

## A Clash of Cultures: Why Uber Failed in China

Uber is not afraid to break the rules. Spying on politicians and celebrities, cheating competitors with “thousands of fake rides,” using secret software tools to “systematically deceive law enforcement”: Uber has done it all<sup>1</sup>. The United States, as a country that emphasizes liberal and free market values, celebrates Uber’s innovative core technology, letting consumers determine market dominance even if it employs questionable business practices. China, however, has different parameters for success. The success of Uber’s Chinese counterparts Didi and Kuaidi Dache’s business strategies in China demonstrate the outcomes of an approach more aligned with the Chinese culture. Ultimately, because of the incompatibility of these culturally defined business backdrops, Uber failed to capture a significant portion of market share in China and sold its Chinese division. In the United States, Uber’s strategies benefited from liberal values such as low emphasis on respect for authority, uncertainty tolerance, and individualism that help define the Western liberal economic and political landscape. Those same strategies did not translate well to China, a post-socialist culture that emphasizes respect for authority, avoidance of uncertainty, and collectivism. In the case of Uber, these key ideological and cultural differences in US and Chinese business climate and business culture have led to Uber’s success in the former and its failure in the latter.

Uber pairs users looking for rides with private individuals who will drive them to the destination. This game-changing strategy for ride hailing put traditional taxis at a major disadvantage. First, Uber made finding a taxi and completing the ride a convenient and simple process, no matter where the user starts their journey. To hail a traditional taxi, riders must seek

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<sup>1</sup> Hern, Alex. 2016. "Uber employees 'spied on ex-partners, politicians and Beyoncé'." *The Guardian*, 13 December.  
Fink, Erica. 2014. "Uber's dirty tricks quantified: Rival counts 5,560 canceled rides." *CNN Business*, 12 August.  
Isaac, Mike. 2017. "How Uber Deceives the Authorities Worldwide." *The New York Times*, 3 March.

a taxi stand or wait for one to pass by. Uber allows anyone with a smartphone to summon a private ride to their GPS specified location. The rider specifies the destination and the application computes the fare before the driver accepts the ride, leaving little room for communication difficulties. Upon completion of the journey, the application charges the rider's credit card automatically and dispenses payment to the driver. Uber also reduces the chance of fraud because payment takes place within the application, whereas, traditional taxi drivers have the capacity, if so inclined, to illegally overcharge or skim credit card information<sup>2</sup>. Individually, these improvements are small, but together, they form a more convenient and financially secure experience as a whole.

In addition, through intelligent and dynamic pricing, Uber has restructured ride hailing. Taxis have traditionally featured fixed fares, meaning riders pay the same price per unit distance or time, regardless of demand. Thus, taxi drivers may have no more incentive to drive on any given day than any other day. Uber solves this incentive problem with "flexible fares." With all rides recorded on centralized servers, Uber intelligently responds to fluctuations in demand for rides by increasing the fare. Drivers respond to this greater incentive by increasing their hours or by driving on days that they otherwise would skip. Moreover, Uber utilizes "price surges," which can hike the price of a single ride up to eight times the original fare during periods of peak demand. This is effective on high demand holidays where fixed fares would result in low ride availability such as New Year's Eve. The high fares ensure motivated drivers and reliable ride availability, even if those fares come with "sticker shock" for riders<sup>3</sup>. With this innovation, Uber provides functional incentives to ensure an adequate supply of drivers to join and participate continuously with its platform.

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<sup>2</sup> Barbaro, Michael. 2010. "New York Cabs Gouged Riders Out of Millions." *The New York Times*, 12 March.

<sup>3</sup> Kovach, Steve. 2014. "Uber Did Its Best To Warn You About New Year's Eve Surge Pricing, But Everyone Complained Anyway." *Business Insider*, 1 1.

Another reason why Uber's business model is innovative and allowed rapid expansion is their pioneering into the "Sharing Economy." This term refers to a collection of economic behaviors that is characterized by peer-to-peer transactions which share privately held resources collaboratively. This style of economic behaviors has been enabled by technology that allows for rating private individuals on their service or trustworthiness<sup>4</sup>. The company provides (usually digital) infrastructure for the organization of transactions and takes some fee in return. This gives Uber an advantage over traditional taxi companies that have to purchase single purpose vehicles and hire long-term employees as drivers. In this way, Uber has extremely low liabilities relative to a traditional taxi company.

The rapid success of Uber in the US accelerated funding and motivated the company and investors to expand globally. While the opportunities have been great, expansion into foreign socio-political landscapes involves significant challenges to multinational corporations (MNCs). The same business strategy that excelled in one country might fail outright in another. The structural and cultural makeup of a given society can heavily influence whether a given business decision will succeed or fail. Additionally, while cultural norms matter, companies expanding into new markets often overlook them<sup>5</sup>, making these failures difficult to reconcile. For MNCs originating in liberal democracies, expansion into post-socialist economies requires careful consideration of the target country's emphasis of certain cultural values. Uber's failed foray into China is a salient example of this.

China, with more than ten times the number of registered taxi drivers than the US, represented an opportunity with potential much "larger than the US" market<sup>6</sup>. After Uber's

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<sup>4</sup> Rauch, Daniel. 2015. "Like Uber, But for Local Governmental Policy: The Future of Local Regulation of the 'Sharing Economy'." *George Mason Law & Economics Research* 9.

<sup>5</sup> Khairullah, D. H., & Khairullah, Z. Y. (2013). Cultural values and decision-making in China. *International Journal of Business, Humanities and Technology*, 3(2), Page 1

<sup>6</sup> Kirby, William C., Joycelyn W. Eby, Shuang L. Frost, and Adam K. Frost. "Uber in China: Driving in the Gray Zone." Harvard Business School Case 316-135, January 2016. (Revised November 2016.) 5

founding in the United States in 2008, the company expanded globally over the next decade in a “rapid” and “disruptive” manner.”<sup>7</sup> Uber’s business model depends on circumventing established transportation organizations and regulation<sup>8</sup>: instead of using a traditional licensed taxi part of a company connected to local government, users of the smartphone app could circumvent established transport authorities, and transact with a private individual more quickly and conveniently than they could through traditional taxis. Uber’s quick expansion was made possible at least in part by the liberal values that permeate US businesses such as low emphasis on respect for authority, uncertainty tolerance, and individualism that are part of the landscape of Western liberalism.

Uber’s disruptive approach put it at a disadvantage to its domestic rivals in a culture that avoids uncertainty and emphasizes the role of authority and privileges the social order. Didi and Kuaidi Dache, Uber’s main competitors in China, took an approach that worked well with the post-socialist culture: they cooperated with municipal governments, worked with established transportation organizations, and won popular support by offering convenience without the disruption of Uber.

The two Chinese domestic competitors also represented a unique challenge for Uber: Uber was used to being first. In China, Didi began in 2013 with an investment from Tencent, a large internet technology company. Kuaidi began in the same year and was backed by Alibaba, another major e-commerce and internet technology company. Instead of entering into a market as an “undisputed leader” as it usually did, Uber entered into a market with entrenched players aligned with supporters in powerful places<sup>9</sup>.

In addition to facing fierce competition for the first time in a new market, China presented a more distinctly foreign culture than normal. Uber was not used to making changes to its core

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<sup>7</sup> Dudley, Geoff. 2017. “The Rise of Uber and Regulating the Disruptive Innovator.” *The Political Quarterly* 1.

<sup>8</sup> (Dudley 2017) Page 1

<sup>9</sup> (Kirby 2016) Page 8

application to prepare for launch in a new market; the company's entry into China was the first time they needed to do so in years<sup>10</sup>. Uber's platform had several features that, while performing well in the US, put the company at a disadvantage to Didi and Kuaidi. For example, initially, Uber used the same satellite mapping technology as its business elsewhere in the world: Google Maps. However, it quickly became clear that the foreign mapping service was not sufficient in China; it contained many geographical inaccuracies, and further, the Chinese government had put major restrictions on Google's operation itself. This was an eminent problem for a service designed to be convenient. Additionally, Uber relied on credit card transactions for payment. In China, credit card usage is much less common than in the United States, with extremely low usage outside major urban zones. The effect of this was to heavily limit Uber's initial audience and make the company seem much more unfamiliar than its Chinese rivals.

In contrast, Didi and Kuaidi represented a familiar, natural service with which users would not encounter any unexpected bumps in the road. From the start, the two domestic ride-hailing services were compatible with familiar payment services such as Alipay. Additionally, Didi and Kuaidi both used mapping technology from the established Chinese tech giant Baidu. Thus began in China a trend of the domestic competition cooperating with established entities, while Uber stood alone as it had always done. Didi and Kuaidi continued this trend of working together, ultimately merging almost exactly one year after Uber's entry into the country<sup>11</sup>.

This battle between foreign and domestic entities culminated with Uber struggling to capture a significant portion of market share in China<sup>12</sup> and selling its Chinese business to its largest Chinese competitor, Didi Chuxing. In the words of Uber's Chief Executive Officer at the time, Uber had "failed to crack the code" in China<sup>13</sup>.

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<sup>10</sup> (Kirby 2016) Page 6

<sup>11</sup> (Kirby 2016) Information about Uber, Didi, and Kuaidi's operations in the next 4 paragraphs are drawn from this source. Pages 5-11

<sup>12</sup> William T. Wilson, Ph.D. 2016. "Uber Forced out of China." *The Heritage Foundation*, 21 November.

<sup>13</sup> (Wilson 2016) Page 1

To understand why Uber failed in China, it is important to realize how differences in culture lead to differences in corporate decision making. Culture influences “every aspect of life” in society, yet the significance of cultural factors is often invisible, overlooked by managers<sup>14</sup>. In a 2001 textbook entitled *Cultures and Organizations*, Geert Hofstede, a professor of social psychology and recognized as a pioneer in research on cross-cultural organizations, uses the analogy to a computer program to describe culture: culture is the “software of the mind”<sup>15</sup>. Though an individual can have personalities, collections of individuals accumulate culture in aggregate. Unique shared values among people from different (typically geographic) communities form the basis for cultural differences. Value systems are a set of beliefs that guide how an individual will respond in a given situation. Values determine differences in preferred ways of interaction and in preferred outcomes and can cause people to behave differently under the same circumstances<sup>16</sup>. Hofstede outlines five major dimensions (dichotomies) along which cultures values vary: power distance, individualism/collectivism, uncertainty avoidance/tolerance, masculinity/femininity, and long-term/short-term orientation. The first three are of special importance because they relate to concepts that are contextually important in evaluating the strategic decisions of foreign companies operating in post-socialist cultures: liberalism, statism, free markets, and relationship to authority.

Cultural and political ideologies shape the business landscape for consumer choice. For the purposes of this essay, the United States takes liberalism as a main ideology, while in China, socialism and statism are the center of political ideology. *Liberalism* refers to *classical liberalism*—that is, a set of principles including respect for the autonomy of the individual, the importance of private property, and the “supremacy of the voluntary transfer of ownership of

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<sup>14</sup> (Khairullah 2013) Pages 1-12.

<sup>15</sup> Hofstede G. (1991). *Cultures and Organizations: Software of the Mind*. New York, New York: The McGraw-Hill Companies, Inc. Page 5

<sup>16</sup> (Khairullah 2013) Page 2

labor and property”<sup>17</sup>. In general, liberalism aligns itself with free market principles, and socialism associates itself with planned markets. Although these philosophies are important parts of the aforementioned countries, this does not assume that every individual’s views align. Rather, it assumes that the ideology plays a non-insignificant role in the general sentiment of the population and social order.

The relationship between philosophical ideology and cultural dimensions is bidirectional, and while varying somewhat between societies, generally follows a pattern. Relatively liberal countries are predictably individualistic, low on power distance, and tolerant of uncertainty. In countries featuring socialist and statist ideologies, these measures are opposite: that is, they are collectivist, high on power distance, and avoidant of uncertainty<sup>18</sup>.

Power distance is the cultural dimension that represents the degree to which an unequal distribution of power is tolerated in society. In post-socialist cultures like China, power distance tends to be high, while in liberal democracies like the United States, power distance is low. In societies with high power distance, social class matters in the course of interactions, and showing one’s status matters as well. In societies with low power distance, the powerful hide their status and do not make overt displays of power<sup>19</sup>.

Power distance is a central aspect of a culture’s relationship to authority. In statist countries, societies respect authority: government oversight is normal, and one expects to work with established organizations of authority to accomplish business goals<sup>20</sup>. In China, for example, the political party is “very influential in the life of the Chinese.” Business people must “develop good working relationships with party officials” and “know who the decision makers

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<sup>17</sup> Epstein, Richard A. *Skepticism and Freedom: A Modern Case for Classical Liberalism*. University of Chicago Press, 2003. 2

<sup>18</sup> (Khairullah 2013) Pages 7-8.

<sup>19</sup> (Hofstede 1991) Information about power distance in this paragraph as a whole is drawn from the section on power distance entitled “More Equal Than Others” starting on page 53 in this textbook.

<sup>20</sup> Lin, W. 2012. *The China twist: An entrepreneur’s cautious tales on franchising in china*. BC Publishing. Pages 48-58

This primary source is a first person account of an attempt to bring an American fast-food franchise to China. The section entitled “Cha Bu Duo (Good Enough)” details the owner’s struggles with finding a “local agent” that would be well-connected with the local bureaucracy. This and the rest of the chapter shows the importance of cooperating with established authorities in China.

are” at each level in the hierarchy of power. Plans of action that are not in line with the government’s ideals are stymied. Further, this need for government acceptance of plans results in a culture where personal relationships with the powerful are necessary to achieve one’s goals business goals.<sup>21</sup> Low power distance countries historically privilege liberalism and free markets. In these, the opposite is true: society views government as a necessary evil that by nature interferes with innovation and therefore warrants restraint.

Uber’s business strategy clashes with high power distance China. To succeed there, local business must cooperate with local governments and regulators. But for Uber’s history preceding its Chinese entry, the company’s strategy was focused upon “outmaneuvering governments, regulators and competitors”<sup>22</sup>. Uber maintained this strategy when attempting to enter China.

Didi and Kuaidi benefitted from taking an approach that more closely matched China’s high power distance and value of respect of and cooperation with authority. While Uber maintained the same style of approach it used in liberal countries, intending to circumvent pre-existing transportation authorities in addition to local government regulators, its competition did the opposite. Instead of releasing a service that would entrench the company in many small battles with established local transportation services, Didi and Kuaidi both took a more cooperative approach. Their initial service was designed to make interfacing with pre-existing taxi companies more convenient: their apps allowed users to avoid taxi lines or traveling to a predefined taxi pickup location. This provided value to both the old players and the new. Additionally, it allowed Didi and Kuaidi to build up brand recognition and a userbase while eliminating uncertainties associated with this new innovation. When the ride-hailing companies began to offer services more analogous to Uber’s, they did not abandon their stakeholders; they included traditional taxi services among new offerings and continued to enable their old partners

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<sup>21</sup> (Khairullah 2013) Quoted elements in this paragraph from page 7 of this source. Information about power distance drawn from pages 3 and 7.

<sup>22</sup> (Dudley 2017) Page 1



as they expanded. Instead of attempting to skirt regulations, the Chinese ride-hailing companies attempted to cooperate with local governments and regulations whenever possible<sup>23</sup>. By taking an approach that more closely matched the values of high power distance and collectivism, Didi and Kuaidi were able to expand rapidly in China without disrupting the reigning organization. The public saw them not as cheaters, but as innovators.

In contrast, Uber approached China by initially targeting its service to a “minority of the urban elite,”<sup>24</sup> along with foreign business clients. This was ineffective in achieving popular brand recognition, instead underscoring the company’s status as an uncertain foreign entity. To address this, Uber launched a variation of its service in which it would be acting solely as a “network facilitator,” and the normal 20% fee would be waved<sup>25</sup>. This was successful in attracting drivers and building name recognition, however, continuing with the trend, attracted regulatory controversy as this new service skirted the rules on driver licensing. Less than six months after the launch of this service, the traffic regulatory agency in Beijing made it illegal for “internet apps to facilitate the hailing of unlicensed taxis.”<sup>26</sup> This was a direct response to Uber’s Chinese service, because a significant portion of Didi’s business did not contradict this regulation.

Power distance is also relevant to cooperation with non-governmental authorities. The difference in Uber and Didi’s tendency to cooperate with pre-existing business powers heavily influenced the foreign company’s failure. From the start, the Chinese ride-hailing companies aligned themselves with the culture of high power distance, seeking cooperation from established authorities. Didi and Kuaidi started with investments from major Chinese internet technology conglomerates Tencent and Alibaba, respectively. Alibaba provided the Kuaidi with easy usage of Alipay, giving them a leg up on the payment services. Didi’s partnership with

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<sup>23</sup> Information about Didi and Kuaidi’s businesses drawn from (Kirby 2016), pages 6 and 8.

<sup>24</sup> (Kirby 2016) Page 6

<sup>25</sup> (Kirby 2016) Page 6

<sup>26</sup> (Kirby 2016) Page 10.

Tencent facilitated easy integration with WeChat. Drivers for Uber, Didi, and Kuaidi all tend to use WeChat to communicate with Chinese customers, due to the application's ubiquity. While the domestic Chinese ride-hailing apps made early partnerships a priority, Uber had no major institutional partnerships until much later. Lack of connections made Uber a target: In early 2015, Uber claimed that Tencent blocked all WeChat accounts associated with its services. In other places, Uber was used to bullying the established players, but in China, where society values connections to the powerful, the opposite occurred.

The collectivism-individualism dichotomy also influenced Uber's failure in China. Uber's business model benefits from the United States' liberal bias towards individualism, and clashes with China's emphasis on collectivism. In collectivist societies, people are integrated into strong groups "from birth onward," which protect and support them in exchange for loyalty to the in-group to which they belong. In China, personal and organizational decisions need to be made with respect for how it will affect the whole of one's in-group. Participants on the inside view foreign entities that attempt to circumvent established groups and means of operation as detractors to the system. In China, values such as harmony and cooperativeness are important<sup>27</sup>. As a result, organizations have low turnover and it is uncommon to fire someone. In contrast, individualistic societies value independence, aggressiveness, and competitiveness<sup>28</sup>. Uber's business privileges individualism: Uber has no strong affiliation with each driver, and rewards them with respect to their individual performance, not by the value added to the network of drivers overall; Uber drivers are in competition with each other, not cooperation.

Liberalism views Uber on the level of the individual. If two private individuals (for example, a rider and a driver) want to carry out a private exchange they both benefit from, what power should the government have to interfere? The concept of the free market is also important to individualism, as it privileges agreements between individuals. Uber classifies its

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<sup>27</sup> (Khairullah 2013) Page 7

<sup>28</sup> (Hofstede 1991) Background on individualism drawn from the section entitled "I, We, and They" starting on page 89 of this book.

drivers not as full-time employees but as contractors. This allows Uber to avoid the cost of benefits companies usually afford to their employees. Uber also takes advantage of price surges in times of high demand, and ride subsidies (price decreases) when battling competitors<sup>29</sup>. These practices have raised questions about the benevolence of the company to local economies. With respect to free market principles, however, these practices are acceptable because all parties involved are in an agreement. As a result, popular opinion weighs Uber's benefit to users of the application higher than possible detriments to local economies.

Collectivism has an opinion to the contrary; collectivist societies focus on the outcomes to the collective as a whole rather than the outcomes to individuals. If many instances of private transactions between consenting individuals result in problems for the economy as a whole, then the government should step in and regulate. This is what happened in the battle between Uber and Didi in China. In early 2015, both companies engaged in a subsidy war, offering artificially inflated wages to drivers, while significantly lowering rider fares in attempt to capture market share. In China, municipal governments fix the price of taxis, so this battle displaced licensed taxi drivers that followed the rules. As its collectivist culture would predict, governance stepped in to regulate and preserve group order. In Shanghai, one of the biggest markets for these companies, the city government banned internet-enabled taxi platforms altogether, later offering a certification to enable them with heavy restrictions on practices like price surges. In late 2015, Shanghai granted the first of these certificates to Didi<sup>30</sup>.

Uncertainty avoidance is another aspect of culture which benefits Uber in the liberal United States, but contributed to its failure in post-socialist China. The degree to which a society avoids uncertain situations and ideas is known as uncertainty avoidance. Societies with greater uncertainty avoidance place greater emphasis on career stability and formal rules. One can see

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<sup>29</sup> (Kirby 2016) Page 3

<sup>30</sup> (Kirby 2016) Events mentioned in this paragraph draw from page 9-11 of this source.

the effect of this in the example of price surges and subsidies from the previous paragraph. In China, a country with high uncertainty avoidance, fixed pricing on taxis is a formal mandate, and both Uber and Didi used internet technology to bypass this rule. Here, society sees formal rules as more absolute and important to preserve the social order. In this case, Uber's strategies are cheating because they attempt to bypass bureaucracy and the formal rules which the existing taxi and transportation industry uphold. The authorities' heavy handed response confirms this. Back in the United States, however, a country that tolerates uncertainty, society views Uber differently. If Uber successfully goes against the spirit of the law, but in doing so provides a beneficial service, maybe it was the laws that were wrong all along.

In China, the culture of uncertainty avoidance results in a bias towards the status quo; often times, decision makers would rather maintain what they already have than risk downside. This does not, however, mean that the people of China dislike innovation; on the contrary, the country cherishes certain cities as hotbeds of innovation. Rather, society approves of different types of changes, preferring more predictable and minimally disruptive improvement. One can see this with respect to the disruptive ride-hailing companies in China. After the central government banned internet ride-hailing companies, it later opened up regulations, stating that "the transition should be gradual, and municipal governments should not abandon their traditional taxi firms."<sup>31</sup>

This statement by the Ministry of Transportation holds within itself a representation of all three of the aforementioned cultural dimensions. The preferred nature of the change as slow and gradual indicates a desire for a cautious approach and illustrates avoidance of uncertainty. The sentiment to not "abandon" traditional taxi firms indicates a bias towards established entities and members of in-groups of authority in the transportation industry, and demonstrates

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<sup>31</sup> (Kirby 2016) Page 11

both a high power distance. The fact that the government concerned itself with the operation of taxi firms, and not the well-being of individual taxi drivers illustrates a collectivist narrative.

In the US, Uber's innovative technology and business model synergized with the culture and made it possible to spread to new cities with minimal overhead. But it was not completely without backlash from the public. The convenience of on-demand ride-hailing along with the ease and flexibility of attaining (or supplementing) an income was as a boon to some, but others saw what Uber was doing as unfair. Uber ignited controversy surrounding labor regulation in its relationship with drivers: Uber describes its drivers not as employees, but as "driver-partners," or independent contractors<sup>32</sup>. Uber sees its business as facilitating transactions between private individuals, not employing drivers to serve Uber's clients. However, traditional taxi companies classify drivers as full employees and afford them benefits and protections from the law and unions. By avoiding the costs associated with legally classifying drivers as employees, Uber was able to compete more effectively with pre-existing taxi companies.

While Uber was a winner in this taxi revolution, there were also losers. Depending on the location, individual traditional taxis are owned by a local corporation that handles the licensing and paperwork. In a given city, there might be several taxi corporations, because a certain level of capital is required to buy the physical taxis initially, and management overhead is required to upkeep taxis in terms of both hardware and certifications. This results in a more equal distribution of profits from taxi fares. In the case of Uber, however, the excess profits are funneled directly to the company, no matter where the transaction took place. This strategy contributed to Uber having a potential \$120 billion valuation at Initial Public Offering (IPO) predicted to occur mid-2019<sup>33</sup>.

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<sup>32</sup> (Kirby 2016) Page 4

<sup>33</sup> Hoffman, Liz, Greg Bensinger, and Maureen Farrell. "Uber Proposals Value Company at \$120 Billion in a Possible IPO." The Wall Street Journal. 16 Oct. 2018. Dow Jones & Company.

Even in a country that generally tolerates the uncertainty of doing business with an unknown entity, concerns for public safety put some bumps in the road for Uber. Several high-profile cases occurred between 2014 and 2016 where Uber drivers were involved in violent offenses, including one case where the driver serviced private rides on the app in between committing criminal acts. These events prompted some municipal governments to take “proactive approaches” against Uber<sup>34</sup>.

The debate over legal classification of drivers as employees, public safety, and economic fairness would continue to be at the center of the Uber discussion as it made its remarkable expansion across the United States and the world. While not completely without regulatory struggle in liberal democracy at large, the difference is clear with respect to the response from post-socialist China. In the US, concerns over public safety culminated in municipal governments suing Uber, with no real effects on the bottom line of Uber’s operation or business model. Concerns over employment labor regulation and economics would result, in some places, in explicit regulatory intervention after long-lived legal battles with the company. The state of California required Uber to classify drivers as full employees. The commonwealth of Massachusetts enacted regulations to make it harder for Uber to “fire drivers at will”<sup>35</sup>. Even in these cases, the states did not ban Uber outright. In liberal societies that prioritize innovation and change over downside risk to social cohesion, Uber represented a difficulty for existing regulatory practices. Uncertainty tolerance and a bias towards free market principles leads to a legal system where, if legislators cannot adequately map the model for regulating existing systems onto the new situation, the benefit of the doubt is given to disruptive corporations like Uber. In order to regulate Uber like a traditional taxi company, municipal governments would have to show that Uber was a transportation company. But Uber claimed that it was not a transportation company because it did not own any vehicles<sup>36</sup>. In liberal democracies,

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<sup>34</sup> (Kirby 2016) Page 4

<sup>35</sup> (Kirby 2016) Page 4

<sup>36</sup> (Kirby 2016) Page 5

governments could not keep up with Uber, even though it was clear that the company was infringing on the intent of existing regulations.

This is a huge contrast with Uber's entry into China, where Uber's business was quickly classified as an "internet transportation company" and later completely banned in Beijing, one of the company's largest markets<sup>37</sup>, along with regulations being made country-wide. Eventually, the Chinese government introduced laws that would allow what it described as "internet-based taxi platforms" to operate by getting a certification. To no one's surprise, Didi cooperated with governing bodies and was the first to receive certification. This illustrates the effective difference in ideology on governance and regulation between China and the United States. Even if some initiatives were passed that regulated portions of Uber's business, in the vast majority of cases in the US, Uber was allowed to operate normally while local governments struggled to determine whether the company was breaking any laws, despite obvious conflicts with the spirit of the law. This is quite the contrast to the Chinese governance ideology, where there is a strong bias towards the status quo; general sentiment is to preserve existing order where possible, and to be cautious of uncertainty and change. In effect, the strategy is the reverse of that in the United States. To Uber's detriment in China, the government regulates first, and asks questions later. In the US, Uber thrived and grew rapidly because of its willingness to take legal risks in a culture that accepts and promotes innovation. In China, a difference in the cultural emphasis on authority had these same tactics play out much differently.

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<sup>37</sup> (Kirby 2016) Page 10

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