Evaluation into whether to invest in uber

Executive Summary

The company we researched is the well-known ride sharing service, Uber. We have decided the most responsible decision is to avoid investing in Uber due to a multitude of ethical issues that have been brought to light in the media regarding the company’s practices. Uber has been in the news for multiple ethical issues that range from sexual harassment, financial questions, driver and rider abuse, among other issues that will be discussed below.

An important economic factor that will be touched on in deciding to negatively screen Uber is that they are not yet a publicly traded company. The company expects to become public “ before the end of the decade”, raising the debate on whether or not we should invest in Uber. When a company decides to go public, they release the stock at an initial public offering (IPO). The problem with investing in an IPO is that companies have been known to over-inflate the estimated price of their company and charge too much for the initial stock. This is controversial because the while the stock is overpriced, people still buy it due to the excitement surrounding the IPO.

Even though Uber has taken strides to rebrand their reputation, it may not change society’s mind on how they are not seen as a corporate socially responsible company. Uber faces many pressures to be viewed as a CSR company, and we discuss the pressures by using the four responsibilities of a company, economic, legal, ethical, and philanthropic. We also touch on the physical changes the company has made in hopes to create a new image

and compare their company to other ride sharing services in the industry, like Lyft.

We discuss the policies that should be in place for Virginia Tech when investing and why it should steer clear of some companies, like Uber. Also, how Virginia Tech should implement these policies to focus on the best interest of Virginia Tech and its stakeholders. Finally, we give recommendations and examples of companies Virginia Tech should invest in and why.

Ethical Issues Facing the Firm

Uber has had many issues throughout its history that have made it a controversial firm such as the issues of driver and rider mistreatment including: situations of sexual assault, scamming riders for more money, and several other scenarios that raise concerns about the company’s and employees’ ethics.

There have been a multitude of issues and questions surrounding Uber drivers. Background checks have been a recurring issue in Uber’s history. Users frequently question Uber’s background check practices and standards in regard to driver applicants. There have been multiple accusations of Uber drivers being unprofessional or inappropriate, cases of sexual assault, and Business Insider mentions that there was an “ Uber driver accused of shooting eight people” in 2016.

This year an Uber driver, Jason Gargac, was removed from the platform for live streaming passengers on Twitch without their consent. Twitch, a subsidiary of Amazon, is a live streaming platform that allows users to watch livestreams about video games, music broadcasts, and “ in real life streams”. According to an article from BBC News, Gargac live-streamed passengers’ journeys where viewers would comment on their behavior and appearance. Local newspaper titled the St. Louis Dispatch said passengers were seen kissing, vomiting and gossiping about relatives and work colleagues. While this did not happen directly as a result of Uber’s corporate policies, the company has a social responsibility to the public of employing safe, reputable employees, because the drivers are a direct reflection of Uber and ultimately impact the way society views a company.

In addition to this incident, there are a multitude of videos on YouTube of ridesharing drivers, including Uber drivers, sharing videos of their passengers. Although some of these passengers may have consented to the publication of these videos, there are numerous videos of intoxicated individuals that seem to be unable to consent to this content being posted. According to Uber’s policies, drivers can have a dashboard camera for security purposes; as there have been instances of assault and battery against Uber drivers by their customers, but the legal boundaries of the driver’s and passenger’s right to privacy seem to be blurred.

Additionally, Uber drivers have been known to sometimes take longer routes in order to earn more money per fare. This is a practice commonly known that taxi drivers will sometimes employ, especially with passengers unfamiliar with the area. This is unethical because drivers take advantage of naive tourists in order to make more money.

A scam that Uber drivers have more recently been employing, is charging passengers unnecessarily for cleanup fees. These fees are put in place, so drivers are able to receive compensation from riders that make large messes in their Uber. In order to increase their profits, Uber drivers have been charging passengers clean up fees when no mess was made.

While that can be considered as a scam to customers, it is a two-way street, as there have been reports of Uber taking up to 43% of a commission of its drivers per ride, while they claim to take only 25% (Ridester Staff, 2018). A chunk of this commission includes hidden fees such as “ booking fees” and “ safe ride fees” that are added to a rider’s total, but the driver does not receive any of this money. According to the same article from Ridester, “ Uber has lowered its prices significantly over the past few years, hurting Uber driver salaries in the process. For example, in 2013, Uber drivers only had to drive roughly 2. 36 miles to make $10 before fees. Nowadays, the average Uber driver has to travel a whopping 4. 71 miles to make the same amount of money” (Ridestar Staff, 2018). The lower ride fares mean that Uber takes a higher commission and drivers ultimately make less money.

Another area of controversy is the surge pricing that occurs during busy times, such as late at night or on busy game days. These are prime times for Uber drivers to take advantage of riders using the aforementioned tactics. In many cases, drivers may be taking advantage of intoxicated or otherwise impaired individuals to increase profits. Uber’s purpose is to act as a safe alternative to driving under the influence and provide transportation for those who may not have it otherwise. Uber has faced a lot of criticism for its surge pricing effects. An example of this is during the Sydney siege hostage situation, rates were quadrupled to a minimum of 100 dollars. While we understand that this is a classic example of supply and demand, it does not seem like an act from a company that is socially driven and business strategies like this confirm our fact that Uber is more concerned with profits than the safety of those who use the app. Uber claims that these price surges are necessary to encourage drivers to pick up passengers and meet demand, however we feel that there has to be an alternative that benefits everyone. At the end of the day, those who use Uber during " surge times" are likely intoxicated, under the influence, in some form of danger or simply are trying to get home safely, and it does not seem ethical to take advantage of those who are only trying to do the right thing.

Prior to Uber's first fatal self-driving car crash, self-driving cars seemed like a possible solution for some of Uber's problems. However, if the company does not quickly fix the problems in its self-driving car, the company will go under before it can reap any of the potential benefits of self-driving cars.

Currently, Uber is still a private company; however, they plan to go public as soon as 2019. Based on the Uber's evaluations, they value their company to be worth $120 billion dollars as they continue to get closer to their IPO date. (Morris, 2018). It is also known that companies will overvalue their company at their IPO in order to sell their stock at a higher value than its actually worth. (Josephson, 2018). The company will then use this money to fund other projects as their stock price drops drastically when stockholders realize that the stock price was initially inflated. Due to Uber's history with ethical issues, it is highly likely that the company will over value their company and release them at a higher price. One reason why we believe Uber will over-inflate there is because their company was recently valued at $120 billion, but just two months ago it was valued at half of that. (Morris, 2018). Not only is this artificial inflation unethical, but it also makes it hard for investors to make their money back. Under the assumption of IPO inflation, we recommend staying away from Uber during its IPO due to the large chance of losing money on the initial investment, but more importantly we should not condone the actions of this firm.

Pressures Facing the Firm

The firm is facing a tremendous amount pressure from economic, ethical, industry, innovation, and social standpoints. These pressures made it easy to overlook the ethics of their actions because a firm has a certain hierarchy of responsibilities that it owes to its stakeholders and the first one is economic performance. If the business is not economically sustainable then it cannot focus on the other legal, ethical or philanthropic responsibilities that a business should follow.

Many of Uber’s pressures have been due to their poor economic performance. Uber has been struggling to break-even since the founding of the company. The company has not even been closing to breaking even yet; in fact, the company has been reporting billions of dollars in losses that appear to be increasing each quarter (Sherman, 2017). The reason for these massive losses is due to their business plan that raises both economic and ethical uncertainty. Their initial plan is to use investor money to disrupt the existing taxi company and eventually choke the industry out, even if they need to take a loss to do that. However, the pressure of maintaining this aggressive strategy is causing management to neglect some of their ethical responsibilities. And this neglect has shown in cases such as sexual harassment, driver and rider relations and even the CEO being asked to step down from his position in 2016.

Uber's strategy has been centered around a " win no matter what" attitude. The aforementioned strategy has been controversial and unethical because it involves Uber employees requesting and canceling rides on other ride sharing services in order to allow Uber to receive more ride requests. This unethical business strategy among a plethora of other questionable and unethical events, described in the " Ethical Issues Facing the Firm" section of this paper, in Uber's history applies a significant amount of ethical and social pressure on the company.

In the realms of industry and innovation, Uber has had to continuously try to improve their business model to stay ahead of Lyft and other ride sharing apps. Their research into self-driving cars has resulted in its first fatal crash involving a pedestrian. Although research into self-driving cars has only been relatively successful, it should be left to more formidable companies such as Google or Tesla. These companies have a significant advantage compared to Uber in terms of resources and knowledge.

Corporate Social Responsibility Analysis

Uber's founder, Travis Kalanick, stepped down as CEO in the face of multiple scandals within the company. Kalanick being pressured by top investors to step down is a clear sign of distress. Thus, Uber is attempting to repair its image, with the company's biggest campaign in its history. Uber has been airing commercials like, “ Doors Are Always Open”. These commercials are trying to demonstrate that the company is safer, more welcoming, and cares about its passengers more than before. Other commercials feature Uber’s new CEO vowing that Uber has improved company culture and remodeled its business practices to better serve its customers. Uber also redesigned their logo in hopes that consumers will see the company in a fresh new light.

Along with rebranding, Uber is trying to do more than just change their logo to be seen as different. They are also taking new measures to be seen as ethically responsible. The new CEO has made multiple statements about how their company’s purpose is the safety of their users, riders and drivers. Uber has introduced multiple safety checks, like an emergency button for drivers and Rider Check should a car make an unexplained stop (Zucker, 2018). Along with offering Mexico, during an earthquake, free rides and giving them $275, 000 to the Mexican Red Cross to help people (Zucker, 2018). Uber is known for its “ bro culture” in the office and within its employees. Uber has taken many steps to emphasize the importance of diversity and inclusion in a company, including hiring their first ever Chief Diversity and Inclusion Officer, Bo Young Lee. She has taken her job very seriously, and has already started implementing diversity hiring, training, and support groups for already existing employees (Booth, 2018).

In addition to promoting a safe, friendly environment, Uber has also gotten on board with promoting voting on election days and assisting in increasing voter registration and participation rates. On election day, anyone in the United States was able to quickly find their polling location and book a ride to go vote with just a few clicks in the app. The company partnered with

#VoteTogether and Democracy Works in order to provide free rides to polling locations in order to negate the validity of people who city transportation barriers as the reason they do not vote (Khosrowshahi, 2018).

Another ride sharing service that is almost identical to Uber, is a company called Lyft. Uber has a much larger market share in the industry, so since they are seen as an unethical company, society assumes Lyft is a better alternative to use. Lyft has a stereotype of being cheaper than Uber, so many feels that it is a better choice than Uber. In reality, Lyft has similar misconducts. Lyft has similar cases of rider and driver abuse, it is just not as publicized as much as Uber since it is not as large (Vasil, 2018). The only difference between the two companies is Lyft doesn’t have the size or the resources to make the correct changes like Uber does.

Social/Ethical Investment Policy Recommendations

We believe that Virginia Tech should take ethics and corporate social responsibility into consideration when deciding to invest in firms. Virginia Tech is a large public university that is founded on a certain set of values and holds these values dearly. The values are taken so seriously that there is an entire monument built in dedication to these values. Virginia Tech should aim to promote businesses that follow these same values and are also leaving a positive mark on the world. Virginia Tech should seek out companies that match their core values and can reflect what it means to be an ethical company. Virginia Tech’s main source of income is not through investing but rather tuition and state funding, so the financial return should not be of utmost importance. Instead they should only invest in firms that are doing “ good business” and act “ socially responsible.” Being that Virginia Tech’s main income source is not our investments, they should take this opportunity to invest in companies that have proven to match their ethical values, rather than focusing on companies that are larger, more profitable but potentially less ethical.

Some examples of companies that may align with Virginia Tech’s core values can be a local business that helps better our community or a company that is based around providing to charity and making a difference. Another example of a local company that Virginia Tech could invest in could be a company that would benefit from the help of Virginia Tech students. Virginia Tech and the company could pair together and create a program to help the company make profit as well as students could gain knowledge and experience from the partnership.

As a school, who prides itself on service and the future of its students, Virginia Tech should take a position for certain shareholder initiatives that pertain to service or attempts to better the world for future generations. For example, the University of Washington (UW) has recently divested from thermal coal and taken action into climate change. UW also invests “ in companies doing business in Sudan whose business activities support the Sudanese government in its continuing sponsorship of genocidal actions and human rights violations in Darfur is prohibited” (Sarna and Davies, 2016). UW prohibits the investment of tobacco companies and coal companies whose principal business is the mining of coal for energy (Sarna and Davies, 2016). From this choice to divest in thermal coal, and prohibit investment in tobacco and coal mining companies, UW is choosing to put ethical reasons ahead of financial reasons. Virginia Tech should follow in their footsteps and make policies similar to UW's.

Implementation of Social/Ethical Investing Policy

If VTF were to undertake SRI practices, it would need to implement a social/ethical investment policy. The policy should begin by creating a list of basic requirements each investing opportunity will have to meet in order to be considered. We will recommend using a values-based SRI policy like that of Georgetown university which says its policy aligns the investment strategy with its core values. (Socially Responsible Investing n. d.). Examples of the requirements VTF would use could be service to the community, movements the company has implemented in attempt to better society, or their overall treatment of employees, customers and competitors.

After finding a company that aligns with the core values a financial analysis should be done to decide if the investment is a smart financial choice. While we said that VTF could consider companies that are less profitable than a corporate giant, it still should be a smart investment for the university as a whole. We also feel that a company should only be allowed to undergo a financial analysis after it has passed through the ethical test and analysis, because it would be a waste of time and effort to focus on financially analyzing companies that do not align with the standards the foundation is requiring.

Once a company has passed through the basic ethical and financial requirements, the potential investment should be presented in front of a board containing a range of stakeholders. A key stakeholder we believe that should be on the board is students and alumni of Virginia Tech. These stakeholders would be very vested in the best future of the university and stand by the values of the university. In a perfect world an ethical company would remain ethical throughout its life but sometimes that is not the case. In case of a scandal, or a changing of company values from when Virginia Tech began its investments the company would no longer be considered for future investments with VTF. The company may be reintroduced at a later time but must go through all of the steps again in order for VTF to reinvest in the company.

Firm Investment Recommendations

We believe that Virginia Tech should avoid investing in Uber. As a school, Virginia Tech prides itself on a motto of service and doing good for the community, and we feel that Uber has had too many ethical problems and scandals that do not align with Virginia Tech’s core values. By looking at the pylons at the center of Virginia Tech’s campus, a few of them represent Service, Honor, Loyalty, and Ut Prosim (That I May Serve). Uber has faced issues with sexual harassment, driver and rider relations, questionable business practices and many more issues. These issues have been caused by a previous CEO focusing only on gaining market share and in turn has neglected almost all aspects of ethics in a company. The ethical history of Uber does not align with the core values that Virginia Tech holds and therefore should not be able to receive any financial support from the university. The issues in Uber’s past are all issues that we believe should not be advocated by Virginia Tech and their money should be allocated elsewhere.

We believe that no matter how much money a company is making, they should have to prove themselves ethically in order to be a candidate for Virginia Tech's investments. While this company has made some strides, they have yet to show good ethical practices in its lifetime and we believe that this company has problems that are very deeply rooted due to their business plan and overall strategy. This business plan will make it hard for a company to focus on ethics until they even make a profit and we should not invest in them for this reason.

We feel that Virginia Tech should be investing in a firm that aligns with the same high standards that the University holds. Ideally, this would be a purpose driven company, one that has more of a goal of providing good to the community, making their mission less about profit. As Hokies, we are held to a very high standard to act ethically and morally in every aspect of our lives, whether it be our education, professional career or personal life, and investing in a company that does not do the same is a clear contradiction of the mission of the Virginia Tech Foundation as stated on the VTF website, part of their mission is to foster and promote the growth, progress and general welfare of the university. By focusing on companies with a like mindset, this goal can most definitely be achieved, and the university can prosper to its fullest potential.

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