

# ***Uber at the crossroads; The company faces an existential challenge in this week's California vote on the gig economy. Can CEO Dara Khosrowshahi steer it through? By Dave Lee***

Financial Times (London, England)

October 31, 2020 Saturday

Edition 1, Asian Edition

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**Section:** LIFE AND ARTS;FEATURES; Pg. 16

**Length:** 3439 words

## **Body**

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Dara Khosrowshahi logs on to our Zoom call from his home office in San Francisco, sitting bolt upright in a chair designed for hardcore video gamers. It was a recent gift from his wife, Sydney, who said he'd spent so long sitting in his office lately that he might as well be comfortable.

Over the past few months, Uber's chief executive has lobbied into his webcam on behalf of the future of his company and the industry it helped create. The gig economy, where the jobs came fast but the norms and protections of regular work disappeared even faster, is now facing challenges from labour organisations and politicians.

I've been to Khosrowshahi's house before but only to stand outside. In June, I watched as a caravan of Uber drivers crawled past, honking and hollering. A 73-year-old man named Vernon, a fulltime Uber driver, said he couldn't afford to care for his dying mother. Two other drivers held up a banner: "A thief lives here," it read.

Khosrowshahi wasn't there to see it. He and his family were at their second home off the coast of Seattle. Their San Francisco property has since been blurred out on Google's Street View - a request of his security detail, Khosrowshahi assumes, apparently unaware. "I'd say it's one of the less comfortable parts of my job. I'm comfortable with the public interest in me as a CEO. I'm uncomfortable with the public interest in myself and my family or where I live."

Khosrowshahi, 51, has been in charge of Uber since 2017. He took over when the company was falling apart thanks to a poisonous culture left behind by its cofounder, Travis Kalanick. Kalanick was the kind of man Silicon Valley used to worship - a disrupter. When building Uber, he'd run roughshod over regulations and competitors. He was changing the world. Everyone else was just too slow to keep up.

This attitude created a company that upended global transport, decimating the licensed-taxi business. Before Uber, the joke goes, we were scared of strangers on the internet. Now we summon them to pick us up. Today, Uber has about five million drivers on its platform globally.

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By 2015, Kalanick had created a start-up worth more than \$50bn. But he also created the conditions for the compounding scandals that eventually led to his ousting. In February 2017, whistleblower Susan Fowler wrote a blog post that detailed an atmosphere of sexism and sexual harassment. Kalanick apologised. The same month, dashcam video footage obtained by Bloomberg showed a furious Kalanick telling a financially challenged Uber driver that "some people don't like to take responsibility for their own shit". He apologised again.

When news emerged of Uber's deception of public officials, through the creation of special software that cloaked the movement of Uber drivers in cities where it was banned, it was the third major scandal in a matter of weeks. An internal investigation, led by former US attorney-general Eric Holder, led to the sacking of more than 20 employees. By June, Kalanick was gone.

Uber needed someone who could salvage the company and drive it towards a blockbuster stock-market debut. It needed someone with experience of handling large businesses without drama. In other words, they didn't need a disrupter, they needed a diplomat. They found one in Khosrowshahi.

"You've got to give Travis the credit for one of the biggest disruptive stories in technology over the past decade," says Dan Ives, an analyst with Wedbush Securities. "But it was clear he would not be the one who would lead Uber to its next chapter. Dara would, on the fly, listen to investors and change the business model towards profitability." Within three years, the new chief executive has turned around Uber's reputation and steered it through a bumpy initial public offering. But now, as politicians globally demand better treatment of gig-economy workers, Khosrowshahi is facing a bigger battle: the survival of Uber's business model.

Born in 1969 into one of Iran's wealthiest families, Khosrowshahi had an upbringing of turbulent privilege. "Bullets rang through our house," he remembers of the time, aged nine, when he saw a member of the Revolutionary Guard, bursting through the grounds of their property to reach a neighbour, accidentally discharge his weapon.

For his mother, it was the final straw.

They fled Tehran, eventually moving in with relatives in Tarrytown, an affluent village 25 miles north of Manhattan. The new Iranian government seized and nationalised the family business - a conglomerate worth hundreds of millions of dollars. Later, when Khosrowshahi's father travelled back to Iran to care for his sick parent, the government prevented him from returning to America for six years.

"What happened in Iran and the revolution was very, very tough for my parents," Khosrowshahi says. "But kids are adaptable. It was a different language and a different place - but familiar food at the table."

Khosrowshahi attended Tarrytown's exclusive Hackley School, temporarily going by the name "Darren". "It was a flashpoint moment of desperation," he says, "after the 24th time that someone asked me 'Dara? De-rah? Kos-roeh-shahwhat?' I like Dara a heck of a lot more than I like Darren."

Khosrowshahi's origin story isn't the kind typically lauded by the tech industry. There was no coding in garages or hacking in Harvard dorm rooms. He even finished his studies - bioelectric engineering at Brown - before starting his career. "I'm a closet nerd," he says. "Maybe not in the way that some of the other CEOs are, but I've got a nerd in me definitely."

"I think there was a shared sense of wanting to work hard to regain what our family lost in the Iranian revolution," says Hadi Partovi, Khosrowshahi's cousin. Several members of the family, including the twins, became formidable forces in American tech. But Khosrowshahi initially took a different path, becoming an analyst at investment bank Allen & Company in 1991, before joining billionaire media magnate Barry Diller's USA Networks.

There his attempts to build a streaming media service didn't take off but the young executive had made his mark. "He immediately impressed as someone with not only a brain, but with some grace and determination," says Diller.

In 2005, when Diller's conglomerate IAC spun out travel site Expedia, Khosrowshahi was promoted to CEO. He quadrupled the company's value over his 12-year tenure.

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When the time came to replace Kalanick at Uber, Khosrowshahi was very much an outside bet. During his pitch, mindful of the type of person he would be replacing, he insisted he alone make the decisions. "There cannot be two CEOs," one of his slides read.

That Christmas, at an Uber party for members of the press, Khosrowshahi stood on a chair to introduce himself and worked the room. Khosrowshahi was, Diller says, "on the other side of the moon" from Kalanick, who at first kept his seat on the board but soon stepped down and sold all his shares. (Kalanick did not respond to a request for an interview.) With the business and technology worlds watching, Khosrowshahi set about salvaging Uber's reputation. First, he tried to instill new company values, replacing commandments such as "Always be hustlin'" with "We do the right thing. Period."

To help with that transition, he brought in Tony West, a former high-ranking Department of Justice attorney, as chief legal officer. At the time, West was general counsel at PepsiCo and had no intention of leaving, especially given Uber's reputation. But Khosrowshahi managed to talk him into the job. "We joked, one way or the other, if we're successful or not, we would become a business-school case study," West says. "Uber was very much a poster child for people who wanted to point to what had gone wrong in tech."

Under Khosrowshahi, Uber ended its policy of forced arbitration on sexual assault or harassment claims and settled a multimillion-dollar employee discrimination lawsuit. A major data breach, swept under the carpet in Kalanick's time, was made public. West the gathering of data for a safety report - eventually published in 2019 - that detailed serious incidents involving Uber drivers and riders, such as 464 reports of alleged rape over two years in the US. It was an act of grim transparency that has yet to be reciprocated by its rivals.

A row with Waymo, the autonomous car company owned by Google parent, Alphabet, perhaps underlined the new era most clearly. Uber was accused of stealing self-driving car technology by Waymo; Kalanick, who was called to testify, was accused by Waymo of knowingly colluding with a pioneering engineer, Anthony Levandowski, to leave Google and bring its tech to Uber.

Under Khosrowshahi's direction, West pushed for a settlement and in February 2018 got one. For dropping the case, Waymo would be given a 0.34 per cent stake in Uber, worth \$245m at the time, with a promise by Uber to never use the disputed tech. Such a deal would have been unthinkable under Kalanick, who said it was "clear Uber would have prevailed" had the trial run its course.

Khosrowshahi, however, is about to face one of his toughest tests yet.

On November 3, Californians will vote on Proposition **22**, a measure that would allow Uber - and other companies with app-based workers - to avoid turning drivers into employees, something that would require providing state-mandated benefits such as sick pay, paid leave, unemployment insurance and healthcare. Uber currently treats its drivers as independent contractors: freelancers who cover their own costs for fuel and maintenance. If something goes wrong, they have to fend for themselves. Last year, California passed a law that raised the bar for companies seeking to justify their use of contractors. Uber and other gig-economy companies insisted they met the requirements, but a court disagreed, saying workers had been misclassified.

Uber and Lyft came within hours of suspending ridesharing in the state, sending alerts to users and panicking drivers. It seemed an unfathomable prospect in the birthplace of the gig economy and was avoided only when an appeals court granted a temporary reprieve.

If **Prop 22** fails, the writing is on the wall: Uber and Lyft will have to reclassify drivers. This is impossible, they say, without raising prices and greatly reducing the number of drivers on the platform, particularly those who do relatively few hours per week.

For Uber's business, the impact from a shift to an employment model would be severe. Wedbush's Ives is warning investors that an employment model could cost Uber an additional \$400m a year if implemented across the US.

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"And if they had to do that globally," he says, "that cost could increase by 30 to 50 per cent." Uber's total losses in this year's second quarter, without drivers as employees, reached almost \$1.8bn.

Should it lose **Prop 22**, Uber has discussed possible franchising models with local fleet owners, where drivers would be hired locally by third parties who would then use Uber's platform to get business. It was a strategy adopted by FedEx in 2014 when it lost a similar employee-contractor court battle.

"We have a game plan," Khosrowshahi says. "Our intent is to keep operating, to comply with the law. It's not clear what that business looks like, and it's not clear how many cities we'd be able to operate in and under what construct.

That's what we've got to figure out."

If **Prop 22** passes, the attorney-general's case is dead in the water and the gig economy is emboldened. Khosrowshahi's plan - the "third way", as he bills it - would exempt app-based gig companies from the new law. Instead, drivers remain as contractors, contributing to a benefit fund based on how many hours they work. The fund could be drawn upon to pay for things such as basic health insurance or paid time off.

Drivers will be guaranteed earnings - 120 per cent of the local minimum wage - though with a significant caveat: Uber won't count the time drivers are waiting to be matched with a passenger. When you factor in that period, a Berkeley study suggests that Uber's promised \$15.60 minimum an hour instead becomes, on average, just \$5.64, once adjusted for driver expenses such as fuel. Uber disputes the findings.

By the time Khosrowshahi talks to me about his plans, he's recited them so often he's almost fully autonomous - a self-driving CEO at one with his talking points. "It's always been our hypotheorchestrated sis," he says, "that there's a group of our population who values flexibility significantly above the benefits associated with traditional labour."

What happens in California will heavily influence how other jurisdictions treat the gig economy, a fact underlined by the financing behind the "Yes on **22**" effort. Uber, Lyft and other gig-economy players have jointly put in more than \$180m, making it by far the most expensive contest in California history. The "No" campaign, by contrast, has raised almost \$20m.

"When you look at almost \$200m to \$20m? Yeah, there's a big gap," says Cherri Murphy, a rideshare driver who campaigns with Gig Workers Rising, one of the labour groups against **Prop 22**. "But what we have is people power. The bottom line is that Lyft and Uber want to exempt themselves out of their responsibilities for treating their workers with dignity and respect."

The Yes campaign companies have advantages besides their deep pockets. The day before our interview, my smartwatch pinged with an Uber notification urging me to vote "Yes on **22**". Pro-**22** advertising stalks Californians around the web. Food-delivery app DoorDash, part of the coalition, offered bags printed with "Yes" messaging to restaurants, effectively forcing delivery drivers to promote a measure that some say will leave them worse off.

If Khosrowshahi can win on **Prop 22**, further challenges lie ahead. There was a time when investors predicted Uber would command a value of more than \$100bn. It didn't work out that way. Uber's first day of trading on May 10 2019 set an unfortunate trajectory: its stock price fell 8 per cent, from a starting point - \$45 a share - that many felt was already disappointing. A short rally quickly became a sustained slump as Wall Street became less patient with loss-making tech businesses, particularly in the wake of WeWork's collapse. Investors were no longer satisfied with disruption, and instead wanted to know how Uber would start to make them money. Many doubted it ever could. At time of writing, Uber's share price was about \$35.

A win on **Prop 22** would see Uber's value soar. With regulation secured in California, the company would look to bring similar rules to the rest of the US - and possibly in the UK and Germany, where politicians are just as agitated by the employee-contractor divide. Khosrowshahi says he'll do so proactively. "I'd like to spend less time in court if I

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can help it," he says. "But I do think that we're going to use this as an outline for a dialogue that we have on a local basis."

Khosrowshahi also needs to address his own reputation. He is often seen as a money-minded executive more comfortable handling portfolios than nurturing new technologies. While everyone sings his praises for removing Kalanick's worst excesses, there are doubts about his credentials as an innovator, a person who can build on what Uber's flawed co-founder started.

"The behavioural things that led to a bad reputation were the bad part of the old guard," says one former executive. "The really good part of the old guard was that everyone was a builder, and everyone was a problem solver. Dara is neither of those."

In fact, he has spent much of the past year dismantling large parts of Uber's business, pulling out of multiple markets where it was struggling to compete. In the US, having lost ground in food delivery to rival DoorDash, Uber struck a deal to acquire Postmates for \$2.65bn. When completed, the move will help it gain some market share. But Uber's first choice had been to buy another service, Grubhub, which was instead snapped up by European group Just Eat Takeaway. Khosrowshahi, whose reputation at Expedia came from shrewd dealmaking, looked like he'd been outplayed. On the ground, its self-driving unit - which has already taken outside funding - lags behind Alphabet's Waymo, currently in use by the public in Arizona, and GM's Cruise. Uber has been working on self-driving technology since 2015, at a cost of more than \$2.5bn and marred by a fatal crash in 2018.

When I suggest that Uber has escaped any real accountability for this, Khosrowshahi shows an uncharacteristic flicker of annoyance: "I think we held ourselves accountable. We stopped operations, and we rebuilt from the ground up. I think that is accountability."

In May, Uber announced it would cut almost 7,000 jobs, with 45 international offices marked to either close or be consolidated. The company said the pandemic was to blame, but analysts saw a business that was overdue a slimming to reach profitability.

To some, it felt lacking in direction.

"When it came to cost-cutting," one former senior manager says, "we were peanut-buttering across teams. Every team had to cut 10 per cent of people, or whatever it would be. Which is the definition of not having a clear strategy." The move contributed to the departure of Thuan Pham, the company's chief technology officer. Within the engineering teams, there is growing frustration over Khosrowshahi's decision to cut US workers while outsourcing responsibilities to a rapidly growing staff in India. "It's something that I find quite insulting," Khosrowshahi says of the suggestion he's focused on getting cheap labour. "San Francisco doesn't have a monopoly on talent."

Within the San Francisco office, there is still a suggestion that Uber hasn't been able to move on fully. Former employees who worked closely with both chief executives cite the persistence of a negative, if evolving, culture against women "There's systemic sexism at Uber," one former senior manager says. "Women are interrupted in meetings - there is a void of women in leadership."

Insiders speak in particular about disappointment around Khosrowshahi's decision to stand by chief operating officer Barney Harford after a 2018 New York Times article suggested he had made inappropriate comments about women and minorities. "I think that shocked all of us," one source says. "We were shocked Dara doubled down."

After our interview, Uber said the company had investigated Harford's comments and determined there was no evidence of discrimination. Harford left the company in June 2019 as part of a leadership shake-up.

Speaking on Uber more broadly, Khosrowshahi said: "The greatest challenge for us is combining our culture now with a lot of the good that came from the Travis days, because it wasn't all bad. It would be convenient or dramatic to say that it was all bad, but there was a real entrepreneurial push. A real innovative push."

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In February, not long before the world changed, Uber gave its stock price a boost by promising it would post its first ever profitable quarter - before deducting for interest, tax and depreciation - by the end of the year. Covid-19 kicked that target into 2021. But it has given Khosrowshahi an opening to do something new and prove himself. Lockdown measures mean demand for delivery is off the charts - up 103 per cent in the second quarter of 2020 compared with last year - thanks to what is expected to be a permanent shift in consumer habits.

He believes Uber's experience in moving food and people has positioned it to become something of a "superapp", a popular and profitable concept in China, where almost all of daily life is now managed through services such as WeChat, which act as a single portal for banking, travel, gaming and more.

In Uber's case, it would revolve around delivery. Like its rivals, it is seeking to ramp up services that can deliver groceries and other items to you in less than 30 minutes. "It's a long way away today but, certainly, we're in a unique position to get there," he says. "Eventually, you know, I can see a world where if you want to take cash out from the bank, someone will come and deliver cash to you, right? It'll be anything that you want delivered to your home."

It's the kind of move, I say, that might put him in competition with Amazon and Jeff Bezos, a man who is known for being anything but a diplomat. "I'm a baby compared to Jeff," he says. "I don't think I'm in his league yet. I've got a lot of work in front of me."

Dave Lee is the FT's San Francisco correspondent

'I can see a world where if you want to take cash out from the bank, someone will come and deliver the cash to you, right?' Uber chief Dara Khosrowshahi

## Graphic

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Pilot models of Uber's self-driving cars in Pittsburgh, 2016 - AFP/Getty Images  
Dara Khosrowshahi, who replaced Travis Kalanick in 2017 as Uber CEO, photographed for the FT by Kelsey McClellan

**Load-Date:** October 30, 2020