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Research Note

Uber Recovery

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Abstract: Originally written in May 2017 and updated in June 2017, this paper discusses how Uber's success in disrupting the transportation industry has not prevented the decay of the company's internal culture and resulting risks to its future success. Uber's toxic culture has clearly stemmed from senior leadership and a lack of accountability; it has had far-reaching consequences and has allowed for illegitimate business practices that the public is beginning to discover. The author examines how an enterprise risk management plan could be developed by utilizing the COSO framework. Uber will need to implement immediate, drastic, and widespread changes to shift the direction of the company's future.

In the past decade, technology has disrupted numerous traditional industries, presenting tremendous opportunity for growth as well as a significant array of risks. The rise of social acceptance of the sharing economy, or social sharing of goods and services, has enabled technology companies the ability to disrupt once stable industries. One such industry is the transportation industry being disrupted by ride-sharing services such as Uber Technologies, herein Uber. Uber applies the sharing economy to the transportation industry, and it is beginning to research and develop autonomous vehicle technology to further revolutionize the transportation industry as well as shipping and logistics. Disruption is the result of unprecedented innovation, meaning few existing governmental regulations often apply. The implication of this lack of regulation is that Uber is essentially operating in the "Wild West," without many rules or regulations, expanding aggressively and with the sole goal of industry disruption. One consequence of Uber's success is its internal culture. While some may credit Uber's success to its culture, most would characterize it as unhealthy, detrimental, and toxic. Uber's unmitigated cultural risk has already caused tremendous cultural, reputational, and financial losses, and will continue to do so without proper treatment. To truly address the issues they are facing, they will have to make dramatic and widespread changes both internally and externally. An enterprise risk management plan can be developed by utilizing the COSO framework, enabling Uber to mitigate its risk exposure and to practice proactive risk management moving forward.

To characterize Uber's risk profile, it is important to first understand its current state. Uber has already suffered tremendous reputational, cultural, and financial harm due to inadequate risk management. These risks can be generally credited to a lack of accountability, present throughout the business.

A defining characteristic of Uber's culture is a lack of accountability. Susan Fowler, a former Uber engineer, published a report detailing an account of sexual harassment and the inadequate response by Uber's human resources department. Upon reporting the sexual harassment, "[upper] management told [her] that he 'was a high performer' (i.e. had stellar performance reviews from his superiors) and they wouldn't feel comfortable punishing him for what was probably just an innocent mistake on his part."[1] While Uber's internal sexual harassment policies are unknown, Uber enforces strict policies for its customers, detailing that "[any] behavior involving violence, sexual misconduct, harassment, discrimination, or illegal activity while using Uber can result in the immediate loss of [one's] account."[2] If their policies for their employees are aligned with their policies for their customers, then this inaction is a control failure in Uber's human resources department. Regardless of Uber's policies, this blatant disregard for serious sexual harassment allegations is a direct reflection of Uber's toxic culture. Fowler continues, saying this was not the first time in her career she had been sexually harassed. Previously, she had just reported the incident to human resources and continued working while the incident was resolved. The fact that Uber did not investigate and resolve her claims further exhibits Uber's lack of accountability for its employees. The result of mismanaging this risk has caused Uber tremendous reputational harm, both internally and externally.

In large part, this sexist and misogynistic culture is shaped by the "tone at the top," from Uber CEO Travis Kalanick and other upper management. Gabi Holzwarth, Kalanick's ex-girlfriend, describes an account of events occurring at a South Korean escort-karaoke bar. She describes that, "miniskirt-clad women 'sat in a circle, identified by numbered tags.'" She then tells that '[four] male Uber managers picked women out of the group, calling out their numbers, and sat with them.'" According to the report, visitors "get acquainted with the women and sing karaoke before going home with them."[3] This account illustrates Uber's misogynistic culture and describes its manifestation and perpetuation by upper management. This incident was reported to Uber human resources by a female marketing manager who was present that evening. Not only was the matter left unresolved, but following Susan Fowler's public account of sexual harassment, Emil Michael, Uber's senior vice president of business, contacted Holzwarth, requesting her to conceal the truth and tell media, if asked, that they just went for karaoke and "had a good time." This seemed to be a feeble attempt at reactive crisis management more than proactive risk management. Holzwarth later released the story, saying, "she wouldn't have considered speaking publicly had Mr. Michael not attempted to 'silence' her." In addition, Kalanick and other upper management shaped the misogynistic and aggressive culture in more subtle ways. For instance, Kalanick "once referred to Uber as "Boob-er" because it improved his dating prospects" and "[in] 2014, [Emil] Michael made headlines after he suggested that the company should target reporters who write about the company negatively."[4] It is apparent that upper management is directing the negative tone and culture of the company, meaning that for the culture to improve, upper management will need to change their behavior or be replaced.

In addition, Uber's high appetite for risk, resulting from their hypercompetitive nature, is shaped from the "tone at the top." An Uber driver released video depicting Kalanick, "perched in the middle seat, flanked by two female friends," arguing with the driver "over falling fares." One of the women comments that she heard Uber is having a hard year, to which Kalanick responds, "I make sure every year is a hard year. That's kind of how I roll. I make sure every year is a hard year. If it's easy I'm not pushing hard enough." It is clear that the hypercompetitive culture of the company is the result of Kalanick. This behavior is so ingrained in the company that "'[toe]-stepping' is one of Uber's cultural values."[5] Uber's culture has degraded into an environment in which, "[everyone uses] those values to excuse their bad behavior." This fiercely competitive workforce has been described by employees such that, "[one] can never get ahead unless someone else dies."[6] While Uber's success can be credited to Kalanick, so can the dysfunctional culture. Following this February 2017 incident, Kalanick released an internal statement apologizing to the driver and saying he needed to "fundamentally change as a leader and grow up."[7]

Moving forward, Uber will need to implement immediate, drastic, and widespread changes to minimize risk impact and mitigate future risk. It is abundantly clear that the toxic culture and cultural risk stems from senior leadership and a lack of accountability. To address the tremendous reputational damage resulting from Fowler's description of company policy, Kalanick held an "honest, raw, and emotional" company wide meeting.[8] Kalanick announced they were going to launch an internal audit concerning the issues raised by Fowler. The audit is headed by U.S. Attorney General Eric Holder, who formerly lobbied on Uber's behalf and whose law firm, Covington & Burling, is retained by Uber to consult on safety issues[9], Arianna Huffington, an Uber board member, Angela Padilla, a member of Uber's in-house counsel, and Liane Hornsey, chief of Uber's human resources department.[10] While launching an internal audit could be effective, the individuals Uber chose to lead its audit have serious conflicts of interest in reporting real problems within Uber. It seems as though Uber is, again, trying to avoid being held accountable. This enforcement of accountability will need to come from senior leadership, which, now, seems unlikely. Increased transparency at the senior leadership level is a minimum, but if inappropriate behavior continues, a change in senior leadership may be necessary.

Uber's toxic culture has had far-reaching consequences, and has allowed for illegitimate business practices that the public is beginning to discover. The majority of their illicit activity involves inappropriate use of data for surveillance of customers, competition, and law enforcement. In the past several months, numerous examples of Uber's illegitimate practices have surfaced, causing tremendous reputational damage.

First, evidence of Uber's illicit business practices was present back in 2014, when news outlets discovered Uber's "God View" program, in which it openly tracked customers using the platform. Almost unrestricted access to data combined with a toxic culture resulted in gross misuse of customer data. The program allowed Uber employees to "spy on the movements of 'high-profile politicians, celebrities, and even personal acquaintances of Uber employees, including ex-boyfriends/girlfriends, and ex-spouses.'" Peter Sims, a venture capitalist, said he was tracked "by a visitor to Uber's Chicago offices, where the God View data was shown on a large public screen." Samuel Ward Spangenberg, Uber's former forensic investigator, "told Uber executives including the company's head of information security, John Flynn, and its HR chief Andrew Wegley, of his concerns around the lack of security, and was fired 11 months later." He reported that Uber "stored driver and employee information in an insecure manner" and intentionally "operated a vulnerability management policy which allowed data to be stored that way if the company deemed there to be a 'legitimate business purpose' for doing so." Spangenberg's responsibilities included enforcing security controls surrounding Uber's data. Spangenberg describes his job "[as] part of Uber's incident response team" in which he would "be called when governmental agencies raided Uber's offices due to concerns regarding noncompliance with governmental regulations." Uber's procedure was to "lock down the office and immediately cut all connectivity so that law enforcement could not access Uber's information."[11] It is clear that Uber had formal, well-defined, and enforced information security controls in place, meaning Uber intentionally disregarded implementing security protocols regarding its users' data. These practices also illustrate Uber's adversarial perspective on law enforcement. It is important to note that Uber actively worked to keep its data secure from law enforcement while completely neglecting data privacy internally. Moving forward, Uber can mitigate risk of data abuse by restricting access to application data, implementing mechanisms to protect users' privacy. In addition, Uber can alleviate customer concerns and reputational damage by openly developing and enforcing a strict privacy policy regarding user data.

In addition, Uber's "Hell" program was a surveillance program designed to harm their competition and gain an unfair competitive edge. With this program in place, Uber was able to monitor its own drivers by showing "Uber employees which drivers worked for both Uber and Lyft — information that it could then use to entice drivers away from Lyft."[12] Uber also leveraged other channels for surveillance. A popular email add-on, Unroll.me, scraped users' inboxes for receipts from Uber's competition. Unroll.me would then sell this information to Uber so Uber could target advertisements at these users.[13] While this program is another example of Uber's abuse of data, it only emphasizes the information technology industry's need for increased transparency and customer advocacy. In an age when many companies' source of revenue is selling user data, it is incredibly important that users are aware of how their data is being used and what opportunities for abuse exist. Moving forward, Uber needs to develop a transparent privacy policy describing how it manages its users' data. To mitigate some of the reputational harm, it could become an outspoken advocate for consumer information privacy.

Finally, Uber's Greyball program abused customer data to target law enforcement. Originally intended to evade law enforcement when Uber illegally expanded into new cities, the Greyball program leveraged data "collected from the Uber app and other techniques to identify and circumvent officials who were trying to clamp down on the ride-hailing service." Uber's culture is so tolerant of illegal activity that "Greyball was approved by Uber's legal team."[14] Uber has a history of targeting individual users. In 2015, Kalanick had to meet Tim Cook because of "secretly identifying and tagging iPhones even after its app had been deleted and the devices erased — a fraud detection maneuver that violated Apple's privacy guidelines."[15] In this meeting, Tim Cook threatened to remove Uber's application from Apple's application store, which would eliminate access to millions of users, an action that would effectively incapacitate Uber.

With an understanding of Uber's current state, the COSO framework can now be used to develop a proper enterprise risk management plan. The first three steps of the COSO framework consist of identifying the risks, developing assessment criteria, and assessing the risks to which Uber is currently exposed. Identifying an organization's risks is the first step in "[understanding] the universe of risks making up the enterprise's risk profile." When developing assessment criteria, it is important to analyze the likelihood, impact, type of impact, vulnerability, speed of onset, as well as the inherent and residual risk. In order to assess the risks to which Uber is exposed, the previously established assessment criteria are used. In addition, risk interactions will be considered.[16]

Uber is exposed to reputational risk due to the damaging accounts of its internal behavior. While it has launched an internal audit, if Uber fails to implement meaningful changes or permits its culture to remain unchanged, it will suffer further reputational risk. Uber is extremely vulnerable to this risk, especially without direction and support from upper management. However, risk presents the opportunity for positive and negative outcomes, meaning if Uber implements significant changes it could improve its reputation, resulting in both financial and cultural benefits. The internal audit is supposed to be concluded end of May 2017, meaning this risk is soon to come to fruition.

In addition, Uber is also exposed to tremendous financial risk on several fronts. First, Uber is at risk of losing customers due to its damaged reputation. Backlash to Kalanick's membership in Trump's advisory council alone resulted in a trending hashtag "#deleteUber" as well as an estimated 200,000 accounts being deleted. Uber is also losing customers because of open and careless abuse of data for surveillance. However, again, if they do not take proper action and protect their user's privacy, they risk losing additional customers. Unfortunately, it seems that even if they do improve, their reputation will remain damaged meaning customers will be reticent to return to the service. It may take years for Uber's reputation to recover following the discovery of its surveillance programs. Second, it faces financial loss due to increased competition in the race to autonomous vehicles. Waymo, Google's self-driving car program, has recently partnered with Uber's main competitor, Lyft. In addition, Uber faces increased competition from Tesla, as well as the partnership made up of Apple and Didi Chuxing. To compound increasing competition, Uber has recently clashed with technology giant, Google, over Google's self-driving car technology in its Waymo program. A former Waymo employee started his own company that Uber later acquired.[17] While Uber claims it did not exploit Google's autonomous car technology, the due diligence during acquisition should have dissuaded Uber from acquiring the company. Google Waymo has launched a lawsuit against Uber, which could not only directly cause Uber financial harm in the form of punitive damages, but could also slow its progress towards commercializing self-driving car technology. Google has requested the courts halt Uber's use of self-driving car technology. The implications of this outcome would mean its competitors would be able to capitalize on the autonomous vehicle market before Uber. In both cases, the timeline for risk impact is years due to the lengthy legal process and due to the fact that autonomous driving technology is not yet ready for widespread consumer availability. Not only is the likelihood and impact from increased competition high, but also Uber, in its current state, is extremely vulnerable to this risk. Finally, there is immediate financial risk exposure in Uber's leadership because Kalanick's parents were just in a tragic boating accident, resulting in the death of his mother and leaving his father in critical condition.[18] This could result in increased uncertainty within Uber's leadership, potentially slowing meaningful cultural changes or other business initiatives within the company.

Uber is facing serious cultural risk in its current state. One high-impact risk to which Uber is especially vulnerable is low employee morale due to its negative reputation and poor working environment. To stay competitive, Uber will need to continue attracting and retaining top talent. This risk is extremely likely to manifest due to the company's current public image and is arguably the most dangerous because, as the company loses key employees, remaining employees will feel further discouraged, increasing their motivation to leave. Uber is most likely already facing this risk, meaning it will need to take immediate action to mitigate it. Although Uber is extremely vulnerable to this risk, it is also the risk over which Uber has the most control.

More generally, risk interactions expand to the larger industry landscape. First, Uber's situation is incredibly significant because Uber is within both the transportation industry and the information technology industry. It is one of the major players in both spaces and it likely sets the expectation of rapid growth and disruption. Facebook's motto "move fast and break things" resembled Uber's "toe stepping," however Facebook realized the inherent cultural and financial risks, and proactively changed it in 2014.[19] If Uber does not begin practicing proactive risk management and enforcing accountability, it could create a precedent and cause a ripple effect throughout its industries that growth, innovation, and disruption are valued more highly than ethics and transparency.

The fifth step in the COSO framework is to prioritize risks. The highest priority risk, and the area in which Uber should initially focus its efforts, is its dysfunctional culture. Uber should focus on its culture both because it is the area over which Uber has the most control and because it is this toxic culture that is the source of its numerous risks including its sexual harassment lawsuits and surveillance programs. Improving culture could serve as a first step in mitigating the reputational and financial risk to which Uber is exposed. It is important to note that residual risk will still exist from its negative publicity and other previously unmitigated risks. As Uber is improving its culture, it is important that it begins fostering transparency and accountability throughout its business. Next, Uber should focus on minimizing its financial risk by focusing on developing a sustainable revenue model. Some of its financial risk, such as that derived from low employee morale, will be treated as an externality from its improving culture. To mitigate risk associated with its slow progression in autonomous vehicle technology, Uber will need to internally develop and champion a shared vision for the future of the company. In addition, they could explore collaborating or leasing self-driving car technology from another company, such as Tesla. Last, Uber should repair its reputation with its customers, employees, and the public. While this risk is critical, Uber has the least control over this risk.

The final step in the COSO framework is to respond to risks. Moving forward, Uber will need to implement drastic and widespread changes. First, it needs to lead a proper internal audit with an independent third party. The internal audit Kalanick launched is fraught with conflicts of interest, effectively barring meaningful discovery. Second, Uber needs to improve upper management whether that means mandated leadership training or replacements. Third, Uber needs to develop and enforce a new code of ethics, including improving their privacy policy. In addition, Uber will need to begin following governmental rules and regulations. It is already beginning to accede to city and state laws. For example, though Uber formerly would not buy a $150 permit from the California Department of Motor Vehicles to test autonomous vehicles, they finally acquiesced and obtained a permit.[20] This is not only a testament to their stubborn nature but also an initial indication of improvement. Ultimately, Uber needs to promote accountability, which will naturally follow meaningful outcomes from the internal audit, changed tone at the top, and internal whistleblower protection.

Despite rising to a $70 billion valuation and revolutionizing an industry, Uber is at risk of collapse if it does not begin to implement proper risk management and mitigation practices. Uber's gross misuse of data in its surveillance programs is the direct result of its hypercompetitive and "toe-stepping" culture. In order to survive, the ride sharing giant will first need to dramatically change its culture, starting at the top. Accountability and enforced control procedures need to be present throughout the organization. Finally, to repair relations with the public, Uber will need to become more transparent in its initiatives and corporate behavior. As more and more technology companies disrupt traditional industries, issues will arise regarding the lack of regulation for these innovative business models. This also means the government will need to adapt, creating and enforcing regulation to support the rising popularity of the sharing economy. While Uber has the potential to change the world, it must first change itself.

Addendum

Since writing, Uber has undergone major developments. Starting on June 13, 2017, Kalanick "took a leave of absence."[21] On the same day, the results of the internal audit launched earlier in the year were released. The audit, led by Eric Holder, produced "The Holder Report," which outlines numerous suggested changes for Uber to implement. Notable changes include diminishing Kalanick's role in the organization, and increasing accountability and training throughout the organization.[22]

Eight days after the release of "The Holder Report," prominent Uber investors forced Travis Kalanick's resignation.[23] Kalanick's exit presents a unique opportunity for Uber to course-correct, while presenting numerous underlying risks associated with hiring a new CEO. The type of CEO Uber needs could face tension leading the organization. Almost "10% of Uber's estimated non-driver workforce" have spoken out on Kalanick's behalf, "appealing for former-CEO Travis Kalanick to be brought back 'in an operational role.'"[24] To be clear, this does not mean Uber should hire another leader with Kalanick's traits. Instead, the company should be cognizant of the cultural tension during this transition. Uber should strive to find a CEO that embodies integrity and equality. Some individuals within Uber, including board member Arianna Huffington, believe a "woman [CEO] would be ideally suited to fix Uber's mess."[25] Uber is already considering several possible candidates for CEO, including Sheryl Sandberg. Sandberg's incredible professional experience and history of empowering women could replace the toxic and misogynistic cultural tone Kalanick created. However, according to an anonymous source, "Sandberg doesn't have any plans to leave her job at [Facebook]."[26] Part of the reason is Uber's reputation, which is a clear deterrent to prospective employees at all levels.

Uber is at a pivotal moment in its life. With Kalanick's resignation, Uber has the opportunity to rebuild itself and put itself on an improved path. Implementing the suggestions of "The Holder Report" and creating a strong, corrective tone at the top will increase Uber's chances of recovery. Uber is currently in a weakened position and it will need to focus on improving its internal culture while also staying competitive externally.

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