Case 2

**Uber Hits a Bump in the Road**

**Case Notes for Instructors**

This case introduces students to the ride-sharing service Uber. Consumers use the Uber app to contact a driver in the nearby vicinity when they want a ride. The app also allows consumers to get an estimated time of arrival on their smartphones with the use of an integrated GPS system. Many people use Uber as an alternative to taxis, which is upending the taxi industry on a global scale.

Uber is also having an impact on other industries as well. For instance, companies like Zappos are planning to adopt Uber’s surge-based pricing strategy. Drivers for Uber act as independent contractors who can run their own ridesharing business and drive whenever they so choose.

However, Uber is encountering a lot of challenges as it expands globally. Internally, Uber is facing some problems with its drivers. Despite the drivers’ status as independent contractors, Uber still exerts much control over the drivers, including setting rates. In California lawsuits have been filed by Uber drivers claiming that they should be legally considered as employees. One driver won a lawsuit against Uber in California. Uber might need to amend its strategy so that Uber drivers will fall beneath the employee threshold.

Additionally, Uber has faced many difficulties from the taxi industry. The taxi industry points out that it is unfair that Uber gets to offer taxi-like services without having its drivers go through the same licensing requirements that taxi drivers must go through. Many governments seem to agree, and Uber has been partially or wholly banned in places such as France, Germany, India, Australia, South Africa, Spain, and Indonesia. Protests of taxi drivers further discourage Uber’s expansion. An alleged rape in India by an Uber driver has caused some governments to question how Uber vets its drivers, prompting Uber to implement more safety measures. Uber has also clashed with laws such as the American with Disabilities Act because many of the drivers drive their own personal vehicles, which are not wheel-chair friendly.

In 2017 Uber’s co-founder and CEO, Travis Kalanick, resigned. Kalanick was known for his aggressive strategies, and critics believe this began to trickle down into the corporate culture. Additionally, some female employees at Uber claim they had suffered sexual harassment on the job. Uber’s resistance to releasing its diversity statistics also led to major criticism. The investigation into the harassment claims resulted in 20 employees being fired. Investors were uneasy about Kalanick’s leadership ability and pressured him to resign, although he remains on the board.

Despite the challenges Uber faces, it has a bright future ahead of it. Uber has expanded its operations to 425 cities in 72 countries around the world and is valued at around $70 billion, making it the world’s most valuable startup. Approximately 30 million users use Uber’s services monthly. It has become by far the most well-known company in the sharing economy. This case provides students with an excellent opportunity to examine the ethical challenges that an innovative and disruptive company faces as its expands.

# Questions and Discussion

1. *What are the ethical challenges that Uber faces in using app-based peer-to-sharing technology?*

The biggest challenge involves how it is competing against the taxi industry. Uber drivers are not yet subject to the same licensing requirements as taxi operators are, which gives them a distinct—and perhaps unfair—competitive advantage. Also, Uber exerts less control over what it calls its independent contractor drivers. Using an app to bypass some of the controls the taxi industry has, as well as its multitude of drivers, means that headquarters has less control over what its contractors do. This brings up safety issues, as evidenced by the fact that a woman in India was allegedly raped by a so-called Uber driver.

The ease of use of peer-to-sharing apps also enables consumers to get past regulations that might hinder Uber’s activities. For instance, in India Uber was banned from certain areas, but consumers continued to access its services. Finally, there is always the element of security that Uber must consider. Because it depends upon digital technology, it is possible for hacking to occur. As cybercrime increases, Uber must have the proper controls in place to protect both its own and its clients’ information.

1. *Since Uber is using a disruptive business model and marketing strategy, what are the risks that the company will have to overcome to be successful?*

The biggest risks Uber faces is regulatory opposition to its operations. Because Uber drivers do not have to adhere to the same licensing requirements as taxi drivers, some countries are banning Uber until they agree to have their drivers licensed. The taxi industry is a big industry and has a lot of power in some countries. Since Uber is disrupting the taxi industry, it will have to fight against taxi operators and drivers continually as they seek to impede Uber’s progress. Uber must also adopt clearer insurance policies to make certain that drivers are covered and perform background checks on drivers to ensure consumers that they will be taken to their destination safely. Uber has also clashed with certain laws, such as the Americans with Disabilities Act. Because its drivers use their own personal vehicles, not all vehicles are wheelchair-accessible. Finally, Uber has been so successful because of its independent contracting model. With a California judge determining that an Uber driver was an employee and not an independent contractor, Uber was forced to pay reimbursement expenses. This could set a precedent for similar lawsuits in other states. Uber must overcome opposition from regulators and the taxi industry, licensing challenges, and internal struggles to continue its upward route of success.

1. *Because Uber is so popular and the business model is being expanded to other industries, should there be regulation to develop compliance with standards to protect competitors and consumers?*

Students’ answers will vary. Those in support of regulation should point out that Uber does not have the same licensing requirements or background checks as taxi drivers do, and it has been expanding into different countries quickly without necessarily considering how country or city regulations might affect the company. They would likely argue that additional compliance is needed both to eliminate an unfair competitive advantage as well as to promote the safety of Uber clients. Those against additional regulation may believe that governments and the taxi industry are simply trying to impede Uber because of its low cost and high success rate. They might point out that additional compliance could hinder Uber’s growth and deter other companies from creating innovative, disruptive ideas.

**ADDITIONAL RESOURCES**

* Behind Uber’s success: https://www.inc.com/larry-kim/23-crazy-facts-about-uber-the-51-billion-startup-success.html
* Travis Kalanick resigns as Uber CEO: <https://www.nytimes.com/2017/06/21/technology/uber-ceo-travis-kalanick.html>
* Uber’s global expansion: https://www.forbes.com/sites/ellenhuet/2014/12/11/ubers-global-expansion/#304f0fb6550a