Manager B	17	78
	Head of Risk and Compliance Department C	13	61
	Head of External Merchant Operations Department D	15	58
	Head of Banking Business Operations Department E	14	55
	Expert in Ecological Business Operations Department F	14	52
	Head of Payment Research and Development Department G	11	48

4.3.1 Strategic pivot points in the Payment SBU

Through interviews with executives and department heads in the Payment SBU, we learned that regulatory bodies, starting from 2016, intensively introduced a series of regulatory policies aimed at solving various issues. These policies were designed to regulate the industry

order, protect consumer rights, and maintain financial stability. This suite of policies presented a mix of challenges and opportunities for the Payment SBU.

4.3.1.1 The first phase of strategic adjustment under stricter regulatory compliance

Since the introduction of QR code payments by Alipay in 2011, China's third-party payment industry rapidly accelerated. According to a report by iResearch (2023), the total transaction volume in 2013 was only 1.2 trillion yuan, growing to 58.8 billion yuan in 2016. By 2020, the annual transaction volume astonishingly increased to 249.2 trillion yuan, a 207-fold increase.

Concurrently, the number of institutions providing third-party payment services also increased. As per the data released by the People's Bank of China (PBoC), between 2011 and 2015, the central bank issued 271 third-party payment licenses. The rapid growth of the industry size and the swift increase in personnel led to frequent industry malpractices. For instance, some non-banking payment institutions did not follow regulations to keep customer payment funds in separate custodial accounts, blending them with their funds. This practice led to significant risks during company bankruptcies and liquidations due to the inability to distinguish between customer and company funds. Additionally, some institutions had weak monitoring measures for payment transaction risks, such as not promptly detecting and handling abnormal transactions or setting reasonable transaction limits, leading to losses of hundreds of millions of yuan in hacker attacks. There were also instances of non-banking payment institutions engaging in false transactions and fraudulent activities to gain illegal benefits. Manipulating transaction data and fabricating transaction records were methods used to obtain business cooperation opportunities with banks or artificially inflate transaction volumes. Furthermore, some payment institutions, without user consent, used personal information for commercial activities or unauthorized data provision to other institutions, infringing on user privacy rights.

These industry malpractices posed risks to transaction safety and consumer rights protection, adversely affecting the industry's image and stability. Therefore, regulatory bodies introduced a series of policies from 2016 onwards to address these issues, regulate industry order, protect consumer rights, and maintain financial stability. Some typical policies include:

1. In April 2017, the People's Bank of China (2017) issued a notice on the implementation of centralized custodianship of customer reserve funds by payment institutions. This required third-party payment institutions to separate customer funds from corporate funds for custodial purposes and strengthen fund supervision and risk control. This notice demanded that third-party payment institutions comply with banks for the management of clearing funds,

enhancing the stability and reliability of the payment market and safeguarding user fund security.

2. The People's Bank of China (2015) released the Non-Banking Payment Institution Network Payment Business Management Measures, detailing and regulating the network payment business of non-banking payment institutions. This policy required payment institutions to comply with regulations on operational compliance, fund protection, and anti-money laundering. It strengthened the regulatory management of payment institutions, enhancing the overall standardization of the payment industry. This policy encouraged payment institutions to better safeguard user fund security, strengthen anti-money laundering efforts, and improve industry credibility.

3. In June 2018, the People's Bank of China issued a notice to transition the network payment business of non-banking payment institutions from a direct connection model to a centralized platform. This required that network payment business shift entirely from direct connections between payment institutions and banks to the centralized platform. The notice also mandated legal and compliant collection and use of personal information by payment institutions, protecting user privacy rights, and strengthening information security management. This regulation standardized the collection and use of personal information by third-party payment institutions, reinforcing the protection of privacy rights and increasing user trust and reliance on payment institutions (PBoC, 2017).

In recent years, China's internet payment policies have primarily revolved around regulating the compliant operation of payment institutions, strengthening fund management and risk control, protecting user privacy rights, and enhancing payment security. The introduction of these policies has positively impacted the payment industry, elevating the industry's standardization, user trust, and payment security. Additionally, the implementation of these policies has propelled payment institutions to strengthen compliance management, technological innovation, and enhance risk control capabilities.

4.3.1.2 Assessing the impact of external environment changes on core competencies

The series of policies significantly impacted the Payment SBU. In March 2019, Suning Financial Payment SBU received a compliance rectification notice from regulatory authorities, mandating completion of the necessary compliance adjustments by the year's end.

On one hand, if the company fails to reform as per the policy requirements, it might face penalties and disciplinary measures from regulatory authorities, such as fines, suspension of business, or revocation of payment licenses. These could negatively impact the company's

reputation and continuous business operations. On the other hand, failure to enhance user fund security and business compliance could lead to decreased trust from users. This might affect user retention and business growth, ultimately hindering the company's long-term development.

Thus, compliance is the lifeline. Interviewees A, B, and C all mentioned: Compliance and risk capability are the bedrocks of a third-party payment company's core competitiveness. A company that cannot operate compliantly is doomed not to last, as shown in Figure 4.15.



Figure 4.15 The impact of regulatory compliance requirements on the core competencies of the Payment SBU

4.3.1.3 Redefining strategy to gain competitive advantage – Enhancing risk and compliance capabilities

Faced with regulatory compliance pressures, the Payment SBU must enhance its risk and compliance capabilities in the short term. Following interpretations by the Financial Research Institute and communications with regulatory authorities, interviewee C confirmed in the interview that the construction of risk and compliance capabilities must include the following aspects:

1. Comprehensive Internal Compliance System: “The company should have a complete compliance system, formulate strict compliance policies, and ensure that all operations are within the legal framework. Additionally, the company needs to regularly update and modify existing policies to adapt to environmental changes and updates in regulations”.
2. Robust Risk Management System: The company should have a robust risk management system capable of effectively identifying, assessing, monitoring, and responding to various risks. This includes credit risk, operational risk, market risk, and regulatory risk.
3. Strong Data Security and Protection Capabilities: Payment companies must ensure the security of their payment systems and protect sensitive payment data to prevent unnecessary

data breaches. They should also enhance the security of company operations and customer funds to prevent fraud risks.

4. Strong Identity Verification and Anti-Money Laundering Capabilities: Implement strict customer identification and verification procedures, ensure customer due diligence is carried out, and comply with anti-money laundering and counter-terrorist financing regulations.

5. Emergency Risk Response Capabilities: The company needs to develop and maintain a set of emergency risk response and recovery mechanisms to deal with various unforeseen risks.

Based on the above capabilities, after conducting a strategic analysis, the Payment SBU needs to strengthen the following areas:

1. Strengthening Risk System Construction and Improving Internal Compliance Systems: As mentioned by interviewee A, in the past few years, the Payment SBU focused on rapid growth and market share acquisition, paying less attention to compliance capability development, with only one compliance staff member. This led to a lack of a comprehensive internal control system and risk management framework. Relying on the strong policy interpretation capabilities of the Suning Research Institute, the Payment SBU has the capacity to understand regulatory policies and their core principles. However, due to staff shortages, it has been challenging to systematically develop and implement these policies. Therefore, establishing a dedicated compliance team is essential to design the entire risk management system, formulate internal compliance policies, and conduct in-process controls and post-event checks. This team should also be empowered to enforce rewards and penalties, highlighting the importance and authority of compliance within the SBU.

2. Enhancing Anti-Money Laundering Capabilities: The Payment SBU, inheriting the philosophy of Suning Finance, has always been committed to technology investment, particularly in data and transaction security, which are critical to customer trust. However, anti-money laundering efforts, which have little direct impact on customer experience, have historically received less focus. Thus, there is a need to bolster anti-money laundering structures. After assessment, it was found that suitable technical staff, with adequate training, could take on anti-money laundering roles. As interviewees B and C suggested, “the SBU decided to collaborate with external consultants to develop an in-house anti-money laundering knowledge system and capabilities.”

3. Strengthening Emergency Risk Response Capabilities: Interviewees A and C noted that risk response has been a gap area for the Payment SBU. Traditionally, risk incidents have been handled reactively, with decisions made on the spot by leaders. This approach has been

inadequate in terms of response time and emergency handling, leading to significant costs. Establishing an emergency risk response mechanism is crucial, with clear responsibilities defined within the response system for swift action. Regular drills should also be instituted to enhance rapid response capabilities.

4. Enhancing Training Capabilities: As pointed out by interviewee A, compliance and risk management are not solely the responsibilities of the risk compliance team but require the understanding and cooperation of the entire SBU. It is necessary to establish a training system, designing a comprehensive training curriculum, hiring internal and external trainers, and regularly conducting training and examinations for all staff to enhance their awareness and capabilities in compliance and risk management.

In summary, the strategic decision-making process to enhance the compliance capabilities of the Payment SBU can be abstracted into the following procedural mechanism in Figure 4.16:

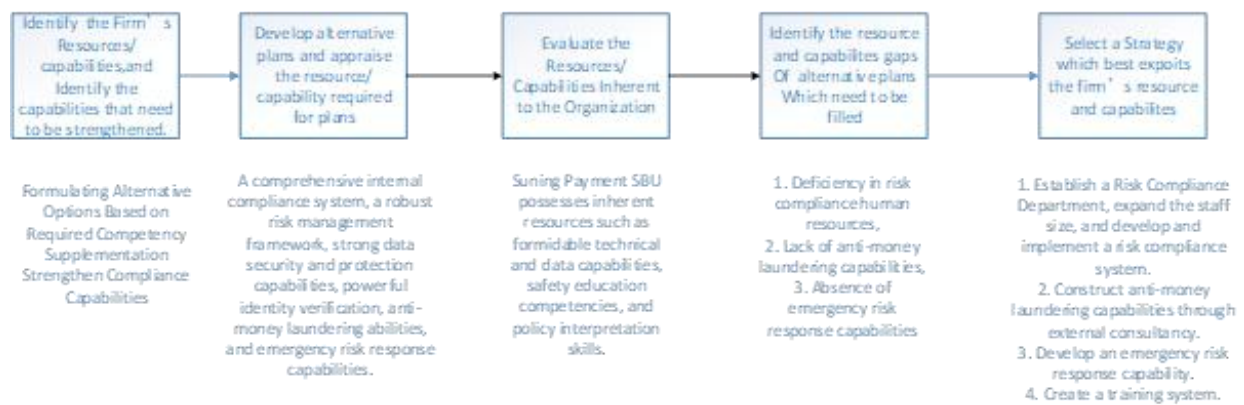


Figure 4.16 The strategic planning and decision-making process of the Payment SBU under regulatory compliance requirements

4.3.1.4 Implementation of strategies and evaluation of results

Interviewees A, B, and D discussed how the Payment SBU, leveraging the expertise of a senior payment policy expert from Suning Financial Research Institute (interviewee C), strengthened its risk and compliance department. The department was bolstered with the addition of two external experts and three internal compliance experts from other fields. Within two months, based on regulatory policy requirements, they developed a new risk and compliance system. A training team, led by the risk and compliance department and comprised of compliance officers from various departments, was formed to create training materials and regularly conduct staff training. A robust compliance audit mechanism was established with quarterly audits. For identified issues, company-wide criticism and, in severe cases, financial penalties were applied. By the end of 2019, all regulatory requirements were

met, and the initiatives were acknowledged by the regulatory authorities, as shown in Figure 4.17.



Figure 4.17 The strategic implementation and evaluation process of the Payment SBU under regulatory compliance requirements

4.3.2 The second strategic turning point amidst heightened regulatory compliance

By the end of 2019, Suning's Payment SBU successfully completed regulatory reforms. In 2020, it encountered new industry changes stemming from the intensification of regulatory measures. The industry witnessed a reduction in the number of participants and a decrease in competitors. Regulatory anti-monopoly restrictions targeting payment industry giants, such as WeChat and Alipay, resulted in a contraction of their business scale. This, in turn, created more market opportunities for other players within the industry.

4.3.2.1 The second phase of strategic adjustment under stricter regulatory compliance

With increasingly stringent regulations in the payment industry since 2016, new policies are introduced almost annually, raising higher demands on the compliance and technical capabilities of institutions. Many small and medium-sized institutions, already strained by fierce competition and diminishing profits, chose to exit the market in face of the additional costs required for compliance transformation. From a peak of 271 third-party payment companies in 2015, the number dropped to 186 by the end of 2020, a reduction of 85 companies (or 31.3%) (Taodudu, 2023). These exits created new opportunities in the corporate payment market.

Moreover, the direction of regulatory policies is aimed at maintaining the stability of the financial system, combating monopolies in the payment industry, and lowering industry barriers. The Non-Banking Payment Institutions Ordinance (Draft for Comments) issued in 2021 includes significant provisions regarding market dominance. Specifically:

Article 5: Market Dominance Position Early Warning Measures: It states that if a non-banking payment institution achieves a one-third market share in the non-banking payment services market, the PBoC may consult with the State Council's antitrust law enforcement agencies to take measures such as interviews as a warning.

Article 56: Market Dominance Position Determination: This article proposes that if a non-

banking payment institution reaches a half market share in the national electronic payment market, the PBOC can consult with the State Council's antitrust law enforcement agencies to review whether the institution has a market-dominant position (XinhuaNewsAgency, 2021).

These regulations have significant implications for the payment industry, especially for dominant players like Alipay and WeChat Pay. They are now compelled to relinquish some of their market share to ensure they do not cross the policy thresholds, which has led to the emergence of new opportunities in the personal payment market.

4.3.2.2 Assessing the impact of external environmental changes on core competencies

The Suning Payment SBU is a medium-sized payment institution, which, compared to giants like WeChat and Alipay, is far from reaching the scale that would trigger antitrust concerns. Interviewees A, B, E, and F mentioned that, “compared to some smaller payment institutions, it has stronger profitability and risk resistance capabilities”. Therefore, under the trend of increasingly stringent regulation, there is still certain market space available. In this environment, the Payment SBU does not need to worry about the rising costs brought by regulation, nor does it need to consider reducing its business scale to avoid reaching the antitrust threshold. The market opportunities relinquished by both large and small institutions are now before the Payment SBU. However, its main business currently focuses on customers within its own ecosystem and lacks corresponding marketing capabilities. If the Payment SBU does not pursue these market opportunities, other competitors at the same level will not let go of this opportunity, which will inevitably make these competitors stronger, thereby weakening its own and industry position and affecting its competitive advantage, see Figure 4.18.

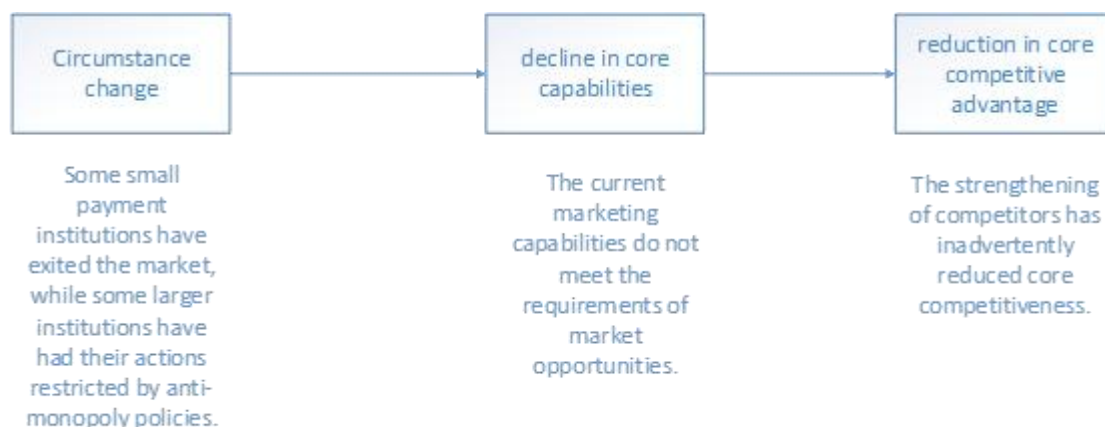


Figure 4.18 The impact of tightening regulatory compliance and industry landscape adjustments on the core competencies of the Payment SBU

4.3.2.3 Redefining strategy to gain competitive advantage - Enhancing marketing and product capabilities

When deciding to pursue the emerging opportunity, the Payment SBU (as mentioned by interviewee A) faced a critical decision: whether to strengthen its offline personal payment business to capture the market share relinquished by WeChat and Alipay, or to venture into the corporate payment business, a new area not yet dominated by any giants but crowded with numerous small and medium-sized payment companies.

Option One: Developing Offline Personal Payment Business

Offline payment is a method of electronic payment through mobile devices reading QR codes. Users simply open the payment app and scan the merchant's QR code using their phone's camera, completing the transaction in seconds. In China, QR code payments are widely used in various offline commercial settings, such as:

1. Dining: Restaurants and cafes, where customers can scan to pay without waiting for service staff.
2. Retail: Supermarkets and convenience stores, enabling quick settlement through QR code scanning on products.
3. Transportation: Public transport, taxis, and subways, where QR code payments replace the need for cash or cards.
4. Lifestyle Services: Hair salons, massage parlours, where customers can quickly pay post-service.

QR code payments are convenient and secure, relying on smartphones, requiring no unlocking of devices, and entail simple operations. Moreover, QR codes use multiple encryption technologies, preventing unauthorized access to account information, and are universally applicable to anyone with a smartphone.

Building on the success of Alipay and WeChat Pay in offline QR code payments and leveraging Suning Payment SBU's years of experience in offline business promotion, interviewees B and F identified the following capabilities needed for developing offline QR code payment business:

1. Technological Innovation: Alipay and WeChat Pay exhibit high levels of innovation in mobile payment technology, such as Alipay's sandbox environment and WeChat's mini programs, reflecting their technical superiority. This extends beyond payment technology to include services like risk control and data analysis.
2. Product and Service Innovation: WeChat Pay and Alipay are not just payment tools but

platforms integrating various services. Continuous innovation in payment, shopping, finance, and lifestyle services has led to high user stickiness.

3. Strong User Acquisition and Retention: Users are fundamental to the payment business. WeChat and Alipay attracted a vast user base through their social and e-commerce advantages and retained them with quality products and services.

4. Strong Business Development and Ground Promotion: A comprehensive ecosystem is key to sustaining payment operations. A vast network of offline merchants and partnerships with major banks create a significant network effect for these platforms.

Upon self-assessment, the Payment SBU found that in terms of technology and security stability, Suning Payment can match the level of Alipay and WeChat. Moreover, through the strong business capabilities and industry position of the Suning Group, it has established partnerships with major banks, with 90% of bank cards in the market being bindable to Suning Payment. However, Suning Payment faces challenges in developing the following core capabilities:

1. Strong User Acquisition and Retention: Relying on the ecosystem of Suning E-buy, Suning Payment's customer acquisition capability has significantly weakened, especially in competing with platforms like Taobao and Pinduoduo (Temu in Chinese version), the primary customer sources for Alipay and WeChat Pay, respectively.

2. Product and Service Innovation: The peripheral service capabilities of the Suning Payment app are inferior to WeChat and Alipay, leading to much lower activity levels compared to these giants.

3. Ground Promotion Capability: Suning Payment lacks a dedicated offline promotion team and would need to build one from scratch. Even with a team, getting offline merchants to display Suning Payment QR codes is challenging. Due to the above two reasons, few customers would opt to use Suning Payment for QR code payments, leading to high human resource costs with comparatively low returns.

Option 2: Developing Corporate Payment Business

Corporate payment services primarily involve providing electronic payment solutions to cater to the diverse and multifaceted payment needs within and outside organizations. These services typically include salary payments, bulk transfers, supply chain payments, and cross-border payments, relying on advanced internet and payment technologies to offer convenient, secure, and efficient payment services.

The application scenarios for corporate payment services mainly include:

1. Salary Payments: Businesses can pay salaries directly to employees' bank accounts

electronically.

2. Supply Chain Payments: Electronic payment methods can be used for supplier payments, enhancing efficiency and reducing human errors.

3. Cross-Border Payments: Multinational corporations can manage cross-border fund transfers and foreign currency exchanges.

Compared to traditional bank transfers, corporate payment services offer a). improved efficiency: digitalizing previously cumbersome payment processes allows businesses to complete payments more efficiently, saving substantial resources; b). dynamic fund management: businesses can better manage cash flows and stay informed about the status and progress of each payment; c). increased security: corporate payment services usually have comprehensive risk control systems, ensuring the safety of each transaction; d). global business support: these services facilitate payments in cross-border business operations, making it easier for companies to operate globally.

After a detailed analysis of the business and researching competitors in the corporate payment sector, interviewees A, D, E, and F identified the following core capabilities needed for offering corporate payment services:

1. Technology and Risk Control Capabilities

A robust payment technology system capable of supporting large-volume, high-frequency transactions is essential. Cross-platform, cross-bank, and multi-currency payment capabilities are required to handle the complexity of corporate payments.

Risk management is a critical aspect, necessitating a comprehensive risk control and compliance system, including anti-money laundering, anti-fraud, information security, and data privacy measures.

2. Business Understanding and Process Optimization

Understanding the business processes of client companies is crucial to design payment solutions that meet their needs and comprehend the custom demands arising from industry digitization.

3. Digital Service Capabilities

Providing digital services, including online platforms and digital management tools, is often essential when offering payment services to businesses or supply chains. These tools should be integrated with the payment services for seamless interaction.

4. Brand Influence

The brand influence of payment institutions varies across industries due to the learning curve in understanding specific business sectors. Institutions with experience in a particular

field are generally more trusted by new clients in that sector. Accumulating brand influence and benchmark case experience in various industries is vital.

5. Market Expansion Capabilities

Corporate payment business requires extensive market and customer resources. It is advisable to invest resources in market development to identify and nurture potential customers.

Discussing the accumulation of capabilities, interviewees A, C, E, and G noted that over the years, the Payment SBU has developed strengths in several areas:

1. Technology and Risk Control Capabilities

Suning Payment has developed comprehensive capabilities for all scenarios, across platforms, banks, and currencies.

It has established a complete risk control and compliance system, encompassing anti-money laundering, anti-fraud, information security, and data privacy measures, thanks to years of enhancement in compliance capabilities.

2. Digital Service Capabilities

Leveraging years of experience within its ecosystem and the Suning Finance Group's advocacy for and high standards in digital management, the Payment SBU has developed various digital management systems, enhancing its digital management capabilities in the payment sector.

3. Brand Influence

Although the Payment SBU has not previously ventured into corporate payment, its long-term service to Suning E-buy and its use within the upstream and downstream of the Suning E-buy supply chain have built some reputation in retail-related industries.

However, the Payment SBU still has gaps in business understanding and market expansion capabilities, as pointed out by interviewees E, F, and G:

1. Business Understanding and Process Optimization

The Payment SBU's experience has been primarily with Suning Bank and Suning E-buy. It understands the retail and banking sectors but lacks knowledge in other industries.

2. Market Expansion Capabilities

Historically focusing on individual customers, the Payment SBU lacks a sales and business development (BD) team for corporate clients. There is a need to establish a new sales team.

However, as the Payment SBU has an operational team responsible for liaising with Suning E-buy and Suning Bank, who are well-experienced in serving such clients and deeply

knowledgeable about payment products, it could opt to internally transfer members to form the new team, accelerating the sales team's establishment.

4.3.2.4 Evaluation of the proposed strategies and decision-making

Ultimately, the Payment SBU and Suning Finance Group opted to develop corporate payment services. The decision was based on the following considerations:

Option One: Developing Offline Personal QR Code Payment Business

For Suning Payment SBU, it would be challenging to match Alipay and WeChat in terms of user acquisition, retention, and diversified innovation in product and service offerings. Without these core capabilities to attract and retain customers, even a strong offline promotion strategy would not suffice to effectively market Suning Payment and fill the market gap left by Alipay and WeChat. Therefore, it was deemed unlikely to develop a core competitive advantage in this area.

Option Two: Developing Corporate Payment Business

The Payment SBU is at a leading position in the industry regarding basic technical and risk management capabilities, meeting the demands of corporate payment services. It possesses robust digital service capabilities that can rapidly aid business development. Leveraging its recognition within the Suning E-buy retail system provides a solid starting point for business expansion. The Payment SBU has an operational team knowledgeable in serving corporate clients and well-versed in Payment SBU products. Addressing the team's shortfall in marketing capabilities could enable rapid development of the new business line. Recruiting new sales personnel, especially given the concentration of payment professionals in major cities like Beijing and Shanghai, could pose challenges in terms of integration and recruitment. Summarizing the strategic decision-making process of Suning Payment SBU, it can be abstracted into the following procedural mechanism in Figure 4.19:

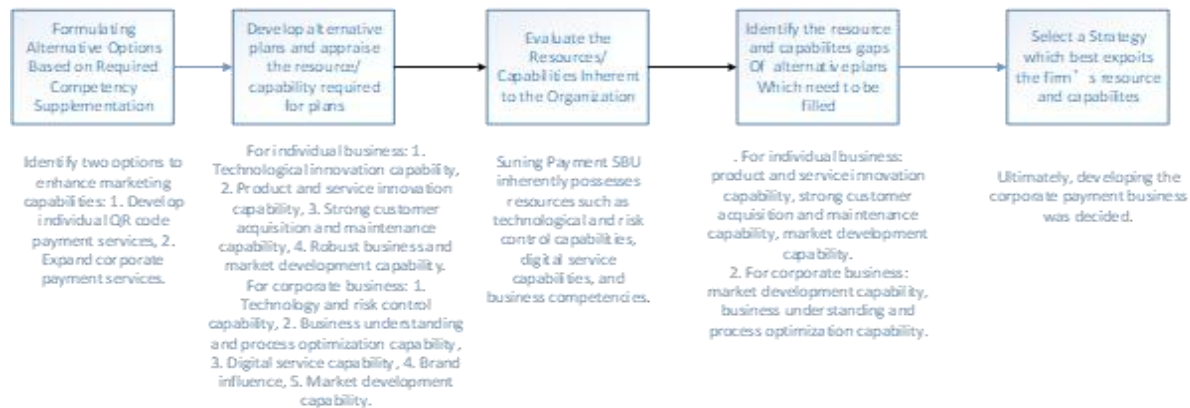


Figure 4.19 The strategic planning and decision-making process of the Payment SBU in response to tightening regulatory compliance and industry landscape adjustments

4.3.2.5 Implementation of the plan and evaluation of results

Based on interviews with A and B, the Payment SBU underwent a significant organizational restructuring to implement the new strategy. This restructuring involved reallocation of human resources and the establishment of three operational divisions: Bank Business Division, External Merchant Division, and Ecosystem Business Division. The SBU reassigned 20 operational staff members and formed a 27-member sales team.

Interviewees D, E, and F, who were appointed as heads of these three divisions, discussed the team's salary structure, emphasizing the salary reform plan and its context. The Payment SBU decided to reform the salary system for this sales team, adopting a performance-based remuneration model, which significantly boosted employee motivation. Concurrently, the SBU strengthened the sales skill training for transferred employees.

Furthermore, leveraging business resources from the financial group and Suning E-buy group leaders, the Payment SBU facilitated introductions to institutional clients within the retail and financial ecosystems, as shown in Figure 4.20. This strategic approach yielded substantial results: in its first year (2021), the SBU achieved profits in the million range. By 2023, the profit level had increased ninefold.



Figure 4.20 The strategic implementation and evaluation process of the Payment SBU in response to tightening regulatory compliance and industry landscape adjustments

4.3.3 The impact of dynamic capabilities on the strategic adjustment process of the Payment SBU

The above describes the entire process of strategic management for the Payment SBU in response to environmental changes. Faced with increasingly stringent regulatory policies, the Payment SBU achieved rapid assessment and adjustment. Within the same year of receiving regulatory corrective feedback, the Payment SBU completed all rectifications of non-compliant issues and established a systematic risk and compliance capability. As the regulatory policies in the industry evolved, it demonstrated keen awareness of new industry opportunities. Through capability assessments and organizational adjustments, it swiftly seized these opportunities, thereby establishing new competitive advantages. This highlights that the Payment SBU is a business unit with dynamic capabilities, capable of swiftly

adapting its business model to environmental changes and ultimately constructing new core competitiveness. This chapter will focus on how dynamic capabilities influence the strategic adjustment process of the Payment SBU.

4.3.3.1 Role of sensing capability

Suning Payment SBU's sensing capabilities are evident in several areas:

Dedicated department for monitoring policy changes: Similar to the Consumer Finance SBU, the Payment SBU's monitoring, and interpretation of policies mainly come from the Financial Research Institute of Suning Finance Group. The Policy Research Department of the institute specializes in analysing and studying changes in the financial macro environment and predicting future industry trends. They issue regular monthly industry research reports to senior management.

Additionally, the Payment SBU has a specialized Risk and Compliance Department that liaises directly with regulatory authorities, keeping abreast of policy directions, actively participating in compliance training organized by regulatory bodies, and accurately grasping regulatory compliance requirements.

Senior management's "field visit" mechanism: Suning Group mandates that executives of all SBUs must visit customers or peers monthly to understand ongoing industry developments. Insights gained from these visits are then shared with other core members of the SBU. Payment SBU executives maintain a frequency of visits every 2-3 weeks to exchange market dynamics with peers.

The resources invested in sensing capabilities played a crucial role in strategic adjustments:

Rapid and Accurate Assessment of Environmental Impacts: The Financial Research Institute continuously collects information on policy changes. When early signs of policy shifts emerge, they engage immediately, monitoring the situation's development. Thus, the Payment SBU was aware of the gist of regulatory policies three months before receiving the regulatory rectification notice, allowing them to start planning for compliance rectifications in advance.

Identifying Industry Opportunities and Making Informed Decisions: The Payment SBU places significant emphasis on gathering industry intelligence and assessing future development directions. Regular industry interactions helped them recognize increasing compliance costs for small and medium payment institutions and even losses for many. Information from regulators revealed a decreasing number of operating payment institutions.

At industry summits, the increasing demand for corporate payment services, previously catered to by smaller institutions, was identified. This insight led the Payment SBU executives to quickly realize the emerging opportunity in developing corporate payment services.

4.3.3.2 Role of seizing capability

The seizing capability of the Payment SBU is evident in two main aspects:

Innovative capability in business modelling. The Payment SBU, inheriting Suning Finance's culture of innovation, places significant emphasis and support on innovation across product development, technology research, and market marketing. Employees are encouraged to propose innovative ideas, with an innovation reward system in place.

When new industry opportunities are identified, the Payment SBU swiftly initiates strategic adjustments, reallocates necessary resources, and implements the new strategy through organizational adjustments.

Rapid decision-making capability. Similar to other SBUs within Suning, the Payment SBU operates with a decentralized, bottom-up decision-making process. When faced with issues, a temporary team of department experts is formed to quickly develop solutions. These solutions are then discussed in internal management meetings and submitted to group leaders for approval.

The SBU also has mechanisms for resolving disputes. In situations where employees' interests might be compromised, their concerns are fully respected, and pilot solutions that do not harm their interests are sought.

The seizing capability of the Payment SBU played a significant role in its strategic adjustment:

Developing Appropriate Strategic Plans: Faced with the choice between developing personal offline payment business and corporate payment services, the Payment SBU chose the latter, which was farther from its existing operations. This decision was driven by a deep understanding of its core competencies and competitive strengths. Even though corporate payment services seemed distant from its existing operations, the SBU realized that it possessed or could easily develop the necessary core capabilities with some modifications. Driven by innovation, the Payment SBU made the correct strategic choice.

Facilitating Rapid Decision-Making: The seizing capability helped the Payment SBU to address issues proactively. For instance, the transition of the operational team to sales roles involved a salary system reform that shifted from fixed income to a larger commission-based model. Many operational staff members were initially apprehensive about a potential decrease

in income and opposed the transition, preferring external recruitment for sales roles. In response, the Payment SBU, while considering employee concerns, developed a compensation plan that included a six-month salary protection period during the transition. The salary structure was set as base salary + performance + bonus incentives, where completing 60% of KPIs ensured full salary, and reaching 80% entitled employees to additional incentives. This salary system significantly reduced resistance to the reform, accelerating decision-making and implementation.

4.3.3.3 Role of transformational capability

Suning Payment SBU's transformational capabilities are manifested in several aspects:

Rapid adjustment of organizational structure. The Payment SBU has a flat organizational structure with only four front-end departments: marketing, product, risk control, and compliance. The remaining mid and back-office functions like finance and legal are provided by the group.

The employees of the Payment SBU generally possess strong learning abilities. They adapt quickly to new roles after reassignment, actively participate in training activities, and accumulate experience in practice, becoming proficient in their new roles in a short period.

Efficient resource integration capability. Once the Payment SBU determines its strategic direction and gets approval from the group, it can mobilize the entire group's resources, including human, technical, financial, and business resources, to achieve rapid internal and external resource integration.

The transformational capability of Suning Payment played a crucial role in its strategic adjustment:

Lowering Resource Acquisition Difficulty and Expanding Strategic Options: For instance, the first few business deals in corporate payment were introduced through the leadership of Suning E-buy. These initial deals allowed the Payment SBU to accumulate experience and case studies, reducing the difficulty in winning subsequent deals and navigating through the challenging transition period.

Accelerating the Deployment of New Strategies: Upon deciding to implement the new corporate payment strategy, the operational team of 20 members completed their handover in just three days and started full-time in their new roles. Within the first month, they completed skill training, and within three months, 40% of the sales team achieved their first sales. In contrast, externally recruited sales staff had not yet joined at this point.

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Chapter 5: Research Conclusions and Prospects

This chapter takes the cases of Suning Finance's three strategic business units (Consumer Finance SBU, Wealth Management SBU and Payment SBU) as research samples to discuss the process of strategic adjustment based on dynamic capabilities under the changing external environment, and the main conclusions on the relevant role of dynamic capabilities in strategic adjustment. At the same time, the suggestions, limitations and further prospects of the study are described.

5.1 Research conclusions

During the period from 2019 to 2021, the external environment has undergone great changes, and people around the world are facing the impact of the novel coronavirus epidemic. The ravages of the epidemic have dealt a blow to the world economy to some extent and have brought different impacts on China's economic environment and people's income level. At the same time, the period from 2019 to 2021 is also the process of the Internet finance industry from blind rapid expansion to the gradual standardization of regulatory governance. In the form of strong financial supervision in China, the in-depth development of regulatory governance has brought waves of impact and impact on the Internet finance industry.

In the field of e-commerce finance, Ant Financial, Jingdong Finance and Suning Finance are the main three e-commerce-based Internet finance companies as their parent companies. However, Suning Finance is weaker than the other two competitors in terms of brand awareness, membership base, scale and development. In terms of the setup of strategic business units, the setup of the three major e-commerce financial enterprises is basically similar, mainly the Consumer Finance SBU, Wealth Management SBU and Payment SBU, SME Finance SBU and Supply Chain Finance SBU. During the profound changes in the external environment from 2019 to 2021, several Strategic Business Units (SBUs) underwent a series of strategic adjustments within their respective focal areas. Through examining these processes of strategic adjustment, a series of paradigms have been abstracted that characterize the strategy modification processes of the various SBUs. Additionally, the influence of dynamic capabilities throughout the strategic adjustment process has been observed and analyzed.

The Consumer/ Finance SBU has experienced two external environment changes that have had a significant impact on the development of the SBU in the last few years: the reputational crisis of Suning.com at the beginning of 2020, and the economic crisis caused by the COVID-19 pandemic in 2021. When the negative public opinion of Suning .com occurs, the confidence of the market and shareholders is affected, which makes the capital of Consumer/Finance SBU decline, and the decline of capital brings about the decline of loan scale and customer satisfaction, thus affecting the core ability of Consumer/Finance SBU. Therefore, a strategic adjustment process based on the negative public opinion of Suning.com is imminent. Faced with the choice of strengthening financing capacity, the strategic plan of issuing joint loans was finally selected according to the existing resource situation of the Consumer/Finance SBU and the difficulty of making up the capacity. In addition, under this strategic choice, the relevant resource gap and capacity elements were made up to realize the core competitiveness and finally overcome the crisis. In 2021, the outbreak of the epidemic led to a decline in consumption power and a lack of confidence in life, which increased the overdue repayment rate of customers of the Consumer/Finance SBU, and a large number of overdue loans also brought great challenges to the risk control ability of Suning Financial SBU. At this time, new challenges bring new strategic choices, and how to improve the risk control ability of Consumer/Finance SBU has become an important choice in front of Consumer/Finance SBU. Through the evaluation of several schemes and the comparison of its own advantages and disadvantages, the development mode of core business of consumer finance through platform loan is finally confirmed. The platform loan mode outsources the risk control ability to partners, which enables the Consumer/Finance SBU to focus on the complement of marketing ability, so as to realize the rapid complement of risk control ability and sustainable development under the influence of the epidemic. After determining the platform loan model, the Consumer/Finance SBU immediately formulated relevant strategic plans and deployed the relevant marketing team and research team to support the platform loan model for the continuous output of core competitiveness of Consumer/Finance SBU, and finally achieved the operating results of turning losses into profits in half a year.

After interviewing the general manager of the Wealth Management SBU and the heads of various departments, we learned that in terms of the external environment, in 2018, China Banking and Insurance Regulatory Commission issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (hereinafter referred to as the Guiding Opinions), which has had the greatest impact on the Wealth Management SBU in recent years. This new regulation has specifically regulated the business scope and product

requirements for the entire Wealth Management SBU. As a result, many of the products operated by the SBU in the past no longer met the new requirements and must be removed. According to the normative requirements of the New Regulations on Asset Management, the Wealth Management SBU began to think about the overall strategic adjustment in combination with its own situation. First of all, according to the requirements, it must be compliant, and the prerequisite for compliance is that the product must be operated with a license, that is, all the products must be distributed and issued around the existing license situation to position themselves. At present, the two important licenses of the Wealth Management SBU are fund distribution qualification and private placement license, and new strategic choices will be made based on the resources of these two licenses. It is a strategic road to carry out investment consulting business based on private placement license or Internet financial product marketing based on fund distribution qualification license. From the inside, compared with the resources and capabilities possessed by the Wealth Management SBU, the Wealth Management SBU determined the strategic development path of developing the investment account business. After determining the strategic direction for the development of investment advisory business, the Wealth Management SBU began to reorganize resources, match personnel, complement various capabilities, and finally build the core competitiveness to match the strategy.

In recent years, regulatory payment policies have mainly been formulated and issued around the compliance operation of payment institutions, strengthening fund management and risk prevention and control, which has brought positive significance to the development of the entire payment industry. The Payment SBU received a rectification notice from the regulator in 2019, requiring the rectification to be completed by the end of the year. In the face of such stricter regulatory requirements, Payment SBU must improve its risk compliance capabilities in a short period of time to meet regulatory requirements and achieve sustainable development. After the strategic direction of improving its own risk compliance capacity is determined, the Payment SBU reviews its own resources and capabilities and determines the resources or capabilities that need to be augmented: strengthening the construction of the risk system, strengthening the anti-money laundering capacity, risk emergency response capacity and training capacity. According to the above strategic plan, Payment SBU has carried out a series of strategic implementation, such as setting up the risk compliance department, transferring a senior payment research expert from the Institute of Finance to serve as the head of the risk compliance department, writing the risk compliance system and improving

the compliance audit system. After the implementation of the strategy, the Payment SBU completed the transformation of the regulatory requirements at the end of 2019 and was recognized by the regulatory authorities. Just after the completion of regulatory compliance rectification, 20 years have ushered in a new change after stricter regulation. Under the requirements of regulatory antitrust, there are fewer practitioners, and WeChat and Alipay shrink their business scale, providing more market opportunities for industry competition. At this time, another strategic choice is placed in front of the Payment SBU: whether to develop personal offline business or Corporate Payment Business. Based on its own resources and capabilities, the Payment SBU finally decides to develop the Corporate Payment Business. In order to implement the new plan of Corporate Payment Business development, it is necessary to supplement the market expansion and marketing capabilities, so the Payment SBU allocated three business departments to build the market expansion and marketing capabilities, and set up a sales team of 27 people, and carried out matching salary system reform to improve the enthusiasm of employees. Finally, in its first year (2021), the SBU achieved profits in the million range.

Based on the strategic adjustment process of the above three SBUs, we summarized and refined the strategic adjustment process of Suning Financial SBU, as shown in Figure 5.1.

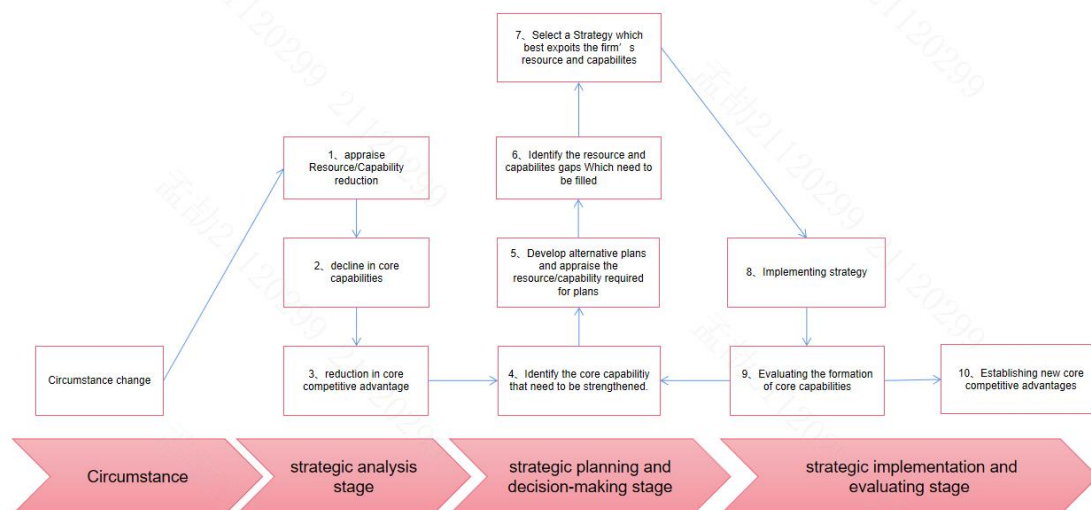


Figure 5.1 Flow chart of the strategic adjustment process

Source: Created by this study

Conclusion 1 : the general process of strategic management can be summarized into the following three stages: strategic analysis stage; strategic planning and decision-making stage; strategic implementation and evaluating stage.

Strategic analysis stage: assessing whether the changes in the environment will lead to a decline in certain resources and capabilities of the company, and whether these resources and

capabilities will affect the change of core competence of the company and even lead to the decline of the core competitiveness.

Strategic planning and decision-making stage: identifying the core capabilities that need to be enhanced based on the results of the strategic analysis stage; developing options to enhance core capabilities in line with the internal and external information collected; assessing the resources and capabilities required for each option and the current capacity gaps that the company needs to fill; eventually selecting a plan that maximizes the use of the existing resources of the company and minimizes the capacity gap as a strategic plan.

Strategic implementation and evaluating stage: testing the strategy quickly on a small scale; assessing whether the strategic goals and expectations of the company are met after the periodic results are achieved. If so, expand the scope of the test. If not, return to the strategic planning and decision-making stage, and re-formulate the implementation strategy.

Conclusion 2: Teece (2007) puts forward the framework of Dynamic Capabilities and believes that the key to an enterprise's success in a changing market environment lies in its ability to sense and capture external opportunities and dynamically reorganize internal resources and processes. As well as maintaining its competitive advantage through learning and innovation (Teece, 2007; Teece et al., 1997). Dynamic capability is therefore defined as the ability of an enterprise to adapt, integrate, and reshape its resource base in the face of competitive changes, which is further decomposed into the ability to perceive opportunities and threats, the ability to seize opportunities, and the ability to transform and restructure internal and external assets. It includes sensing capability, seizing capability and transforming capability. Sensing capability refers to an enterprise's sensitivity and ability to perceive the external environment. This capability enables businesses to identify and understand potential opportunities and threats, as well as changes and trends in the industry (Teece, 2007); seizing capability refers to an enterprise's ability to seize opportunities and take action. This ability is related to the innovative spirit and action drive of the enterprise, enabling it to quickly take advantage of opportunities and implement corresponding strategies and actions to achieve competitive advantage (Teece, 2009). Transforming capability refers to the ability of enterprises to reconfigure internal resources to adapt to changes (Teece, 2007). This capability allows enterprises to flexibly adjust and reorganize internal resources to adapt to changes in market conditions and competitive requirements, as shown in Figure 5.2.

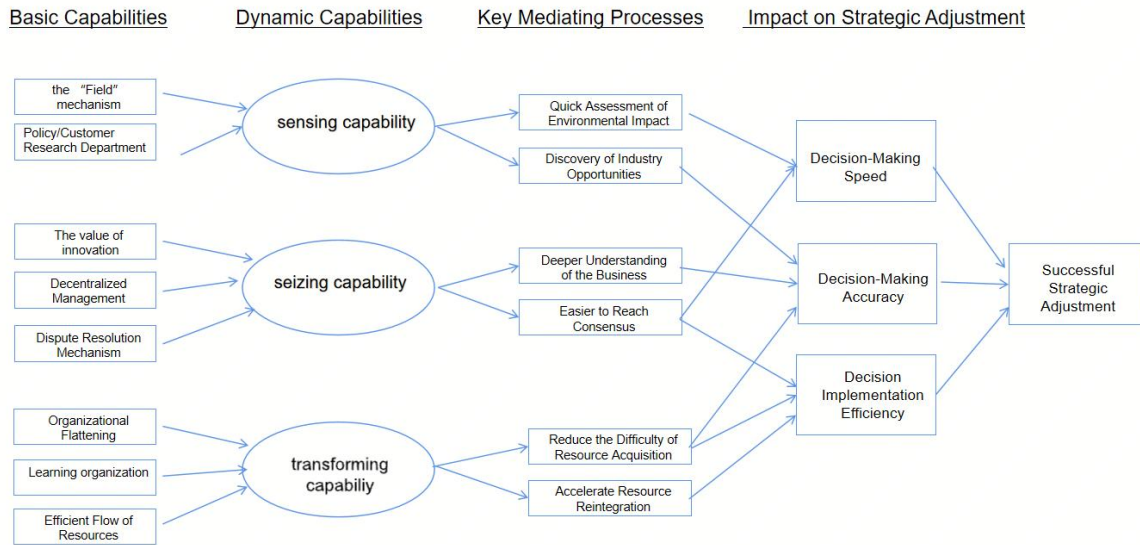


Figure 5.2 Dynamic capabilities affect the process of strategic adjustment

Source: Created by this study

According to the observation of the strategic adjustment process of the three SBUs of Suning Finance, these three capabilities affect the entire strategic adjustment process in this way. Dynamic capabilities are a combination of basic capabilities. From the perspective of the three SBU of Suning Finance, the sensing capability is reflected in the following aspects: first, it has a special policy/customer research department: at the macro level, Suning Finance has set up the Financial Research Institute ; at the same time, each SBU has a product, policy and user research department, which is responsible for analysing changes in the financial macro environment and the industry environment. The second is reflected in the "Field" mechanism in senior management. As required by Suning Group, all SBU executives must visit customers or partners every month to communicate with them and understand what is happening in the industry. The Sensing Capability is reflected in the following three aspects: first, the value of innovation. Personnel from the general manager to marketing and product leaders all believe that innovation is the core driving force for Suning's development. Second, decentralized management, bottom-up decision-making mechanism. Third, there is a mechanism for resolving disputes. In the face of the objections of the departments with damaged interests, we should fully respect their demands and find a scheme that does not harm their interests. The principles laid down after the game must be adhered to, open and transparent.

The transforming capability of Suning Finance is primarily reflected in the following aspects: Firstly, the organizational structure from the group level to the Strategic Business Units (SBUs) is highly flattened. This is evident in two respects: on one hand, each SBU

typically consists of only three hierarchical levels – the executive level, the department managers, and the frontline employees, ensuring the efficiency of two-way communication during strategy implementation. On the other hand, each SBU maintains only front-end departments, such as sales and risk, while back-end departments like finance and legal are centrally provided by the group, ensuring that each SBU's management focus is on the implementation of new strategies.

Secondly, Suning Finance is flexible in its usage and allocation of resources, advocating for the efficient flow of resources: based on the business needs of each SBU, both human and business resources can flow freely across SBUs. When an SBU is in need of specific human or business resources to implement a new strategy and requests assistance from the group, the group responds promptly by reallocating the necessary resources from other SBUs or even from the group's senior level to support the SBU's strategic implementation.

Thirdly, Suning Finance emphasizes training and has a comprehensive training mechanism: for employees who have transferred positions, the group arranges a complete set of new job skill training and examinations to ensure that the new employees can quickly adapt to their new positions.

First, it has a special policy/customer research department:

From the perspective of the strategic adjustment of the three SBUs, the dynamic capabilities play a role in the strategic adjustment mechanism as follows:

First of all, the sensing capability in dynamic capability can help enterprises quickly and accurately assess the impact of the environment: including which capabilities decline and negative effects on core competitiveness, so that enterprises can respond in time and speed up decision-making. Secondly, enterprises with strong sensing capability often communicate with other members of the ecosystem to obtain more industry information, so as to better discover potential opportunities in the industry, and correctly evaluate the resources needed to build core competencies, increasing the probability of making correct decisions. The sensing capability plays a key role in strategic planning and decision-making stage, strategic implementation and evaluating stage by influencing the speed and accuracy of decision-making. Faster decision-making speed and more accurate decision-making accuracy can effectively guarantee the success of strategic adjustment.

Secondly, the role of seizing capability in dynamic capabilities in strategic adjustment is reflected in decentralized management, which enables personnel with a better understanding of the business to participate in the decision-making process and better formulate appropriate strategic plans, thus improving the accuracy of decision-making. Secondly, the establishment

of the dispute resolution mechanism can more quickly find a pilot plan that takes into account the positions of both sides and reach an agreement during the discussion of the plan, thus improving the speed of decision-making. Meanwhile, in the process of strategy implementation, it will not encounter obstacles from departments with damaged interests, thus improving the efficiency of decision-making implementation. Control ability ultimately affects the strategy implementation and evaluation stage by affecting the accuracy and implementation efficiency of decision making.

Thirdly, the transforming capability is reflected in the following aspects: transforming capability can reduce the difficulty of obtaining certain resources, improve the scope of strategic choice, and thus improve the accuracy of decision-making; the transforming capability can accelerate the deployment of new strategies. When SBU decides to implement the new strategy, it immediately sets up a matching organization, appropriate personnel, KPI of each position and corresponding performance appraisal plan, and forms a new core competitiveness through the re-integration of various resources, thus improving the efficiency of decision-making and implementation. And these directly affect the strategic planning and selection stage, strategy implementation and evaluation stage of two strategic adjustment stages.

Sensing capability, seizing capability and transforming capability ultimately affect the decision-making speed, decision-making accuracy and implementation efficiency of strategic adjustment through various key intermediary processes, and ultimately affect the success of strategic adjustment.

5.2 Research contributions

This study makes the following contributions:

5.2.1 Theoretical contribution

This study constructs a strategic adjustment model based on resource-based view and dynamic capability theory, supplementing the relevant theories of strategic decision-making; this study also describes in detail how dynamic capability affects the strategic decision-making process of enterprises and fills the gaps in related theories.

5.2.2 Practical contribution

This research can help each SBU of Suning Finance make strategic adjustment correctly and quickly when facing the changes of complex external environment, to adapt to the changes and build new core competitiveness. Meanwhile, it provides similar e-commerce financial enterprises with ideas for future development. When facing the changes of the external environment, it is necessary to make dynamic adjustments in time, select appropriate strategic plans through the integration of internal resources and capabilities, and build core competitiveness.

5.3 Research recommendations

Based on the research findings, it is evident that dynamic capability can effectively promote enterprises to adapt to the changes of external environment, make strategic adjustments, and form new core competitiveness. Therefore, enterprises should focus on the construction of dynamic capabilities and the construction of strategic adjustment processes and mechanisms. Specifically, the work needs to be done from two aspects.

1. Establish the process and mechanism of strategic adjustment of the enterprise. According to the three phases of strategic adjustment, the corresponding organization construction, process specification and personnel layout should be constructed respectively. In the stage of strategic analysis, it is suggested to set up an executive research department similar to that of the Institute of Finance to pay attention to the external situation in a timely manner and make predictions in time when the external environment changes. In the strategic planning and selection stage, it is suggested to set up a strategic planning department, which has a clear understanding of the internal resource base and capabilities, can quickly specify the strategic plan, and design a strategic management department to manage the strategy implementation and evaluation process as a whole. This department can mobilize resources from the enterprise level to ensure the effective implementation of the strategies.

2. Enterprises need to strengthen their dynamic capabilities. Firstly, enterprises need to strengthen the sensing capability, communicate actively with peers, and pay close attention to the industry dynamics and competitors; Secondly, in terms of the construction of seizing capability, enterprises need to improve the seizing capability from the aspects of efficient decision-making mechanism, full authorization, and flat organization construction. Thirdly, in terms of the transforming capability, enterprises need to build and reserve from four aspects:

innovative corporate culture, fault tolerance mechanism, awareness and mechanism of rapid adjustment, and cultivation of cross-departmental cooperation mechanism. Finally, through the construction of three aspects of the capability to form the dynamic capacity of the enterprise.

5.4 Research limitations

This study has certain limitations, which can be identified in three aspects .

1. Limitations of environmental changes. In recent years, China's Internet finance industry has changed rapidly, and due to the impact of the epidemic, the economic crisis of parent company Suning Tesco and other adverse factors, the strategic adjustment process caused by the rapid pace of environmental changes and excessive influencing factors may not be applicable to enterprises in the environment with a slower pace of change.

2. Limitation of company type. This thesis studies the organizational structure of SBU based on Suning Finance, while other types of companies or organizational structures may not be applicable to the conclusions.

3. Restrictions in industries. This thesis studies the strategic adjustment paradigm of SBU in the e-commerce financial industry where more influential factors come from China's financial regulation. At the same time, it coincides with the recent years of Internet financial rectification. Intensive supervision and governance make several SBUs carry out the strategic adjustment process. However, this is not the case applicable to all industries, so it is necessary to discuss the applicable industries for the conclusions of this thesis.

5.5 Research prospects

Considering the limitations of this study, the following research prospects are suggested for further investigation.

1. This thesis is only based on a single case study of Suning Finance SBUs, and the validity of the conclusion needs to be further verified through quantitative analysis. Based on our research results, other Internet financial enterprises will be selected to design questionnaires and expand samples to prove the validity of the conclusions.

2. This thesis studies the role of dynamic capability in the strategic adjustment of enterprises, but the research on how to build dynamic capability is insufficient, and further research might be done in this direction in the future.

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Annex A: Interview Outline (For 2019-2022)

1. What are the changes in the industrial environment that your department has encountered in the past few years?
2. In the face of the changes you mentioned, has your department made any new adaptation plans? Could you share with us some information about them?
3. What are the core considerations for the development of these adaptation plans?
4. Could you describe the decision-making process for developing these plans?
5. What adjustments have been made to develop these new plans (including but not limited to product/development strategies)? (Including but not limited to organization, human resources, resource allocation, goals, etc.)
6. Did you encounter any problems during the adjustments? Could you tell us what those problems were and how your department addressed them?
7. How do you evaluate the final result of the adjustments?
8. Could you talk about how your company perceives changes in the industry, policies, competitors and customers?
9. How does your company view innovation?
10. How do you use technology to optimize your products and internal workflows?
11. Could you describe your communication mechanism? (within your department and between departments)
12. Does your department have any connection with other departments in operations? If so, how are they connected?