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Discussion Wrap-up: The Uber Board Dilemma

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Discussion Wrap-up: The Uber Board Dilemma

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Discussion #07 Wrap Up: The Uber Board Deliberates: Is Good Governance Worth Firing the Founder?

Great insights and observations from the class.

- This case illustrates the dilemma of a private company that has a fundamental conflict between the founding entrepreneur and the VC investors. The case has all of the elements of conflict amongst directors, investors and the founder, Travis Kalanick. At risk is the pendency of the company's IPO.
 - Does everyone understand the role of governance in a private company?
 - Kalanick is a genius in flexibility, drove the company, fundraiser and is totally committed
 - Kalanick lacked a moral compass; not prepared for a big company, edge of legality
 - His early investors are loyal to him, but did he disrespect the VC's?
 - Board members were initially liquidity providers, chasing scarce deals, but they look great, many occupations, ages, technology and diversity
 - Met all the governance criteria
 - Could they enforce discipline when the company was growing so fast and the valuation kept growing?
 - Uber is a revolutionary opportunity with a big upside. This shifts power to the founder, Kalanick.
 - Thain and Burns at the tailend of their respective careers, experience with public companies, IPO could be lucrative for them, appointees of Kalanick so loyal to him
- Value of Kalanick as a driver of Uber's growth
 - Expand geographically as fast as possible
 - Market entry is easy and leads competitors to compete for capital to finance the rapid growth critical to success
 - Burning capital means they are constantly fundraising; Kalanick has been very successful relative to Lyft.
- Kalanick is not easily replaced
 - He built \$60B valuation in eight years.
 - Thousands of employees
- Uber Situation-Kalanick
 - Personality fit to Winner-Take-All
 - Superstar CEO: on the road, a media presence, but is he focused?
 - Uber benefits from a charismatic founder who raises money to grow at incredible speed
- Khosrowshabi Lead?
 - More corporate-the adult

- Putting out fires
 - Will he drive the business?
 - Can he attract the funding?
- Governance Challenges?
 - Lot's of scandals:
 - Waymo IP Lawsuit
 - Civil and Criminal investigations against drivers and the use of an app where Uber operates without permission
 - Fighting with Apple
 - Sexual harassment and bad culture
 - CEO out of control, owns a lot of the company
- Private Firm Governance
 - Charter sets out:
 - How many directors can be nominated
 - How many shares and what type can be issued
 - How many votes investors and founders have
 - Charter can mandate more governance structure than required by law
 - Charter can be amended, change the bylaws, etc
 - Issues related to private company governance:
 - Private companies to have regulatory and statutory requirements
 - Financial reporting not as onerous as public (up to 2000 shareholders)
 - SOX compliance is voluntary, but attractive to investors and lenders
- Issues Relating to Directors
 - Private firms can have more Independent Directors (no conflict of interest)
 - Board is fractious
 - Gurley resigns/Benchmark sues, burned a lot \$\$, force the action
 - Dual Class shares:
 - Preferred with supermajority
 - Common with supermajority (x10) violation of one share, one vote
 - Fiduciary duty is to the shareholders in general, not their fund
 - Time horizon?
 - Window dressing for short-term investors: Get balance sheet in order, increase income, get cash flow to be net positive.
 - Strategic metrics for longer-term investors
 - Driver Capture
 - Customer Loyalty
 - Some may want to exit and new VCs may want to window dress their portfolios with (late) Uber investments
 - Disagreement on IPO timing between longer-term and short-term investors

(Post is Read)

← OK