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Corporate Governance

The Uber of Toxic Corporate Cultures? Five Governance Questions for Uber

- In anticipation of Uber's possible 2017 IPO, investors should carefully consider whether the company has the optimal governance structure and leadership team to successfully manage its future growth.
- As we have noted in past research (Dissecting the "Sharing Economy:" Business model opportunities and risks and Uber: Red Light, Green Light), the company's success relies on managing relations with all stakeholders, including customers, drivers and regulators.
- However, recent widely publicized allegations of sexual harassment suggest a dysfunctional corporate culture poorly suited to the complexity of the company's future strategic ambitions.
- Investors should pay careful attention to management's response to this crisis, in particular to whether the company embraces or resists systematic cultural change.
- In this report, we use our BRAVE Matrix™ analytical framework to illustrate how the company's stakeholder relations may affect the business over the long term.

John Wilson
Head of Corporate Governance, Engagement & Research

What does that blog post tell us?

Susan Fowler, former Uber employee, has written a much-discussed blog post[1] alleging a culture of sexual harassment and general toxicity at the company. These allegations remain unproven, but none of the ensuing commentary, either internal or external, has denied the fundamental validity of her perspective.

Fowler presents a disturbing picture of a culture that condones and enables sexual harassment by "high performing" males while devaluing the contributions of women. She describes managers who seem to prize women less for their contributions to the team and company than for their usefulness to the manager personally as tokens or romantic partners.

1 https://www.susanjfowler.com/blog/2017/2/19/reflecting-on-one-very-strange-year-at-uber

Some commentators have suggested while the scandal looks bad, it will have little impact on the company because riders will still use the app. This analysis overlooks risks to the company emerging from its deteriorating relationships with all stakeholders. Of particular concern for investors or potential investors, misogyny may be the most visible unintended consequence of an "aggressive, unrestrained" culture (as described in a recent *New York Times* article[2]) that may no longer serve the company well.

Uber's company culture is individualistic, transactional, and competitive, reflecting its founders' belief that this kind of work environment motivates and rewards the most effective people. This approach has worked well for Uber as it has transformed a good idea into a global taxi-hailing service. The company's fast growth has allowed it to take advantage of network effects to overcome barriers raised by rivals, taxi commissions and local regulators—despite a reputation for being "evil." However, to achieve profitability, the company aspires to become more than a taxi-hailing company. This ambition will fundamentally change how the company relates to stakeholders.

Uber's aspiration to be more than a taxi-hailing platform will fundamentally change how it relates to stakeholders

First, it is more than just an app, it's a ***platform***. Uber is a *de facto* regulator that sets the rules for interactions between drivers and riders and adjudicates disputes between them.[3] Profitable growth depends upon maintaining the confidence of both sides in Uber's ability to fulfill its "regulatory" role fairly and competently.

Uber is also a ***technology*** company that began by automating the taxi dispatch function and now seeks to automate the driving as well. Successful development of driverless automobiles requires collaboration among teams of specialists from a diverse variety of fields including automotive, artificial intelligence, and imaging. The company must gain the trust of government regulators that the technology is safe and that the company can manage a global fleet of driverless cars. The company must also manage the inevitable backlash from its own drivers, who may become redundant.

Eventually, Uber seeks to become a key player in the ***transportation infrastructure*** and to radically transform it. This aspiration will require a public prepared to transition away from familiar transportation habits and officials willing to adapt the public roadways and traffic rules to accommodate this new approach to transportation.

To realize its ambitions, Uber must learn to collaborate as well as compete

To realize these ambitions, Uber must learn to collaborate as well as compete. As the company grows larger and more complex, aggressive individualism may be

2 https://www.nytimes.com/2017/02/22/technology/uber-workplace-culture.html?_r=1
3 For additional thoughts on this topic, see https://www.adamsmith.org/blog/regulation-industry/uber-forms-of-governance

ill-suited to the task of building strong relationships among employees and with external stakeholders. Fowler describes a working environment where personal interests have fallen out of alignment with corporate goals, and individuals seek personal advantage at the expense of the company. Sexual harassment is one example of how managers use their positions of power for personal benefit, enabled by impunity for "high performers" who abuse their authority.

Beyond the gender issues, Fowler describes a culture where managers seek to undermine their supervisors in order to take their jobs. If indeed performance becomes less important than the *perception* of performance, trust among colleagues erodes, and company leadership can no longer have confidence in the information they receive from below.

There is also growing evidence that the company's external relationships may be suffering from a combative stakeholder management style consistent with Uber's internal culture:

- Alphabet, a company whose executive formerly sat on Uber's board, is suing the company for theft of technologies critical for the development of driverless cars.
- Uber will pay the Federal Trade Commission $20 million to settle claims that it misled drivers about how much money they could make.
- Uber ended its self-driving car tests in San Francisco after only one week after the state of California revoked the registrations of the cars. The company had proceeded with the test without obtaining the necessary permits and continued even after cars committed multiple traffic violations.

Investors should be concerned if Uber's investigation avoids the root cultural causes of toxic behaviors

The company has announced an investigation into Fowler's sexual harassment allegations, which has evoked criticism for its lack of independence. Investors should be concerned if the investigation confines itself to the critical but narrow issue of sexual harassment and avoids the root cultural causes of toxic behaviors that may be infecting the company more generally.

Using our analytical BRAVE Matrix™ analytical framework (see Figure 1), we have more comprehensively outlined how the company's stakeholder relations may affect the business over the long term.

Governance concerns

Investors should watch whether Uber is prepared to explicitly evolve some of its own core cultural practices

Investors should be concerned about whether Uber's leadership is well-suited to the company's current phase of growth. The qualifications required to lead a major public company are not necessarily those required to run a startup. How the company handles the current crisis will signal whether it has the correct leadership team in place. In particular, investors should watch whether Uber is prepared to explicitly evolve some of its own core cultural practices and incentive structures to balance aggressive growth with improved stakeholder relationships.

Potential investors should also be concerned about the composition of Uber's board of directors. Currently, almost all of the directors are employees or large private investors. Beyond concerns about independence, it is not clear whether individual directors have the experience and qualifications necessary to oversee an evaluation and possibly a transformation of the company's culture. It is also notable that the board only includes one woman.

Specifically, investors should consider the following questions:

1) Is the company willing to investigate both sexual harassment and the root causes of sexual harassment, which may implicate the broader corporate culture?
2) Is the company prepared to publish the results and methodology of its findings, as well as steps it will take to reform corporate culture including the treatment of women professionals?
3) Will the company be prepared to align incentives and take other steps to balance its culture between growth and stakeholder relationships?
4) Will the company commit to providing transparent data regarding its efforts to attract and retain talented women engineers, including job satisfaction?
5) Is the company prepared to review whether its board and executive team possesses the right background, qualifications, independence and diversity to execute on its long-term strategy and to meet the expectations of the public markets?

The current crisis will offer important clues about how Uber will transform itself from an aggressive startup to an established, possibly public, company

The current crisis will offer important clues about how Uber will transform itself from an aggressive startup to an established, possibly public, company. Investors should pay close attention to whether management takes steps to remake company culture and governance to support its long-term strategy, or attempts to mask a business-as-usual approach with narrow, superficial changes.

Figure 1: BRAVE Matrix™ Questions for Uber

Business Value Drivers	Demand Stakeholders	Supply Stakeholders	Contextual Stakeholders
Cost/cost reduction	The company depends on "network effects" to scale. Poor customer relations may hamper the achievement of scale and increase per unit costs.	Poor employee relations may increase the compensation required to attract talent.	Legal and regulatory costs related to local permitting, etc.
Risk/risk reduction	The adoption of driverless technology assumes customer uptake, which requires faith in the safety of the service.	Harassment or hostile work environment lawsuits.	Poor relations with local/state/federal governments may intensify efforts to bar Uber from operating in some locations.
Sales and pricing power	The company operates on low margins; customer defections to rivals may force discounting which will hamper profitability.	The quality of a technology-based service depends on a skilled and productive workforce.	Growth depends in part on growth in locations. Local regulations designed to deter Uber would cut off this avenue of growth.
Reputation/brand equity	Drivers and customers rely on Uber to protect them in case of misconduct during a ride.		Poor reputation elevates minor scandals to major news.
Attractiveness as employer		Hostile work environment (including sexual harassment) harms attraction and retention of talent.	Consistent media narrative of "evil" company creates reputational risks for employees.
Capacity for innovation	Future competition between drivers and driverless cars may create conflict for company.	Continued innovation requires coordination among internal and external teams, requiring trust.	Uber depends on local and national regulators for favorable treatment of driverless cars.

Source: Cornerstone Capital Group

John K.S. Wilson is the Head of Corporate Governance, Engagement & Research at Cornerstone Capital Group. John has close to 20 years of experience in socially responsible investing and corporate governance. Previously, he was Director of Corporate Governance for TIAA-CREF, where he oversaw the voting of proxies at CREF's 8,000 portfolio companies and engaged in dialogue with corporate boards and management to promote sustainability and good corporate governance. An Adjunct Assistant Professor at Columbia Business School, John is also a member of the Advisory Council to the Sustainability Accounting Standards Board. He writes and presents widely about the relevance of social responsibility to investment performance.

john.wilson@cornerstonecapinc.com

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