UNIVERSITI PUTRA MALAYSIA

IMPACTS OF COMPETITIVE STRATEGY AND OWNERSHIP STRUCTURE ON INTERNET FINANCE PLATFORMS IN CHINA

TIAN ZHONGKAI

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By

TIAN ZHONGKAI

Thesis Submitted to the Putra Business School, in Fulfilment of the Requirement for the Degree of Doctor of Philosophy

March 2020

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Doctor of Philosophy

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March 2020

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Internet finance refers to a business method that utilizes the internet and information communication technologies to accomplish financial activities. Internet finance has experienced a phenomenon growth in China's financial market, providing investment choices for individual investors, and serving as the financing channels for the SMEs.

This research aims to fill the gap by identifying and empirically examining the competitive strategy factors that are related to firm performance of internet finance platforms in China. The research also seeks to examine how ownership structure influenced the relationship between competitive strategies and firm performance of internet finance platforms in China. Based on the competitive strategy theory, institutional theory, and agency theory, this research proposes a theoretical framework that examines the factors of competitive strategies that influenced firm performance and the moderation effect of ownership structure. Data were collected from various official websites and third-party database. A total of 500 internet finance platforms and their operations information were collected over a period of 13 months, from June 2017 to June 2018. Structural equation modelling (SEM) was deployed for testing the hypotheses.

The results indicated that competitive strategies were related to firm performance in the internet finance platforms in China. Ownership structure was found to moderate the relationship between competitive strategies and firm performance of internet finance platforms in China. The results drawn from this study showed that the factors LP (loan periods), IR (interest rate), TT (total transaction), and NI (number of investors) could be identified by individual investors and these can be used when making investing decisions so as to avoid potential risks.

This research provides insights into the operational information of internet finance platforms which can be gathered from third-party websites. This empirical research disclosed information on firm performance based on the internet finance platforms. These can be potentially utilized by individual investors to make investment decisions. This research could also help internet finance platforms participators to enhance their performance, thereby contributing to the healthy development of internet finances in China.

Key words: Internet Finance; China; competitive strategy; firm performance; ownership structure.

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Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

KESAN STRATEGI KOMPETITIF DAN STRUKTUR KEPEMILIKAN TERHADAP PLATFORMA KEWANGAN INTERNET DI CHINA

Oleh

TIAN ZHONGKAI

Mac 2020

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Pembiayaan internet merujuk kepada kaedah perniagaan yang menggunakan internet dan teknologi komunikasi maklumat untuk menyelesaikan aktiviti kewangan. Pembiayaan internet telah mengalami pertumbuhan fenomena di pasaran kewangan China, memberikan pilihan pelaburan untuk setiap pelabur, dan berfungsi sebagai saluran pembiayaan untuk PKS.

Penyelidikan ini bertujuan untuk mengisi jurang dengan mengenal pasti dan mengkaji secara empirik faktor strategi persaingan yang berkaitan dengan prestasi kukuh platform kewangan internet di China. Penyelidikan ini juga bertujuan untuk mengkaji bagaimana struktur pemilikan mempengaruhi hubungan antara strategi persaingan dan prestasi syarikat platform kewangan internet di China. Berdasarkan teori strategi persaingan, teori institusi, dan teori agensi, penyelidikan ini mencadangkan kerangka teori yang mengkaji faktor-faktor strategi persaingan yang mempengaruhi prestasi perusahaan dan pengaruh moderasi struktur pemilikan. Data telah dikumpul dari pelbagai laman web rasmi dan pangkalan data pihak ketiga. Sebanyak 500 platform kewangan internet dan maklumat operasi mereka dikumpulkan untuk tempoh 13 bulan, dari Jun 2017 hingga Jun 2018. Pemodelan persamaan struktur (SEM) telah digunakan untuk menguji hipotesis.

Hasilnya menunjukkan bahawa strategi kompetitif mempunyai kaitan dengan prestasi syarikat dalam platform kewangan internet di China. Struktur kepemilikan didapati memoderasi hubungan antara strategi persaingan dan prestasi syarikat dalam platform kewangan internet di China. Hasil yang diambil dari kajian ini menunjukkan bahawa faktor LP (tempoh pinjaman), IR (kadar faedah), TT (jumlah transaksi), dan NI (jumlah pelabur) dapat dikenal pasti oleh individu pelabur dan ia dapat digunakan ketika membuat

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keputusan pelaburan untuk mengelakkan potensi risiko.

Penyelidikan ini memberikan gambaran mengenai maklumat operasi platform kewangan internet yang dapat dikumpulkan dari laman web pihak ketiga. Penyelidikan empirikal ini mendedahkan maklumat mengenai prestasi syarikat berdasarkan platform kewangan internet. Ia berpotensi digunakan oleh pelabur individu untuk membuat keputusan pelaburan. Penyelidikan ini juga dapat membantu para peserta platform pembiayaan internet untuk meningkatkan prestasi mereka, dengan itu menyumbang kepada perkembangan kewangan internet yang sihat di China.

Kata kunci: Kewangan Internet; China; strategi persaingan; prestasi syarikat; struktur pemilikan.

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Finally, but not lastly, thanks to all the people that helped and supported me to achieve my dream! To those who have shared my tears and helped me get through the most difficult time in my life!

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I certify that a Thesis Examination Committee has met on 9 March 2020 to conduct the final examination of Tian Zhongkai on his thesis entitled "Impacts of Competitive Strategy and Ownership Structure on Internet Finance Platforms in China" in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

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LIST OF ABBREVIATIONS

ACCA	The Association of Chartered Certified Accountants
AMOS	Statistical Software Stands for Analysis of a Moment Structures
AP	Alliance Partners
BCBS	Basel Committee on Banking Supervision
CBRC	China Banking Regulatory Commission
CCB	China Construction Bank
CFA	Confirmatory Factor Analysis
CFI	Comparative fit index
CIRC	China Insurance Regulatory Commission
CMIN/DF	Chi-square/Degree of Freedom
CPC	Communist Party of China
CSRC	China Securities Regulatory Commission
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EU	European Union
GFI	Goodness-of-fit
GVA	Gross Value Added
ICBC	Industrial and Commercial Bank of China
IR	Interest Rate
JOBS	Jumpstart Our Business Startups
LP	Loan Periods
NFI	Normed fit index
NI	Number of Investors
NIFA	National Internet Finance Association of China
NP	Number of Projects
NYSE	New York Stock Exchange
OS	Ownership Structures
P2P	Peers to Peers
RBV	Resource-Based View
RMSEA	Root Mean Square of Approximation
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SAIC	State Administration for Industry and Commerce
SEM	Structural Equation Modeling
SMEs	Small and Medium-Sized Enterprises
SOEs	State Owned Enterprises
TPP	Third-Party Payment
TT	Total Transactions
UK	United Kingdom
USA	United States of America
USD	United States Dollar

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

Internet finance refers to a business method that utilizes the internet and information communication technologies to accomplish online lending and other financial activities (Shen & Huang, 2016). Over the past decade or so, more and more businesses emerged to facilitated business transactions among individuals (Cai, Lin, Xu & Fu, 2016). Of the support provided to individuals, one of the most critical and innovative strategies to have emerged is internet finance. It is a type of financial assistance offered to the public via the internet or any IP network. Currently, internet finance is closely observed by governments, industries, investors, and researchers (Cai et al., 2016).

Internet finance is a new and innovative method for making financial transactions. This method bypasses conventional financial intermediaries. It connects borrowers and lenders directly (Yum, Lee & Chae, 2012), thereby enhancing transactions and promoting commerce. Internet finance promotes transactions from peers to peers (P2P). The P2P form of lending or borrowing is considered one of the famous models of internet finance. In the internet environment, some websites run as platforms, providing financial services to lenders and borrowers. Through these websites, borrowers upload information to the website and investors, based on the information of the borrowers and the platforms, make the decision on whether to invest money or not.

With the advent of technology and competent software, today's trend of doing business and commerce is no longer restricted to the traditional method. The widespread use of mobile devices, the accessibility of instant information, the diversity of social media platforms and various other technological advancements, have created an interconnected world. With multiple search engines, business people and the lay person have access to many things including loans. Current loan transactions do not require clients to formally come to the bank or financial institution, fill in forms, provide the necessary evidence, and then wait for weeks for the loan processing to be done. The latest development in computing and telecom technologies have changed the financial landscape for businesses.

Internet finance has also changed the way the financial industry operates and serves SMEs (Kshetri, 2016). SMEs find it difficult to access external financing supports, a general problem faced throughout the world (Burgstaller & Wagner, 2015; Lavia López & Hiebl, 2015; Falkner & Hiebl, 2015). There are many reasons for this hindrance which will be further discussed below. The fact remains that without access to financial support, the financial situations of the SMEs will be badly affected since they require external

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financing to support their investments, and this can hinder the economic development of the country (Ferrando & Mulier, 2015; Prelipcean & Boscoianu, 2014).

Internet loans or lending, originated in the United Kingdom (UK) which also created the first P2P lending company called Zopa in 2005. Following this, was the United States of America (USA) which founded its first P2P internet lending company called Prosper in 2006. The Lending Club was then founded in 2007 and it is currently the largest P2P lending company in the USA. It accounts for approximately 80% of the P2P market share in the USA (Xu, 2017). However, the annual loan volume noted in 2014 was only several billion US dollars, despite being in existence for seven years. Nonetheless, in 2015, Lending Club issued US$8 billion of loans, doubling that of 2014, and by December of the same year, it was public listed on the New York Stock Exchange (NYSE). This helped the company to grow further.

Internet finance is experiencing a remarkable development in China (Ngai, et al., 2016). It flourished because it is seen as an innovative strategy for solving the financial issues that SMEs face, and it does this by connecting what the household savings offer to what SMEs need in financial services. China has a large number of families with big amounts of household savings, but with no place to invest. Many of these households are searching for investment channels to place their money in. Internet finance platforms offer such families the leeway to use their money fruitfully. In contrast, it is the platform for those who need money to take loans from lenders through internet finance.

1.2 Research Motivation

Banks and financial institutions are significant organizations that provide credit to industries which indirectly, support the nation’s economic growth (Dhliwayo & Governor, 2014; Wonglimpiyarat, 2015). Bank loans are critical to organizations because loans can be used to demonstrate the firm’s economic performance. Loans are an important source of funding for the development of SMEs. Despite this being so, conventional banks do not consider the financing of SMEs to be a profitable business transaction. Conventional banks do not see the valuable return of the SME’s investment, or how such an investment can provide potential returns (Wonglimpiyarat, 2015).

As a result of these issues, SMEs face many challenges in raising funds from financial institutions. Two main problems stand in their way. First, traditional banks are reluctant and unwilling to provide services for small businesses because of the high transaction costs and the inefficient processes associated with these borrowers' credit (Adams & Nehman, 1979). Second, the lack or poor performance of credit rating agencies made it more difficult to provide information that focus on the credibility of SMEs.

The development of internet finance provides the hope for SMEs’ financing. The advance

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technological knowhow, and the rapid changes noted in customer behavior have created the accessibility of internet finance or lending. This channel is a convenient financing mode for many SME owners. It has become widespread on a global scale, and may soon become a better alternative system to traditional banking for many users (Bachmann et al., 2011; Feng, Fan & Yoon, 2015).

Internet finance reduces the requirement for a collateral when issuing a loan as compared to traditional bank loans. This is because internet lending utilizes information technology such as Big Data. Within internet finance, Big Data are widely used in information processing. This improves the efficiency of risk-based pricing, and risk management, while significantly alleviating the requirement of collaterals. Internet finance has helped many borrowers to get loans fast and quickly, with little hassle.

In recent years, commercial internet finance platforms have become a novelty. These platforms have been using innovative ways to mobilize and disseminate small business capitals (Reabetswe, 2014) and the internet finance seems to be one type of loans that internet finance offers to borrowers. Online platforms are used for all transactions and processing rather than financial institutions as intermediaries. These platforms initiate loans by matching the lenders with the borrowers (usually individuals and small business owners). The internet finance allows individuals or small businesses to borrow from online companies, thereby omitting the roles of conventional banks, and other financial institutions in the process. Internet finance is very popular around the world and China, as a fast and rising economic power. China is beginning to experience a new wave of revolution in the financial sector which utilizes internet resources (Wei, 2015).

In the year 2015, the internet loan volume in China was approximately US$150 billion, more than ten times the size of the US lending marketplace (Xinhua, 2016). As an example, Credit Ease (Yi Xin), a large Chinese internet finance company based in Beijing, had already overtaken the position of LendingClub to become the world's largest online lending company (Xu, 2017). Both Yirendai (the P2P subsidy of Credit Ease) and LendingClub are listed on the NYSE.

Unlike the financial landscape of the UK and US where the internet finance market is dominated by large companies such as LendingClub and Prosper, the situation in China is slightly different. To date, China has more than 2000 platforms which offer internet finance in the market (Williams-Grut, 2015). These internet finance platforms bring investment choices and financing channels to individual investors and SME borrowers. However, internet finance also brings with its other disadvantages such as regulations to monitor the financial transactions which may incur huge sums of money. This can lead to bankruptcies when re-payments cannot be met, or fraud and other financial risks (Liu, 2015). The prevalence of the internet finance has also created other distractions such as disruptions to traditional banking services where certain business territories have become affected negatively (Chen, Li, Wu & Luo, 2017).

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The internet finance platform of China began in 2006. It flourished and became very popular. However, these platforms were not well managed. When borrowers defaulted on the loans, the owner of the platform is involved, and is required to compensate the lender. It was reported by the "National Business Daily" that in Hangzhou, Shanghai and Shenzhen, the P2P loan platforms have created scandals of equivalent to 231 million yuan of loans (Wei, 2015). Owners of those platforms absconded their obligations, leaving other investors and borrowers in limbo. In recent years, this occurrence has increased. The surge in the irregularities of internet finance and loans has sparked fears of social unrest among platform users and borrowers. These fears were expressed through protests because protests were the only way for the lenders to express their anger about the lost investments. From the perspective of attracting attention, it is undeniable that such protests can also attract government attention who can then be motivated to look for resolutions that can address the rescue plans (Wei, 2015).

Most internet finance investors collect user's information based on what is disclosed by the platforms. There is no other necessity to collect information as user's information are captured once they have logged into the platforms. Nonetheless, the current ownership structure of internet finance may need to be further improved so as to provide investors with more security. For instance, the investors may need an approach that can assist them in analyzing the user's information more precisely so as to be more selective when offering loans. It is when investors have experienced some setbacks after lending money on internet finance that they learn to avoid any potential risk of being cheated by borrowers. Thus, there is a need to conduct studies in order to understand the best way of strengthening internet finance platforms for investors and borrowers.

1.3 Problem Statement

Even though the economy in China has been thriving in the past few years, its financial services are still lacking in many areas, one of which is that China's financial services are severely undersupplied (Xu, 2017). Undoubtedly, large companies, especially state-owned enterprises (SOEs) have no problems when it comes to financial support because these companies have access to a relatively adequate supply of external finances. Banks seem to think that these large companies are more reliable and trustworthy because their operations are more transparent, hence making it easier, presumably, for lenders to identify the lending risks involved (Yin & Liu, 2017). Conventional financial institutions usually prefer large companies, and China's financial system is designed for large companies (Elliott & Yan, 2013). Thus, this practice puts SMEs and micro-enterprises at a disadvantage; they would generally experience difficulties in accessing some inroads for external finances at a reasonable cost.

Conventional loans and internet finance loans differ in a number of ways. While conventional loans are attached with numerous conditions, it appears that internet finance holds lesser restrictions. Internet finance favors investors because the yields that individual investors gain are higher, comparatively. Since internet finance is operated via

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an online platform, there is a lot of competition among owners and lenders offering their financial services to borrowers. China internet finance currently become the largest internet finance market in the world; the market size on loan volume larger that the internet finance market in the United States and the United Kingdom, with other large advanced economies further behind (Claessens, Frost, Turner, & Zhu, 2018). It is worth mentioning that the size of China's internet industry is larger than that of the rest of the world combined, with outstanding loans of US$217.96BN (Holmes, 2019).

In regard of the large number of internet finance platforms in China, these internet finance platforms need to develop their own competitive strategies so as to be able to conduct their businesses. Certainly, what these competitors need among themselves is to create more securities for themselves and borrowers. Then they need to strengthen their position as lenders through the support of the government since they are also helping the economy of the country to grow. Further to this, more emphasis needs to be given to the practice of interest rates given. It may also be a good idea to introduce alliance partners to internet financiers so as to encourage more investors as well as more cash flow. With internet finance becoming a trend in today's world, the healthy development of internet finance would benefit not just individuals, but also SMEs and the nation. Eventually, this can help to promote the country's economy.

To compare with conventional financing method, the interest rates offered by internet finance platforms to attract more investors and to encourage more cash flow, have to be more attractive. Generally, internet finance platforms can offer high interest rates to investor while making the requirements for borrowers less rigid (Luo, Li, Peng, & Fan, 2018). This is one reason why more and more individual investors are developing the interest to participate in the internet finance market. The internet finance platforms usually provide various combinations of loan periods, interest rates via a number of projects so as to favor investors' needs. Interest rate, loan periods, number of projects, and alliance partners make up the main competitive strategies of internet finance platforms. Investors could also could get the information related to these factors through public information disclosure.

However, with internet finance fast gaining popularity, there may also be some problems which can cause huge losses for borrowers and lenders (Wei, 2015). The risks that are involved in internet finance cannot be ignored by the public. For instance, scandals involving millions of yuan suggest that there is a lack of proper regulations and laws. Due to the lack of information and knowledge as mentioned above, many platforms are also facing trouble. These "in-trouble" platforms encounter cash shortage, fraud, run-aways, and shut-downs. The number of "in-trouble" P2P platforms have skyrocketed, from 16 in 2012 to 1,598 between 2012 and 2016 (Shen & Huang, 2016). There were also considerable concerns about fraud as is illustrated by the Ezubo platform that failed in early 2016, losing some $11 billion of investors' money (Wu, 2016). The huge amount of frauds and closures also implied that internet finance lacks security. The many cases of borrowers defaulting on their loans also indicated that there is a lack of standardization in interest rates as well as protection for borrowers. All these suggest that there is a need for the government to get involved.

Internet lending platforms are affected by the firm's competitive strategies. Undoubtedly, platforms which have good performance will attract larger numbers of users, thereby generating large volumes of transactions. Nonetheless, such types of good performance do not mean that there is an absence of risks for investors. This is because those factors causing internet finance platforms to default are still unclear. More studies need to be conducted to address the inadequacy.

Many internet finance platforms offer implicit guarantees to borrowers so as to facilitate the loan transactions (Xie, Zou, & Liu, 2016). There were cases where lenders were unable to differentiate between good and bad borrowers. Consequently, these lenders had to bear losses as they were not prepared with meeting the financial risks involved because they were also not equipped with the techniques to manage. To some extent, a few internet finance platforms were acting just like the Ponzi-scheme, operating without proper investment opportunities (Wang, Shen & Huang, 2016).

The Chinese internet lending market scenario illustrates how internet finance can evolve to become a different entity if managed in an undeveloped regulatory and legal environment. Without a proper credit referencing system, internet finance in China becomes riskier than compared to the US or the UK. In China, most internet finance platforms provide business loans which are actually financed from the investment of Chinese household savings. Although this is a great response to answering the needs of the SMEs which have limited opportunities to take loans from conventional banks, it also creates more risks for the investors. Many of these internet finance platforms do not apply appropriate financial techniques, and in some cases, they are also poor at evaluating their clients. They seemed to be taking the risk upon themselves by offering guarantees to investors (Deer, Mi, & Yu, 2015). These guarantees create substantial potential default risks for the platform as it entices more investors to make up risk losses.

Before 2016, there was practically no regulation placed on internet finance platforms. However, after the excessive risk of internet finance was exposed in 2015, preliminary regulation measures were proposed and released for public comments and feedback. The regulation on third-party internet payments became effective on 1 July 2016[1] and the regulation imposed on P2P lending platforms also became effective on 17 August 2016[2]. Government also founded the National Internet Finance Association of China (NIFA) in order to help the internet finance platforms in health development in China. NIFA conduct stricter requirement related to risk control on its members compared with normal internet

[1] Announcement No.43 [2015] of the People's Bank of China—Administrative Measures for the Online Payment Business of Non-banking Payment Institutions, CLI.4.261833

[2] Interim Measures for the Administration of the Business Activities of Online Lending Information Intermediary Institutions, CLI.4.278756

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finance platforms.

After the issuance of the regulations in 2016, more information with regards to internet finance platforms were disclosed to users. Based on the regulation, there was lesser doubts cast on the reality of the information. This information is necessary, it helped investors to identify the right internet finance platforms to invest in. The information also enabled the respective internet finance platforms to recruit better alliance partners as well as offer more competitive interest rates so as to remain competitive. In this way, the lenders using the internet finance services can acquire better returns whilst investing their money (Milne & Parboteeah, 2016). Financial returns are, without doubt, one aspect of the competitiveness of internet finance platforms when competing with conventional banks or other similar financial competitors. However, the issue of regulation did not stop the risk happened of internet finance in China. In 2018, nearly 247 Chinese internet finance platforms defaulted and more platforms suffered from some kind of financial and operating issues (Dhir, 2018).

In China, many people consider the SOEs to be a reliable platform. People seemed to trust the SOEs more than private companies. Moreover, research conducted by Sun, Tong, and Tong (2002) and Yu (2013) found that partial government ownership of these platforms can create a positive impact on firm performance in China. Cull, Li, Sun, and Xu (2015) argued that strong government connections such as government appointment of CEOs, and state ownership can be used by firms to enhance firm's reputation. This edge can improve the firm's overall performance. Therefore, it can be seen that the ownership structure of the internet finance company may help the company to generate investors. How these competitive strategies and ownership structure can impact on internet finance firm's performance is worth exploring. This is because firm performance can reflect the internet finance's potential risk management abilities.

This study aims to examine whether there is a relationship between competitive strategies and firm performance of internet finance platforms in China. Specifically, it will explore the relationship between competitive strategies and firm performance with the moderating effect of ownership structure. In addition, this study examines factors contributing to the default risk between NIFA members and normal internet finance platforms in China.

1.4 Research Objectives

The main objectives of this research are therefore: to examine the factors that influence the performance of internet finance platforms in China and the factors that lead to potential risks. Meanwhile, the specific objectives of this study are as follow:

1. To examine the effect of competitive strategies (interest rate, loan periods, number of projects, and alliance partners) on the performance of internet finance platforms

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in China.

2. To examine the moderating effect of ownership structure on the relationship between competitive strategies and firm performance of internet finance platforms in China.

3. To examine the factors (interest rate, loan periods, number of projects, alliance partners, number of investors, and total transactions) contributing to potential default risk between NIFA members and normal internet finance platforms in China.

1.5 Research Questions

To accomplish the objectives stated above, the research questions formulated for this study are: what factors influence the performance of internet finance platforms in China? The specific research questions are listed below:

1. What is the relationship between the competitive strategies and firm performance of internet finance platforms in China?

2. How does ownership structure affect the relationship between competitive strategies and firm performance of internet finance platforms in China?

3. What are the factors contributing to potential default risk between NIFA members and normal internet finance platforms in China?

1.6 Significance of Study

The fast development of the internet finance has attracted researchers' attention. However, most of the researchers (Mach, Carter, & Slattery 2014; Gonzalez, & McAleer 2011; Zott, & Amit 2010; Serrano-Cinca, Gutiérrez-Nieto, & López-Palacios, 2015) had focused on one dominated website such as LendingClub and Prosper. Other studies (Zhu & Huang 2014; Milne, & Parboteeah, 2016) looked at the relationship between internet finance platforms and conventional banks. In the context of China, the market of internet finance platforms that exist today has overtaken that of the UK or the US market (Figure 1-1 below). Therefore, the fraud cases that happened in the context of China would be more severe than those cases that occurred in the UK and the US, not to mention other countries (Milne & Parboteeah, 2016). This prevalence indicates that there is a need to look at the regulations imposed on the internet finance platforms of China as in 2016, the number of cases reporting on frauds and defaults had increased (Leng, 2016). Thus far, it appears

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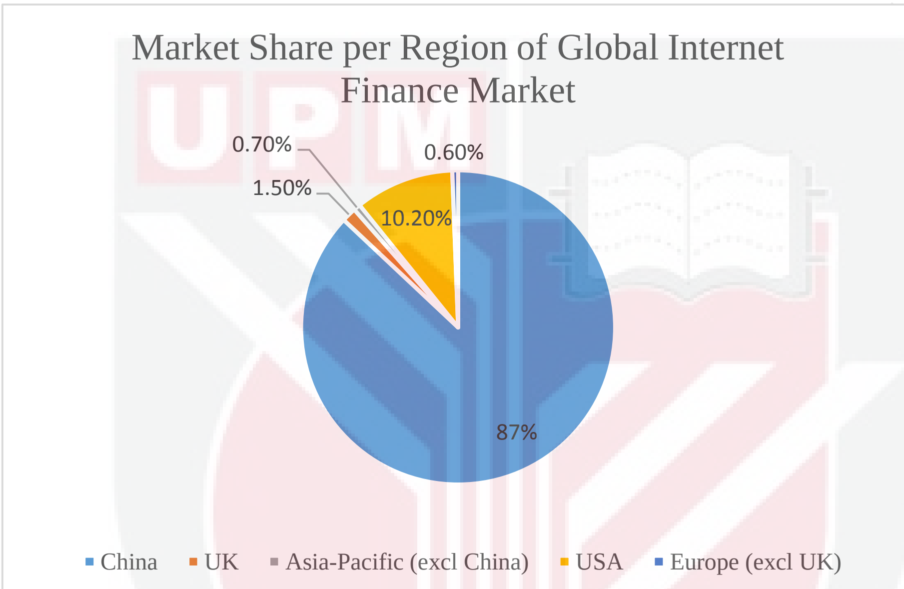
that no research had focused on looking at the information provided on internet finance platforms to examine fraud or the performance of internet finance platforms. This study attempts to address that gap by attempting to use the information disclosed by internet finance platforms as a means of identifying the performance of the internet finance platforms. In that regard, the outcome of this study will contribute information for analysis which can then be used by stakeholders such as investors, borrowers, and regulators for better decision making.

Figure 1-1 Market Share per Region of Global Internet Finance Market



Source: MarketData, 2020

As said previously, internet finance is an effective way to resolve SMEs financing difficulty, SMEs play an important role in developing a nation's economic growth, and the scenario in China is no different. However, statistics drawn from recent years indicate that the growth rate of the GDP in China has been decreasing, moving from 14.23% in 2007 to 6.91% in 2016 (The World Bank, 2016). Due to this, it is imperative for SMEs in China to play a more strategic role by making more massive contributions to the country's GDP such as paving the way for business opportunities, and creating more job employment (Hoffmann, 2017). To accelerate the roles of the SMEs in China, financing must be made easier and more convenient for these companies. Since China's conventional banking industry has not been very supportive of SMEs, there has been a gap in how SMEs conduct businesses. The lack of support from conventional banks had hindered SMEs from being able to access adequate financial help to either develop or expand their businesses. Therefore, finding ways such as internet finance to help SMEs to resolve their financial woes would further encourage the development of SMEs, henceforth contributing to China's economic growth.

China has long been recognized as the country with a weak financial system due to its long term poor institutional system. In recent years, however, new players have joined the Chinese financial market, gradually transforming the traditional borrowing and lending system of the country. With the proliferation of the information and communications technology ecosystem, the Chinese financial industry has undergone rapid growth, and the trend of internet finance has just emerged to challenge the offline financial system of the country (Shim & Shin, 2016).

With the outbreak of the internet lending crisis in 2015, and the tightening of regulations in 2016, the internet finance industry has come to an era where it sees more adequate regulations in existence (Xu, 2017). The fallout has continued in 2019 with Chinese police freezing about 10 billion yuan of assets for more than 380 internet lending platforms since June 2019 (Bloomberg, 2019). Without doubt, China's internet finance is entering a new era, and the market is becoming stronger with the government now tightening on regulations, thereby bringing new challenges for both the internet finance platforms and the investors. To create a healthy market environment for internet finance platforms, the government has to think of more innovative methods that can counter frauds, shortage of money, defaults and so on. Protecting the individual's investment is one technique while strengthening the internet finance procedures for lending and borrowing is another important strategy. To maintain its reputation and good governance, policymakers have to take internet finance more seriously than before. In the tightening market, it can be expected that large IT companies such as Alibaba, Tencent, Baidu, and JD.com, would still have data, capital, and technology as their advantage. A combination of their technology, data and capital advantages can ensure a list of significant and competitive advantages which can be of great help in providing financial services to those who require them (Xu, 2017). In addition to these big companies and their strategy, smaller internet finance platforms could also adjust their business-making goals and procedures so as to remain more competitive.

This study offers empirical evidence which showed that competitive strategies enhanced firm performance in China's internet finance market. The firm manager of internet finance platforms could enhance firm performance by conducting effective competitive strategies. Stakeholders such as the investors, borrowers, and regulators could use the results derived from the data analysis to make better investment decisions. Policy-makers could focus on potential factors causing default to the internet finance platforms and develop the necessary regulations to monitor the operation of internet finance platforms. The reality of operation information should also be monitored by the regulators to avoid an unreal information publication. Policy-makers might consider to regulate internet finance platforms to over publicizing their information on expanding business purpose.

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