

How Does Chinese e-Commerce Company Pinduoduo Solve the Problem of Poverty Alleviation and Its Motivation and Effect Analysis

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Abstract: This study first analyzes the causes of poverty, and why enterprises are still willing to make efforts to undertake social responsibilities even though they cannot make enough profits in the short term. On the basis of social innovation motivation, this paper analyzes why Pinduoduo takes poverty alleviation as its corporate strategy and relies on it to become a strong participant in e-commerce in China. At the end of the study, it is discussed that Pinduoduo only pays attention to external sustainability and ignores its exploitation of employees.

1. Introduction

Poverty is a development problem around the world, including China, which has 89.6million poor people in 2004(Changqing, 2021). Poverty is a root problem for sustainable development of a region where lack of adequate human and natural resources and interests of profitable companies. It's a cost raising behavior for companies to build factories or cooperative relations in less-developed regions compared with in a region with comprehensive supporting facilities (Dorward, 2009). So, why do some companies still like to pay attention to supporting rural areas and even take it as a strategic responsibility although that may damage shareholders' profits? In order to answer this problem like a paradox, this research analyzes the anti-poverty successful experiences, motivations and limitations of Pinduoduo Inc, which is an E-commerce platform in China.

2. Context

Balloch and Jones (1990)define anti-poverty as a strategy to take more resources and information directly into poor areas. Large companies seem more likely to take social responsibilities to help poor rural communities become more sustainable and healthier. Powerful companies and actors make their efforts to dominate powerless people and communities (Chowdhury and Wilmott, 2019). Putting resources into needy areas means organizations need to pay more money and energy to support irrelative groups. This looks like a violation of the company's interests because investing in roads, education and other infrastructures in underdeveloped areas are not able to increase company profits for shareholders in the short term. Milton Friedman said 'the social responsibility of business is to increase its profits' (Milton, 1970) and almost all companies really see profits as their mission. Therefore, there is a paradox because companies are prone to put energy and resources into social problems although it cannot generate fat profits for companies.

In order to understand this issue, the causes of poverty should be discussed. Poverty is a negative impact of systemic violence, which means institutions or systems inflict violence in powerless groups (Zizek, 2008; Chowdhury; 2021). Ordinary being show paradoxical obedience under authority of the system (Edmundson, 2010), as a result, people will go down the wrong path and become poorer if the authorities make the wrong economic policies. The environment situation also is a cause of poverty. Generally, a strict environment means that information expanding, infrastructures building and education developing have higher costs in local, which in turn to be factors of poverty (Dasgupta, 1995).

3. Analysis

3.1 Why Do Companies Tend to Solve Social Problems Rather Than Make Money?

Social and sustainable responsibility issues are considered as a government or NGO task because it's hard to get enough profits in that if a company engage (Wadham, 2009). Take Pinduoduo as an example. An E-commerce tends to establish a complete supply chain in developed areas with intact road systems, industrial systems for the reason that the more complete the infrastructure, the lower the cost of Pinduoduo's supply chain. So why did Pinduoduo CEO Huang Zheng choose to support farmers by developing their business in poor areas instead of making more profits?

In an Industry-based view, Pinduoduo started in 2015 while Taobao and Jingdong were dominating the Chinese E-commerce market. Taobao and JD.com had sales of \$461.5 billion and \$68.9 billion, respectively (Jingdong&Taobao Annual Accounting Report). With JD and Taobao almost monopolizing the Chinese market, Pinduoduo must choose a path that is more in line with the interests of the government and society if it wants to develop. Based on this motivation, Pinduoduo chose anti-poverty that has more support and focus from public and government as their company strategy (Chang, Y, 2019). In a resource-based view, the capital, supply chain, customers and brand advantages, the resources Pinduoduo has, cannot compete with Taobao and Jingdong. Consequently, Pinduoduo has to choose a different market segment to get competitiveness. Agriculture, as an ignored industry by competitors, is selected by Pinduoduo. Agriculture is not greatly developed in China, and most of the agricultural bases are located in underdeveloped rural areas (Yu, J, 2018). In order to gain an advantage in products, Pinduoduo has to devote its efforts to supporting agricultural development in backward areas of China. It can get cheap supplies of agricultural products and be regarded as a responsible enterprise. For the Institution-based reason, three-pillars analysis can be used to analyze the reason why Pinduoduo takes sustainability to be a key strategy.

According to Neo-Institutional theory, the regulative pillar authority people constrain other social members through formal rules, systems and authority power (Carnonna, 2004). Chinese government officially made an anti-poverty policy in 'China's 13th Five-Year Plan' that is a national economic plan. The policy acquires Governments and enterprises at all levels should strive to achieve the goal of poverty eradication by 2020. Pinduoduo's anti-poverty strategy is in line with national policy requirements. The normative pillar includes values and norms that specify morals, prescriptive, evaluative and obligatory dimensions of social life (Yamakawa et al, 2008; Scott, 2004). Pinduoduo's efforts to help poor areas also conform to the social norm of "mutual help" in Chinese society. Culture pillar is an important way to understand entrepreneurial activities (Carvalho, 2017). Shane used Hofstede dimensions to examine the relation between organizational innovation and power distance. The power distance dimension at 80 has a higher rankings of PDI, which means that individuals are effected by authority and tend to obey the order from formal sanctions (Hofstede, 2011). The cultural pillar also explains why Pinduoduo quickly identified sustainable social strategies after the government's poverty alleviation policy was finalized in 2016.

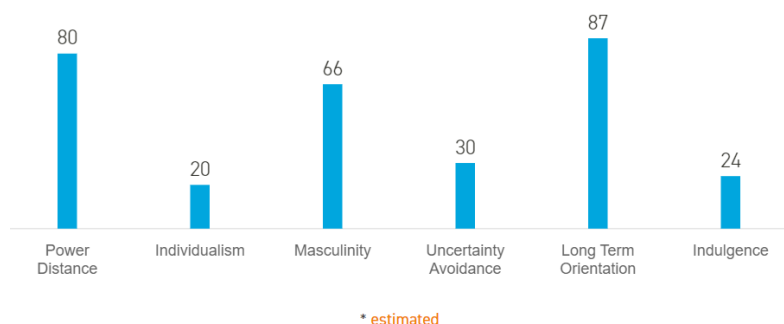


Fig.1 The Hofstede Index in China

3.2 What Has Pinduoduo Done to Fight Poverty?

On October 17th, the 2020 National Poverty Alleviation Award Commendation Conference was held in Beijing. Shanghai Dream Information Technology Co., Ltd. (Pinduoduo), as an Internet enterprise representative, was awarded the “Organizational Innovation Award” of the National Poverty Alleviation Award. In 2019, the annual turnover of Pinduoduo multi-platform exceeded one trillion yuan, among which the turnover of agricultural products reached 136.4 billion yuan, becoming the largest agricultural products e-commerce platform in China. In 2020, the turnover of Pinduoduo agricultural products is expected to exceed 250 billion yuan, and continue to maintain a rapid growth of around three digits (Zhang, X, 2021). In 2019, the Pinduoduo platform directly connected with more than 12 million agricultural producers and brought more than 1 million people into poverty. Up to now, Pinduoduo platform has directly led more than 100,000 new farmers to return home and start businesses. Since its inception, Pinduoduo has taken “poverty alleviation and agricultural assistance” as one of its corporate responsibilities. In the future, Pinduoduo will continue to make a large amount of investment and deep innovation in the agricultural field.

Firstly, carry out digital poverty alleviation in response to national policies. The poverty alleviation plan has long been a priority of the national government and is an important measure for China to achieve a moderately prosperous society in all respects by the end of 2020 (Wang, H, 2020). With the development of the Internet, e-commerce platforms and short video platforms have gradually become the main force of poverty alleviation. The focus of poverty alleviation is in rural areas, which is also a core part of Pinduoduo's agricultural strategy. Pinduoduo is also actively responding to national policies. At the end of 2019, in the first China's poverty-stricken areas featured agricultural products brand promotion fair, Pinduoduo Vice President Li Yuan introduced that in 2018, Pinduoduo has accumulated 2.3 billion orders for poverty alleviation and agricultural assistance, accumulated sales of 10.9 billion agricultural products, sales of 65.3 billion yuan.

Secondly, develop education to help the poor farmers how to do e-commerce. The best way to get out of poverty is to teach them how to make money instead of giving them money all the time. Pinduoduo is well aware of this truth. Only by helping farmers know how to sell their agricultural products can we truly establish a sustainable poverty alleviation mechanism. A few years ago, under traditional agricultural products acquisition companies and e-commerce, farmers who are responsible for sowing, cultivating, nurturing and harvesting paid the most, but were ranked “downstream” in the whole industrial chain and supply chain. Farmers' lack of understanding of commodity market economy leads to the problem of information asymmetry, which leads to the closed loop of low income and hard to get rich. To address this problem, the company helps poor farmers set up new agribusiness companies in local areas, providing technical and operational support in multiple ways, so that farmers themselves could understand the market demand, grasp the circulation links of agricultural products, and understand the market operation mode and business model.

Thirdly, simplify the industrial chain process and incubate the brand of the supply chain in agriculture. As an e-commerce platform, Pinduoduo directly connects with local farmers or agricultural products brands, eliminates redundant intermediate links, and makes the production and sales links transparent and simple. In this way, farmers can understand the market situation and consumer demand, adjust production strategies in a timely manner, and improve efficiency and increase income. Not only that, Pinduoduo also deeply runs the field of “brand creation”. At last year's China Agricultural Products Fair, Pinduoduo founder Dong Zao said that his company would incubate 500 agricultural supply chain brands from poor areas and bring local specialty agricultural products to consumers across the country.

3.3 Is It Really Voluntary for the Company to Solve Social Problems?

The debate on CSR and sustainability starts in the USA. In 1953, Bowen wrote companies should take their social responsibilities while they earn money from society in his book ‘Bowen's Social Responsibilities of the Businessman’ (Loew, 2004). The motivation of sustainable innovation and taking CSR for companies is reap more benefit based on a stakeholder perspective (Castelo, 2007).

Pinduoduo engage in social anti-poverty mainly because their support has a positive impact, not only in government but also in public. As a listed company, Pinduoduo needs to be responsible to its shareholders or they will face financial risks such as a falling stock price(Hermawan, 2014). Whatever Pinduoduo's motives, the company does strike a balance between financial performance and social responsibility.

On the other hand, we should also see the negative effects of Pinduoduo management. While Pinduoduo labels itself as a social innovator, their internal management reeked of exploitation. The company encourages overwork culture and their employees are used to overwork because the company intends to save employment costs. In January, a Pinduoduo employee even died while working until 1 a. m (Xinhua, 2021). So there's a paradoxical argument here. If Pinduoduo really wants to be socially responsible, then why extreme overwork events happened? Therefore, the interests of shareholders are an inevitable obstacle to the social innovation of commercial enterprises. If there is no benefit in their target field, they are less likely to be socially responsible (Lichtenstein, 2004).

4. Conclusion

The causes of poverty are the result not only of poor environments but also of systemic violence (or policy mistakes). From an industry perspective, the motivation for social innovation is to open up a less competitive market for Pinduoduo. From the perspective of resource base, if Pinduoduo invests in agricultural production areas, it can get cheaper and more stable agricultural supply chain. From the perspective of the system, Pinduoduo's anti-poverty strategy is influenced by government policies and tends to meet the needs of the government in order to gain the support of authority. Although the company has done a lot for poor areas and contributed to the cause of poverty alleviation in China, the company can't overcome the obstacle of shareholders. The reason is that although pinduoduo devotes to distant rural areas, they also still exploit employees even if the employees are closer to management.

There are some limitations to point out here. First, some theories may be used inaccurately because of a lack of understanding about the Three Pillars Model. In addition, Pinduoduo takes place in China and may not have comprehensive applicability in the world.

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