Categorization strategies of firms in regulated markets: The case of UBER

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Chapter 1

INTRODUCTION

During the last decade, technological inventions and the rapid development of both the Internet and telecommunications have created a change in the traditional ways of transactions within various markets. This can be exemplified by the taxi industry, originally a typically homogenous market governed by different forms of licenses and sets of regulations in order to control the market. However, with the emergence of Uber, a company that works through a peer-to-peer sharing platform that connects private drivers with passengers by using a smartphone application, the traditional market form within the taxi industry has been challenged. If you want to travel with Uber you use an application on your phone where you choose the pick-up address. It is then possible to follow the driver on the phone and see exactly when the driver will appear. You even pay with the application so there is no need to bring any money. However, if you are using UberX/Pop, this driver does not have any taxi license.

This new phenomenon, and especially Uber, has however caused a lot of trouble across the world. There have been many protests from taxi drivers and some states have even decided to impose a ban on the company.

The most crucial issue Uber is straddling nowadays concerns its categorization. Since its entrance, Uber has been claiming it is a ridesourcing company, a sort of platform which connects drivers to riders. On the other hand, taxi companies argue that Uber is a transportation company and, therefore, should comply with existing regulation.

Having said that, I am therefore going to examine the Uber categorization process with a particular focus on US and Europe trying to compare findings to the existing categorization literature.
Thus, the research questions will be:

- What are strategic actions implemented by organizations to achieve the best categorization?
- Which are the elements that influence the success of strategic actions aimed at creating a new category?

Firstly I will examine the existing literature on categorization, secondly I will analyse Uber categorization process in US and in Europe and, finally, I will answer questions in the discussion part highlighting common grounds with the literature.
Chapter 2

ORGANIZATIONAL CATEGORIES

Over the past two decades, the concept of a ‘‘category’’ and the process of ‘‘categorization’’ occupy a crucial place in current theories of organizations. This chapter offers an overview on published works in various streams of research, starting from the two fundamental theories on this topic: self-categorization theory initially provided by Porac (1989) and, on the other hand, categorical imperative theory originally developed by Zuckerman (1999). Afterwards, several authors have advanced these visions, combining and enlarging them to study more complex scenarios.

2.1 SELF-CATEGORIZATION THEORY

The first management study focused on organizational categories (Porac et al., 1989) uses the cognitive psychology discipline to describe how organizations categorize themselves. In this self-categorization perspective, organizations with common attributes see themselves as cohabitants within the same category (Wry et al., 2014). Before going deeply in the cognitive perspective, it is useful explaining how a competitive environment was created according to Child (1988) and Meyer and Rowan (1977). It is a network of transactions, among competitors, suppliers and customers, which occurs at two different levels: material and technical. Regarding the former, it includes entry and/or mobility barriers, the cross-elasticity of demand, product differentiation and pricing. The latter regards decisions about what goods or services to produce, what raw materials to purchase and from whom, and what customer groups to target (Child, 1988; Meyer and Rowan, 1977). All these aspects contribute to define an industry as well as to categorize an organization into it.

Having said that, Porac (1989) added to this statement a further dimension: the cognitive level.
According to his article, the structure of an industry both determines and is determined by managerial perceptions of the environment. In fact, the structure of competitive groups emerges from the strategies of individual firms. In contrast, the strategies of individual firms are influenced by the nature of the relative competitive environment. This means that mental models of decision-makers and how such mental models lead to a particular interpretation of the competitive milieu contribute to create an industry (Porac et al., 1989).

Thus, this interpretative activity made by decision-makers is tightly interwoven with material and technical levels mentioned above and they have a cyclical nature as a whole, composed by three main phases:

Firstly, technical and material transactions, made by the actors of the marketplace, generate a flux of market cues.

Secondly, organizations’ managers use their mental model of the competitive environment to seize and to interpret these signals. These cues do not have a clear and well-defined meaning. Therefore, decision-makers need to use a cognitive structure to understand signals in a valuable way. The mental model, or cognitive structure, is essentially made up of two types of beliefs:

- beliefs about the identity of the firm, its competitors, suppliers and customers
- causal beliefs about what it takes to compete successfully within the environment which has been identified

According to Hsu and Hannan (2005), “identity refers to what organizational insiders believe are the central, distinctive, and enduring features of their organization” (Hsu and Hannan, 2005:477).

Thirdly, managers put in place strategic choices to compete within the environment. During the ongoing cycle, mental models are influenced by exogenous factors to the transactional network such as the personal experiences of decision-makers as well as the mental models of decision-makers belonging to other organizations.
Having said that, it is clearly evident that managers make choices about strategies to implement, according to what and how they perceive signals within the environment through their mental model. In addition, decision makers show both indirect and direct imitative tendencies over time (Aldrich, McKelvey and Ulrich, 1984; DiMaggio and Powell, 1983). Indirect imitation occurs because managers from different firms face similar technical/material problems with a finite number of solutions. Direct imitation occurs because of both formal and informal communications among competitors. Therefore, the mental models of organizations become similar, creating ‘group level’ beliefs about the rivalry environment. Thus, group structure will be extensively shared by decision-makers within a category, rather than each strategist holding unique perceptions of strategic group structure (Reger and Huff, 1993). This means that shared beliefs define the relevant set of rivals and guide strategic choices about how to compete within this set.
Advancing this direction, Reger and Huff (1993) argue that the set of rivals includes some members of the category, called “core firms”, which represent the best examples in terms of attributes and strategies to belong to a particular category, defining the basic 'recipe' of a strategic group. Beside them, there are firms defined as “secondary group members”, which share characteristics with core firms belonging to different categories or that implement the strategic group recipe less consistently than core firms do. This kind of firms, also called “transient firms”, may compete within more than one category by changing their strategies from one strategic position to another, but along dimensions common to other firms in the categories (Reger and Huff, 1993).
Having said that, it is clear that a category, or a rivalry environment, is a cognitive community spontaneously self-created through the thick interaction among organizations’ decision makers. Because of the rivalry environment is made up of both core and secondary firms, which may simultaneously belong to different categories, category boundaries are in flux, fuzzy and ambiguous. According to Wry and Vergne (2014), “in absolute terms, category boundaries define what lies inside and what lies outside a category. In relative terms, category boundaries help distinguish between different categories” (Wry et al., 2014:69).

Thus, organizations reach legitimacy to assess membership in a category when other firms belonging to it recognize them as competitors. According to Suchman (1995), “legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995:574).
2.2 CATEGORICAL IMPERATIVE THEORY

Since 1999, another stream of papers began to appear, started by Zuckerman (1999), moving from the cognitive perspective, examined above, to a sociological view on industry categories. In this view, the categorization comes no longer from organizations’ mental models, but from the judgement of external audiences.

Hannan et al. (2007) define categories as an audience’s collective agreement that members of a set belong to it based on the extent to which they share similarities. According to this view, a category is ‘a class about whose meaning an audience segment has reached a high level of intentional semantic consensus’ (Hannan et al., 2007: 69).

The ‘categorical imperative’ treats categories as components of the external environment and associates them with the expectations that audiences such as critics, regulators, employees, and consumers impose on different types of organizations. Indeed, “audiences are collections of agents with an interest in a domain and control over material and symbolic resources that affect the success and failure of the claimants in the domain” (Hsu and Hannan, 2005:475). External audiences have in their mind “codified categories”, also known as prototypical categories, which are the best representation of what it means to be a member of a specific category. In particular, a codified category is represented by collective organizational identity and audience’s label.

Regarding the former, Hsu and Hannan (2005) define identity as “social codes, or sets of rules, specifying the features that an organization is expected to possess to assess membership in a specific category” (Hsu and Hannan, 2005:475). In addition, they argue that “social codes represent default expectations, assumptions, and beliefs held by audiences about organizational properties and constraints over properties” (Hsu and Hannan, 2005:475).

A label contributes to the legitimacy of a category by emphasizing its distinctiveness. Audiences find it easier to isolate a particular phenomenon from the rest of the social world when they have access to a label for it (Whorf, 1956; Zerubavel, 1997). In addition, a label also emphasizes the homogeneity of a set of organizations by
inducing audiences to focus on similarities between objects and to connect them in their minds (Zerubavel, 1997). Furthermore, labels also increase the availability (or salience) of the category to audience members. Psychological research has demonstrated that mental representations of categories (schemas) facilitate automatic cognition by providing default assumptions about target objects under conditions of incomplete information (DiMaggio, 1997).

Granqvist et al. (2012) suggest that “a market label is a type of symbol used to signify membership in a particular market category” (Granqvist et al., 2012:1) Thus, “market labels classify organizations” and, in fact, “organizations [can] assert their membership in markets […] by claiming a market label as part of their identity” (Granqvist et al., 2012:1).

Category labels, such as minivans (Rosa et al., 1999), describe the core features or underlying concept of the category (Mervis and Rosch, 1981), articulating its collective identity (Glynn and Abzug, 2002) and carrying identity codes that set audiences’ expectations (Hsu and Hannan, 2005; Hannan, Pólos, and Carroll, 2007). Having said that, it is clearly evident that individuals minimize their cognitive burden by referring to stored exemplars. Studies assume that valuation and evaluation processes rely on assessing family resemblance, referring to a process of calculating distance between known prototypes stored in memory and entities that evaluators encounter (Durand & Boulongne, 2017). More precisely, studies assume that all audience members would homogeneously mobilize family resemblance to assess products and producers. As such, categorization is comparative, and audience members find it costly (in terms of information costs) to pay attention to producers that span categories. According to Wry and Vergne (2014), “an organization engages in category spanning (or straddling) when it has simultaneous membership in two or more categories” (Wry and Vergne, 2014:71).

According to the categorical imperative theory, spanners are devaluated for three main causes: unmet expectations, capability disadvantage, and ambiguity creation. Regarding the former, category spanners align less well with audience expectations than category specialists do (Hsu et al., 2009). Organizations affiliated to only one category are more likely to have a clear and meaningful identity, so they are easier for audiences and critics to evaluate, and thus gain superior evaluations. Therefore
(according to the prototypical view), a film that spans multiple movie industry genres cannot fit neatly into any one of them, and will therefore be less appealing to audiences (Hsu, 2006a). According to Negro (2010), the presence of hybrid firms in a market category cause the appeal of the whole category to decrease. In fact, they blur the meaning and boundaries of the category and then audiences generally react negatively to such reductions in clarity. Producers have little interest in belonging to fuzzy categories, where confusion and ambiguity make comparisons between offerings harder (Negro et al., 2010).

Secondly, hybrid organizations develop less expertise and capabilities than pure players, and risk over-diversifying their resources (Hannan et al., 2003). Specialized learning from experience in a unique category can increase the appeal of offerings (Negro et al., 2010). For instance, Zuckerman et al. (2003) have demonstrated that type cast movie actors are more likely to obtain role offers than those who have played parts ranging across multiple genres. Indeed, it is easier for actors with focused identities to acquire highly specialized skills and especially to signal them to the market. In the same view, analysing a sample of auctions distributed across 23 different categories, Hsu et al. (2009) observed that sellers engaged in more than one category were less likely to use acronyms and quality indicators (which normally increase the likelihood of achieving sales) as they tend to choose wide and unspecified terms to try to target several audiences attached to different categories. As a result, organizations do not give the quality signals needed to appeal to the specific audiences of each category and so are less likely to sell their items.

Finally, the complex identities of multiple category members overwhelm the monitoring capacities of critics, who respond by paying them less attention (Zuckerman, 1999, 2000) or by downgrading their ratings (Rao et al., 2005). Critics’ prevailing cognitive schemas are not adapted to assess category bridgers and they therefore penalize them: the more a firm spans category boundaries, the more negative an evaluation it earns. Zuckerman (1999) empirically demonstrates that organizations that span categories, or which are not directly ascribable to a codified category, face an “illegitimacy discount” in terms of audience appeal and performance, suffering a lower valuation compared to ‘purer’ players. His research on capital markets documents a devaluation of firms whose profiles of industry participation do not
conform to the schemas held by financial analysts for sorting firms into reference groups. Nonconforming firms are less likely to receive coverage from the analysts that specialize in the industries included in a firm’s profile. Such lack of coverage is due to the difficulty encountered by analysts (and others) in comprehending and evaluating them; lack of coverage by analysts reduces their attractiveness to investors and impairs their stock market returns accordingly. This implies audiences control over material and symbolic resources that affect the success and failure of the organizations by legitimating category membership or not.

Therefore, while, according to self-categorization theory, organizations identified their set of rivals, categorical imperative theory claims that audiences use categories and classification systems to evaluate and assign an identity to firms (Hsu and Hannan, 2005; Ruef and Patterson, 2009), and to make distinctions between legitimate and illegitimate entities (Jensen, 2010; Lamont and Molnar, 2002).

Using Zuckerman’s words, “Sellers may become players only when recognized as such by critics. Thus, sellers must gain acceptance or their view of their product’s identity. Failure to gain recognition as a player lowers a product’s chance of success” (Zuckerman, 1999:1405). Therefore, “a product experiences weaker demand to the extent that it does not attract reviews from the critics who specialize in the category in which it is marketed” (Zuckerman, 1999:1405).

To summarize, audiences have predetermined requirements and they tend to ignore actors who do not fit them. In fact, “audiences navigate better across markets and social worlds when categories are clearly marked and unambiguous” (Durand & Paolella, 2013:1101) Thus, the more a given organization or offer deviates from the existing prototypical categories, the less the audiences are able to understand the intended meanings. Therefore, category systems discipline producers, as they both force them to respect categorical boundaries and associate rewards with conforming and sanctions with deviating behaviours. Consequently, the only way to not be sanctioned by audiences is isomorphism towards a prototype. Gaining the favour of an audience requires conformity with the audience’s minimal criteria for what offers should look like. This means that differentiation from all other is only legitimated if it is coherent towards the audiences’ vision. Therefore, firms would all gather around
their respective prototypes and seek similarity and conformance, and all offers would eventually tend to be identical.

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![Figure 4 Zuckerman (1999)](image)

In conclusion, identity, according to the cognitive perspective, refers to what organizational insiders believe are the central, distinctive, and enduring features of their organization (aforementioned in the Self-categorization theory). In contrast, categorical imperative theory argues that restricting considerations of identity to organizational insiders limits understanding of how organizations get constrained by identity codes. Clearly, the views of organizational insiders matter greatly; however, these are not the only constituents whose valuations of organizational worth constrain the actions that organizations can undertake. In many cases, agents external to an organization, such as regulators, potential investors, critics, or industry analysts, can exert an even more powerful impact. Research on identity that limits its focus to organizational insiders cannot determine the relative importance of internal versus
external constraints. Neither does it allow for the possibility that internal beliefs might be highly circumscribed by external attributions (Zuckerman and Kim, 2003).

The table below makes a comparison between main features of the Self-Categorization Theory and the Categorical imperative theory:

<table>
<thead>
<tr>
<th>Feature</th>
<th>Self-Categorization theory</th>
<th>Categorical imperative theory</th>
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<tbody>
<tr>
<td><strong>Category dynamics</strong></td>
<td>organizations create categories and act within them</td>
<td>external audiences impose constraints to category members</td>
</tr>
<tr>
<td><strong>Category boundaries</strong></td>
<td>fuzzy and ambiguous. The rivalry environment is shaped by cognitive perception of the organizations members. Undoubtedly, it may change over time.</td>
<td>clearly defined by external audiences</td>
</tr>
<tr>
<td><strong>Inter-organizational identity dynamics</strong></td>
<td>the identity is established by the group level beliefs that is originated by managers’ mental models which interact each other</td>
<td>collective identities and identity codes are selected, borrowed and recombined</td>
</tr>
<tr>
<td><strong>Source of legitimacy</strong></td>
<td>because of self-selection into the category, organizations reach legitimacy by imitating competitors’ behaviour</td>
<td>because of selection made by external audiences, organizations reach legitimacy by conforming to audiences’ vision</td>
</tr>
<tr>
<td><strong>Source of contestation</strong></td>
<td>the cognitive perspective has evident limitations such as considering only a part of the all existing competitors,</td>
<td>across external audiences there may not be a unique vision regarding the organization’s features to</td>
</tr>
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suppliers and customers involved in the category assess membership. This could bring about ambiguity of boundaries and category straddling

<table>
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<tr>
<th>Category legitimacy</th>
<th>achieved by sharing understanding and interpretive frames among category members</th>
<th>achieved by sharing understanding and interpretive frames among a sufficient number of external audiences</th>
</tr>
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<tr>
<td>Importance of labels</td>
<td>decisive when organizations try to establish membership into an existing category</td>
<td>decisive when external audiences agree on labelling practices</td>
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Figure 5 Self categorization and Categorical imperative theory

2.3 BEYOND THE PROTOTYPE: ACCEPTING HYBRID ORGANIZATION

As extensively explained above, according to the categorical imperative theory, in order to activate a categorization process rooted on family resemblance, audiences must have access to existing prototypes. When an organization span categories, it necessarily faces negative consequences in terms of both performance and audiences’ appealing. Despite the fact that this evidence was extensively demonstrated, organizations continue to expand their footprints across multiple categories. Therefore, a new stream of studies have emerged, aimed at going beyond the absolute link between hybrid organizations and illegitimacy discount claimed by the prototype view. Firstly, I will examine two new models to categorize organizations, which suggest that a hybrid organization may be more valuable than a pure one as long as it fulfils audiences’ causal mental associations or goals. Secondly, I will explain the view claiming that appealing of ambiguous identities depends on the type of audiences who have to categorize them.
2.3.1 CAUSAL BASED AND GOAL-BASED CATEGORIZATION

Following this new stream of studies, Durand and Paolella (2013) provides two novel models to categorize organizations: the causal-model and the goal-based model. The causal-model approach suggests that not all features that determine category membership have the same valence and causal power. Prior knowledge and expertise of audiences contribute to categorization, uniting features according to cause–effect chains, so that audiences’ evaluative schemas and categories can be structured along various causal paths and models. They point to an audience-based theoretic model, which is defined as “a causal elaboration of linkages between features that define a category” (Rehder, 2003a:710). A causal model introduces a hierarchy among features, in that one feature causes another, which can be used when categorizing entities. For instance, for people in general, birds have wings and birds fly. The causal association between the feature ‘wings’ and the definitional trait ‘fly’, implies that – among many different features that could characterize birds (beaks, colours, etc.) – birds fly because they have wings. As a result, the birds which have then smaller, or vestigial wings (like chicken or penguins) will be less likely to be classified as members of the ‘bird’ category than (for instance) robins. Thus, an entity can be defined as more or less a plausible member of a category depending on how much it displays relevant features and their causally-linked effects (‘wings’ and ‘fly’). Therefore, the weight of a feature is no longer based on its similarity to a prototype but on its causal power to account for a function which is a recognizable characteristic of the category (Durand and Paolella, 2013). “A key assumption of causal-model theory is that the presence of causal knowledge changes one’s expectations regarding not only individual features, but also the entire combination of features that a category member is likely to display” (Rehder, 2003a:734). As such, audience members can be seen to have an active role in categorizing markets: depending on their world theory (Murphy and Medin, 1985) and expertise (Cowley and Mitchell, 2003), they may focus their attention on diverse dimensions and disagree on their categorical assessments. Thus, depending on how their model of social reality is formed and informed, different audiences can categorize the same organization differently.
Furthermore, Murphy and Medin (1985) and Rehder (2003a) have suggested that audience’s world theories and their causal models matter for affiliation both within but also across categories. Category structures depend on prior knowledge and experience of audiences. In particular, to understand an audience’s categorization mechanisms, we have to take into account not only a particular category, but also their whole system of categories. Thus, category membership is determined less by overall similarity to a prototype than by adherence to causal knowledge proper to audiences’ worldviews and theories (Rehder, 2003a).

The goal-based approach argues that the process of categorization is contextual and driven by the goals that actors pursue, so that producers and audiences create ad hoc categories to support the aim of achieving a specific goal. Audiences have different goals, so they create different categories whose members lack feature similarity but reach the same end (Durand and Paolella, 2013). Furthermore, beyond the simple matching of features proposed by prototypes, Ratneshwar et al. (2001) distinguish between two types of goal salience that impact mental representations and category boundaries: personal goals and situational goals.

According to Ratneshwar et al. (2001), objects are clustered together to the extent that they are appropriate for fulfilling both goals. The authors offer the example of a personal goal – ‘eating healthy foods’ (pooling together apple, orange, granola bar, fruit yogurt, etc.) – set against the situational context of ‘driving a car’. This configuration leads to the situational goal ‘convenience while driving’, which excludes from the final category (which we might call ‘eating healthily while driving’) some members of the ‘healthy foods’ group products like orange or fruit yogurt, which are impossible to eat while driving.

Barsalou (1991) argues that the emergence of an ad hoc category involves prior intentions. Audiences’ mental representations of categories follow a top-down logic: audience members first define a goal, and only afterwards do they observe and organize the reality into categories of objects likely to help them reach their goal. Categorization of firms would accordingly be more accurately inferred from audiences’ goal-seeking than from any similarity in their features. Therefore, rather than being fixed and widely-agreed (prototype view), ad hoc categories are temporary
categories constructed around specific goals in a given context, rather than permanently stored representations of common features (Barsalou, 1983, 1991). According to both perspectives, category membership is more than a checklist of features (Barsalou and Hale, 1993). Thus, the connection between category spanning and illegitimacy discount is no longer obvious. Indeed, from the causal-model perspective, categorical purity may be less valuable than possessing fewer features as long as an entity includes features with significant causal implications. In fact, fuzzy membership of more than one category may be consistent or inconsistent from an audience’s (and producer’s) viewpoint. In this view, the features and cues that audiences – and researchers – use to include or exclude entities as category members could be related in a hierarchical and/or directional manner. Assessments of the presence/absence of correlative features requires complementary analyses, since it is not just correlation that explains categorization but also actors’ causal models. Thus, “they are likely to categorize or not a hybrid organization according to whether its combination of categories coheres with their own causal models” (Rehder, 2003b:1154). For instance, in the legal services market, a law firm engaged in both ‘bankruptcy’ and ‘intellectual property’ practice areas appears less coherent than another engaged in ‘corporate’ and ‘banking’ activities: the latter fits better into the kind of causal schemas corporate audiences might expect, since banking specialists can arrange for colleagues from their corporate department to help a client firm handle an acquisition – but there is no such immediate or congruent association between intellectual property and bankruptcy. It is not the fact of spanning categories per se (i.e. increasing the total cognitive distance relative to established prototypes) that might matter to audiences, but their capacity to make coherent sense of the categorical combinations they observe. Depending on their causal models, audiences would expect some sorts of spanning to be more likely to occur than others. If audiences can assemble the causal associations entailed by multiple categories (e.g. corporate law/banking or auto producer/auto retailer/insurer) into a coherent model, organizations that bridge categories could be at an advantage relative to purists from each independent category. Therefore, while over-diversification generally leads to suboptimal outcomes, some category combinations are likely to offer certain
organization advantages in the eyes of some audiences according to which causal model(s) they use.

Both prototype-based and causal-model views agree that there are identifiable categories and organizations that span categories or specialize in one only – but disagree on the reasons for negative consequences of categorical spanning. In contrast, the goal-based view of categories overcomes the assumption that audiences or critics would use a finite set of categories or candidates before determining partial or full membership. Depending on the type of audience members, but more importantly on their goals, the potential candidates for categorization would vary dramatically (Barsalou, 1991). Considering audiences as goal-oriented is likely to reverse our understandings about the relationship between organizational similarity to a prototype and any ensuing positive outcomes. Driven by multiple goals, audiences could evaluate hybrid organizations positively if they fit squarely with their specific needs. Thus, an audience creates an ad hoc category for a specific goal (e.g. profit maximization, rewarding novelty, being good, etc.), and in so doing redesigns stable categories and established prototypes – redefinition, subsumption and recombination are all possible courses (Kennedy et al., 2010) depending on what the audience is looking for. Even in market categories with high typicality effects, audience members’ cognitive attention is driven by specific intentions. Audience members create ad hoc categories that recombine producers, so hybrid producers may be at an advantage over prototypical firms when the goal is complex –for instance, reaching a profit threshold while maintaining a neutral environmental footprint. Audience members can also select producers that satisfy their needs irrespective of their other categorical memberships; for instance, all firms that do not outsource in regions where child labor is accepted. In both cases, multiple category members are classified differently by audiences. Hybrid producers can benefit from their positions across disparate categories to catch distinct audiences’ attention and meet broader audiences’ complex expectations. Multiple audiences with wider ranges of intentions will find hybrid organizations more visible and identifiable than single category members (Scott and Lane, 2000), while multi-category members could appeal to more audiences with varied interests and thus gain more positive evaluations. Whereas the dominant perspective does not distinguish between different types of multiple
category affiliations, the goal-based view of categories suggests that all category combinations are not necessarily equal. Furthermore, audiences’ attention, perception, and judgment will vary depending on how goal-based the categorization is and the complexity of the goal (e.g. being both profitable and green). In this case, category spanners may satisfy the ends pursued by multiple audiences and be evaluated more highly than specialists huddled around a prototype.

2.3.2 AUDIENCES AS MARKET-TAKERS OR MARKET-MAKERS

In many contexts, organizations continue to expand their offerings across market labels and identify with labels that have a relatively unclear social meaning. This is especially evident in the software industry, in which organizations frequently claim multiple labels, for example “document management,” “computer-aided design,” or “enterprise resource planning,” and many labels have ambiguous boundaries, such as “enterprise software,” “customer relationship management,” “data mining,” and “e-business applications.” If part of an organization’s identity is derived from its label affiliation, and organizations suffer when they do not have clear identities, then how does an ambiguous classification structure like the software industry’s come to be? The answer lies in different audiences’ evaluations of the labels with which organizations affiliate. There are at least two roles for audiences in a market: “market-takers,” who consume or evaluate goods, and “market-makers,” who construct markets by developing new niches and enforcing boundaries. Market-takers use labels to find organizations and assess whether their products can meet specific needs. Consumers are market-takers. Market-takers use classification to find an organization (or other entity) that can satisfy particular requirements but are not concerned with producing new types of classification. Thus, they use classification simply to make sense of a complex field, and ambiguity makes organizations unclear. A market-taker looking for a certain type of product will be less likely to find organizations that are not classified as expected, so ambiguous classification can cause organizations to fall outside the consideration set (Pontikes, 2012). When market-takers do evaluate an organization that is ambiguously classified, they are
more likely to use inappropriate criteria and, as a result, the organization will not meet their expectations (Zuckerman, 1999). What makes consumers an audience of market-takers is that they use classification for purposes of evaluation and are not interested in changing the classification structure in the domain they are purchasing from. Even large businesses purchasing a custom solution want to be clear about what they will receive, and often these customers are quite risk averse. It is not that a consumer will never buy an innovative product that is ambiguously classified—some cutting-edge managers purchase such offerings to give their organizations an advantage—but previous research suggests that ambiguous classification does not make these products more appealing to a consumer. A market-taker would prefer it if the product classifications were easy to understand.

On the other hand, market-makers are interested in organizations that can change the structure of an industry. Despite research showing that people are put off by ambiguous classification, it persists. According to Pontikes (2012) this is because ambiguity is appealing to some audiences, precisely to market-makers. For this type of audience, ambiguity presents an opportunity to produce new types of classification. Market-makers evaluate organizations with an eye toward how they can redefine market structures, and organizations that create something novel have the potential to do this. Although endeavors at innovation often fail, when they are successful, an organization can dominate a new or changed market. Further, organizations with ambiguous identities have the potential to be understood in different ways. Previous research in the network tradition suggests that “multivocality”, or having an identity that can be interpreted differently from multiple perspectives, can be beneficial (Padgett and Ansell, 1993). Such “robust identities” have been shown to benefit veteran actors even when evaluated by market-takers: an actor’s experience inspires confidence that he or she has the proficiency required for the job at hand, and so in this case, multiple identities are interpreted as signifying a broad skill set (Zuckerman et al., 2003). For a market-maker audience in search of something new, such ambiguous identities will be appealing in general. Ambiguous classification provides the flexibility to cultivate new opportunities in a market, so it is precisely the organizations that are not easily classified that will be the most appealing. Organizations that are ambiguously classified can more easily initiate change or adapt...
to changes in an industry, and they have more latitude to modify how they position their offerings without appearing to be chameleons. They also may be able to shape the definition of an ambiguous label or construct a new label. Therefore, organizations with flexible identities are more likely to be seen as having the potential to establish unique market niches, which will appeal to market-makers. Taken together, these arguments imply that market-makers should prefer organizations that are ambiguously classified. In the software industry, market-makers can include managers within organizations, venture capitalists, and in some cases, analysts and business media. Similar to market-takers, these groups use the classification system to try to understand and explain their own or other organizations. But unlike market-takers, they also are interested in shaping classification to benefit their strategic objectives. The above argument propose that ambiguous classification makes organizations seem unclear to market-takers but flexible to market-makers, leading to opposing evaluations. This may seem ironic, given that venture capitalists aim to invest in companies that will at some point attract consumers. But it is important to remember that venture capitalists invest in early-stage organizations, and so reactions to classification from these two audiences may form a complementary two-stage process. Venture capitalists first sort through organizations that are difficult to understand and choose the most promising. In the second stage, consumers choose from among the survivors which organizations to patronize. Market-makers prefer ambiguous classification because it allows organizations the flexibility to develop novel offerings that can become industry changing products. Further, ambiguously classified organizations are potentially ‘‘multivocal’’, with the ability to appeal to many different constituencies (Padgett and Ansell, 1993). This is attractive under conditions of uncertainty, such as when a venture capitalist is considering investing in an innovative organization. Thus, the way an ambiguous identity is regarded depends on the perspective of the person evaluating the organization. For market-takers, ambiguous classification makes organizations unclear. But for market-makers, this same ambiguity represents flexibility (Pontikes, 2012). These findings reconcile two disparate views on whether it is more beneficial to have a clear identity that fits a well-defined label or to cultivate a flexible identity that can be more innovative.
2.4 STRATEGIC CATEGORIZATION

To this point of the literature review on categorization, it is clearly evident that there are basically two fundamental theories, self-categorization and categorical imperative. The former is an internally driven process, in which organizations categorize themselves by recognizing their set of rivals. In contrast, the latter refers to prototypes used by audiences to categorize organizations, which have the faculty of sanctioning spanning organizations. However, as some researchers have noted, in order to activate a categorization process rooted on family resemblance, actors must have access to existing prototypes. But actors constantly face situations that are original, specific, or unprecedented, making them look for atypical attributes instead of prototypical ones (Barsalou, 1985, 1991). According to goal-based categorization (Durand & Boulongne, 2017; Durand & Paolella, 2013), in these commonplace situations, actors activate other cognitive processes. Notably, conceptual combination associates attributes and traits to make them fit with an idealized goal responding to a need (Barsalou, 1985, 1991; Murphy, 2004). For instance, “hunger” will make individuals associate some birds (e.g., chicken) with vegetables, whereas a biological taxonomy keeps them separate. As described by Durand and Boulongne (2017), in the goal-based approach, categories are used by audiences as a means to achieve a goal, whereas in the prototypical view, they alleviate ambiguity around a product or a producer. Although category spanning, from the perspective of the prototypical view, will be evaluated negatively as generating different sorts of ambiguity (mostly cognitive, identity, and competence ambiguity), under conceptual combination, the same behavior is not necessarily negative (Paolella & Durand, 2016). Accounting for what actors need and mean is therefore fundamental to decrypt which categorization process is activated. Zuckerman (1999) and more recently Paolella and Durand (2016) refer to it as an audience’s theory of value, which is defined as “how audiences identify issues and solutions, ascribe value, and rank solution providers” (Paolella & Durand, 2016:333). In this case, there is no direct link between an actor’s theory of value and proximity to a prototype (Barsalou, 1983). For instance, when audience members face a new and unique offering for which they have no comparable previous experiences or expertise, they tend to categorize this offering as an active function of
their own needs; that is, they develop situational ad hoc theories of value (Bowers, 2015; Zuckerman, 2017). For instance, corporate law firms have been found to span categories without being sanctioned for this since their breadth of expertise makes them capable of managing complex cases and deals necessary to cater to their clients’ needs (Paolella & Durand, 2016).

In turn, the causal model perspective places agents’ computational evaluations at the centre of the process, where agents consider their past experiences and knowledge to seek for analogies linking entities’ features in causal relationships to support categorization. As a consequence of putting to epicentre audiences’ theory of value, it becomes essential to consider the situation, context, and actors’ motives in the construction of categories. Thus, it is necessary to go beyond viewing categorization as a largely automated process by which actors individually assess a new entity (by either family resemblance or conceptual combination) according to some category features that are well-defined ex ante (a prototype or an ideal). Furthermore, as we get closer to the individuals and actors of the categorization, there is a need to relax the central assumption that members of a particular audience would categorize similarly and to uncover the social dimensions of categorization (Bowers, 2015; Zuckerman, 1999, 2017). As a consequence, it is essential to better contextualize actors’ active role in defining ad hoc categories as a function of their needs and goals. By relaxing the ascription of a social process (family resemblance, conceptual combination) to actors ex ante, and by paying heed to the social context and interactions that surround actors, I will shift my focus of attention on how market categories are produced and enacted differently in various social situations providing distinct cues and norms. According to this new stream of research, called “strategic categorization”, actors, when using categories, interact and share their understanding about the category system with others and thus come to shape it. Therefore, meanings and boundaries of market categories are collectively negotiated and construed (Khaire & Wadhwani, 2010; Navis & Glynn, 2010; Rosa & Spanjol, 2005; Rao et al., 2005; Weber et al., 2008) with varying perceptions, interests, and knowledge bases at play (Durand & Paolella, 2013; Granqvist & Ritvala, 2016). In other words, strategic categorization suggests that categorization process is an active, social project that likely involves the interpretations and actions of both entrepreneurial organizations and interested
audiences. Organizations may “signal” their affiliation within a category while external audiences shape category following their personal goals or causal mental model.

According to Durand, Granqvist and Tyllstrom (2017), there are five co-occurring elements that seem particularly central to consider when analysing categorization as a negotiation process: involved actors, their knowledge and experience, and goals and interests; the object that is being categorized; the acts of categorization, and what counts as such; the context or situation in which categorization occurs; and the temporal conditions surrounding the categorization process.

2.4.1 DIFFERENT ACTORS’ GOALS AND INTERESTS

Past studies have tended to predefine groups of actors such as producers, audiences, and intermediaries. However, this prevailing assumption of homogeneity has overshadowed the fact that categorization can vary within a group and be similar across groups. In other words, actors of the same type may be heterogeneous with different theories of value. For instance, according to Pontikes (2012), audiences may be market-takers or market-makers. Moreover, participants from “different” groups may categorize similarly, such as car producers may share interests with environmentalists in promoting electric cars. Relatedly, assuming impartiality of intermediaries and audiences may not hold in many situations. Analysts may have an interest to see a new market grow when this might increase the demand for their services; this influences their public evaluations of firms and products in that market (Granqvist & Ritvala, 2016; Pontikes, 2012). In this case, analysts are not objective information intermediaries but may through categorizing impose their preferences to other market participants (Khaire, 2017; Pontikes & Kim, 2017). Examining categorization as a both cognitive and social process accounts for an element of negotiation, thus actors with very different interests and knowledge bases strive to develop shared meanings, while their own perceptions are modified in the course of the process (Glynn & Navis, 2013; Khaire & Wadhwani, 2010). Economic, ideological, and other types of interests fundamentally influence how, why, and when actors engage in categorization of markets (Granqvist et al., 2013; Vergne, 2012;
Zhao, Fisher, Lounsbury, & Miller, 2016). Furthermore, members of different professional and knowledge communities observe entities from varying vantage points, use them differently, and elaborate their theory of value in the course of interactions and disputes (Ferguson, 2015; Zuckerman, 1999, 2017). This negotiation of category meanings and boundaries is therefore impacted by how actors with different goals and understandings are able to craft some common ground. For instance, Delmestri and Greenwood (2016) develop a process model of category detachment, emulation, and sublimation to account for how grappa, from a low-status category, became to be appreciated as an elite product, as a function of shared interests among some producers, critics, and politicians. Another case, in point, in nanotechnology scientists and futurists had very different professional rules, understandings, and definitions, which resulted in an outright conflict in classifying objects and activities (Granqvist & Laurila, 2011; Grodal, 2007). In sum, considering categorization as social negotiation and enactment is particularly useful for accounting for actors’ varying goals, interests, and grievances and studying the impact that these may have on how categories are used and how they function in a market context.

2.4.2 FLEXIBILITY OF THE ENTITY TO BE CATEGORIZED

As discussed above, the vast majority of research on categories has rested on family resemblance, also called prototype (Hannan et al., 2007; Rosch & Mervis, 1975). These studies typically focus on the observable material features, such as shape, size, and matter. Recent studies examining how combinable an entity’s features are also tend to focus on observable and material aspects (Suarez, Grodal, & Gotsopoulos, 2015). However, many categories that define markets are abstract by nature, such as “bankable,” “socially responsible,” or “privacy” (Bajpai & Weber, 2017). Importantly, all market categories are to some extent a blend of material and abstract features. For example, modern art (Khaire & Wadhwani, 2010), public relation services (Tyllstrom, 2013), or corporate law (Paolella & Durand, 2016; Phillips, Turco, & Zuckerman, 2013) cannot be assessed only by some material features. Rather, one needs to have access to particular knowledge and a complex set of norms
and practices that characterize these market categories. Therefore, under this lens, family resemblance and conceptual combination are not sufficient to cover the social evaluation processes involved in categorization. Studying categorization as a negotiation process embraces the multiplicity and coexistence of both material and abstract or conceptual features of market categories.

2.4.3 ACTS OF CATEGORIZATION

Categorizing processes, like all social processes, need continuous energy to be sustained. But what do actors do exactly when they “categorize” entities in markets? Firstly, actors (both producers and audiences) select and assign labels to firms and products and using certain supportive vocabularies in this communication (Granqvist et al., 2013; Loewenstein, Ocasio, & Jones, 2012). It is through labels, such as “biotechnology” or “3D printing,” that market categories are typically assigned (Hannan et al., 2007), as firms articulate a particular categorical affiliation themselves or are labeled by analysts and customers.

Secondly, claimants try to signal their membership. Signalling refers to extolling some valuable traits to potentially interested evaluators or using certain cues and memberships as a means to access information about competitors (Heil & Robertson, 1991). For instance, affiliations with already-established and prominent organizations can function as important guarantee for quality (Stuart, Hoang, and Hybels, 1999). Furthermore, firms’ affiliations with more established and prominent celebrities, who could “demonstrate or improve reputation, image, prestige, or congruence with prevailing norms in the institutional environment” (Oliver, 1990: 246), enhanced the credibility and feasibility of claimant. Celebrities are highly visible individuals that often command significant public attention in their own right (Rindova, Pollock, and Hayward, 2006), thereby providing attention-getting, interest-riveting, and profit-generating value (Rein, Kottler, and Stoller, 1987) for the affiliating organization. As icons or prototypes of particular cultural, entertainment, music, sports, business, political, or other public arenas, celebrities can graft their fame and renown onto the organization through their sanctioning, thereby associating the organization with the acclaim of the celebrity. In this way, celebrities position organizations favourably in
market spaces, aligning firms in recognized ways with wider cultural, social, or economic interests (Johnson, Dowd, and Ridgeway, 2006).

A further example regarding the act of “signalling membership” is the use of linguistic frames, which can represent an organization’s gradient of membership through qualifying terms. Adjectives like “true” or “technically” can differentiate category members; for example, “A sparrow is a true bird,” and “A penguin is technically a bird” (Mervis and Rosch, 1981). Similarly, organizations may qualify their membership through comparisons to exemplars in established categories to position themselves as unique or elite. For example, Elsbach and Kramer (1996) found that the University of Texas business school described itself within the business school category as a top regional business school rather than a national business school, which would have lowered its stature. In addition, in his study on films genre-spanning, Zhao (2013) shows that sequel naming, especially sequels that are part of a highly successful series such as Harry Potter or 007 films, is potent enough to mitigate against the illegitimacy discount and increase audiences’ attention towards genre-spanning films.

2.4.4 CONTEXT-RELATED FACTORS

The social approach to categorization assumes particular shared principles for evaluation ascribed to a group of actors as an aggregate (e.g., audience members use family resemblance relative to a prototype). The strategic perspective on categorization, in turn, depicts the process as inherently bound to the context in which it unfolds, where experiences, meanings, and identities play a key role in assessments. Different social situations have an impact on the categorization process, invoking some cues and pressures (Grodal & Kahl, 2017). For instance, categorization might be impacted by whether it is conducted habitually, privately or under public pressure, or in a particular professional setting, depending on a purpose in mind. The study by Granqvist et al. (2013) identified different ways in which executives categorized their firms based on their assessment of the category viability toward particular audiences and across different situations where this categorization occurred. Similarly, the selection and assessments of commercial offerings are influenced by whether a
categorization is a routine act and a minor decision or happens for the first time and is a major investment of time and resources, such as purchasing a medical 3D printer for a dental practice. The social context strongly conditions the cognitive processes to be activated by actors. In broader terms, it is no accident that many empirical studies of categories refer to institutional theory as a complementary framing (Khaire & Wadhwnani, 2010; Meyer & Hollerer, 2010; Vergne & Wry, 2014; Wang, Wezel, & Forgues, 2016). Institutional context impacts categorization through shared meanings and assumptions, norms and regulation, and practices. When actors engage in the acts of categorization, they also behave according to what is perceived as habitual and legitimate behavior in a given institutional setting. For example, norms and regulations make many categorizations illegitimate or illegal, and changes in regulation may have a catalytic, perpetuating, or a detrimental impact on market categories. Overall, categorization can be seen as a social process of communication that reproduces, maintains, or undermines the institutional bases and value systems that relate to a particular market category (Bajpai & Weber, 2017; Cornelissen, Durand, Fiss, Lammers, & Vaara, 2015), also providing a context for these actions.

2.4.5 THE IMPORTANCE OF TEMPORALITY

Finally, issues related to timing and temporality inherently have a major impact on categorization. Several studies, accounting for stages in market development, have found that most of the dynamism regarding boundaries and meanings occurs when market categories are emerging, transforming, or declining (Kuilman & van Driel, 2013; Navis & Glynn, 2010; Suarez et al., 2015). In such situations, the meaning of the category is most clearly under debate. Pontikes and Kim (2017) support this approach as they find that analysts tolerate unclear categorical boundaries in categories younger than 10 years, while they observe penalties for older categories. Beyond mere stages of development, other temporal aspects are at play in categorization, such as perceptions of timeliness, urgency, sequence, or being proactive or ahead of the markets (Durand & Khaire, 2016). For example, urgency may trigger automated cognitive processes and reproduction of existing categorization. In turn, making sense of new features and producing novel categories
requires time for shared meanings to emerge and settle. Most of such patterns are only
discernible if studied experimentally and longitudinally. Research has overlooked
how temporality, as a negotiated organization of time, shapes categorization
(Granqvist & Gustafsson, 2016). These temporal aspects include perceived timing of
entry, expectations for future developments and payback for investments, and various
temporal contexts for categorization.

2.4.6 CATEGORY EMERGENCE

To this point of the review, it has been examined how an organization deals with
categorization process. It may be an internally driven process (self-categorization
theory), an externally driven process (categorical imperative theory, goal-based and
causal-based theory), or a combination of both (strategic categorization). Recent
studies, rather than focusing on the process of categorization into existing categories,
have analysed how a new category comes to emerge. Durand and Khaire (2016)
define category emergence as “the formation of categories that emerge from elements
extraneous to an existing market” and “categories emerge when the existing
classification system and categorical structure of markets do not sufficiently account
for material novelties sponsored by innovators” (Durand and Khaire, 2016).
Therefore, category emergence occurs when category formation proceeds from
components and features exogenous to the main categorical system in use by
incumbent producers and audiences.
Emergent categories are founded on account of new, hard-to-classify (within existing
systems) attributes of a good. Novelty proceeds from the insufficiency of current
categories and categorical features to address, express, represent, and communicate
the essence of material distinction brought about by innovators. Imports or additions
of physical observable features from an adjacent or distant category system generate a
need to label and make cognitively acceptable and valuable these differences. For
instance, the minivan emerged as a category of cars that possessed features that
crossed over adjacent but impervious categories: sedan and station wagon versus van
and truck (Rosa et al., 1999).
In category emergence, labelling succeeds material innovation. For instance, the Internet in the mid-1990s was not recognizable as a category and was given multiple labels, just as it took several years for a smartphone to come to be labelled and accepted as such (Suarez et al., 2015). When technology develops, material possibilities to export and import, employ, and combine its potentialities increase, as do the odds that new categories emerge. When technology made it possible to exchange stored content from one PC to another, PC users built platforms to facilitate file exchanges, and organizations and firms launched services related to these “peer-to-peer” exchanges. Napster and its followers emerged as a new category of producers that contradicted legal principles of asset ownership and that revenues derive from intellectual property. Hence, in the case of category emergence, fundamentally novel and distinctive technical, physical, and material elements pre-exist the discourse and labelling contests.

Today, while having actual, distinctive material and observable features, “bitcoin” is still uncategorized, being simultaneously considered a digital asset, a unit of account, a virtual currency, or a store of value (Vergne and Swain, 2017).

The most frequent carriers of an emergent category are new organizations, upstarts pushing their way in between existing producers. Promoters of category emergence aim at generating new criteria for product selection that gives them an advantage over rivals in terms of attractiveness and value capture. Category emergence promoters grow fast, are aspirational for others, and give birth to new organizational models, with identifiable traits and distinct characteristics that enable them to upend established consensus and economic value.

For example, molecular cuisine restaurants obey a distinctive identity and organization from other cuisine places, all geared toward respect of ingredients’ characteristics and cultivation of established techniques. Molecular cuisine restaurants import chemistry into cooking, design and use new utensils and protocols, and rely on star chefs heralded as artists, whereas their counterparts repeat learned traditions (Svejenova, Mazza, and Planellas, 2007). Hence, the market identity and the economics of category emergence promoters obey rules and principles that make them stand apart from more static incumbents and explain how and why they bear fruit and profit.
Market intermediaries (media, critics, rating agencies) react to rather than elicit category emergence. As noted by Rao et al., “Producers are not subservient to critics, but instead, redefine boundaries for the critics to recognize. So critics are midwives of boundary change rather than zealous guardians of genres” (Rao, 2005:989). Therefore, intermediaries respond to category emergence promoters’ spur of material and discursive novelties. They reflect the new competitive realities in an attempt to protect their own position as facilitators of market exchanges (Fleischer, 2009).

In category emergence, the cues and elements solicited to recombine, build, and narrate the story around the novelty belong to alien repertoires and vocabularies; as a result, the emergent category is more likely to be fought against, rejected, demoted, and vilified by incumbent actors that defend and benefit from existing orders and economic models. For instance, in the architecture profession, the “modern functional” category opposed essential features of “revivalists” and “modern organic”; as Jones et al. note, “Categories that seek to alter radically a profession’s logic are likely to encounter stiff resistance, because the new category also alters identities, interests, and statuses for both producers and audiences” (Jones et al. 2012: 1539). The mechanisms of distinction for an emergent category involve both the adaptation of language, symbols, and vocabularies from exogenous sources and an opposition from local actors to mark a rupture with existing typologies.

As a result of these mechanisms of distinction, promoters of emergent categories describe and defend their novelty analogically. They import entire systems of vocabularies, associations, and causal arguments that create a rupture with existing discourses. The attempt is to attach to the material novel meanings and symbols that are integral in a distant realm of activities but may contrast sharply with the existing labelling and symbols corresponding to the available categories. In architecture, modern functionalism imports the “Taylorized beauty of the mechanical” in what used to be a Beaux Art discipline (Guillén, 2006; Jones et al., 2012). Hence, a system of rationalism, technique, and efficiency migrated from science and engineering into a domain of art and tradition. In the same vein, Internet vendors need to use analogies from the real world to help customers understand the new categories of service they offer by referring to “baskets,” “delivery time,” and “pickup spots.”
Category emergence promoters need to develop not only the appropriate analogical discourse that helps audiences comprehend the new category, but also the criteria to evaluate it.

For instance, in the case of minivans, new criteria have been used to qualify the modularity of internal car space: number of seats available (five to seven), ease of seat removal, total available volume with and without seats, and so forth. Intermediaries play a key role in this process; as reflectors of change, they use and disseminate these criteria, granting legitimacy (or not, in case they oppose them) to the new offering and producers. Ruef and Patterson (2009) describe how firms’ credit raters emerged as a new category of market actors, facilitating the financial fluidity of markets through the professionalization of its agents and the institutionalization of some financial metrics and ratio as predictors of a firm’s creditworthiness (Ruef and Patterson, 2009). Therefore, legitimacy of an emergent category depends on how industry players use the criteria and metrics that define category membership, valuation, and performance.

Category emergence’s sponsors defend and sustain the category’s autonomy vis-à-vis extant categories and strive to impose new selection criteria in markets (Durand, 2006, 2012). The most significant outcomes of category emergence are the switch in value creation models they offer and how much value they capture out from incumbent players. Notably enough, the new discourses, often in opposition with the current symbols and meanings that are widespread and used by traditional incumbent players, are capable of modifying substantially not only audiences’ perceptions of existing offerings but, by inference, also those of existing producers. When the PC and word-processing applications emerged as new categories, rival products such as typewriters could just not compete, either discursively or strategically, as their resources and assets were losing value every day (Danneels, 2011). Consequently, when emergent category promoters compete against traditional incumbent players, they often face a discount in the established categories, which can be partially compensated by some prior experience accumulated in the traditional sector.

Simons and Roberts (2008) find that preexperience enabled nonkosher wineries to receive relatively better evaluations for their wine quality while Roberts, Simons, and Swaminathan add that crossing the kosher categorical boundary exposed nonkosher wineries “to experience-based penalties that are reflected in lower product quality
ratings” (Roberts, Simons, and Swaminathan 2010: 153). Overall, category emergence promoters aim at reshuffling value creation models and at appropriating value out from conservative incumbent players by transferring material novelties and unconventional identification from exogenous fields and by aligning intermediaries’ and audiences’ expectations with the new category features. Simultaneously with the capture of value from conservative or stable incumbents, category emergence, with the novelty it entails (e.g., material improvements, facilitated processes) leads to value enhancement for consumers or society as a whole by replacing established practices with more efficient ones.

What is clear to this point is that the categorization process of a de novo category must be considered as agentic and strategic. As well as strategic categorization into existing categories, the emergence of a new category is fruit of a negotiation between promoters and audiences. Indeed, categories are neither spontaneously spawned from novelty and/or innovation nor trigger cognitive processes uniformly among actors’ types. Rather, they are actively promoted by some identifiable agents. Innovative entrants, nonconformist incumbent producers, committed intermediaries and forward-thinking costumers attempt to modify the cognitive infrastructure of markets in order to improve their market performance and standing.

To summarize this chapter, it is clearly evident that the study of categories is on the rise in management scholarship, predominantly because of the emergence of new business models driven by consistent technological progress. Porac (1989) carried out the first study on categorization providing the self-categorization theory. According to him, categorization is an internally driven process in which organizations, through interaction of their mental models, identify their set of rivals, thus shaping categories. Afterwards Zuckerman (1999), rather than viewing categorization from a cognitive perspective, moved the focus from organizations to external audiences, providing the categorical imperative theory. According to this view, external audiences have in their mind static codified categories, or prototypes, each characterized by features that an organization must possess to become a member. In this sociological perspective, categorization is an externally driven process, in which audiences have the faculty to judge the appropriateness of organizations to become members of particular
categories based on existing prototypes. Following studies have overcome prototype view, providing two different models to categorize organizations: causal and goal-based model. According to both perspectives, category membership is more than a checklist of features. The causal-model approach suggests that not all features that determine category membership have the same valence and causal power. Prior knowledge and expertise of audiences contribute to categorization, uniting features according to cause–effect chains, so that audiences’ evaluative schemas and categories can be structured along various causal paths and models. As such, audience members can be seen to have an active role in categorizing markets: depending on their world theory and expertise, they may focus their attention on diverse dimensions and disagree on their categorical assessments. Thus, depending on how their model of social reality is formed and informed, different audiences can categorize the same organization differently. Similarly, the goal-based approach argues that the process of categorization is contextual and driven by the goals that actors pursue, so that producers and audiences create ad hoc categories to support the aim of achieving a specific goal. Audiences have different goals, so they create different categories whose members lack feature similarity but reach the same end. In conclusion, although these two models continue to treat categorization as an external driven, they overcome its static connotation highlighting its flexible dimension.

A more recent stream of research, rather than viewing categorization as an externally or internally driven process, integrates sociological and cognitive perspectives to show that organizations can act strategically to signal their membership into existing categories or to create an emergent category. According to this new stream of research, called “strategic categorization”, actors (both organizations and audiences), when using categories, interact and share their understanding about the category system with others and thus come to shape it. Therefore, meanings and boundaries of market categories are collectively negotiated and construed with varying perceptions, interests, and knowledge bases at play. In other words, strategic categorization suggests that categorization process is an active, social project that likely involves the interpretations and actions of both entrepreneurial organizations and interested audiences. Organizations may have a clear strategy regarding categorization and therefore may “signal” their affiliation within a category or try to create a new one.
Simultaneously, external audiences shape category following their personal goals or causal mental model. There are five co-occurring elements that seem particularly central to consider when analysing categorization as a negotiation process: involved actors, their knowledge and experience, and goals and interests; the object that is being categorized; the acts of categorization, and what counts as such; the context or situation in which categorization occurs; and the temporal conditions surrounding the categorization process. Depending on these, categorization process may differ for instance among different actors or countries.

In the next chapter, I will analyse how Uber has been differently categorized in US and in Europe and, after that, I will explain how Uber has strategically acted to reach the best possible categorization according to its goals.
Chapter 3

METHOD

The method is the approach from the asked research questions through the findings towards a conclusion. In order to fulfil the purpose and answer the research questions, I use a methodological approach based upon a qualitative case study on Uber. The choice of a qualitative approach is based upon its strength of explaining a specific phenomenon or case that helps to give an in-depth explanation of what is being studied (Bryman, 2011). In this thesis, Uber case is used to confirm, reject or nuance the existing literature on categorization. Through analysing regulatory responses Uber had in US and in Europe and strategic actions it used to be categorized, I will identify factors which influence strategic categorization process. I will study Uber case because, since it entered the market, it has faced categorization issues throughout the world. Even though Uber was born in 2010, nowadays Uber is still having legal related issues because of its “hybrid” organization.

The starting point of gathering the empirical material involved preliminary research that was conducted by reading up on academic articles, media articles, and websites. Much of the literature regarding categorization were found through citations in academic articles where the selection process was based on the relevance to the topic, seeking to distinguish key theories and discussions that includes different categorization processes.

By using media articles such as newspapers, it was possible to clearly distinguish how the reception and regulatory actions towards Uber differ depending on geographic area. In addition, websites were useful to figure out the main strategic actions Uber put in place.
The logical process I have used to answer research questions was based upon the deep knowledge of literature to better understand the categorization process of Uber. By keeping in mind principles provided by academic articles, I could figure out strategic actions of Uber aimed at being categorized and how they changed based on the different scenario it faced in US and in Europe. In addition, by analysing the diverse features (culture, regulatory context) of the two geographic areas, I could identify key factors which has brought about a different efficacy of Uber’s strategic actions.
Chapter 4

UBER

Uber is clearly the largest and most well-known ridesourcing service provider. Ridesourcing refers to an emerging urban mobility service in which non-professional drivers (lacking in business licence) drive their own vehicles to provide for-hire rides. Ride sourcing companies, such as Uber, have made it possible by providing app-based ride-sourcing services which allow the connection between requesting passengers to available drivers.

Uber is a company “which connects riders to drivers through their applications (apps) on smartphones, thus making cities more accessible, opening up more possibilities for riders and more business for drivers” (Uber, 2017). Uber was founded as "UberCab" by Travis Kalanick and Garrett Camp in 2009, after the two had been brainstorming about new ideas for start-ups (Kalanick, 2010). Uber's mobile app for iPhones and Android phones was launched in San Francisco in 2010 and it currently operates in 632 cities dislocated in North, Central and South America, Europe, Middle East, Africa, East and South Asia, Australia and New Zealand (Uber.com, 2017). Uber’s uniqueness is that it fills a gap where regular taxis are considered not reliable, slow, expensive and difficult to book and public transport is not very well available.

Through the phone’s GPS capabilities, both the driver and passenger can see the other party’s location and approximately how long it will take to reach the pick-up point, which can be set by the person requesting a ride. Either before or immediately after the driver picks up passengers, passengers can enter a location where they would like to be dropped off. The personal details of both passengers and drivers, as well as the history of their encounter, are recorded, reducing the likelihood of crime and
facilitating resolution of disputes. Passengers and drivers rate each other, and these ratings affect the ability of both to access future rides, creating an incentive system designed to reward civil interactions. After the passenger is picked up and the driver drops the passenger off at the desired location, the application automatically charges the fare to the linked credit card, logs the trip, and generates a receipt. If the passenger requests the ride sometime during the day, the passenger is usually charged a standard fare. However, if the passenger is calling for an Uber driver at late hours, on the weekend, or during a national holiday, the passenger is subject to an increased “surge pricing” fare. Regardless of the rate at the time, Uber takes a cut for itself, ranging from 5% to 20%, and the rest of the money is directly deposited into the driver’s account. Therefore, during holidays or weekends, a driver who decides to turn on the app and provide their services can typically earn much more money than someone who drives during the week. Depending on location, there are several different Uber car services potential passengers, or “leads,” can choose from when requesting a driver. The services that Uber supplies can be divided into four different categories: economy, premium, accessibility and carpooling.

The economy services are low cost options, usually provided by non-professional drivers, which include UberX, UberXL and Uberselect. UberX is a regular sedan car that can seat for up to 4 passengers and it should be a Honda Accord or Toyota Prius although most forms of sedan are going to be a popular pick for you to drive around with. UberX is the most popular form of Uber as it is the least expensive by far. The second service, UberXL, is similar to UberX except that the vehicles seat at least six passengers instead of four and are generally minivans or SUVs. Third, UberSelect is the luxury sedan service, and features cars from makers such as Audi, BMW, and Mercedes.

The premium services are luxury rides, provided by professionally licensed drivers or chauffeurs, which include UberBLACK, UberSUV and UberLUX. UberBlack is Uber’s original service. Black Car will send a high-end sedan to the customer’s location, with seating for up to four people. Secondly, UberSUV sends an SUV to the customer’s location with seating for up to 6 people. This option is significantly more expensive than the Black Car service. Finally, UberLUX sends a high-end luxury car
to the customer’s location with seating for up to four people. These are Uber’s most expensive services.

The accessibility service provides an option for the consumer to order a cab that is wheelchair accessible. It is the case of UberAccess.

Uber’s last and most recent service is “UberPool,” which allows leads to share their rides with others, usually strangers, and then split the cost together. At the time the passenger requests a driver, he or she can choose from any of the services available. Regardless of which service is selected, if passengers are with a group of friends, for example, they are able to split the Uber fare evenly, as long as every passenger has already downloaded the app.

Turning from the passengers to the drivers, Uber allows virtually anyone to drive for the company as long as a few minimal requirements are met. These include passing both a background and Department of Motor Vehicles check, owning a vehicle, and having car insurance. Additionally, depending on what level of service the driver is providing, the driver must give at least one ride within a given amount of time. Because these minimal requirements are all that is required to drive for Uber, a wide variety of people performs the job. For example, a passenger’s first driver one evening may be a part-time biomedical engineer, while the second driver providing the ride back to the passenger’s home may utilize Uber on a full-time basis to support his family of five. In addition to the ease of becoming an Uber driver, perhaps what makes Uber so popular is the tremendous amount of flexibility offered to its drivers. Based on all of these features, Uber has created an app that serves a dual role as both a referral and transportation service, making it one of the most popular rideshare apps in the sharing economy today.

Uber was valued at $70 billion in June 2017 (Il Sole 24 Ore, 2017) and by the end of October 2016 the company had more than 40 million monthly active riders worldwide (Uber.com, 2016). According to Uber, their services provides a variety of positive effects on the surrounding environment. The economic argument is based upon the fact that citizens within cities where Uber operates can earn money in a new and flexible way. From an American perspective over 50 per cent of Uber’s drivers work less than 10 hours a week, which enables parents, students and retirees to earn extra money depending on their own schedule and time. Regarding occupation and growth
in local economies London is given as an empirical example, where one third of Uber’s employed drivers live in neighbourhoods with the highest unemployment rates (Uber, Helping Cities 2017). In the case of availability and security, Uber states two arguments. Firstly, Uber allows an increase in availability, providing services in areas where there is a lack of bus and train stations and neighbourhoods where regular taxi cars do not drive. Uber’s goal is to “Provide safe travels to an acceptable price around the clock - regardless of where you live, where you’re heading and how you look” (Uber.com, 2017). According to reports carried out by Uber, their services also contribute to safer roads, stating that since the UberX launch in California July 2012 there has been an estimated 6.5 per cent decrease of collisions caused by DUI’s per month within the region. In the Seattle area there are similar trends, where Uber’s reports point towards a ten per cent reduction in arrests of drunk drivers (Uber, Helping Cities 2017).

Sustainability arguments are by Uber mainly formulated through the UberPOOL service. A study conducted in San Francisco (one of cities where Uber has the most traffic and over 25 per cent of the services are UberPOOL trips) demonstrated that during one-month UberPOOL passengers saved 647000 English miles that corresponds to 27 laps around the earth. In sustainability terms, the UberPOOL service enables a reduction in both fuel consumption and reduced carbon pollution (Uber, Helping Cities 2017).

However, behind Uber’s success there is a clear division between the receptions of the Uber platform; while the amount of users and revenues has increased, Uber has also been the subject of an increasing amount of lawsuits; since 2009 adding up to more than 70 pending federal lawsuits in the U.S. alone (Palmér, 2017). Meanwhile in Europe, Uber has been the subject to similar experiences.

The most relevant causes of Uber's legislative issues regard two simultaneously challenges it has against its drivers and taxi companies. The former concerns the classification of drivers. From the Uber’s point of view, drivers are independent contractors (freelance) rather than employees. Regarding the latter, taxi companies accuse Uber of unfair competition, because the service provided by Uber drivers is essentially a transportation service and, therefore, they must possess a professional license as normal taxi drivers.
In this scenario, Uber has been treated in several different manners throughout the world, from being completely accepted to being banned. In the next paragraphs, it will be highlighted how Uber has been categorized in U.S. through the creation of a completely new category of firms, labelled Transportation Network Companies (TNCs), compared to Europe where Uber has been assigned into existing categories. Afterwards, it will be examined how Uber has strategically acted to be categorized.

4.1 REGULATORY RESPONSES TOWARDS UBER IN THE U.S.

San Francisco was the first city in the world to embrace ridesourcing and the regulatory resolution found in this city has largely set the tone for ridesourcing’s reception in other U.S. states.

In 2013, the California Public Utilities Commission (CPUC) released a final rule-making to legalize the services state-wide under its existing authority and defined the term transportation network company (TNC). Not long after that ruling, Colorado was the first state to pass legislation on TNCs in 2014. As of June 2017, 46 states and the District of Columbia have passed some sort of TNC legislation. The map below shows the states having passed the TNC legislation.
A review of state-level TNC legislation identified 31 specific policies regulating TNC operations. No state includes every policy, but each one have adjusted the legislation according to its legislative standards. Each policy is discussed in more detail in this section.

Policies were evaluated and categorized into the following policy areas:

- Permits and fees
- Insurance and financial responsibility
- Driver and vehicle requirements
- Operational requirements
- Passenger protections
- Data reporting
- Regulatory and rule-making authority
4.1.1 PERMITTING AND FEES

Define Companies as TNCs
In 2013, the California Public Utilities Commission released the first state-level ruling to legalize TNC services statewide (under its existing authority to regulate car services) and defined the term transportation network company. Other terms include ride share network service (Georgia), private vehicle-for-hire (Washington, D.C.), transportation network carrier (Montana), and commercial transportation services provider (Washington).

In most states, the legal definition of a TNC includes the following elements:

- Use of a digital platform or software application, typically accessed via smartphone.
- A prearranged ride between a driver and passengers.
- A driver using a personal vehicle to provide transportation.

TNC services are sometimes inaccurately called ride sharing. Ride sharing refers to carpools and vanpools in which travellers organize to share rides and, often, the costs of those rides. The emerging concept of real-time ride sharing, in which providers facilitate carpools with technologies like those used by TNCs, is defined in U.S. Public Law 112-141 as an arrangement “where drivers, using an electronic transfer of funds, recover costs directly associated with the trip provided through the use of location technology to quantify those direct costs, subject to the condition that the cost recovered does not exceed the cost of the trip provided”. TNC services differ from ride sharing because their drivers are working for a profit and receive compensation beyond direct costs.

Require a TNC Permit
TNC permit is required to TNC companies in roughly 20 US state out of 46. Permitting agencies include state public utility regulators and transportation agencies. Examples of permitting agencies include the Department of Motor Vehicles,
Department of Transportation, Public Utilities Commission, and Transportation Authority.

A TNC is typically required to apply for and obtain an operating permit by providing proof of compliance with requirements outlined in the legislation, such as insurance requirements. Annual permit fees per TNC range from a $500 filing fee in Montana ($300 is returned if no public hearing is required) to an $111,250 permit fee in Colorado. In some states the permit fees are proportional to the size or extent of a TNC operation. Georgia requires a master license fee that ranges from $1,500 for one to five vehicles to $300,000 for over 1,001 vehicles. In South Carolina, legislation requires that TNCs obtain a permit and remit a local assessment fee of 1 percent of gross trip fares collected. The revenue is applied to administrative costs to regulate TNCs. Any funds remaining after administrative costs have been paid are distributed back to incorporated municipalities based on the proportion of TNC trips that originated in each municipality.

Specify a Fund for TNC Revenue
Seven states identify or establish a specific fund for TNC revenues. As discussed above, fees from TNC operations can be substantial. In New Mexico, for example, a Transportation Division Fund was established to support the public utilities commission’s authority to carry out the provisions of the state’s TNC law. Washington, D.C. established a Public Vehicles-for-Hire Consumer Service Fund and fees collected for fees collected from both TNCs and taxicabs. The fund can be used for administration, to provide discounts for senior or disabled persons, or studies of relevant issues.

Require a License for TNC Drivers
In addition to TNC permits for the company as a whole, six states require that TNC drivers obtain a license. Maryland, Virginia and Washington D.C. require an operator’s license that must be posted in a TNC vehicle. Delaware and Nevada specify that driver’s must have a business license. The state of New York requires that TNC’s drivers must obtain TLC (Taxi and Limousine Commission) licence before to start operating, A TNC driver’s license is typically contingent on the driver
background check and application process, which are described in more detail below. This is similar to requirements typically placed on taxi drivers who must apply for and receive an individual license.

4.1.2 INSURANCE AND FINANCIAL RESPONSIBILITY

Insurance Requirements
Lawmakers in all 46 states, addressed insurance requirements and financial liability for TNCs and TNC drivers. Four states passed bills in 2015 that focused, almost exclusively, on insurance requirements: Minnesota, Louisiana, Washington, and Texas. While TNCs have provided some form of insurance since their inception, the companies relied primarily on drivers’ personal policies for the period during which TNC drivers are logged in but waiting for a ride request. This created uncertainty about coverage during the between-ride period and raised public safety concerns. Personal automobile policies often include a livery exclusion: a clause asserting that coverage may not be provided for a vehicle while it is used for commercial purposes. TNC drivers also do not carry commercial driver’s licenses and commercial insurance as is typically required for professional taxi and vehicle-for-hire driver. Commercial insurance covers a vehicle 24 hours a day, seven days a week. In 2015, Uber, Lyft, and numerous insurers signed onto the National Association of Insurance Commissioners’ (NAIC’s) TNC insurance compromise model bill to present to state legislatures and address public concerns about TNC insurance. NAIC suggests that TNC insurance should account for three distinct periods:
Period 1: A TNC driver is logged on to the TNC application and available for a ride.
Period 2: A TNC driver is en route to an accepted passenger.
Period 3: A passenger has been picked up and is in a TNC vehicle.
Many states have passed insurance legislation that is similar to this model. The model bill suggests the following coverage, which can be covered by the TNC, the TNC driver, or a combination of the two:
Primary insurance coverage during Period 1 with minimum liability limits of $50/$100/$25, as well as other required state coverage (such as uninsured/underinsured coverage).
Primary insurance coverage during Period 2 and 3 with minimum liability limits of $1 million for death, bodily injury, and property damage, as well as other required state coverage.

Require TNC Driver to Have Available Proof of Insurance
Twenty-nine states require that TNC drivers have proof of insurance available at all times while they are operating as a TNC driver. Some states specify that insurance information can be stored on a mobile device.

Disclose to TNC Driver Certain Limitations of Coverage
Thirty-four states state that TNCs must disclose to TNC drivers before they are allowed to operate the company’s insurance policies, limitations of those policies and the limitations of a TNC driver’s automobile insurance. TNCs previously relied more heavily on driver insurance, so this requirement helps to ensure that drivers understand that their personal insurance may not apply while actively operating as a TNC driver due to the livery exclusion noted above.

Workers Compensation for Drivers
With a few exceptions, TNC legislation does not specifically require TNC companies to meet new or existing workers compensation standards. Indiana and Ohio explicitly state in statute that TNC drivers are not employees of the TNC. North Carolina lawmakers wrote that the “presumption that TNC drivers are contractors” can be refuted through a test of common law determining employment status. Colorado ruled that the director may, by rule, determine if TNCs have an obligation to provide or offer workers compensation insurance for TNC drivers.

The classification of TNC drivers as contractors or employees can have implications for the benefits that drivers receive and the liability that TNCs sustain. While a job as a TNC driver may provide flexibility and independence, it may also allow companies to evade existing requirements designed to provide protections for workers such as participation in Social Security or catastrophic insurance coverage. Since the agreement made in June 2016 between states and Uber, TNCs treats drivers as independent contractors but with some limitations. In addition to the settlement fees
that were as much as $100 million (each Uber’s driver who has given lifts for at least 40000 km has received $8000), Uber supports an association, called the Independent Drivers Guild in New York City, which is a sort of union that protects and assists drivers. Besides, Uber cannot suddenly shut down accounts of drivers who do not meet qualitative standards, but it must warn and give them a second chance. In addition, Uber’s drivers can refused as much ride request as they want (Il Corriere della Sera, 2016).

4.1.3 DRIVER AND VEHICLE REQUIREMENTS

Driver Requirements and Application
Thirty states outline a set of requirements for drivers and/or require a driver application. Lawmakers typically limit who can be a TNC driver to ensure safety, but the specific requirements vary by state. State policies commonly require drivers to be at least a certain minimum age (between 18 and 21 years) and have a valid driver’s license, valid vehicle registration, and proof of automobile liability insurance. Current policies for Lyft and Uber require drivers to be 21 years or older; have a driving license, registration, and personal automobile insurance; comply with vehicle standards; and pass a background check.

Background Checks
Thirty states require TNCs to have a background check conducted for a TNC driver before, or within a specified amount of time after, that driver is allowed to operate. State TNC legislation varies in terms of who conducts the background check, what databases are reviewed, and what disqualifies a driver from work eligibility. For instance, a driver who wants to operate in the Los Angeles Airports areas, must pass an online test regarding the airports rules to comply with. Most states require a background check that evaluates applicants’ history based on their name and identification. This typically includes a local and national criminal background check, conducted by a TNC or a third-party provider that includes a multistate records database, the national sex offender public database, and a driving history report.
Typically, states specify violations that would preclude an individual from being permitted to operate as a TNC driver in the state. Unacceptable violations include more than three moving violations in the prior three-year period; reckless driving; and driving on a suspended or revoked license. Convictions within a set time period of a felony, driving misdemeanour or violent or sexual offense are grounds for denial as well. TNCs have strongly opposed fingerprint-based background checks on the grounds that the company screening processes in place are adequate, if not superior. Uber halted operations in Kansas after a bill passed that required a background check by the Kansas Bureau of Investigation. This bill was vetoed by the governor and replaced by a new bill, which has since become law, that allows Uber to conduct background checks and face civil lawsuits if they hire ineligible drivers. Uber supported the compromise bill and resumed operations in Kansas within minutes of its signing.

Drug and Alcohol Policy
Twenty-six states require a TNC to establish and enforce a zero tolerance policy that prohibits drug and alcohol use for an individual operating as a TNC driver. Many states also specify that a TNC post the policy on its website or application, enable riders to report a complaint of a driver suspected of violating the zero tolerance policy, and conduct an investigation of every reported complaint.

Vehicle Standards
Twenty-three states require either a vehicle inspection or specify that a TNC is responsible for ensuring that TNC vehicles comply with a vehicle safety and emissions standard. Although the exact wording and requirements vary by state, a TNC is typically required to either ensure that a TNC vehicle “meets the state’s motor vehicle safety and emissions requirements for a private motor vehicle” or inspect “or cause to be inspected every motor vehicle used by a driver to provide transportation services”. In addition, TNC drivers in all states have to meet the minimum vehicle requirements required by their primary automobile insurance and/or vehicle registration, which is required for TNC drivers in all state TNC legislation reviewed.
Driver-Training Program
Three states—California, Nebraska and Washington, D.C.—require TNCs to establish a driver-training program. For example, Nebraska requires that a TNC shall establish “a driver-training program designed to ensure that each driver safely operates his or her personal vehicle prior to the driver being able to offer services on the transportation network company’s online-enabled application or platform”.

4.1.4 OPERATIONAL REQUIREMENTS

Street Hails
Twenty-three states explicitly prevent TNCs from accepting any solicitation for a ride that does not come through the TNC application. This policy serves to codify one difference in operations between TNCs and taxis. Taxis are allowed to pick up passengers who wave or hail them down on public streets. TNC services were developed, and often defined in legislation, to use a digital application to connect travellers and drivers and GPS to direct both parties to the pick-up location. Passengers receive the license, make, and model of TNC vehicles, and the vehicles are typically identified by a trade dress.

Cash Payments
Sixteen states explicitly restrict TNCs from accepting cash payments. In contrast, Ohio is the only state to explicitly allow TNC drivers to accept cash payments if allowed by the TNC. The custom of cashless transactions simplifies the customer interaction and may provide added safety for drivers by reducing the attraction of robbery. On the other hand, the prerequisite that a passenger has a credit card to access TNC services may preclude bank-less or credit card-less populations from using and benefiting from TNC services.
Disclose Fares and Rates to Passengers
Twenty-seven states require that TNCs disclose fare calculation methods, rates and estimates fares to passengers. Some also specify that they must provide an option to receive an estimated fare before entering the TNC vehicle.

Electronic Receipt
Twenty-four states require TNCs to provide an electronic receipt to a passenger that, typically, must include the origin and destination of the trip, the trip’s total time and distance, and an itemized account of the total fare paid by the rider. TNCs typically provided an electronic receipt to their customers even where it is not currently required by legislation.

Make Available Driver Information to Passengers
Twenty-four states require TNCs to present identifying information about a driver to a passenger before they enter a TNC vehicle. Typically, this information includes a photo of the driver and the license plate of the vehicle. Some states specify additional details. Uber and Lyft’s current policies are to present a passenger with the name and photo of the driver, the license plate number and the vehicle model.

Trade Dress
Ten states require that a trade dress, company emblem, or logo be displayed on the TNC vehicle while in operation. Similarly, taxi companies are typically required to meet specific requirements to post company and fare information on and in a taxi vehicle. Taxi regulations may also specify design elements of their signage. Some state TNC laws specify features of TNC signage, such as requiring approval of trade dress, visibility from a certain distance, and visibility at night.

Limitations on Driver Hours
Four states restrict the number of hours that a TNC driver can operate. For example, drivers are limited to 12 or 13 hours of work during a 24-hour period. Although a small proportion of states enacted this rule for TNCs, taxi drivers and other transportation providers are typically held to similar standards.
Restrict Use of Dynamic Pricing
Three state-equivalents place a limitation on a TNC’s use of dynamic, or surge, pricing during a declared state of emergency. Nevada Assembly Bill 176 gave the Nevada Transportation Authority (NTA) the power to set a maximum fare during an emergency. NTA determined that a TNC “shall not charge a rate in excess of twice the base rate on file with the authority upon the date of the emergency”.

Disclose Dynamic Pricing
Nebraska was the only state to require by law that TNCs disclose the use of dynamic pricing and provide an opportunity for passengers to confirm that they accept the higher rate. Dynamic pricing is a technique that Uber and Lyft developed as part of their business models to manage the supply of available drivers with the demand for rides. Both companies inform passengers and provide an opportunity to verify acceptance of the rate increase in all U.S. markets as company policy.

4.1.5 PASSENGER PROTECTIONS

Non-discrimination Policies
Twenty-four states require that a TNC must have or adopt a non-discrimination policy. In addition, it was common for states to require TNCs to comply with existing non-discrimination laws such as accommodation of service animals. Some states include geographic discrimination in the regulations, while others did not.

Personally Identifying Information Protection
Twelve states require that TNCs follow a policy to safeguard TNC passengers’ personally identifying information (PII). Typically, TNCs may not disclose a passenger’s PII to a third party, except in certain circumstances including:

- The customer knowingly consents.
- It is required by law.
- It is needed to investigate a complaint or violation against a TNC or TNC driver.
TNC apps enable many of the convenient features that draw users to the services but also allow access to the personal and location information of passengers.

**Accessibility Policies**

Eighteen states required that TNCs have some form of accessibility policy. A typical law states that TNCs must provide a way for potential passengers to request wheelchair-accessible vehicles through the TNC app. In most cases, TNCs are not required to provide an accessible ride, but if they cannot, the TNCs must connect the passenger to another service/option that can if such an option is available. Some legislation also specifies that TNC drivers must accept passengers with service animals and mobility devices. Washington, D.C., requires TNCs to ensure their application is accessible to blind, deaf, and visually/hearing impaired individuals.

**Data Collection on Accessible Ride Requests**

Three state-equivalents—California, Virginia and Washington, D.C.—require data collection related to wheelchair-accessible ride requests. These policies are designed to provide information on traveller accessibility needs and/or the impact of TNC services on wheelchair-accessible services.

4.1.6 DATA REPORTING

**Driver and Trip Records**

Twenty-two states require that a TNC retain a record of each trip and driver for a set amount of time, ranging from one to six years. States may request access to these records via audits or report requests.

**Additional Reporting Requirements**

Five states request additional reporting on particular aspects of TNC operations, such as wheelchair-accessible ride requests or the frequency of accidents. For example, North Dakota requires a TNC to provide reports every six months that include:

- The jurisdictions in which the TNC operates.
- The number of reported accidents while passengers were in the vehicle.
• The number and types of reported traffic violations and any other violations while passengers were in the vehicle.

4.1.7 REGULATORY AND RULE-MAKING AUTHORITY

State Preemption of Local Authority
Twenty-one states include a policy to preempt or limit the authority of local municipalities to regulate, tax, or impose rules on TNCs. Most recently, the Mississippi governor signed HB 1381 into law in April 2016, preempting a local ordinance passed in Jackson, Mississippi, earlier that year and imposing statewide measures including operating fees and restrictions, driver requirements, and insurance. In contrast, the South Dakota Legislature did not impose Operational policies on TNCs and allowed local jurisdictions to enact regulations on all aspects of TNC operations except insurance. The statewide regulation of TNCs is one regulatory feature that the taxi industry, which is commonly regulated at the local level, argues is unfair.

Agency Rule-Making Authority
Ten states specify that an agency responsible for regulating or overseeing TNC operations has the authority to develop and impose rules in order to enforce the legislation.

Airport Rule-Making Authority
Thirteen states authorize airports to impose rules, restrictions, and fees on TNCs that operate on their property. Major airports commonly impose license requirements, operational rules, and per-trip fees on taxicabs that pick up passengers at airport locations. TNCs have been incorporated into airport regulations in many regions, while some airports, including Atlanta, Detroit, and Boston, do not currently allow TNCs to pick up passengers (Moran and Lasley, 2016).
4.2 REGULATORY RESPONSES TOWARDS UBER IN EUROPE

In contrast to US scenario where, although many differences among states, a novel category with new rules emerged to regulate ridesourcing companies, the backdrop in Europe is much more fragmented.

The majority of Europe states have put in place actions against Uber that has resulted in both bans and criminal charges against its drivers and management. Below, it will be examined regulatory responses regarding several Europe states. UberPop is the equivalent American UberX, which provides ridesourcing service supplied by drivers without business license.

4.2.1 BELGIUM

Already in April 2014 UberPop was banned in Brussels, which the company however ignored. Nevertheless, according to the former Commission Vice President Neelie Kroes, the decision was not about protecting or helping passengers, it was about protecting a taxi cartel. According to her, banning UBER does not give UBER the chance to do the right thing, such as pay taxes, follow rules, and protect consumers. In her opinion, UBER is welcome in Brussels and everywhere else. She also stated that she was concerned regarding how the ban would work in reality; how the police would be able to check the phones to see when someone made an UBER booking. Moreover, according to her the people in Brussels are modern and open, so they should have a chance to use modern and open services.

In the end of September 2015, the Brussels Tribunal of Commerce confirmed the ban on UberPop. The Court gave UBER 21 days to close operations in Brussels otherwise UBER would be fined €10,000 for every pick-up attempt with drivers without a taxi license. However, the ruling does not apply to UBER’s other services, where the driver has a taxi license. The Brussels-based company Taxis Verts brought the ruling to court, which is a contact centre between customers and associated taxis. Moreover, Taxis Verts is not subject to the rules regarding taxi services as laid down in a Decree of 1995, which professional taxi drivers have to follow. Taxis Verts claimed that UBER offers the same services as themselves since it offers taxi services against
payment. Furthermore, it accused UBER of unfair competition in relation to both professional taxi drivers and to companies such as Taxis Verts, to which the drivers are associated. UBER however claimed that the payment, which their users received should be seen as a compensation for their costs. The Brussels Tribunal of Commerce ruled that UBER is offering unlicensed taxi services against what could be seen as a salary, since the payment could exceed their costs. Nevertheless, the Tribunal decided to refer a question for a Preliminary Ruling. The Preliminary Ruling regards whether the strict interpretation of the Decree would interfere with articles in the Charter or the TFEU. The case for Preliminary Ruling, C-526/15 Uber Belgium v. Taxi Radio Bruxellois NV, is still pending before the ECJ. The referred questions regard whether the principle of proportionality should be interpreted as precluding a rule in the Decree of 1995 to be interpreted as meaning that “taxi services” also applies to unpaid individuals who are involved in ride sharing by accepting ride requests which are offered through an application by UBER established in another Member State. Furthermore, the Government of the Brussels Region is developing a legal framework for alternative taxi services, such as UBER. It is creating a framework for all types of paid transport in order to abolish unfair competition and social dumping (Gustavsson, 2016). At the moment, Uber operates in Belgium with UberX, UberXL and Uberblack. Drivers must own a LVC (Location de Voiture avec Chauffeur) licence before start operating (Uber.com/Driver 2017).

4.2.2 GERMANY

In Germany, there is currently a nationwide ban of UberPop. This is because the court in Frankfurt found that UBER did not have the necessary licenses and insurance for its drivers, and posed unfair competition to the local taxi industry. UBER was thereby found to have violated German laws on commercial passenger transportation. This was however denied by UBER, which stated that it was not subject to rules governing taxi operators since it was connecting drivers with clients. The suit was brought by Taxi Deutschland, a trade group representing the taxi drivers of Germany. The first ban was lifted because the group had waited too long to file the case. The court however reestablished the ban because it found that in order for UberPop to operate in
Germany, it must hold the official permits required of taxi drivers. There have also been court cases in Hamburg and Berlin, which addressed UBER’s failure to comply with local public transport laws, consumer rights and safety concerns. The cities of Hamburg and Berlin also issued administrative decisions prohibiting UBER from offering services through its application. Consequently, UBER can face fines of up to €250,000 if it drives with unlicensed drivers. In addition, its local employees could be jailed for up to six months if the company violates the injunction. The company’s drivers are not seen as employees and would therefore not face any direct penalties. German law only allows drivers to pick up passengers without a commercial license if the driver only charges the operating cost of the trip. Even if UBER tried to convince the Frankfurt Regional Court that their price was only the transportation costs, the court argued that the price was far higher than the actual costs. Because the overflow of money went to UBER, Dutch taxes (because UBER operated from The Netherlands), and to income for the drivers (Gustavsson, 2016). Nowadays UBER are therefore only offering transport services provided by drivers who possess the Commercial Driving Licence (CDL) through its services UberX, Uber XL and UberBLACK (Uber.com/Driver, 2017).

4.2.3 SPAIN

UBER started to operate UberPop in Spain at the end of 2013. Consequently, there were strikes by taxi drivers in Madrid and Barcelona and in December 2014, it was banned in Spain. The decision stated that UberPop did not comply with Spanish laws and potentially regarded unfair competition for taxi drivers. Both in Madrid and Barcelona cases were brought to the tribunals on grounds of unfair competition. In Madrid, it was the association of taxi drivers who decided to start proceedings against UBER. The ruling established precautionary measures and it was argued that the drivers contracted by UBER did not have the required administrative license to provide the service. Furthermore, the precautionary measures have been prolonged but with some modifications regarding that the unfair competition only relates to UberPop. However, in Barcelona, the Judge referred the case to the European Court of Justice (ECJ) for a preliminary ruling. The referred questions regard whether
UBER should be considered a transport company, an electronic intermediary service or an information society service. It also regards whether restrictions in one Member State regarding the freedom to provide the electronic intermediary service from another Member State, by making the service subject to an authorisation or a licence or a prohibition based on the national legislation on unfair competition, should be valid measures. Furthermore, all legal proceedings against UBER in Spain have been suspended until the ruling of the ECJ. Moreover, the Spanish regulator, the National Authority for Markets and Competition (“CNMC”), will publish a report in which it recommends the Spanish authorities to lift all the unjustified barriers, which are limiting the sharing economy in Spain. The preliminary results were published on March 14 2016, and the board of the CNMC will publish the final approval after the public consultation on the document has been taking place (Gustavsson, 2016). Moreover, UBER has started to operate in Spain again, but this time with UberX and UberOne (the same service of Uberblack) that only consists of professionally licensed drivers (Uberr.com/Driver, 2017).

4.2.4 FRANCE

The transportation market in France is divided into two sections. The taxis have monopoly on the so-called “cruising market”, while the “advanced booking market” is open to competition. The market for advanced booking includes chauffeur-driven vehicles. Furthermore, the monopoly on the cruising market is justified on public interest grounds, such as the regulating of traffic and parking. Consequently, taxis are being subject to regulated prices and to administrative licence authorizing. This licence can amount up to €230.000. When UberPop started to operate in France, in the first half of 2014, it met many obstacles. Hundreds and even thousands of taxi drivers have blocked roads in France and protested that they claim UBER as unfair business competition since its drivers do not face the same requirements, insurances and taxes. Moreover, the taxi drivers have even staged violent strikes on this issue. The taxi drivers have for example attacked UBER drivers, burned and broke their cars. UberPop has also met obstacles such as court rulings and new legislations. For
example in Paris, a criminal court has ruled that UberPop violates a prior decision that
bans carpooling for profit. It also ordered the company to pay a €100,000 for illegal
practice. Nevertheless, UberPop has been banned in France from January 1st 2015.
(Gustavsson, 2016). Nowadays, as for the previous states examined, Uber can operate
through chauffer services provided by professional licensed drivers. Specifically, it is
running with UberX, UberXL, Uber POOL, UberBlack and UberGreen (UberX
service but through electric or hybrid cars) (Uber.com/Driver, 2017).

4.2.5 ENGLAND

In order to drive UBER in England you need to have a private hire licence. Transport
for London ("TfL") is the regulator for private hire vehicles in London. The Private
Hire Vehicles Act 1998 introduced the licensing of private hire vehicles in London.
Since then, it is illegal to accept a private hire booking without an operator’s licence.
Already in May 2012, Uber was granted a five-year licence in London in 2012 by TfL
as a private hire vehicle operator. Despite that, the TfL brought a case to the high
court to determine whether the way UBER's application calculates a fare falls under
the definition of a taximeter, which is prohibited in private hire vehicles since it is a
privilege afforded only to Black Cab drivers. On 16 October 2015, it was ruled that it
does not fall under the definition of a taximeter and therefore, the smartphone with the
UBER application does not constitute a breach of the taximeter prohibition. Already
in September 2015, TfL has put forward proposals for private hire companies, such as
UBER. They proposed to install a five-minute wait time between the ordering of a
taxi and its arrival. The TfL Board for changes considered the recommendations on 17
March 2016 and approved some changes to the regulations. For example, the Board
approved that operators will be required to provide specified information to TfL at
specified intervals including details of all drivers and vehicles registered with them.
The private hire drivers are also required to demonstrate a certain standard of English
and they must provide an estimated fare before the journey. In addition, since bill
released by employment tribunal of London in September 2016, Uber’s drivers are
categorized neither as self-employed nor as employees, but as workers. This “hybrid
category” is provided by “Employment Rights Act” and claims for instance that
workers can benefit of paid holidays, limited work-hours and national living wage. In contrast, they are not protected against wrongful termination. On September 22\textsuperscript{nd} 2017, Transportation of London ruled it will not renew Uber's private hire operator licence after it expires on Saturday 30 September. The TfL said Uber was "not fit and proper" to hold the licence. London mayor Sadiq Khan backed the decision. There were potential public safety and security implications from the way the company is run, TfL said. Uber has 21 days to lodge an appeal, and the firm has said it will do just that. TfL said Uber can "continue to operate until any appeal processes have been exhausted" (BBC, 2017).

4.2.6 ITALY

In May 2015, the Milan Court banned Uberpop alleging "unfair competition" and violation of the local jurisdiction regulating taxi services. The lawsuit was originally initiated by the Italian taxi drivers union. Indeed, on May 26 2015, Italian judge dott. Claudio Marangoni banned the UberPop app for unfair competition practices towards taxi companies. Afterwards, on April 7 2017, Tribunal of Rome banned the UberBlack, Uber-Lux, Uber-SUV, Uber-X, Uber-XL, UberSelect and Uber-Van app throughout Italy for unfair competition practices. After Uber’s actions against this sentence, on May 26 2017 the Tribunal of Rome claimed that Uber, except for UberPop, is legal and can operate throughout Italy through its services UberBlack, UberXL and UberLux. Drivers must own NCC (Noleggio con Conducente) licence, which is a chauffeur professional licence as one requested in other states examined above (except England) (Il Sole 24 Ore, 2017).

4.3 UBER STRATEGIC ACTIONS

After having delineated the State of Art of Uber, it is useful for the aim of the thesis to analyse how Uber has strategically acted to be legitimate.
Uber is essentially running a taxi dispatch service for the smartphone age. However, in most cities, the taxicab industry is heavily regulated. Rules vary across
jurisdictions, but they frequently require cabs to have a special government-issued license or medallion; these licenses are typically in very limited supply. Fares are often based on rigid prescribed formulas. Therefore, Uber has put in place several strategies and actions to deviate from being categorized as a transportation company, aiming at creating a de novo category with own rules.

4.3.1 UBER STRATEGIC ACTIONS IN US

In US Uber implemented three main strategies:

- Exploiting a grey regulation area to operate without rules
- Taking advantage of slowness of regulators’ reactions
- Mobilizing users against governments

EXPLOITING A GREY REGULATION AREA

The first strategic action Uber put in place in US regards its position in the market. Indeed, it entered with its business into a “legal grey area”. Since it was born, it has claimed that it is an online platform which connects people who want rides with drivers in the vicinity who are willing to provide them. It called its new business model “ridesourcing service”. Fares are determined based on an algorithm that takes into account factors related to supply and demand, and Uber takes a percentage of each fare. Thus, it states that drivers are independent contractors who use their own cars, therefore Uber does not have employees offering transportation services. As a consequence, Uber started operating with a complete new business model based on new technology which did not have a clear regulation as well as an existing category. Even if existing regulations or statutes use broad language that would, when read literally, prohibit the company’s business model, companies can take the view that officials were not considering the company’s business model when the laws were written—how could they, when the model did not yet exist? Thus, Uber could assert that the laws were not meant to cover these new circumstances, and that courts will construe them accordingly (Barry and Pollman, 2017)
EXPLOITING SLOWNESS OF REGULATORS’ REACTIONS

After having positioned itself between existing categories, it exploited this favourable scenario to grow as much as it could. In fact, it had the chance to operate in a market without rules until governments reacted. Because of governments are historically slow-reacting against disruptive innovations, Uber had the possibility to rapidly grow and gain broad acceptance among users and employees. In other words, It pursued rapid growth not just to improve its valuation or prospects for profits, but also to gain political advantage against regulators that might seek to ban or regulate the business activity. Business growth can translate to consumer popularity that becomes difficult for regulators to ignore. Uber makes its money by taking a percentage of the driver’s fare. On numerous occasions, especially in US, Uber has dramatically cut its prices in order to increase its user base, valuing growth over profitability. At times, Uber has cut its prices to such a great extent that it effectively paid customers to use its service. Loss leaders are well-known in business, but it is rare for a company’s main product to be one. Ordinarily, this would evoke the old business joke about losing money on every sale, but making it up in volume. But for Uber, this was a savvy strategy because by drastically lowering its prices, Uber did more than increasing its customer base. It has cultivated constituents which are the people who will complain when someone in power tries to take away their Uber (Barry and Pollman, 2017).

MOBILIZING USERS AGAINST GOVERNMENTS

Unsurprisingly, Uber has been undeterred by legal issues throughout the world, accused by taxi companies of unfair competition. At this point, the third Uber’s strategy came to appear. Uber started using customers and other stakeholders to fight corporate political battles. For example, Virginia’s Department of Motor Vehicles sent Uber a cease and desist order notifying the company that its service was illegal and that it needed to immediately cease all operations in the state. Uber responded by sending a notice to all of its Virginia users, along with the contact information for the ordinarily low-profile state official involved in the decision. Within a few days,
hundreds of angry Uber customers had emailed the official, inundating his inbox and requiring him to work all weekend to respond. Uber also hired a team of lobbyists in Virginia and, within 48 hours, the state’s transportation secretary instructed the DMV not to interfere with Uber drivers. Uber lobbyists then submitted a proposed temporary operating permit, which state officials granted several weeks later, permitting the company to continue their normal operations.

Uber has repeatedly used this tactic of sending alerts to riders on their phones, asking them to sign petitions or contact public officials at key political moments for the company. The company reports that nearly half a million riders have signed petitions. Its users often respond quickly and in vast numbers—reportedly at a rate of seven electronic signatures per second in some instances. When the Illinois General Assembly passed a restrictive measure that would negatively affect Uber’s business, Uber used its smartphone app to mobilize its army of users. It inserted a splash screen and emailed Illinois riders requesting that they sign a digital petition asking the state governor to veto the bill. Twenty-five thousand supporters signed the petition in its first hour. For example, consider Uber’s experience in New York City, the nation’s largest market for taxi services and among the most tightly regulated. When faced with resistance by New York Mayor Bill de Blasio, Uber’s user base was its biggest weapon. Uber offered free rides to passengers willing to attend a protest at City Hall on its behalf. It used its app to contact drivers and passengers and mobilize them to express their opposition to Mayor de Blasio’s proposal, flooding city hall with over 20,000 e-mails in five days. Uber also added a notable feature to its app: a “de Blasio” button that purported to show how users’ experience would change if mayor de Blasio implemented his proposed policy. Users who pushed the button found that the app consistently predicted a twenty-five minutes wait for a pick-up; they were then directed to a petition they could sign declaring their opposition to the mayor’s proposed rule. Uber also benefited from an impromptu social media campaign led by celebrity customers, including Kate Upton, Neil Patrick Harris, and Uber investor Ashton Kutcher. At the end, Uber won its showdown in New York.

In Portland, when faced with a city ordinance that was an obstacle to its black car ride service, Uber announced on its blog that it would run a one-day promotion delivering free ice cream around the city. The ice cream “delivery” event provided the company
with a database of people who were likely to be sympathetic to its goals, and who it could then turn into advocates for its ride sharing service. Almost 1,700 people signed a petition to allow the company to operate in the city. When Uber later launched its UberX service in the city before the service had been officially sanctioned, the company carefully used hyper-local marketing to appeal to Portland residents, such as creating an ad with a well-known quirky unicyclist bagpiper as the first rider. The company then threw itself a party at which attendees could take photos with protest signs or send a postcard to the mayor. In the first four hours, more than 7,000 people signed a petition in support of Uber operating its service in Portland. Uber’s key political strategist, David Plouffe, has drawn a parallel between customers and campaign volunteers (Barry and Pollman, 2017).

4.3.2 UBER STRATEGIC ACTIONS IN EUROPE

In contrast to US scenario, in Europe Uber has found much more hurdles to solve its legal issues. Although its strategy has been almost the same used in US (e.g. petitions to fight governments), Uber’s ridesourcing service has been banned throughout the Europe. Therefore, to continue to run its operations, Uber changed its “modus operandi”, trying to be categorized into an existing category fitting to its features, avoiding highly regulated taxi category. Taxi drivers must own a taxi licence, which is supplied in a limited number by public authorities. Because of the market is highly crowded, a taxi licence from public authorities is almost unobtainable. Thus, the unique way to get it is to buy the licence from another taxi driver paying him an incredible high price. For instance, in Milan it can cost as much as 200000€. In addition, fares criteria for taxi rides are determined by public authorities. To avoid this stringent regulation, Uber signalled its membership to category providing car hire with driver services by adjusting its business model to meet category’s requirements. Indeed, it classified itself as a luxury service provider. In particular, it started operating through only its premium services such as UberBlack, UberSuv and UberLux. Then, it began only to accept drivers owning commercial driving licence (CDL) and forced them to wear a suit. As well taxi license, CDL are supplied by public authorities, but the market is not crowded as much as taxi one. Therefore, it is
easier to get licence from public authorities and, if it is not possible, its price lies in a range of 50000€-60000€. In addition, fares derive by negotiation between drivers and riders, perfecting fitting to Uber’s algorithm. Thus, although through limited services, Uber can continue to operate almost as a normal taxi, but avoiding the tight regulation affecting taxi companies.

In London, where some 3.5 million passengers and 40,000 drivers use the Uber, the scenario is a bit different. In contrast to Europe’s states above examined and despite protests from angry taxi drivers, the company has had a relatively easy ride until September 22nd 2017 because, already in May 2012 (when Uber started operating in England), Uber was granted a five-year licence to freely operate in London. Therefore, until that date, Uber did not need to put in place any strategies to be categorized, because a category which perfectly fitted its features already existed. After five years, TfL decided to not renew the licence for Uber. As well in US, Uber has immediately appealed against TfL and simultaneously launched a petition called “save your Uber” which in few hours reached 500000 signatures. Therefore, as well in US, Uber’s strategy is clear: mobilize users and drivers against governments to be categorized and legitimate in order to continue its operations (BBC, 2017; change.org, 2017)

To summarize this chapter, what has emerged from findings is that creating a new category is a fundamental part of Uber’s business model. To achieve its goal, it put in place a clear strategy. It labelled its service with the complete new word “ridesourcing”, penetrated a grey regulation area and sought to grow “too big to ban” before regulators can act. When regulators tried to ban it, Uber mobilized its users and stakeholders as a political force to fight governments.

This strategy has brought positive results in US, but not in Europe. In 2013, the California Public Utilities Commission (CPUC) released a final rule-making to legalize the services state-wide under its existing authority and defined the term transportation network company (TNC). Since then, 46 US states have embraced the new category. In contrast, in Europe Uber failed, at least until now, to create a new category. This occurred because of two main reasons.
Firstly, Uber did not collect consensus among users as much as in US. For instance, after Uber ban in New York City, Mayor de Blasio received 20000 e-mails in five days sent by angry users. In addition, Uber also benefited from an impromptu social media campaign led by celebrity customers, including Kate Upton, Neil Patrick Harris, and Uber investor Ashton Kutcher. In contrast, in Italy, after Uber Tribunal of Rome had banned Uber, the petition reached 27000 signatures in two months. Therefore, in Europe the fighting sees Uber by one side and taxi companies and governments by other side, while in US Uber was heavily supported by many users and influencing people.

Secondly, US regulators are historically more open towards embracing innovative companies than Europe does. Indeed, a great number of innovative companies are based in Silicon Valley.

Because of Uber’s ridesourcing service ban throughout Europe, Uber moved its focus from creating a new category to being categorized into an existing one to continue to operate, but avoiding taxi category for the reasons examined in the previous section. Therefore, it strategically signalled its affiliation into chauffeur category by highlighting correspondence between its features to category requirements. For instance, the not using of taximeter, using black and luxurious cars, drivers’ dress code, higher prices than one requested by a normal taxi.

After having delineated the categorization process of Uber in US and Europe, I will provide an integration of the literature review including findings of my research.
Chapter 5

DISCUSSION

What emerges from above paragraphs is that categorization of organizations is more than an automatic process. In contrast to self-categorization and categorical imperative theory (Porac, 1989; Zuckerman, 1999), which do not take into account interactions between organizations and external audiences, findings show that categorization process involves a negotiation between them, thus confirming strategic categorization theory ((Khaire & Wadhwani, 2010; Navis & Glynn, 2010; Rosa & Spanjol, 2005; Rao et al., 2005; Weber et al., 2008; Durand & Paolella, 2013; Granqvist & Ritvala, 2016). Organizations’ business models, mostly when they involve disruptive innovations through new technologies, include clear strategies regarding categorization. In particular, some organizations position themselves between existing categories, where regulation does not exist yet, in so called “grey regulation areas”. Thus, they have the chance to operate in a market without rules until governments react. Because of governments are historically slow-reacting against disruptive innovations, organizations have the possibility to grow with really high peace and gain broad acceptance among users and employees. When members of adjacent categories start protesting accusing new organizations of unfair competition, innovative organizations have already established themselves in new categories with well-known labels, such as ridesourcing for Uber, and can count many stakeholders which can support them. Since this point, governments are called to decide and, thus, the real negotiation begins. By one side, there are organizations which have already created a new label and a new category in the user’s minds, by other side there are adjacent categories members, such as taxi companies in the Uber case above analysed, which protest because new organizations are operating without rules and norms.
5.1 CATEGORY EMERGENCE

To this point, it is clear that the final goal of some novel organizations is to create a new category with own rules. With a novel category which has basically constructed around claimant organization’s business model, the novel company can exploit this positive scenario being the first mover and taking advantage of the knowledge, experience and consensus gained before category official creation. Although strategies put in place by a particular organization, or among different ones, can basically be the same, the final result may differ across countries. It depends on three elements which influence the categorization process.

5.1.1 DIFFERENT ACTORS’ GOALS AND INTERESTS

As described by Durand and Boulongne (2017), in the goal-based approach categories are used by audiences as a means to achieve a goal, whereas in the prototypical view, they alleviate ambiguity around a product or a producer. Accounting for what actors need and mean is therefore fundamental to decrypt which categorization process is activated. Zuckerman (1999) and more recently Paolella and Durand (2016) refer to it as an audience’s theory of value, which is defined as “how audiences identify issues and solutions, ascribe value, and rank solution providers” (Paolella & Durand, 2016:333). In this case, there is no direct link between an actor’s theory of value and proximity to a prototype (Barsalou, 1983). For instance, when audience members face a new and unique offering for which they have no comparable previous experiences or expertise, they tend to categorize this offering as an active function of their own needs and goals; that is, they develop situational ad hoc theories of value (Bowers, 2015; Zuckerman, 2017).

Although governments should be impartial, trying to find the best solution for both consumers and producers, sometimes they may differently react across countries because of their different goals and interests. What emerges from findings is that the same organization with the same business model and the same strategies put in place has been treated in two complete different manners. While US governments seem to
be more open to change regulation to foster innovative companies emergence and, thus, new categories, in Europe they predominantly focus on pre-existing rules and norms to protect equilibrium already established. Therefore, in the categorization process, goals and interests of who has to judge matter greatly.

GOVERNMENT AS A KEY EXTERNAL AUDIENCE

All of theories examined in the literature review describe external audiences without highlighting differences among them (Zuckerman, 1999; Durand, Granqvist and Tyllstrom, 2017; Durand and Paolella, 2017). In contrast, findings show government as having a key role in the categorization process. Although protests made by rivals or positive opinions held by investors and users may influence final government’s judgement, it is the unique decision maker regarding categorization of claimant organizations.

5.1.2 ACTS OF CATEGORIZATION

According to Durand, Granqvist and Tyllstrom (2017), categorizing processes, like all social processes, need continuous energy to be sustained. Therefore, organizations claiming categorization strategically act to gain favour of external audiences (Durand, Granqvist and Tyllstrom, 2017).

It may be done through affiliations with already-established and prominent organizations which can function as important guarantee for quality as well as through firms’ affiliations with more established and prominent celebrities, who could “demonstrate or improve reputation, image, prestige, or congruence with prevailing norms in the institutional environment” (Oliver, 1990: 246).

In addition to these strategies, findings show that an innovative organization may force government to create a new category by entering a grey regulation area, growing big at fast pace and then mobilizing stakeholders against government. The crucial point highlighted by results is that this strategy did not work in Europe as good as in US. The critical emerging factor to be consider is the willingness of stakeholders to fight by claimant organization side. If a novel organization creates a new category
with a new label in the user’s mind and gets a large user base who are not willing to act to support it, claimant organization will not have enough political force to make pressure against government. Having stakeholders willing to fight depends on the composition of the company’s user base. First, there is a strong status quo bias: many people heavily think that it is hard to change the law. Second, the chances of changing the law are greatest when influential citizens support the change. A user base that contains influential users, such as celebrity or relevant investors, is likely to significantly increase a company’s chance of success.

5.1.3 CONTEXT-RELATED FACTORS

Institutional context impacts categorization through shared meanings and assumptions, norms and regulation, and practices (Bajpai & Weber, 2017; Cornelissen, Durand, Fiss, Lammers, & Vaara, 2015). Indeed, the chance of successfully executing a category emergence depends on a number of factors related to the regulatory context in question. What emerged from findings is that it depends on whether the regulation in question is determined at the local or national level. Change at the local level is often possible more quickly than at the national level. This is largely because the framers want to ensure that local governments remain important centres of power and serve as laboratories of democracy and reform. The large number of local jurisdictions enables companies to pick their battles in ways that increase their chances of success over time. The novel organizations can start with the jurisdictions that it finds most promising, or hold off on targeting a particular location of interest until conditions are favourable. Afterwards, the possibility to be accepted at national level will be higher. Moreover, the entrepreneur does not have to win every battle to achieve some measure of success. These options are generally not available when the regulation in question is national.
5.2 STRATEGIC CATEGORIZATION

Having analysed the critical success factors to create a new category, it is clear that an organization may fail to achieve its goal. Findings show that, once government has definitely decided to not embrace the new category, organization can change its strategy to continue to operate. Indeed, it can strategically modify its business model in order to be categorized into an existing category. The organization’s choice of the category target is no accidental. The choice is based on requirements of the existing categories and, therefore, on the possibility to modify the business model as little as possible. Once a new target category has been identified, organization starts signalling its membership into it. Signalling refers to extolling some valuable traits in common with category target’s members to potentially interested evaluators (Heil & Robertson, 1991). Thus, the likelihood to be assessed as a member by government will be higher, although it will have still the faculty to deny membership.

5.3 FUTURE RESEARCH

In order to further nuance and learn about the different categorization processes, future research needed to identify further factors which may influence outcomes of strategic categorization. For instance, the temporality. Does temporality matter for the success of strategic categorization? Government may be easier influenced by strategic actions of claimant organizations when it is not stable or it is dealing with elections. Candidates may support organizations to gain favour of their user base and, once being elected, satisfy organizations’ requests. Therefore, further researches needed to demonstrate the positive correlation between success of strategic actions and time organizations enter the market.

5.4 LIMITATIONS

The most important limitation of my research was the not possibility to answer the questions: “Why in US the willingness to fight in favour of Uber was high and, in
contrast, European users seem to be almost indifferent?” and “Is this determined by being scared towards taxi companies or by inefficiency of Uber strategic actions?”.

Interviewing Uber’s users was impossible because, when I asked to someone who was taking Uber, He/She never answered me and got in the Uber’s car in a hurry.

If I had collected data from users in Europe, I would have been able to enlarge the critical section “user’s willingness to fight”.

In addition, another crucial limitation was to cannot interview some Uber’s managers to capture further categorization’s strategies which are not understandable consulting newspapers or websites.

5.5 CONCLUSION

Strategy is about not only acquiring and combining resources to achieve superior financial performance. Some organizations have clear strategies regarding how to be categorized to obtain a greater competitive advantage and how to reach this goal. Therefore, categorization process cannot be viewed as an internally or externally driven process, but it includes a combination of both. Indeed, it includes a negotiation between emergent organizations with innovative business models and external audiences. Regarding organizations, they put in place a set of strategies to reach the best valuable category position to exploit their whole business models. Creating new category with own rules which has basically constructed around claimant organization’s business model represents the best scenario, because it can exploit the fact to be the first mover and to take advantage of the knowledge, experience and consensus gained before category official creation. Results of conducted analysis on Uber demonstrate this theory. Uber has a clear strategy: to create a new category. It entered a grey regulation area, exploited the slow-reacting of regulators to grow with fast pace and then, during negotiation phase, mobilized its users and drivers against governments (signatures on petitions, emails to Mayor etc.) as a political force to be categorized into a new category tailored around its business model. Besides, findings show that although strategic actions may not vary across countries, results change. It depends on three elements: the diversity of governments’ goals and interests, the
willingness of stakeholders to proactively support the organization and the features of the regulatory contexts.

Therefore, organizations may fail to create a de novo category. In this scenario, findings show organization changes its goal, moving from creating a new category to being categorized in an existing one. Organization chooses the most convenient category and, afterwards, acts strategically to signal its membership.

Having said that, it is clearly evident that governments have the faculty to release the final judgement. This means that, although categorization process is a negotiation, who officially decides are regulatory actors.
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INTRODUCTION

During the last decade, technological inventions and the rapid development of both the Internet and telecommunications have created a change in the traditional ways of transactions within various markets. This can be exemplified by the taxi industry, originally a typically homogenous market governed by different forms of licenses and sets of regulations in order to control the market. However, with the emergence of Uber, a company that works through a peer-to-peer sharing platform that connects private drivers with passengers by using a smartphone application, the traditional market form within the taxi industry has been challenged. If you want to travel with Uber you use an application on your phone where you choose the pick-up address. It is then possible to follow the driver on the phone and see exactly when the driver will appear. You even pay with the application so there is no need to bring any money. However, if you are using UberX/Pop, this driver does not have any taxi license.

This new phenomenon, and especially Uber, has however caused a lot of trouble across the world. There have been many protests from taxi drivers and some states have even decided to impose a ban on the company.

The most crucial issue Uber is straddling nowadays concerns its categorization. Since its entrance, Uber has been claiming it is a ridesourcing company, a sort of platform which connects drivers to riders. On the other hand, taxi companies argue that Uber is a transportation company and, therefore, should comply with existing regulation.

Having said that, I am therefore going to examine the Uber categorization process with a particular focus on US and Europe trying to compare findings to the existing categorization literature.

Thus, the research questions will be:

- What are strategic actions implemented by organizations to achieve the best categorization?
- Which are the elements that influence the success of strategic actions aimed at creating a new category?
The study of categories is on the rise in management scholarship, predominantly because of the emergence of new business models driven by consistent technological progress. Porac (1989) carried out the first study on categorization providing the self-categorization theory. According to him, categorization is an internally driven process in which organizations, through interaction of their mental models, identify their set of rivals, thus shaping categories. Afterwards Zuckerman (1999), rather than viewing categorization from a cognitive perspective, moved the focus from organizations to external audiences, providing the categorical imperative theory. According to this view, external audiences have in their mind static codified categories, or prototypes, each characterized by features that an organization must possess to become a member. In this sociological perspective, categorization is an externally driven process, in which audiences have the faculty to judge the appropriateness of organizations to become members of particular categories based on existing prototypes. Following studies have overcome prototype view, providing two different models to categorize organizations: causal and goal-based model. According to both perspectives, category membership is more than a checklist of features. The causal-model approach suggests that not all features that determine category membership have the same valence and causal power. Prior knowledge and expertise of audiences contribute to categorization, uniting features according to cause–effect chains, so that audiences’ evaluative schemas and categories can be structured along various causal paths and models. As such, audience members can be seen to have an active role in categorizing markets: depending on their world theory and expertise, they may focus their attention on diverse dimensions and disagree on their categorical assessments. Thus, depending on how their model of social reality is formed and informed, different audiences can categorize the same organization differently. Similarly, the goal-based approach argues that the process of categorization is contextual and driven by the goals that actors pursue, so that producers and audiences create ad hoc categories to support the aim of achieving a specific goal. Audiences have different goals, so they create different categories whose members lack feature similarity but reach the same end. In
conclusion, although these two models continue to treat categorization as an external driven, they overcome its static connotation highlighting its flexible dimension.

A more recent stream of research, rather than viewing categorization as an externally or internally driven process, integrates sociological and cognitive perspectives to show that organizations can act strategically to signal their membership into existing categories or to create an emergent category. According to this new stream of research, called “strategic categorization”, actors (both organizations and audiences), when using categories, interact and share their understanding about the category system with others and thus come to shape it. Therefore, meanings and boundaries of market categories are collectively negotiated and construed with varying perceptions, interests, and knowledge bases at play. In other words, strategic categorization suggests that categorization process is an active, social project that likely involves the interpretations and actions of both entrepreneurial organizations and interested audiences. Organizations may have a clear strategy regarding categorization and therefore may “signal” their affiliation within a category or try to create a new one. Simultaneously, external audiences shape category following their personal goals or causal mental model. There are five co-occurring elements that seem particularly central to consider when analysing categorization as a negotiation process: involved actors, their knowledge and experience, and goals and interests; the object that is being categorized; the acts of categorization, and what counts as such; the context or situation in which categorization occurs; and the temporal conditions surrounding the categorization process. Depending on these, categorization process may differ for instance among different actors or countries.
FINDINGS

REGULATORY RESPONSES TOWARDS UBER IN THE U.S.

San Francisco was the first city in the world to embrace ridesourcing and the regulatory resolution found in this city has largely set the tone for ridesourcing’s reception in other U.S. states.

In 2013, the California Public Utilities Commission (CPUC) released a final rule-making to legalize the services state-wide under its existing authority and defined the term transportation network company (TNC). Not long after that ruling, Colorado was the first state to pass legislation on TNCs in 2014. As of June 2017, 46 states and the District of Columbia have passed some sort of TNC legislation.

The map below shows the states having passed the TNC legislation.

Texas A&M Transportation Institute

A review of state-level TNC legislation identified 31 specific policies regulating TNC
operations. No state includes every policy, but each one have adjusted the legislation according to its legislative standards.

Policies were evaluated and categorized into the following policy areas:

- Permits and fees
- Insurance and financial responsibility
- Driver and vehicle requirements
- Operational requirements
- Passenger protections
- Data reporting
- Regulatory and rule-making authority

Each policy is discussed in more detail in the thesis.

REGULATORY RESPONSES TOWARDS UBER IN EUROPE

In contrast to US scenario where, although many differences among states, a novel category with new rules emerged to regulate ridesourcing companies, the backdrop in Europe is different.

The majority of Europe states have put in place actions against Uber that has resulted in both bans and criminal charges against its drivers and management. Uber’s ridesourcing service (UberPop) has been banned throughout the Europe. Therefore, to continue to run its operations, Uber changed its “modus operandi”, moving its focus from creating a new category towards trying to be categorized into an existing one, but avoiding highly regulated taxi category. Taxi drivers must own a taxi licence, which is supplied in a limited number by public authorities. Because of the market is highly crowded, a taxi licence from public authorities is almost unobtainable. Thus, the unique way to get it is to buy the licence from another taxi driver paying him an incredible high price. For instance, in Milan it can cost as much as 200000€. In addition, fares criteria for taxi rides are determined by public authorities. To avoid this stringent regulation, Uber positioned itself into category providing car hire with driver services. This chauffer service is more expensive than both taxi and UberX/Pop and it is generally provided by Uber through UberBlack, UberSuv and UberLux. Drivers must own a commercial driving licence (CDL) and must wear a suit. As well
taxi license, CDL are supplied by public authorities, but the market is not crowded as much as taxi one. Therefore, it is easier to get licence from public authorities and, if it is not possible, its price lies in a range of 50000€-60000€. In addition, fares derive by negotiation between drivers and riders, perfecting fitting to Uber’s algorithm. Thus, although through limited services, Uber can continue to operate almost as a normal taxi, but avoiding the tight regulation affecting taxi companies.

UBER STRATEGIC ACTIONS

After having delineated the State of Art of Uber, it is useful for the aim of the thesis to analyse how Uber has strategically acted to be legitimate. Uber is essentially running a taxi dispatch service for the smartphone age. However, in most cities, the taxicab industry is heavily regulated. Rules vary across jurisdictions, but they frequently require cabs to have a special government-issued license or medallion; these licenses are typically in very limited supply. Fares are often based on rigid prescribed formulas. Therefore, Uber has put in place several strategies and actions to deviate from being categorized as a transportation company, aiming at creating a de novo category with own rules.

UBER STRATEGIC ACTIONS IN US

In US Uber implemented three main strategies:

- Exploiting a grey regulation area to operate without rules
- Taking advantage of slowness of regulators’ reactions
- Mobilizing users against governments

EXPLOITING A GREY REGULATION AREA

The first strategic action Uber put in place in US regards its position in the market. Indeed, it entered with its business into a “legal grey area”. Since it was born, it has claimed that it is an online platform which connects people who want rides with drivers in the vicinity who are willing to provide them. It called its new business
model “ridesourcing service”. Fares are determined based on an algorithm that takes into account factors related to supply and demand, and Uber takes a percentage of each fare. Thus, it states that drivers are independent contractors who use their own cars, therefore Uber does not have employees offering transportation services. As a consequence, Uber started operating with a complete new business model based on new technology which did not have a clear regulation as well as an existing category. Even if existing regulations or statutes use broad language that would, when read literally, prohibit the company’s business model, companies can take the view that officials were not considering the company’s business model when the laws were written—how could they, when the model did not yet exist? Thus, Uber could assert that the laws were not meant to cover these new circumstances, and that courts will construe them accordingly (Barry and Pollman, 2017)

EXPLOITING SLOWNESS OF REGULATORS’ REACTIONS

After having positioned itself between existing categories, it exploited this favourable scenario to grow as much as it could. In fact, it had the chance to operate in a market without rules until governments reacted. Because of governments are historically slow-reacting against disruptive innovations, Uber had the possibility to rapidly grow and gain broad acceptance among users and employees. In other words, It pursued rapid growth not just to improve its valuation or prospects for profits, but also to gain political advantage against regulators that might seek to ban or regulate the business activity. Business growth can translate to consumer popularity that becomes difficult for regulators to ignore. Uber makes its money by taking a percentage of the driver’s fare. On numerous occasions, especially in US, Uber has dramatically cut its prices in order to increase its user base, valuing growth over profitability. At times, Uber has cut its prices to such a great extent that it effectively paid customers to use its service. Loss leaders are well-known in business, but it is rare for a company’s main product to be one. Ordinarily, this would evoke the old business joke about losing money on every sale, but making it up in volume. But for Uber, this was a savvy strategy because by drastically lowering its prices, Uber did more than increasing its customer
base. It has cultivated constituents which are the people who will complain when someone in power tries to take away their Uber (Barry and Pollman, 2017).

MOBILIZING USERS AGAINST GOVERNMENTS

Unsurprisingly, Uber has been undeterred by legal issues throughout the world, accused by taxi companies of unfair competition. At this point, the third Uber’s strategy came to appear. Uber started using customers and other stakeholders to fight corporate political battles. For example, Virginia’s Department of Motor Vehicles sent Uber a cease and desist order notifying the company that its service was illegal and that it needed to immediately cease all operations in the state. Uber responded by sending a notice to all of its Virginia users, along with the contact information for the ordinarily low-profile state official involved in the decision. Within a few days, hundreds of angry Uber customers had emailed the official, inundating his inbox and requiring him to work all weekend to respond. Uber also hired a team of lobbyists in Virginia and, within 48 hours, the state’s transportation secretary instructed the DMV not to interfere with Uber drivers. Uber lobbyists then submitted a proposed temporary operating permit, which state officials granted several weeks later, permitting the company to continue their normal operations. Uber has repeatedly used this tactic of sending alerts to riders on their phones, asking them to sign petitions or contact public officials at key political moments for the company. The company reports that nearly half a million riders have signed petitions. Its users often respond quickly and in vast numbers—reportedly at a rate of seven electronic signatures per second in some instances. When the Illinois General Assembly passed a restrictive measure that would negatively affect Uber’s business, Uber used its smartphone app to mobilize its army of users. It inserted a splash screen and emailed Illinois riders requesting that they sign a digital petition asking the state governor to veto the bill. Twenty-five thousand supporters signed the petition in its first hour. For example, consider Uber’s experience in New York City, the nation’s largest market for taxi services and among the most tightly regulated. When faced with resistance by New York Mayor Bill de Blasio, Uber’s user base was its biggest weapon. Uber offered free rides to passengers willing to attend a protest at City Hall on its behalf. It used its
app to contact drivers and passengers and mobilize them to express their opposition to Mayor de Blasio’s proposal, flooding city hall with over 20,000 e-mails in five days. In Portland, when faced with a city ordinance that was an obstacle to its black car ride service, Uber announced on its blog that it would run a one-day promotion delivering free ice cream around the city. The ice cream “delivery” event provided the company with a database of people who were likely to be sympathetic to its goals, and who it could then turn into advocates for its ride sharing service. Almost 1,700 people signed a petition to allow the company to operate in the city. When Uber later launched its UberX service in the city before the service had been officially sanctioned, the company carefully used hyper-local marketing to appeal to Portland residents, such as creating an ad with a well-known quirky unicyclist bagpiper as the first rider. The company then threw itself a party at which attendees could take photos with protest signs or send a postcard to the mayor. In the first four hours, more than 7,000 people signed a petition in support of Uber operating its service in Portland. Uber’s key political strategist, David Plouffe, has drawn a parallel between customers and campaign volunteers (Barry and Pollman, 2017).

UBER STRATEGIC ACTIONS IN EUROPE

In contrast to US scenario, in Europe Uber has found much more hurdles to solve its legal issues. Although its strategy has been almost the same used in US (e.g. petitions to fight governments), Uber’s ridesourcing service has been banned throughout the Europe. Therefore, to continue to run its operations, Uber changed its “modus operandi”, trying to be categorized into an existing category fitting to its features, avoiding highly regulated taxi category. Taxi drivers must own a taxi licence, which is supplied in a limited number by public authorities. Because of the market is highly crowded, a taxi licence from public authorities is almost unobtainable. Thus, the unique way to get it is to buy the licence from another taxi driver paying him an incredible high price. For instance, in Milan it can cost as much as 20000€. In addition, fares criteria for taxi rides are determined by public authorities. To avoid this stringent regulation, Uber signalled its membership to category providing car hire with driver services by adjusting its business model to meet category’s requirements.
Indeed, it classified itself as a luxury service provider. In particular, it started operating through only its premium services such as UberBlack, UberSuv and UberLux. Then, it began only to accept drivers owning commercial driving licence (CDL) and forced them to wear a suit. As well taxi license, CDL are supplied by public authorities, but the market is not crowded as much as taxi one. Therefore, it is easier to get licence from public authorities and, if it is not possible, its price lies in a range of 50000€-60000€. In addition, fares derive by negotiation between drivers and riders, perfecting fitting to Uber’s algorithm. Thus, although through limited services, Uber can continue to operate almost as a normal taxi, but avoiding the tight regulation affecting taxi companies.

In London, where some 3.5 million passengers and 40,000 drivers use the Uber, the scenario is a bit different. In contrast to Europe’s states above examined and despite protests from angry taxi drivers, the company has had a relatively easy ride until September 22nd 2017 because, already in May 2012 (when Uber started operating in England), Uber was granted a five-year licence to freely operate in London. Therefore, until that date, Uber did not need to put in place any strategies to be categorized, because a category which perfectly fitted its features already existed. After five years, Tfl decided to not renew the licence for Uber. As well in US, Uber has immediately appealed against Tfl and simultaneously launched a petition called “save your Uber” which in few hours reached 500000 signatures. Therefore, as well in US, Uber’s strategy is clear: mobilize users and drivers against governments to be categorized and legitimate in order to continue its operations (BBC, 2017; change.org, 2017)

DISCUSSION

What emerges from above paragraphs is that categorization of organizations is more than an automatic process. In contrast to self-categorization and categorical imperative theory (Porac, 1989; Zuckerman, 1999), which do not take into account interactions between organizations and external audiences, findings show that categorization process involves a negotiation between them, thus confirming strategic categorization theory ((Khaire & Wadhwani, 2010; Navis & Glynn, 2010; Rosa &
Spanjol, 2005; Rao et al., 2005; Weber et al., 2008; Durand & Paolella, 2013; Granqvist & Ritvala, 2016). Organizations’ business models, mostly when they involve disruptive innovations through new technologies, include clear strategies regarding how to be categorized. In particular, some organizations position themselves between existing categories, where regulation does not exist yet, in so called “grey regulation areas”. Thus, they have the chance to operate in a market without rules until governments react. Because of governments are historically slow-reacting against disruptive innovations, organizations have the possibility to grow with really high peace and gain broad acceptance among users and employees. When members of adjacent categories start protesting accusing new organizations of unfair competition, innovative organizations have already established themselves in new categories with well-known labels, such as ridesourcing for Uber, and can count many stakeholders which can support them. Since this point, governments are called to decide and, thus, the real negotiation begins. By one side, there are organizations which have already created a new label and a new category in the user’s minds, by other side there are adjacent categories members, such as taxi companies in the Uber case above analysed, which protest because new organizations are operating without rules and norms.

CATEGORY EMERGENCE

To this point, it is clear that the final goal of some novel organizations is to create a new category with own rules. With a novel category which has basically constructed around claimant organization’s business model, it can exploit this positive scenario being the first mover and taking advantage of the knowledge, experience and consensus gained before category official creation. Although strategies put in place by a particular organization, or among different ones, can basically be the same, the final result may differ across countries. It depends on three elements which influence the category creation.
DIFFERENT ACTORS’ GOALS AND INTERESTS

As described by Durand and Boulongne (2017), in the goal-based approach, categories are used by audiences as a means to achieve a goal, whereas in the prototypical view, they alleviate ambiguity around a product or a producer. Accounting for what actors need and mean is therefore fundamental to decrypt which categorization process is activated. Zuckerman (1999) and more recently Paolella and Durand (2016) refer to it as an audience’s theory of value, which is defined as “how audiences identify issues and solutions, ascribe value, and rank solution providers” (Paolella & Durand, 2016:333). In this case, there is no direct link between an actor’s theory of value and proximity to a prototype (Barsalou, 1983). For instance, when audience members face a new and unique offering for which they have no comparable previous experiences or expertise, they tend to categorize this offering as an active function of their own needs and goals; that is, they develop situational ad hoc theories of value (Bowers, 2015; Zuckerman, 2017). Although governments should be impartial, trying to find the best solution for both consumers and producers, sometimes they may differently react across countries because of their different goals and interests. What emerges from findings is that the same organization with the same business model and the same strategies put in place has been treated in two complete different manners. While US governments seem to be more open to change regulation to foster innovative companies emergence and, thus, new categories, in Europe they predominantly focus on pre-existing rules and norms to protect equilibrium already established. Therefore, in the categorization process, goals and interests of who has to judge matter greatly.

GOVERNMENT AS A KEY EXTERNAL AUDIENCE

All of theories examined above in the literature review describe external audiences without highlighting differences among them (Zuckerman, 1999; Durand, Granqvist and Tyllstrom, 2017; Durand and Paolella, 2017). In contrast, findings show government as having a key role in the categorization process. Protests made by rivals or positive opinion held by investors and users may influence final government’s
judgement, but it is the unique decision maker regarding categorization of claimant organizations.

ACTS OF CATEGORIZATION

According to Durand, Granqvist and Tyllstrom (2017), categorizing processes, like all social processes, need continuous energy to be sustained. Therefore, organizations claiming categorization strategically act to gain favour of external audiences (Durand, Granqvist and Tyllstrom, 2017). It may be done through affiliations with already-established and prominent organizations which can function as important guarantee for quality as well as through firms’ affiliations with more established and prominent celebrities, who could “demonstrate or improve reputation, image, prestige, or congruence with prevailing norms in the institutional environment” (Oliver, 1990: 246). In addition to these strategies, findings show that an organization may force government to create a new category by entering a grey regulation area, growing big at fast pace and then mobilizing stakeholders against government. The crucial point highlighted by results is that this strategy did not work in Europe as good as in US. The critical emerging factor to be consider is the willingness of stakeholders to fight by claimant organization side. If a novel organization creates a new category with a new label in the user’s mind and gets a large user base who are not willing to act to support it, claimant organization will not have enough political force to make pressure against government. Having stakeholders willing to fight depends on the composition of the company’s user base. First, there is a strong status quo bias: many people heavily think that it is hard to change the law. Second, the chances of changing the law are greatest when influential citizens support the change. A user base that contains influential users, such as celebrity or relevant investors, is likely to significantly increase a company’s chance of success.

CONTEXT-RELATED FACTORS

Institutional context impacts categorization through shared meanings and assumptions, norms and regulation, and practices (Bajpai & Weber, 2017;
Indeed, the chance of successfully executing a category emergence depends on a number of factors related to the regulatory context in question. What emerged from findings is that it depends on whether the regulation in question is determined at the local or national level. Change at the local level is often possible more quickly than at the national level. This is largely because the framers want to ensure that local governments remain important centres of power and serve as laboratories of democracy and reform. The large number of local jurisdictions enables companies to pick their battles in ways that increase their chances of success over time. The novel organizations can start with the jurisdictions that it finds most promising, or hold off on targeting a particular location of interest until conditions are favourable. Afterwards, the possibility to be accepted at national level will be higher. Moreover, the entrepreneur does not have to win every battle to achieve some measure of success. These options are generally not available when the regulation in question is national.

STRATEGIC CATEGORIZATION

Having analysed the critical success factors to create a new category, it is clear that an organization may fail to achieve its goal. Findings show that, once government has definitely decided to not embrace the new category, organization can change its strategy to continue to operate. Indeed, it can strategically modify its business model in order to be categorized into an existing category. The organization’s choice of the category target is no accidental. The choice is based on requirements of the existing categories and, therefore, on the possibility to modify the business model as little as possible. Once a new target category has been identified, organization starts signalling its membership into it. Signalling refers to extolling some valuable traits in common with category target’s members to potentially interested evaluators (Heil & Robertson, 1991). Thus, the likelihood to be assessed as a member by government will be higher, although it will have still the faculty to deny membership.
CONCLUSION

Strategy is about not only acquiring and combining resources to achieve superior financial performance. Some organizations have clear strategies regarding how to be categorized to obtain a greater competitive advantage and how to reach this goal. Therefore, categorization process cannot be viewed as an internally or externally driven process, but it includes a combination of both. Indeed, it includes a negotiation between emergent organizations with innovative business models and external audiences. Regarding organizations, they put in place a set of strategies to reach the best valuable category position to exploit their whole business models. Creating new category with own rules which has basically constructed around claimant organization’s business model represents the best scenario, because it can exploit the fact to be the first mover and to take advantage of the knowledge, experience and consensus gained before category official creation. Results of conducted analysis on Uber demonstrate this theory. Uber has a clear strategy: to create a new category. It entered a grey regulation area, exploited the slow-reacting of regulators to grow with fast peace and then, during negotiation phase, mobilized its users and drivers against governments (signatures on petitions, emails to Mayor etc.) as a political force to be categorized into a new category tailored around its business model. Besides, findings show that although strategic actions may not vary across countries, results change. It depends on three elements: the diversity of governments’ goals and interests, the willingness of stakeholders to proactively support the organization and the features of the regulatory contexts.

Therefore, organizations may fail to create a de novo category. In this scenario, findings show organization changes its goal, moving from creating a new category to being categorized in an existing one. Organization chooses the most convenient category and, afterwards, acts strategically to signal its membership.

Having said that, it is clearly evident that governments have the faculty to release the final judgement. This means that, although categorization process is a negotiation, who officially decides are regulatory actors.