An Analysis of Internal Control of the E-commerce Industry—Based on Jingdong Honesty Crisis

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Keywords: JingDong; Honesty crisis; Internal control; Countermeasure.

Abstract. On March 13, 2018, an article called "six-six: rogue JingDong" pushed JingDong into the media, revealing the purchase of fake goods and denial from customer service in the JD Worldwide. On March 21, JingDong again locked in a click farming case, and on April 2, JingDong was questioned by the 5 departments because of violation of the relevant laws and regulations. Therefore, JingDong, China's largest self-support e-commerce company, were troubled into a honesty crisis. Although the e-commerce industry developed rapidly, there are flaws on the internal control, which deserves further study. This paper, based on the honesty crisis in JingDong, analyzes the problems and causes of internal control, then puts forward some reasonable improvement countermeasures, which has certain significance for the development of e-commerce enterprises.

Introduction to the Honesty Crisis in JingDong Corporation

Jingdong, China's largest self-support e-commerce company, has attracted a large number of consumers in recent years with the advantages of convenient Internet service and mature logistics system. However, with the rapid development, there has been many bad news, leading Jingdong into a honesty crisis. On March 13, 2018, an article called "six-six: rogue JingDong" pushed JingDong into the media. A well-known female writer six-six exposed his sister's experience of buying fake goods and the denial from customer service in the JD Worldwide. To our surprise, on March 21, 2018, JingDong again locked in a platform click farming case, which floating amount was up to 200 million yuan. On April 2, JingDong was jointly interviewed by the Beijing Internet Information Office, Beijing Public Security Bureau, Beijing Communications Administration, Beijing Industry and Commerce Bureau and Beijing Cultural Market Administration Enforcement Team for illegal sales of related products and publications. From the "six six events" to the Zhejiang giant brush list case, and the interview by the five departments, although the senior executives responded quickly, claiming that they will take it seriously, these events indicated that there are some problems in the internal control. How to seek solutions to these problems, to prevent such matters happening again become the top priority of the company at present, at the same time it sounded alarm bells for the e-commerce industry.

The Research Status on the Internal Control of E-commerce Industry

E-commerce enterprises mainly rely on the Internet platform to build substantive transactions, providing goods and services with more convenience and rapid speed. Xiaoyu Chen et al (2017) mentioned that with the popularity of online consumption, the possibility to damage the interests of consumers is getting bigger[1]. The scale and revenue of the e-commerce industry are getting larger and more mature, but there are also a lot of negative news. One of the mainly reason for the bad news is the poor internal control. Yaxiong Wu (2018) analyzes the problems and causes of internal control in E-commerce enterprises, on the basis of which some suggestions for improvement are put forward[2]. Yiling Liu (2016) took Crip company as an example, analyzed the problems and causes of internal control and suggested some improvements[3]. Huilun Yang (2018) researched the honesty crisis in Alibaba, and help to find out the reasons and put forward suggestions for the Alibaba[4].
Issues in Internal Control in JingDong

Lack of Implementation of the Enterprise’s Integrity Culture

The vision of JingDong is to be the most trusted company in the world and to put integrity in its core values. However, the occurrence of "six six events", the Zhejiang Super click farming case and the five departments interview indicated the integrity values has not been actively implemented. For the sale of illegal goods, JingDong seems to have formed a kind of habitual thinking, and takes arrogant attitude to deal with consumer criticism and complaints. JingDong executives have been declared that the company is free of fakes but lack the determination to completely eliminate fakes. The occurrence of the JingDong click farming phenomenon also reflects the management does not establish the correct values of integrity. JingDong hired specialized agencies to forge false records of transactions to pursue the illegal interests, which seriously damaged the interests of consumers, and largely lost the trust of consumers.

Gaps in Risk Assessment

There are certain risk assessment mechanisms within the company, but there are some loopholes. Risk assessment mechanisms include risk identification, analysis and response. The opening and sharing of networks has made e-commerce companies more exposed to information security risks than traditional businesses. In December 2016, a massive user data leak occurred at Jingdong Mall. Jingdong’s question by the five departments also reflected the internal failure to identify compliance risks. "six six" incident showed that JingDong did not timely analyze and respond to the risk, making the event to get worse, seriously affecting Jingdong’s reputation in the minds of consumers.

Inadequate Information and Communication System

Compared with traditional enterprises, e-commerce enterprises are very virtual. Sellers and buyers mainly make deals through the network, which increases the risk of communication than traditional enterprises. E-commerce enterprises need to pay more attention to the communication with consumers. The company has always been receiving complaints from consumers about the sale of fakes and delays in delivery, but management has paid less attention and just use automatic controls to solve problems, besides the deliberate delay and arrogant attitude of after-sale service personal leave a negative impression on the public and affect the company's reputation. In the six-six incident, the failed communication highlighted the weakness in quality and capacity of staff within JingDong. Although the senior executives claimed they would be "responsible to the end", but during the past time they did not announce the final results, leaving consumers with a bad shopping experience, which brought about a credibility crisis.

Imperfect Control Activities

Fakes have been always in existence in JingDong, one of the reason is that the authorization and approval control activities in the internal procurement process did not play the greatest role, resulting in the unqualified goods or procurement personnel fraud. At the same time in the sales cycle, cross-certification and third-party certification platform play a limited role, making an enhanced effect for the fake. The headquarters made insufficient inspection and supervision of various departments, at the same time the division of authority between the departments is not clear, and the effect of mutual control and supervision is not reached.

Poor Oversight Mechanism

Although the company has an independent compliance department, but the implementation of compliance monitoring is poor. The compliance department failed to find out the sale of illegal commodities, publications and other printed materials, resulting in the joint interview by five government departments, seriously damaging the credibility of the company and reducing public trust in it.
Measures to Improve Internal Control of Jingdong Company

Optimizing the Internal Control Environment

Good internal environment will promote the improvement of internal control system. Jingdong executives need to reinvent their corporate culture, place more emphasis on integrity and gaining in correct path. The executives should take measures to implement integrity culture among the entire membership, and introduce higher standards of conduct. Besides they should take consumer satisfaction as the top priority, and strive to restore the image of honesty and integrity. Furthermore, the board of directors should strengthen the supervision of management, putting an end to the fraud and prohibiting all kinds of irregularities. The management should create a working atmosphere of honesty, friendship and positiveness, which will have a good influence on the employees. Finally, the company should pay more attention to the staff moral education, so that every employee can speak honesty, do practical.

Further Improving the Risk Assessment Mechanism

E-business enterprises are in a more volatile environment and face more risks. The company needs to strengthen its ability to predict risks in advance and improve its ability to analyze and correspond to the risk. Jingdong company should increase the development of Internet technology, and actively respond to the risks of Internet information security. At the same time management should pay attention to the national policies and regulations to minimize the risk of compliance. By learning from the successful risk assessment mechanism at home and abroad, the management should establish a mature risk response mechanism and minimize the risks.

Strengthening Information Communication Training and Improving the Efficiency of Information Communication

Traditional internal control places more emphasis on information and communication within the enterprise, while e-commerce enterprises expand this level of communication. In the field of e-commerce, we must attach importance to the normal relationship with consumers. A good information communication mechanism could ensure the management and individual employees to obtain external information in a timely and accurate manner, and prevent the information from being blocked. Jingdong needs to pay special attention to the communication with consumers. The senior management of JingDong needs to develop relevant information communication system, constantly improve the "JingDong Dong Dong" real-time communication technology, improving consumer experience satisfaction. The staff in JingDong should take training on information communication so that they can solve customer complaints in a timely and effective manner. At the same time, the company should keep the fluent communication of information within the enterprise to provide high speed and effective solutions for consumers.

Regulating Control Activities

One way to reduce the appearance of fake goods is to set up a strict approval system and internal supervision. The company should ensure cross certification and third party certification to play an effective role in sales. The headquarter of Jingdong carries out regular inspection and evaluation of the work of each department to maximize mutual control and supervision. Incompatible jobs should be separated for the sale and clear responsibilities should be assigned to prevent the fake goods and illegal goods, data leakage.

Improving the Mechanism of Supervision and Inspection

JingDong should enhance compliance monitoring so that compliance departments can play a real role in preventing the recurrence of violations. The establishment of an anonymous reporting mechanism and the setting up of reporting incentives can help reduce fraud and wrongdoing. According to the characteristics of the e-commerce, JingDong should establish a strong after-sales supervision system to ensure that after-sales personnel can provide service honestly, friendly, and rapidly, so that the consumer can get a perfect purchasing experience.
Summary
The occurrence of the "six six events", the case of Super click farming and the illegal incidents questioned by the five departments reflect the existence of multiple internal control failure in JingDong. When consumers enjoy the convenience and comfort brought by e-commerce, the demand for goods and services will be higher and higher. Whether a company is honest or not will seriously affect the purchase of consumers, and then affect the continuous operation of e-commerce. This paper analyzes the problems and causes of the internal control of JingDong company from five factors- control environment, risk assessment, information and communication, control activities and supervision. On this basis, it puts forward the relevant countermeasures, which not only help JingDong company to improve its internal control and get rid of the credit crisis, but also have some reference significance for the healthy development of the whole e-commerce industry.

References