
Multinational corporations: To change or not to change? That is the question

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Abstract This paper argues that the adoption of local cultures and values is central to the success of multinational corporations entering into new markets. To support this position, it describes how by persisting with policies informed by experience in the US market rather than adapting to the local market, eBay failed to consolidate its presence in China. By contrast, KFC China has not only adapted to Chinese culture, but has diligently striven to know its customers, tailored its product to local communities and got to know its team well. It has created many new dishes by incorporating local flavours into its standard recipes and has reconfigured its kitchens and restaurants so that its chefs can cook greater varieties of food and patrons can visit with their friends and families for special occasions. Most importantly, after learning about the Chinese culture, KFC China enlisted local farmers and suppliers to supply the necessary food materials. This created a sense of belonging as well as localisation for KFC China and its customers, helping the local company to consistently exceed other KFC subsidiaries in terms of profit.

KEYWORDS: multinational corporations, cultural awareness, cultural adoption, universalism, particularism, localisation

INTRODUCTION

The first multinational corporation was the Dutch India Company, founded in 1602.¹ Since then, terms such as ‘multinational corporation’ and ‘globalisation’ have become increasingly common. Despite advanced technologies and faster transportation, capitalising on global opportunities still presents many challenges, such as dealing with language barriers and cultural differences.²⁻⁴ Managing diversity is therefore a key competence when dealing

with today’s challenges; indeed, ‘ignoring culture is like driving down the highway and taking your hands off the steering wheel’.⁵ To deal successfully with global issues, leaders require a ‘global mindset’.⁶ ‘The global mindset is a critical component of globalisation’.⁷ Gupta and Govindarajan define the global mindset as ‘one that combines an openness to and awareness of diversity across cultures and markets with a propensity and ability to synthesise across this diversity’.⁸

The success or failure of multinational corporations is informed by many significant internal and external factors. Internal factors include the chief executive's leadership style, the corporation's organisational culture and the board's financial skills. External factors include the policies of the hosting government and the political relationship between the hosting country and the home country of the multinational corporation, as well as the global economical climate more generally. The present paper focuses on how the manner in which change strategies differ in terms of culture or values plays a decisive role in the success of multinational corporations. It also uses an integrated cultural approach to examine whether China and the USA have contrasting cultures that create miscommunication and

misunderstanding in business practices, thus thwarting the performance of multinational corporations seeking to enter a new market. Three major theories form the integrated cultural approach: Hofstede's cultural dimension theory, Trompenaars' universalist versus particularist distinction, and rule-based versus relation-based governance.

Hofstede examined how China and the USA are contrasting cultures by grading six aspects of the two countries, namely: power distance, individualism, masculinity, uncertainty/avoidance, pragmatism and indulgence.⁹ As reflected in Figure 1, China had an individualism score of only 20, making it a highly collective society; the USA, by contrast, had an individualism score of 91, making it a highly individual society.

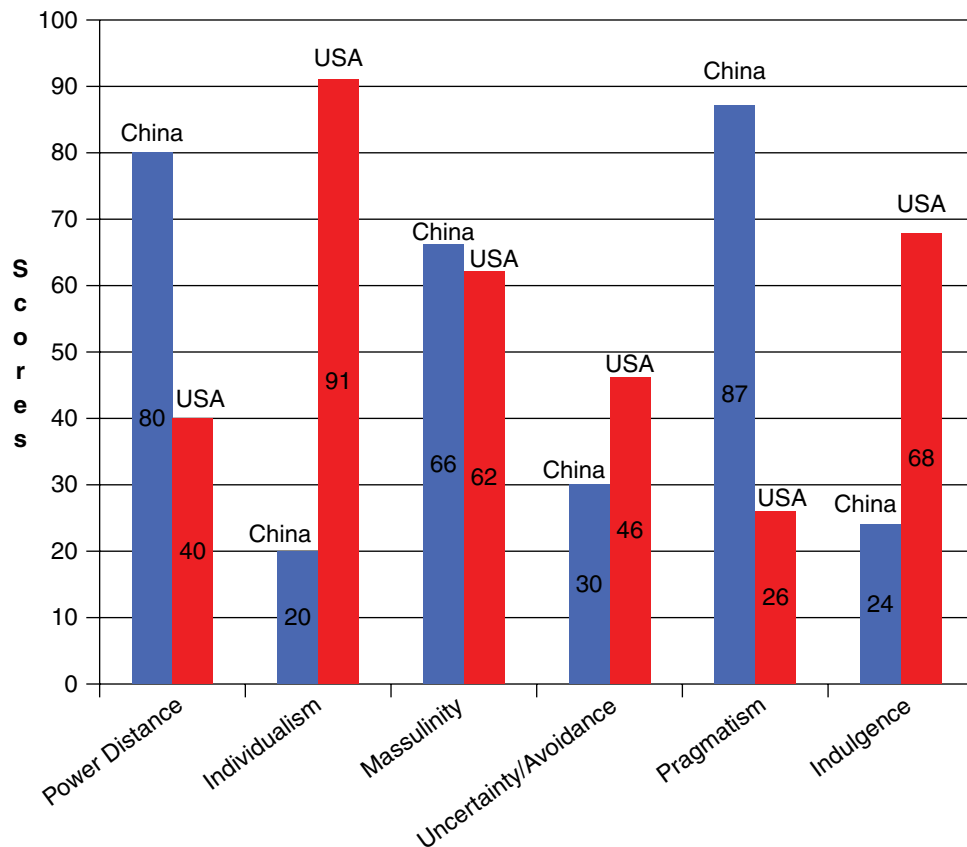


Figure 1: Culture comparison between China and the USA

Source: Hofstede, G. (2010) 'Cultures and Organizations: Software of the Mind', McGraw-Hill, New York, NY.

What are the implications of culture dimension theory for multinational corporations? In a collective culture like China, personal relationships prevail over task and company: people are far more likely to act in the interests of the group, and the subordinate–superior relationship is evident. In a highly individualistic culture like the USA, firms are much less submissive to state authorities, and businesspeople are accustomed to doing business or interacting with people they do not know well. Witkowski *et al.* have also argued that cultural differences may explain why Chinese consumers have a higher satisfaction rate with respect to KFC than do US consumers.¹⁰ The USA has an individualistic culture, hence when US respondents are satisfied with KFC, they are more likely to go again, often by themselves. In other words, personal feelings take precedence. By contrast, in collectivist China, people are more likely to visit KFC as part of a group, which may attenuate the tie between their feelings and behaviour.¹¹

Another difference between China and the USA is pragmatism. This dimension was examined in Hofstede and Bond’s research into Confucian work dynamism.¹² Long-term oriented societies foster pragmatic virtues oriented towards future rewards. Most East Asian countries score high in pragmatism and have long-term orientation cultures. Their personal and business relationships are maintained and reinforced through continuous, long-term associations and connections.¹³ These connections have different names in East Asian countries — ‘*Kwanbye*’ in Korea, ‘*Guanxi*’ in China and ‘*Kankei*’ in Japan.¹⁴ East Asians consider relationships and ambiguity between people to be significant, whereas Westerners consider contracts and explicitness between people to be critical.

Figure 1 shows that China scores almost 90 in the cultural dimension of pragmatism while the USA scores less than 30. In societies with a long-term pragmatic

orientation like China, people have a high propensity to save and invest, and the trait of thriftiness is obvious. By way of example, TaoBao — the Chinese online shopping website — recognised haggling as a key part of the Chinese culture of money-saving and therefore launched a communication platform — Aliwangwang — to enable direct communication between Chinese buyers and sellers. This is something eBay failed to do in its early years in China.

Universalism versus particularism

Another theory that contrasts Chinese and US culture is Trompenaars’ distinction of universalism versus particularism.¹⁵ The US culture is high in universalism and advocates for global standards, democracy and universal human rights; China, by contrast, is a particularist culture, and tends to see these as challenges. What is the implication of universalist versus particularist cultures for multinational corporations? According to Trompenaars, in the USA, the head office tends to hold the keys to global marketing, global productions and the global management of human resources. Within more particularist national cultures like China, however, the president of a company is less likely to be able to dictate how his subordinates conduct business in their assigned territories. Table 1 provides a summary of the characteristics of universalism vs. particularism, according to Trompenaars.

Table 1: Universalism vs. particularism

Universalism	Particularism
Consistency	Flexibility
Systems and standards	Pragmatic
Rules	Make exceptions
Uniform procedures	It depends
Demand clarity	At ease with ambiguity

Adapted from: Trompenaars, A. (2003) ‘Riding the Waves of Culture: Understanding Diversity in Global Business’, Irwin Professional Publishing, Burr Ridge, IL.

In a universalist culture, firms have a high propensity to follow standards and uniform procedures. The designs and decorations of US grocery stores (eg Wal-Mart) and fast food chains (eg KFC) are very similar in different cities. Standardisation is a double-edged sword, however, which makes some succeed while others fail. For example, eBay replicated its US models in China, as these had succeeded in most Western countries, yet its global platform failed in China. Americans doing business in China might be familiar with the words '*Zou Hou Men*' (literally, 'through the back door'), which means that 'exceptions will be made'. In addition, in a particularistic culture, business practices lack consistency. According to Trompenaars, China is a particularistic culture where people look at relationships and circumstances in a specific situation to decide what is right. For the Chinese, the legal contract communicates a starting point for an agreement; as circumstances change, so too should the terms of the agreement. For the Chinese, a relationship entails not just the particular individuals involved, but also the situation.¹⁶

DEFINITION OF TERMS

Multinational corporations

The 'International Dictionary of Finance' defines a multinational corporation as 'a

company having production and other facilities in a number of countries outside the nation of origin ... also, and more correctly, called multinational enterprise or transnational corporation'.¹⁷ According to the United Nations, there are about 35,000 multinational corporations controlling some 170,000 affiliates, although the largest 100 account for 40 per cent of cross-border assets.

Kogut defines a multinational corporation as foreign direct investment that is effectively operated by foreign owners in another country.¹⁸ Table 2 summarises the differences between multinational corporations and transnational corporations.

Corporate success and corporate failure

The three fundamental attributes of corporate success developed by Borgatta and Montgomery in 1964 are 'high-level of employee satisfaction, solid conflict management competence and broad consumer acceptance'.¹⁹ Kay subsequently refined corporate success as 'having a good relationship with its suppliers, customers, or employees and successful localisation of products and leadership'.²⁰ This paper will look at eBay China and how its failure to adapt to the Chinese culture ultimately

Table 2: Differences between multinational and transnational corporations

Multinational corporation	Transnational corporation
Multinational corporation	Transnational corporation
Has national identity	No principal domicile
Control is centralised in the national headquarters	Control is dispersed
Monolithic organisation	Confederation
Head of foreign subsidiary reports to the head of the international corporation	Global operating units report directly to chief executive or executive committee
Limited integration between foreign subsidiaries	More integration between global operating units
Ownership is concentrated in home country	Ownership is internationally dispersed
Business plans are for national markets	Global planning considering the whole world as a single market
Differentiates between domestic market and foreign market	The world is viewed as a single market

Adapted from: Borgatta, E. F. and Montgomery, R. J. (2000) 'Encyclopedia of Sociology', Macmillan, New York, NY.

led to its failure in the Chinese market. It will then examine how KFC China achieved outstanding success in China by incorporating the local culture into its strategy for marketing and development in the region.

Culture

Culture has been defined as 'learned behaviour, or an abstraction from behaviour'.²¹ Chen and Startosta define culture as a 'shared learned, and symbolic system of values, beliefs, ideas, and attitudes that shapes and influences our perceptions and behaviours'.²² According to Lichbach and Zuckerman, 'culture systematises meanings and meaning-making, defining social and political identity, structuring collective actions, and imposing a normative order on politics and social life'.²³ There are therefore two dimensions to the definition of culture: intangible subjective culture and tangible objective culture. For example, Google's corporate motto of 'Don't be evil' represents an intangible subjective culture, while McDonald's logo and its universally designed chain stores are examples of a tangible objective culture.

CASE STUDY: CORPORATE FAILURE eBay China

Although China adopted its 'Open Policy' in 1978, it did not become a member of the World Trade Organization until the late 1990s. At that time, the emerging online consumer-to-consumer (C2C) market was starting to shape the Chinese economy. Under the online C2C business model, consumer products are sold more cheaply than through normal retail channels. This reduces the cost of sale for sellers and allows buyers to purchase products that are not available nearby. From 1978 to the early 2000s, the Chinese economy was highly dependent on exports for growth. This growth was unsustainable, however, so the government opened up the e-commerce

market to foreign investment in the early 2000s in order to stimulate domestic consumption. It was during this period that eBay entered the Chinese market, investing US\$300m and becoming a strategic partner with Eachnet in 2002.²⁴

In a short time, Eachnet was the most extensive online selling platform in China, accounting for a market share of 80 per cent. In June 2003, eBay officially purchased Eachnet and began operating as eBay China. At the same time, a Chinese entrepreneur named Yun Ma established a local rival by the name of TaoBao. Given the international success of eBay in the USA and Europe, many experts believed that eBay would be very successful in China, regardless of its previous failure in Japan. However, things started to go downhill as the former leader of Eachnet, Yibo Shao, left eBay China in 2006. This marked the watershed for eBay China and TaoBao. Shortly after Shao's departure in 2006, eBay China's market share dropped to 20 per cent, while TaoBao's share grew to 72 per cent, with a transaction volume of over US\$1.7bn that year. TaoBao also had more than 18 million items online, and its registered users were growing more quickly than those of eBay China.²⁵ In December 2006, eBay China switched off the server of its main website in China and formed a joint venture with a Chinese company, having invested US\$300m without success.²⁶

Why did eBay China fail?

Failure to adopt the culture

As eBay China was part of a US multinational corporation, it was forced to follow and implement many global policies and procedures. Although eBay China's top executives were all Chinese citizens, the major decision-making authority stayed with eBay US in San Jose. Although the CEO of eBay US, Meg Whitman, had spent some time in China, she had limited knowledge of the Chinese culture and market.

The most obvious example of eBay's shortcomings was — in contrast to TaoBao — its failure to integrate an instant message function. In 2003, China had a much greater number of cell-phone users than computer users (300 million versus 90 million, respectively).²⁷ With the 2003 release of Aliwangwang — an instant messaging tool for cell phones — TaoBao leveraged this discrepancy to allow buyers and sellers to communicate instantly via their cell phones prior to the exchange of goods and money. Through Aliwangwang, buyers and sellers can use text or voice messages to communicate instantly regarding a particular product, in order to discuss anything from its condition to its availability or even to negotiate the price. The communication system remains open for buyers and sellers even if they do not complete the transaction. This leaves it open for them to continue their discussion at some point in the future. It perfectly reflects the Confucian way of doing business — the relationship should always come before everything. Today, Aliwangwang remains a compelling and favourite communication tools for TaoBao.

It is the Chinese way that customers like to know as much as they can about vendors and in turn receive personalised attention from them. Most importantly, once a buyer feels that they have attained a certain level of rapport with a seller, this is when they like to start bargaining with them. Almost every Chinese seller is willing to discount their listed price slightly if it earns them business. Indeed, there is no predetermined or fixed discount to control how much discount a seller can offer a particular buyer — it all varies from buyer to buyer. For example, teaching is a highly respected career in China, hence teachers can often obtain preferential prices; however, should the seller learn that the buyer hails from the same home town, they might well offer an even better discount.

By contrast, eBay China did not allow its users to exchange conversation as freely as

they wanted. Indeed, even now, some 22 years after its inception in 1995, and multiple failures as well as successes, eBay still only allows its users to communicate through its inbuilt messaging system, which works rather like a standard e-mail system, except that one can only attach up to five images.²⁸

Another remarkable failure that expedited the end of eBay China was the fact that while TaoBao adopted Alipay — a system that was written, designed and created with the Chinese consumer in mind, eBay China clung steadfast to its user-unfriendly PayPal system. While Alipay was designed to be compatible with the UnionPay system network in mainland China and the countries of Southeast Asia, in addition to the credit card issuing banks within China, PayPal focused on the STAR system network (a payment system that works with the rest of the world but only a few locations within mainland China) in addition to the global credit card network. Furthermore, while PayPal's platform appeared to be written in the kind of broken Chinese associated with automated translation tools, Alipay's transaction platform was written in Chinese only, which made local consumers much more comfortable using Alipay as an online payment tool.

Government support

Another cultural aspect that TaoBao understood much better than eBay China was the way to handle governmental policies. Whenever the Chinese government imposed new policies that would have a negative impact on TaoBao, Ma would seek assistance and support from government officials.²⁹ eBay, by contrast, would seek 'justice' and 'fairness' through the court of international arbitration laws, the White House and even the World Trade Organization.³⁰ It is the Chinese culture that government officials have higher social status than citizens and entrepreneurs. According to Confucianism, citizens should always obey and respect government officials, while

government officials should care for citizens as they would their children. Although most government officials do not practise Confucianism, however, they nonetheless expect citizens to obey and respect them. eBay's actions undoubtedly impaired not only its relationships with the Chinese government but also did tremendous damage to its business.

After eBay China had filed a series of complaints against the Chinese government, the government imposed a series of very stringent monetary policies to regulate e-commerce activities in late 2004.³¹ Only days after these policies and regulations had been imposed, Alipay launched an English-language platform for non-Chinese users and started accepting payments from credit cards issued by non-Chinese banks. Critics and Wall Street observers all agreed that eBay had made a terrible mistake in upsetting the Chinese government, and that this had played a large part in hastening the demise of its Chinese operation in 2006.³²

CASE STUDY: CORPORATE SUCCESS Kentucky Fried Chicken (KFC)

KFC is a very successful example of a US multinational corporation in China. KFC entered China and opened its first restaurant in 1987. Since its inception, KFC China has always filled its executive roles with Chinese nationals in order to ensure the company is best equipped to adopt the Chinese culture. In 1987, KFC hired Mr Tony Wang as Vice Chief of KFC in Southeast Asia and the CEO for KFC China.³³ The success of KFC China has encouraged more US food companies to set up business in China.

Harland D. Sanders founded KFC in the early 1950s. Even today, people refer to him as 'Colonel Sanders', and his image has become an integral part of the KFC logo worldwide. Today, KFC is a subsidiary of Yum! Brands, much like Pizza Hut and Taco Bell. Yum! Brands has more than 40,000 restaurants around the globe and

is a world-leader in the food and beverage industry. Its US headquarters is in Louisville, KY and its Chinese headquarters is in Shanghai, China. As of 2013, KFC China had 4,600 chain restaurants in over 900 cities in China and was ranked number one in the Chinese fast food sector.³⁴ By the end of 2007, KFC China had more than 160,000 Chinese employees, and had made clear that it was aiming to employ more local people.³⁵

Why did KFC China succeed?

Prior experiences

Although KFC had already achieved great success in the USA prior to entering China, its top executives still took the challenge of entering the Chinese market very seriously. They gave their executives in China free reign with respect to the design of their development plans and marketing strategies, as well as how to execute these plans. One of the most successful strategies proposed by Mr Wang was the policy of 'localisation'.³⁶

Under this policy, Mr Wang created restaurant designs that differed from those found in the USA. The KFC China restaurants designed by Mr Wang have kitchen and dining areas that are at least twice as large as their US counterparts. Each KFC China restaurant has an average of 60 kitchen employees, enabling the restaurant to handle more varieties of food. KFC China's menu typically carries 50 items and changes monthly, while its US counterpart contains about 29 items and only changes seasonally. In addition to the larger restaurants, Mr Wang wanted KFC China to be a gathering place for friends and family to celebrate their special occasions. This idea was very different from in the USA, where KFC is a fast-food outlet where customers just want to fill their stomachs.³⁷

The next item on Mr Wang's agenda was to use local suppliers. To this end, Mr Wang set up a central kitchen and warehouse near to the centre of Shanghai to function as the sole supplier for all

KFC restaurants in the Shanghai area. In this way KFC China not only controls the quality and supply of food materials, but can also place huge-volume orders for food materials, vegetables and other food products from local farmers and suppliers, thus supporting the local economy. KFC China always emphasises that its ingredients are all fresh and locally grown. In its commercials, KFC also emphasises that it invests in the communities where it has its restaurants so that both KFC China and its communities can grow together. Today, KFC China is the number one restaurant of its kind, but also the best supporter of local communities since the early 1990s. Many of its regular customers claim to have a keen sense of belonging and are proud to contribute to a team that puts so much into the local community.³⁸

Know your customers

China is a multi-ethnic county. There are 55 minorities in China — the majority ethnicity is Han, but there are also Mongolians, Koreans, Hui and Tibetans, all sharing the same cuisine culture. There are eight major leading culinary traditions in China: Anhui, Cantonese, Fujian, Hunan, Jiangsu, Shandong, Sichuan and Zhejiang. Each of these traditions has its own branch of developments in the world of culinary arts. When it comes to food, Chinese people have very high standards. They believe that all food should meet certain standards of 'colour, smell and taste'. For this reason, it is well known that Chinese people do not appreciate what fast food can do and deliver for them.

As KFC China expanded and set up more restaurants in the many provinces of China, Mr Wang ordered the executive chef of each province to expand the local menu by creating dishes reflecting local tastes and traditional flavours. For example, because Sichuan people love spicy food, KFC China restaurants in Sichuan province

offer some incredibly spicy deep-fried and barbecued chicken dishes; meanwhile in Canton province, where the locals insist on soup with their dinner, one can buy various chicken and vegetable soups.³⁹

By tailoring menus to local tastes, customers can enjoy traditional local flavours along with trendy US-style deep-fried chicken. These menus have enabled KFC China to enjoy enormous success and outperform its competitors.

Know your team

Before entering mainland China, KFC had set up restaurants in Japan, Singapore and Hong Kong. These prior experiences had entailed costly mistakes and many lessons from which to learn. The top executives of KFC believed that the best person to lead KFC China had to be a Chinese executive.⁴⁰ Prior to joining KFC China, Mr Wang had helped other US multinational corporations cooperate successfully with the Chinese government in Tianjin city. By appointing Mr Wang as the Vice Chief of KFC in Southeast Asia, KFC put itself in a leading position. In turn, as Mr Wang had found Han Chinese to be especially open to new ideas and new ways of doing business, he appointed a majority of Han Chinese to his management team.⁴¹

Another method that KFC China employed to outmanoeuvre its competitors was providing its employees with the best possible training. Following a period of overpopulation in China during the 1960s and 1970s, the Chinese government imposed a 'one-child' policy in the late 1970s. Under this policy, families were only allowed a second child under certain circumstances. A side-effect of this is that many Chinese people have grown up with over-protective parents and grandparents instead of a sibling, and have attained adulthood without learning essential interpersonal skills. Without such people skills, many of these people are unable to work in the service

industry. To address this problem, Mr Wang and his team developed a basic people-skill training programme for everyone recruited to KFC China. This programme was the first of its kind in China, and although it has been updated many times, it is still being used by the HR department of KFC China today.⁴²

The results

By the end of 2011, KFC China had approximately 3,300 restaurants and was opening a new restaurant every day, with the stated aim of expanding to 15,000 outlets. According to its annual report from 2015, KFC China had 250,000 employees on its roster, accounting for 40 per cent of the country's fast-food industry, and was looking to expand this number with a further 30,000 new hires and 1,000 new managers.⁴³

According to Yum! Brands' annual report from 2015, KFC China opened 743 new restaurants and had made US\$5,003m in revenue, with a 10 per cent increase in profit versus the previous year. KFC China's revenues also accounted for 75 per cent of Yum! Brands China's total revenues in 2015, where the total revenues were US\$7,176m. According to its annual report for 2015, KFC China expected to open another 600 restaurants in 2016.⁴⁴

CONCLUSION

Many factors can cause multinational corporations to fail or succeed. However, if one looks at cultural adaptability as the main driving force, it is clear that eBay failed in China because — unlike KFC — it applied policies applicable to the US market rather than adapting to the unique challenges associated with running a business in China. By failing to respond to the needs of the local market, eBay China left itself vulnerable and was eventually eliminated by its competitor, TaoBao, the founder of which had a much better understanding of the psychology of local consumers, combined

with a product that distinctly felt that it had been designed for the local market.

This paper also shows that domestic Chinese firms with statist support (eg TaoBao and Alipay) can erect enormous obstacles to their foreign counterparts (eg eBay). Therefore, multinational corporations should be careful and pay close attention to Chinese cultures when doing business in China. One should never forget that Chinese people are particularists and place great value on relationships, personal feelings and trust, and that standards can change as situations evolve.

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