

Critical Issues in Management

Uber and cultural change¹

Experiencing Uber: An introduction

Uber, a rapid start-up company founded in 2009, is an app-powered, on-demand taxi service provider. The service, which went live in 2010 in San Francisco, delivers an 'experience' for customers worldwide. Travis Kalanick, an entrepreneur with a computer science and maths background, developed the software company with his friend Garrett Camp, after being unable to get a taxi during a snowy day in Paris in 2008 (or so the story goes). Operating in almost 130 cities across North America, as well as 205 cities and 45 countries worldwide, Uber works remotely: it does not own any of the cars or employ any of the drivers that transport Uber customers. Instead, the company negotiates with drivers, and takes on average 20-25% of the fare.

Motivated by the hope that customers will leave high scores for Uber drivers, which secures their employment and repeated use, rather than tips which are included in the fare, a remarkable customer service is paramount for Uber. Prearranging a taxi is effortless, particularly in busy cities like New York, where hailing a taxi is time-consuming and often unsuccessful. Uber boasts low pricing (claiming to charge 30% less than 'normal' taxis), clean cars and a memorable Uber experience. Initially, Uber was perceived to be a high-end service or luxury brand because of their original focus on traditional black-car drivers. In 2012, however, they launched the lower-priced UberX brand, which significantly undercuts local taxi fares and uses any qualified driver with a car. This service and pricing model has provided them with a notable competitive edge.

In addition, in an attempt to replace corporate car services, in October 2014 Uber announced the global rollout of 'Uber for Business' into 41 new countries, with an emphasis on key international markets including Sydney, Paris, London and Singapore. Uber is now also set on dominating corporate travel by introducing corporate accounts into existing customers' Uber apps. This additional service encourages small- and medium-sized businesses to take part, thereby eliminating the need for employees to claim separate expense reports. This reflects the overall approach taken by Uber, driven by a desire to use technology in a smart way, in order to improve everyday inefficiencies relating to travel (as they perceive them) and make a good profit along the way as well.

Investments and 'innovative' pricing structures

¹ This case was written for CIM 2014/15 by Nellie El Enany and Maja Korica. It was updated for 2015/16 by Maja Korica.

Uber has raised \$1.5 billion since being founded, with \$258 million coming from Good Venture. More recently, according to The Wall Street Journal, the company has received further venture funding from a range of investors including Fidelity Investments, Wellington Management, BlackRock Inc., Summit Partners, Kleiner Perkins, Google Ventures, and Menlo Ventures. Bill Gurley, a venture capitalist at Benchmark, and Uber's largest institutional shareholder, said "It's probably the fastest international expansion that I've ever seen from a venture-backed company." Investors clearly see great potential in companies like Uber: at \$18.2 billion, Uber is worth about the same as Hertz Global Holdings Inc. and Avis Budget Group Inc. (both long-established rent-a-car companies, founded in 1918 and 1946, respectively) combined.

Uber's innovative pricing strategy has contributed to much of the company's success, and has also been the centre of much debate and criticism, particularly its dynamic pricing. While taxis are largely regulated by local governments in most cities, with rigid pricing structures, licensing and rules, Uber's innovative and disruptive technology has caused a surge of rifts in local markets. Although not widely advertised, Uber imposes a surcharge during busy times. While riders are informed about this before booking a taxi, the company is known to charge up to eight times their normal rate, though this has been argued to only affect less than 10% of trips. Uber defends their pricing policies by explaining that customers are free to choose or walk away, but will do so at the risk of losing out on the convenience and experience of Uber. Following complaints, in 2012, for instance, Uber released an email explaining that customers are issued with a fair warning and that a surge pricing will be in effect on New Year's Eve. The email noted that "NYE pricing is not for the faint of heart."

Yet, Uber's disruptive tendencies are not just aimed at regulated taxi companies as customary providers of alternative transportation. As Kalanick explains, Uber's competition is not solely other taxi companies, but also private car ownership. In his words, "'It's not about the market that exists, it's about the market we're creating.' It is about making 'car ownership a thing of the past.'"

International challenges, and the matter of leadership and a 'toxic' culture

Though Uber's disruptive business practices have led it to be critiqued by many, one prominent subject of recent controversy surrounding Uber has been whether the legal definition of a taxi covers Uber's operations as they stand. Kalanick has defended Uber's business practices in this context, explaining that Uber does not own any cars, and its drivers are required by contract to have all the necessary licenses, registrations and insurance to work for Uber. Faced with a whole host of challengers, including regulators around the world, other private sector rivals, the taxi industry, and at times his customers, Kalanick has consistently maintained that the company's practices are "...totally legal, like

totally legal, and the government is telling us to shut down. And you can either do what they say or you can fight for what you believe.”

Despite this, in September 2014, protests were planned in a number of countries against Uber, including England, France and Germany. Barry Korengold, president of the San Francisco Cab Drivers Association echoed much of the dissent against Uber, explaining that, “t]hey started off by operating illegally, without following any of the regulations and unfairly competing. And that’s how they became big—they had enough money to ignore all the rules.” Kalanick has been quick to point out via Twitter that Uber drivers in New York City who work at least 40 hours a week can make more than \$90,000 in a year compared to a cab driver’s average salary of \$38,000.

Perhaps more controversially however, critics of Uber have excoriated the company culture for their lack of customer-centred behaviour and community care, and an absence of fundamental respect for user privacy. This has led to a host of prominent and highly critical articles, a stern letter by a US senator, and a viral campaign #deleteuber. With regard to privacy, in November 2014, one of the reporters from BuzzFeed News, Johana Bhuiyan, arrived at Uber’s New York headquarters for an interview with Josh Mohrer, the general manager of Uber New York. As she arrived, she found Mohrer waiting for her. He greeted her with “there you are, I was tracking you.” Using his iPhone, Mohrer had been tracking Bhuiyan’s movements, but had not asked her permission to do so. In addition, two months previously, Mohrer had accessed logs of her Uber trips.

occurred_at	msg_type	provider	body
2014-09-15 01:44:13.248927	outgoing	APNs	Johana, your Uber is arriving now.
2014-09-15 01:40:34.301645	outgoing	APNs	Johana, your Uber is arriving now.
2014-09-15 01:39:21.754488	outgoing	APNs	Your Uber is on the way. Sohail (4.73 stars) from Charge and Ride Inc (B00
2014-09-14 00:49:41.971737	outgoing	APNs	Johana, your Uber is arriving now.
2014-09-14 00:43:59.812926	outgoing	APNs	Your Uber is on the way. Kunga (4.68 stars) from Schmecken B02598 will p
2014-09-02 00:53:27.423403	outgoing	APNs	Johana, your Uber is arriving now.

Figure 1: Source: Bhuiyan & Warzel (2014)

On the back of other examples of such abuse of private data being reported in the media, Senator Al Franken, chairman of the subcommittee on privacy, technology and the law, wrote Uber’s CEO to publically question its policies surrounding customer data privacy and

employee handling of the same. Uber has maintained that access and use of customers' data is strictly for legitimate business purposes and anything beyond this is unacceptable.

Even more worryingly, Uber has recently also come up against claims of unethical and sexist behaviour, seen as telling signs of a troubled (and troubling) organisational culture. Most notably, BuzzFeed's Editor-in-Chief Ben Smith reported that, in October 2014 at a private dinner, Uber's Senior Vice-President of Business, Emil Michael, claimed the company could spend "a million dollars" to hire "four top opposition researchers and four journalists" to "help Uber fight back against the press" by looking into personal lives of reporters who write critical stories about the company. When somebody at the table suggested this could cause concern for Uber, Michael allegedly replied: "Nobody would know it was us." He later apologized, with Travis Kalanick condemning the comments as "a departure from our values".

Despite such apologies, for a growing number of public commentators, such statements are just the tip of a highly problematic (cultural) iceberg. For example, Sarah Lacy, founder and editor-in-chief of the tech blog PandoDaily and critic of Uber, recently wrote a piece entitled 'The horrific trickle down of asshole culture: Why I've just deleted Uber from my phone'. In it, she accused the company of 'sexism and misogyny', both in terms of personal behaviour by its executives (for instance Kalanick, who often brags about his success with women occasioned by the company's success), but also business practices, like a promotional deal in France that featured riders with pictures of 'hot chicks'. As Lacy noted, "women drive Ubers and they ride in them. I don't know how many more signals we need that the company simply doesn't respect us or prioritize our safety." She went on to add, "what's astounding to me is that this is a 'holy shit', whistleblower moment that the culture of this company is so rotten that an executive was bragging about [running opposition research] to a journalist at dinner. They don't even think there is anything wrong with this." Peter Sims, a Silicon Valley author and former investor, in turn called Uber "the most arrogant and unethical start-up in Silicon Valley right now". As the Financial Times reported on November 21, Sims "was an Uber advocate until he discovered the company had revealed to an event audience his location during a journey across Manhattan. "I'm astounded that they are getting away with this type of attitude . . . Culture matters"".

Kalanick has continued to defend Uber's practices, claiming that his critics' accusations are baseless. Justin Fox, executive editor of the Harvard Business Review, explained that "sometimes it's better to let it go away. Large, established organizations can ignore petty complaints, but must decide who to pay attention to. Every company checks the Klout of its critics." To this end, Uber has indeed tweeted several apologies for various 'scandals' and practices. Jonathan Hemus, founder of reputation management company Insignia Communications, has nevertheless suggested that Uber's reputation is at a high risk, and although this may be temporary, a bad reputation will always catch up with a business. "In

the longer term, no business can afford to maintain a negative reputation. Most successful businesses combine a fantastic product and service with strong, positive reputations and relationships."

In early December 2014, following a \$1.2 billion funding round, it was announced that Uber was valued at \$40 billion, having doubled in value in the last six months. Despite this exceptional valuation for the young company (exceeding the market valuations of Twitter and LinkedIn), the long-term sustainability of Uber remains to be seen, with investors and critics arguing that it is how Uber manage not just their pricing, but perhaps more importantly their culture, leadership and brand image, which could make or break the company's future. Indeed, despite previous efforts to dismiss criticism as largely sour grapes, the company's own executives recently recognized this as well. As the Financial Times reported on December 4, "this kind of growth has also come with significant growing pains," Mr Kalanick said in Thursday's blog post, apparently referring to its latest self-inflicted wounds. "The events of the recent weeks have shown us that we also need to invest in internal growth and change. Acknowledging mistakes and learning from them are the first steps.""

Key references

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