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# **Sharing and Shaping: A cross-country comparison of how sharing economy firms shape their institutional environment to gain legitimacy**

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## **ABSTRACT**

New technology firms such as Uber and Airbnb have recently spurred the advent of the sharing economy (SE). Faced with institutionally diverse environments, SE firms apply various market and non-market strategies through which they actively legitimize their products/services. In-depth qualitative analyses of several regulative, normative, and cognitive institutions in the Netherlands, the UK, and Egypt reveal that similar institutional strategies have different effects in different country contexts. In countries with lower degrees of institutionalization, SE firms can address grand societal challenges and leverage the power they gain to shape government regulations and public perception to their advantage. In countries with higher degrees of institutionalization, firms with disruptive and transformative strategies (e.g., Uber) can provide rapid but short-term gains, whereas firms with more relational and additive strategies (e.g., Airbnb) may allow for more sustainable legitimacy gains. Furthermore, the extent to which acting locally and addressing the needs of the community leads to legitimation largely depends on whether the national government leaves the regulation of a new service or product to local authorities or takes an active role in establishing standards nation-wide. These findings pave the way for a future contingency theory of country institutional environments and firm institutional strategies.

**KEYWORDS:** Sharing economy, institutional strategies, country institutions, legitimacy, institutional voids, cross-country case study.

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## INTRODUCTION

*“Keep Chicago Uber. Join us in advocating for more economic opportunity, choice and competition - sign the petition today! Ask the Chicago City Council to reject Alderman Anthony Beale’s anti-consumer plan.”—Email sent to Uber customers in Chicago by Uber CEO, Travis Kalanick (2016)*

This was one of the many emails sent to Uber customers around the world in 2016 to put pressure on local lawmakers to allow Uber to operate. Similarly, consider the 6.2 magnitude earthquake on August 23, 2016, which completely destroyed several small villages in central Italy. Shortly after, Airbnb activated its disaster response program that waived all service fees for hundreds of hosts in the region, making it easy to offer free shelter to disaster victims. Such community-building initiatives helped Airbnb further legitimize and solidify its place in the hospitality sector. Similarly, a woman in Egypt who rated an Uber driver poorly upon experiencing sexual harassment<sup>1</sup> in the vehicle was contacted 30 minutes after the incident by Uber Egypt’s head of operations, who apologized, explained the procedure Uber had taken with the driver, refunded her trip, and gave her extra ride credits. Within 72 hours, this was the most shared story on Egyptian social media, and Uber rides skyrocketed. While these strategies were effective in helping the focal firm legitimize their service and grow in these particular countries, it is unclear whether they would work equally well in other country settings. This paper focuses on the contingent effects of country-specific institutional environments on firms’ institutional strategies<sup>2</sup> through the following research question: *How do firm strategies to gain legitimacy by shaping the institutional environment have different effects in different country contexts?*<sup>3</sup>

While a large body of literature has analyzed the multifaceted influence of institutions—humanly devised constraints (regulative, normative, and cultural-cognitive) that

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<sup>1</sup> According to the United Nations, 99.3 percent of women in Egypt have experienced some form of sexual harassment; with 81 percent reporting frequent harassment while using public transportation.

<sup>2</sup> We define institutional strategies as all market and non-market activities to increase a firm’s competitive advantage (also see Hillman & Hitt, 1999; Marquis & Raynard, 2015; Dorobantu et al., 2017).

<sup>3</sup> We define legitimacy as “perceived consonance with relevant institutions and alignment with cultural-cognitive frameworks” (Scott, 2008: 60).

structure political, economic, and social interaction (North, 1991:97; Scott, 2008:56)—on organizations (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Peng, Wang, & Jiang, 2008), less attention has been paid to exploring how organizations purposefully and strategically shape their institutional environment to improve their competitive advantage (Marquis & Raynard, 2015). However, as the recent research has shown, the effective management of regulative, normative, and cognitive institutions—such as, government regulations and public perceptions—is no less important to organizational performance than business success in the marketplace (Hillman & Hitt, 1999; Lounsbury & Glynn, 2001; Marquis & Qian, 2014; Seelos & Mair, 2007). In this paper, we document a variety of institutional strategies used by firms to legitimize their products and/or services by influencing the regulative, normative, and cognitive institutions in specific countries (Hillman & Hitt, 1999; Marquis & Raynard, 2015; Dorobantu, Kaul, & Zelner, 2017).

The existing literature has shown that firms attempt to influence the perceptions of key stakeholder groups as part of their legitimacy-seeking in a variety of settings (e.g., in newly emerging industries, Aldrich & Fiol 1994; Suchman 1995, during institutional change, Maguire, Hardy, & Lawrence, 2004; Battilana, Leca, & Boxenbaum, 2009, and in institutional voids, Khanna, Palepu, & Sinha, 2005; Puffer, McCarthy, & Boisot, 2010). However, our understanding of the diversity and contextual dependence of the different institutional strategies used by firms remains incomplete. In particular, cross-country differences remain largely unexplored as most of the extant studies examine these strategies in one context. Of the few studies that examine institutional strategies across countries, Marquis and Raynard (2015) focus on institutional strategies in emerging markets where institutions are generally weak, while Dorobantu *et al.* (2017) focus on situations in which specific institutions are weak in a given country. While these studies provide invaluable insights, they keep the institutional contexts constant while varying firm strategies, strategic intents, or governance

modes. The effects of similar institutional strategies across different country contexts are unclear. Thus, there is still a gap with regard to the contingent effects of the general level of institutionalization in a country on the choice and effectiveness of a firm's strategy to shape the specific institutions that govern a new innovation/technology.

Studying this gap within the context of the sharing economy (SE)<sup>4</sup> is particularly relevant as SE firms enter and attempt to legitimize themselves in highly diverse institutional environments that range from those with significant voids (e.g., Egypt) to highly institutionalized environments (e.g., the UK or the Netherlands). The SE also illustrates a special case because, on the one hand, SE firms offer solutions to societal problems with consequences for the welfare<sup>5</sup> of society at large, such as generating trust and aiding community revival (Schor, 2016), or reducing waste and increasing the efficient use of resources (Hamari *et al.*, 2015). On the other hand, the lack of a clear understanding of SE firms' institutional strategies makes it difficult to untangle the conditions under which they truly benefit society from the conditions under which they exploit loopholes to avoid regulation. Thus far, the growing literature on SE has mainly focused on describing the phenomenon itself (Martin, 2016; Frenken, 2017) and its disrupting effect in a particular sector, e.g., transportation (Chan & Shaheen, 2012; Greenwood & Wattal, 2017) or in a particular geographic location, e.g., The United States (Hall & Krueger, 2015). A systematic comparison of how varying levels of institutionalization influence the type and effectiveness of the institutional strategies employed by SE firms remains unexplored. For instance, unique

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<sup>4</sup> The SE can be defined as a class of economic arrangements that commonly uses information technologies to connect different stakeholders—individuals, companies, governments, and others—to make value by sharing their excess capacities for products and services (Belk, 2014; Woskow, 2014; Hamari, Sjöklint, & Ukkonen, 2015).

<sup>5</sup> From a competition law perspective, welfare mostly concerns allocative efficiency, i.e., low prices and similar quantifiable aspects of surplus. From a consumer law perspective, welfare concerns the consumers' position in market transactions, such as the balance between the consumer and the supplier, but also more qualitative aspects such as safety or health. We adopt a broad definition of *public welfare*—one that includes the well-being, protection, and prosperity of all the citizens in a society.

socio-economic characteristics (trust, safety, digital literacy, awareness of SE) and infrastructural conditions (commercial, technological, physical, financial, regulatory) in a country would severely affect how SE firms legitimize their products and/or services in the eyes of key stakeholders.

Given the limited theory and empirical evidence on our research question of *how firms' institutional strategies have different effects in different country contexts*, we conducted a comparative case study of two canonical global SE firms, Airbnb and Uber, in different geographic locations with rich social and institutional diversity, namely, the Netherlands, the UK, and Egypt. Through this study design, we draw connections among a) the two largest sectors, i.e., transportation and accommodation, which have been affected by the emergence of SE, and b) different stakeholders, e.g., firms, governments, and industry associations, that are engaged in the SE. As SE firms attempt to create and capture value by managing interactions across a multilateral set of market and non-market actors—e.g., consumers, owners of goods and/or services, investors, incumbents, governments, and municipalities (Ceccagnoli, Forman, Huang, & Wu, 2012)—we argue that it is important to consider this phenomenon in a holistic way, rather than studying the strategies of SE firms in isolation, in order to support a better understanding of the perspectives of key stakeholders and their interactions (Williamson & De Meyer, 2012; Belk, 2014; Uzunca, Sharapov & Tee, 2017). For this reason, we not only rely on Uber and Airbnb for information on their strategic actions and their views of the country-specific institutions, but also on interviews with government institutions, industry associations, and local SE firms to gain a more holistic view of the stakeholders on which these strategies had effects (Figure 1).

-----Insert Figure 1 about here-----

Our findings provide a within- and across-country comparison of firms' legitimacy-seeking strategies. First, we compare Uber and Airbnb's strategies in the same country—

using Dorobantu *et al.* (2017)'s typology of non-market strategies—to show how SE firms use transformative versus additive approaches to legitimize their products and/or services in the same institutional context. In particular, we find that transformative strategies that break with existing institutions (e.g., employed by Uber) can provide rapid but short-term gains, whereas more relational and additive strategies that complement existing institutions (e.g., employed by Airbnb) allow for more sustainable legitimacy gains. However, we show that the success of these strategies is contingent on the degree of institutionalization of the country in question. In countries with a lower degree of institutionalization (e.g., Egypt), SE firms have more opportunities to transform their institutional environments by addressing grand societal challenges. However, in countries with higher degrees of institutionalization, relational and additive strategies provide longer-term legitimacy gains. Finally, we find that the approach of the national government also plays a contingent role. In particular, when the government takes a more proactive stance regarding the regulation of the new service or product, forming and/or participating in politically active industry associations and lobbying various higher institutional actors (e.g., ministers) can lead to additional opportunities to gain legitimacy and influence regulation.

The discoveries presented in this article contribute to extant work on institutional (market and non-market) strategies as well as institutional entrepreneurship and voids. We take the view of legitimization as an endogenous process whereby different stakeholders' perceptions about SE firms are formed as a result of the negotiations and interactions between key stakeholders, such as consumers, incumbent firms, and local and central governments. In this way, we draw attention to the coevolution of firm strategies and the institutional environment. In addition, our illustration of how SE firms can gain legitimacy in countries with lower degrees of institutionalization—by framing their products and/or services as complementary to extant institutions and leveraging technologies to address grand societal

challenges—expands the extant research on institutional voids and how entrepreneurial firms can use them to grow without facing strong resistance. We draw attention to the importance of countries as complex institutional environments in which firms’ institutional strategies materialize. Further, we highlight how firms must consider the benefits and costs for every stakeholder in these environments over time. In doing so, we motivate a future contingency theory of country institutional environments and firm institutional strategies.

Finally, the setting of this study in the emerging field of the SE across three countries is a contribution to extant work in itself. The SE represents a radical shift in how business is organized and how value is created in a society with a higher diversity of interrelationships and opportunities for co-investment, co-learning and co-innovation (Belk, 2014; Moore, 2013; Williamson & De Meyer, 2012). Our findings provide a stepping stone for future studies to leverage the emergence of the SE across countries, stakeholders, and sectors as an opportunity to question traditional management theories and practices.

## **CONCEPTUAL BACKGROUND**

In this section, we provide a brief synopsis of the literature on ‘how organizations purposefully and strategically shape their institutional environment to improve their competitive advantage’ and identify inconsistencies, unarticulated assumptions, and gaps with regard to three related questions: 1) What are the market and non-market strategies that firms use to shape the institutions around them? 2) How do varying levels of institutionalization in different country contexts affect the choice and effectiveness of these strategies? 3) How does contestation by key stakeholders affect the successful implementation of these strategies?

### **Firm Strategies to Shape the Institutional Environment**

To date, firms’ institutional strategies have been studied under non-market or corporate political strategies (Baron, 1995; Hillman & Hitt, 1999; Hillman, Keim, & Schuler, 2004), collective action (King & Pearce, 2010; Walker & Rea, 2014), and stakeholder management

(Freeman, 1984; Mitchell, Agle, & Wood, 1997). The idea that actors in a new field (such as the SE) will strategically shape the existing institutions to gain legitimacy and/or competitive advantage dates back at least to Oliver's (1991) seminal piece on strategic responses to institutional processes—through the choice-within-constraints tradition of the new institutionalism (Ingram & Clay, 2000; Ingram & Silverman, 2002). A common feature of this well-established and fertile field of inquiry in institutional theory is that it addresses how organizations strategically manage their broader external environments and, as such, it provides important insights for theorizing about SE firms' legitimacy-seeking strategies.

We integrate this work under the common heading of *institutional strategies*, which includes all market and non-market activities aimed at leveraging and influencing regulative, normative, and cognitive institutions to increase firms' competitive advantage (Hillman & Hitt, 1999; Marquis & Raynard, 2015; Dorobantu *et al.*, 2017). These strategies serve to legitimize the organization in the eyes of key stakeholders and to navigate institutionally diverse settings. For example, Hillman and Hitt (1999) examine three types of generic political strategies (information, financial incentive, and constituency building) and offer a number of tactics for each means of exchange in non-market settings (information, money, and votes, respectively). In a more recent effort, Marquis and Raynard (2015) identify three specific sets of institutional strategies; relational, infrastructure-building, and socio-cultural bridging. Relational strategies involve networking efforts to cultivate and manage dependency relationships with the government and key stakeholder groups (Marquis & Qian, 2014; Siegel, 2007). Infrastructure-building strategies address missing or the inadequate regulatory, technological, and physical infrastructures that support business activities (Mair & Marti, 2009; Rao, 1998; Schneiberg & Lounsbury, 2008). Socio-cultural bridging strategies tackle the socio-cultural and demographic issues that can hinder economic development and trade—for example, political and social unrest, corruption, mistrust, unemployment, illiteracy,

poverty, and ethnic or religious conflicts. Finally, Dorobantu *et al.* (2017) argue that firms can follow either adaptive, additive, or transformative strategies towards the existing institutional environment, and they can do so either independently or in collaboration with others. While in the case of adaptive strategies, firms accept the institutional environment as given and do not attempt to change institutional costs neither for themselves or for other stakeholders; additive strategies keep the costs of other stakeholders unaffected after institutional change (win-no effect); and transformative strategies increase the costs of other stakeholders (win-lose).

While these efforts have made progress in explaining the complexity of institutional strategies, our understanding of the diversity and contextual dependence of different institutional strategies remains far from complete. For instance, to what extent are the choice and effectiveness of institutional strategies context-specific? What aspects of the institutional environment and of the other stakeholders are relevant for the various institutional strategies? Further research is needed to understand the enabling conditions, activities, and abilities associated with the effective implementation of institutional change.

### **Strategy Choice and Effectiveness under Different Degrees of Institutionalization**

Organizations act strategically when confronted with institutional constraints—those related to both variation across global contexts and the particularities of local contexts. Identifying the similarities and differences between these contexts is an important first step to better understanding how organizations' efforts to strategically manage or alter aspects of their institutional environment may have different effects in different country contexts.

We begin by drawing on the degree of institutionalization, that is, the institution's ability to adequately facilitate market transactions. Transacting in institutional environments where institutional voids have resulted in market inefficiencies, firms face more challenges due to relatively tumultuous and uncertain markets with greater opportunism by transaction partners (Williamson, 1975). However, such institutional environments also experience rapid

rates of industrialization, economic liberalization, and increased integration into the global economy. These frequent changes offer lower resistance to institutional change and give firms the opportunity to act as self-regulators (Cohen & Sundararajan, 2015) or public interest regulators (Farrell & Katz, 2000), in contexts where delegating some of government regulatory responsibility to firms allow for easier institutional transformation.

Such strategies might not be feasible or needed in countries with higher degrees of institutionalization (Beckert, 1999). As Hillman and Hitt (1999) suggest, institutional differences between emerging and developed countries can lead to a variety of results in the institutional strategies that allows firms to successfully influence their regulative, normative, and cognitive institutions. Comparative studies are needed to systematically explore the influence of varying levels of institutionalization—i.e., institutions' ability to facilitate market transactions as well as their resistance to change—on the type and effectiveness of firms' institutional strategies.

### **Stakeholder Reactions to Institutional Strategies**

The market entry of new types of firms can trigger opposition from industry incumbents whose resources they threaten or from regulators whose efforts in protecting the public welfare they risk (Aldrich & Baker, 2001; Pache & Santos, 2010; Gurses & Ozcan, 2015). As Dorabantu *et al.* (2017) suggest, this pattern is more pronounced in transformative strategies, as opposed to additive ones, as the proposed institutional changes work to firms' advantage at the cost of other stakeholders (win-lose). Market incumbents are known to attack such new entrants directly by introducing new products and services (Matzler, Veider, & Kathan, 2015) as well as indirectly by maintaining strong connections to key institutions that can impose restrictions on the new entrants (Aldrich & Baker, 2001; Gurses & Ozcan, 2015).

While diverse institutional conditions have largely been considered as exogenously given, the recent research suggests that the (re)actions of other key stakeholders can

endogenously generate threats / opportunities that firms, acting as institutional entrepreneurs, might avoid / exploit to instigate change (Battilana *et al.*, 2009; Ozcan & Gurses, 2017). As a result, research seeking to assess the effect of institutional strategies on firm performance needs to consider the coevolution between the strategies of firms and the reactions of key stakeholders in the environment. For instance, what strategies are effective in the face of stronger opposition from fortified incumbents, particularly in sectors where various institutional actors (e.g., regulators, courts) protect incumbents through long-standing laws and regulations (Edelman & Suchman, 1997; Russo, 2001)? While research shows that firms strategize to gain legitimacy (Hampel & Tracey, 2017), there is still a gap in our understanding of the enabling and/or preventive role of their interaction with other stakeholders on the effectiveness of their legitimacy-seeking.

The SE offers an ideal setting to study the market entry and legitimization of new firms in different institutional contexts. SE firms' interactions with various stakeholders (e.g., regulators, incumbents, consumers), as described in this study, hint at the existence of a coevolutionary relationship between these market entrants and key stakeholders in their environment. The development of the SE and regulators' approaches also show large variance across countries, offering ample opportunities to explore the aforementioned gaps and provide new insights into how SE firms try to define the rules of a new game in a context in which everyone is used to playing by the rules (e.g., the UK, the Netherlands) versus in a context in which the rules are generally weak (e.g., Egypt).

In addition to being an ideal setting for the theoretical contribution of our research topic, studying the SE itself is an important endeavor as this 'new way of doing things' can be critical for reaching a more efficient distribution, avoiding waste, and reducing unemployment in the face of an increasing world population (Woskow, 2014). Understanding the growth and strategies of SE firms and their interaction with the environment can help policy makers

effectively categorize SE firms and determine the nature and limits of their activity while protecting the public welfare (as was recently seen in the specific case of Uber in London). Our comparative case study, described below, considers these different legitimacy routes taken by SE firms within different institutional environments. In the rest of the paper, we first present our approach to data collection and analysis, then we discuss our findings, and finally we summarize our discoveries and their contribution to the extant theory and practice.

## **METHODS**

Given the limited theory on our research topic and the empirical work on the SE, we conducted an abductive study, which Suddaby (2006) describes as “the process by which a researcher moves between induction and deduction while practicing the constant comparative method” (Suddaby, 2006: 639). Abductive studies are especially suitable for identifying unusual empirical patterns that are not adequately explained using the extant theory (Ariño, LeBaron, & Miliken, 2016). Such exploratory empirical research in turn inspires future theory-building and testing. With this aim in mind, we conducted a cross-country comparative case study, analyzing the institutional strategies applied by Uber and Airbnb as they attempt to gain legitimacy and fuel growth in different geographic locations with different levels of institutionalization and different responses from key stakeholders.

### **Case Selection**

As indicated above, we focused our study on the two canonical SE firms in the largest SE sectors: Uber in transportation and Airbnb in accommodation. Uber and Airbnb are Silicon Valley startups that were established in 2009 and 2008, respectively. At present, they rank among the largest SE firms in terms of market evaluation. Both firms have a strong focus on international expansion (Huet, 2014; Solomon, 2016).<sup>6</sup> While trying to establish market presence in various geographic locations, Uber and Airbnb must adapt to these countries and

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<sup>6</sup> In May 2017, Uber was active in 82 countries while Airbnb was active in 191 countries.

strategically respond to the actions of key stakeholders such as governments, incumbent firms, industry associations, and communities.

In addition to providing a comparison between these two firms in their market entry strategy, we also compared them across different countries, introducing variance in the levels of institutionalization—i.e., the extent to which institutions facilitate market transactions and their resistance to change. First, to represent a country with a higher degree of institutionalization, we selected the Netherlands. The Netherlands ranks among the top 10 most innovative countries in the world (Weller, 2016), with progressive socio-economic characteristics—e.g., higher levels of interpersonal trust (World Value Survey, 2014), digital literacy and awareness of the SE—and infrastructural conditions (e.g., technological and financial) that fuels the growth of the SE. In 2015, to make legislation “future proof” in the Netherlands, the Dutch Ministry of Economic Affairs conducted research and developed an official policy for SE initiatives. The main conclusion was that the existing legislation was sufficient and that governing action should follow a case-by-case approach and be taken at the appropriate level (i.e., national, regional, or local) to prevent excessive regulation (Ministry of Economic Affairs, 2015). No specific actions were taken at the national level to actively support SE initiatives. With Amsterdam being the epicenter of SE activity in the Netherlands, the municipality of Amsterdam takes a leading role in initiating legislation for SE initiatives. ShareNL, a knowledge and networking platform, also plays an important role as the research and informal networking intermediary for (mainly local) SE firms in the Netherlands. ShareNL emerged bottom-up upon the request of the local, smaller SE firms and explicitly positions itself as “an independent SE knowledge platform.” It provides consultancy services to municipalities, the Ministry of Economic Affairs, and other governmental institutions both

at the EU and international levels. In sum, the Netherlands has many active (local) institutions, but no central trade association representing the interests of SE firms.<sup>7</sup>

To compare and contrast the Netherlands with another country of high institutionalization, we added the United Kingdom (the UK) to our analysis. While the UK also has a higher degree of institutionalization; unlike in the Netherlands, the government in the UK has taken a more proactive stance toward the SE through a wide range of policy interventions at the national level. For example, speaking at an event at the House of Commons, Matthew Hancock, the UK Minister for Digital and Culture, stated that the Government seeks to make the UK “the natural home of the SE.” Similarly, in 2014, the Communities Secretary, Eric Pickles, issued guidance to local councils to enable driveway sharing by residents through platforms such as Justpark.

In addition, the SE trade association, Sharing Economy UK (SEUK), has been very active since its founding, lobbying to gain influence for SE firms both in the political circles and in the public. SEUK’s first official employee was the niece of an influential minister, which its founders described as “not a coincidence.” SEUK also partnered with researchers at a top UK university to develop and introduce “the trust seal,” a set of quality measures that member organizations could follow to increase consumers’ trust. Overall, the UK presents a contrast to the Netherlands in the proactive approach of the government and the important role of the SE trade association in the development of the SE.

To represent a country with lower levels of institutionalization, we selected Egypt as our third case. Since the start of the Arab revolution in 2011, governmental institutions have deteriorated in Egypt; creating a regulatory regime that is unable to enforce the necessary

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<sup>7</sup> There is a newly founded trade association “Nederlandse Vereniging van Deel platformen” (Dutch Association of Sharing Economy platforms) that aims to represent the commercial interests of Dutch SE firms. However, at the time of writing, it only had three confirmed members, two of which (Heel Nederland Deelt and Floop2) are associated with the founder of the association. Thus, the Dutch SE association is currently not active and has limited impact.

rules for a safe and stable (business) environment (Abdelhafez, 2015). Egypt is facing many grand socio-economic and infrastructural challenges, such as poverty, unemployment, access to public transport, and the safety of women. In addition, the Egyptian society is characterized by low levels of interpersonal trust (World Value Survey, 2014). Given these socio-economic and infrastructural conditions, it is not surprising that an official government policy on the SE is still not developed. There are also no formal industry associations. However, Egypt has a very high mobile phone penetration rate (108.5%), and a large number of citizens use smartphones (~ 30 million<sup>8</sup>), which creates opportunities for online platforms to flourish. An overview of the institutional conditions per country is provided in Table 1.

-----Insert Table 1 about here-----

### **Data Collection**

In each country, we combined in-depth interviews with secondary sources and archival data, such as newspaper articles or government documents (see Table 2 for further details). Our data collection includes representatives from four different stakeholder groups: i) global SE firms, i.e., Uber and Airbnb, ii) government institutions (ministries, members of parliament, and municipalities), iii) incumbent firms (e.g., taxis or hotels) and industry associations that represent these incumbent firms, and iv) local SE firms. While Uber and Airbnb provided information primarily on their strategic actions, interviews with the government institutions, industry associations, and local SE firms allowed us to provide a more holistic overview of the stakeholders on which these strategies had effects. In addition, we also conducted informal interviews with taxi drivers and Airbnb hosts to better understand the local SE conditions. Interviewing a multilateral set of stakeholders allowed us to triangulate the data and the patterns emerging from them; reducing the possibility of misinterpretation of interview data or the events described in newspaper articles.

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<sup>8</sup> Numbers taken from the Ministry of Communication and Information Technology (2015).

The interviews took place during 2016 and 2017, typically lasted between 45 and 75 minutes and were digitally recorded and transcribed verbatim for coding. We conducted the majority of interviews face-to-face; however, we also used various (online) platforms, including Skype, Google Hangouts, and telephone interviews, when necessary. Non-English (i.e., Dutch or Arabic) interviews were transcribed and translated to English. During the interviews, we asked the informants about the entry of Uber and Airbnb; however, we also sparked open discussions about the benefits and risks of the SE as a whole and for each stakeholder. This allowed the interviewees to reflect upon the SE in general rather than only on the industry in which they operate. Finally, secondary data sources complemented our data, allowing us to obtain an understanding of why some of the institutional strategies were successful and how they shaped the institutions. Table 2 provides an overview of all interviews and secondary data sources.

-----Insert Table 2 about here-----

### **Data Analysis**

We analyzed the data using the procedures recommended by Miles and Huberman (1994) and Strauss and Corbin (1990). Open and axial coding were applied to the data to label and classify meaningful pieces of information. We began our analysis with open coding of the interviews, which included summarizing all of the transcripts to build basic blocks of data and to saturate categories (Miles & Huberman, 1994; Strauss & Corbin, 1990). The initial codes covered topics such as “hiring politically connected people” or “protest by taxi drivers.” Consistent with our abductive approach, we then followed an iterative process of moving back and forth between theory and data (by using constant comparison), and used axial coding to categorize these first-order codes into more abstract theoretical dimensions and the concepts relevant to our research (see Strauss & Corbin, 1990; Suddaby, 2006). We were guided by the theoretical discoveries provided by our analysis. Following the individual

readings of the transcripts and codes, we also organized numerous discussions among ourselves to saturate the categories. Figure 2 displays the eleven categories that emerged and how they are linked to more aggregate dimensions. We include three main aggregate dimensions: i. firm institutional strategies (consisting of market and non-market strategies), ii. reactions by SE stakeholders to these strategies, and iii. the outcomes of the strategies in terms of government interventions (positive or negative for SE firms) as well as firm performance.

-----Insert Figure 2 about here-----

As our unit of analysis is the firm, we structured our analysis around Uber and Airbnb and analyzed their institutional strategies in each country. To reflect the dynamics within each country and the perceptions of all stakeholders, we also built on the interview data with local SE firms and other actors. These interviews provided valuable insights, for example, into whether certain strategies created (or destroyed) value for multiple stakeholders. The final step involved a cross-case analysis identifying the similarities and differences among strategies applied by SE firms in different institutional settings, reactions to these strategies by key stakeholders, and the consequences of these strategies (Miles & Huberman, 1994; Strauss & Corbin, 1990; Yin, 2003). This cross-case analysis allowed us to blend a process-based logic within our cases of Uber and Airbnb—i.e., how SE firms gained legitimacy over time—with a variance-based logic, comparing variations across different sectoral and country contexts. In other words, we compared how the strategies pursued by Uber and Airbnb in each country resulted in different outcomes in different countries, and why. This *variance in process* analysis provides the basis for our discoveries, discussed below.

## **FINDINGS**

In this section, we report the findings and compare the institutional strategies of Uber and Airbnb in Netherlands, the UK, and Egypt. We report each case in chronological order with a

focus on the coevolution between these firms' institutional strategies and the responses by key stakeholders (e.g., incumbent firms, trade associations, the public, regulators).

### **Uber in the Netherlands**

With the official launch of UberBlack and UberLux in April 2012, Amsterdam was one of the first European cities that Uber entered. Unlike most countries, where the numbers of both taxis and taxi companies are regulated, only the number of taxi companies that can use local taxi stands (usually situated near stations, tourist sites, airports) is subject to regulation in the Netherlands.<sup>9</sup> As Uber does not use official taxi stands, it did not face any entry barriers.

At first, reactions from stakeholders were surprisingly positive. A board member of the Royal Dutch Transportation Association explains why:

Unlike most countries, taxi companies in the Netherlands are used to new competitors entering the market... At first, many competitors looked at Uber as an interesting new concept / technology and they were especially impressed by Uber's positioning and marketing. (Board member, Royal Dutch Transportation Association)

Although Uber did not conform to all the rules, e.g., not making use of a taxi meter or board computer, the Dutch transportation association decided not to contest the company.

Uber's frame and marketing is that they are a new technology company and the taxi industry is old-fashioned and is resisting change. Every time we mentioned in the media that they do not fit the existing regulation, this image was confirmed and it strengthened their marketing message. So, we quickly decided not to criticize Uber on these minor issues anymore. (Board member, Royal Dutch Transportation Association)

However, this positive atmosphere quickly changed upon the introduction of UberPop.<sup>10</sup> According to Dutch law, individuals are not allowed to transport persons for financial compensation without a valid license, approved car, board computer, taxi meter, and insurance. In reaction, taxi drivers and taxi companies united and organized protests against UberPop. In addition, the Royal Dutch Transportation Association highlighted in the political

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<sup>9</sup> This regulation was effective as of 2011 as part of the liberalization of the taxi market (which started in 2000), and it was put into place with the intention of creating a more competitive market.

<sup>10</sup> UberPop (or UberX) offers unlicensed taxi service, allowing everyone to transport anyone in private cars.

domain that the UberPop service was illegal and created unfair competition. In Amsterdam, the police started fining UberPop drivers. Uber's strategic response was quite aggressive (also see Frenken, Waes, Smink, & Est, 2017). They contested the law by stating that they are a technology company and that the law was outdated. This reaction had little effect, and in early 2014, the Ministry of Infrastructure fined Uber. Shortly after, as Uber kept the UberPop service running, the fine for Uber was raised to € 50,000 per UberPop ride (with a maximum of € 1 million). Uber again responded aggressively by taking the Dutch state to court and retaining the UberPop service. In December 2014, Uber lost the court case.

Interestingly, during a parliamentary debate in 2015, almost all parties acknowledged that regulatory changes were needed to enable innovation in the Dutch taxi market. In addition, there was political support to make changes to the taxi law that would partially legalize the UberPop business model. Despite this goodwill, Uber's disruptive and transformative strategy did not help in realizing these institutional changes. The board member of the Royal Dutch Transportation Association illustrated Uber's transformative approach at that time:

In 2015, we [Royal Dutch Transportation Association and Uber] were both lobbying for changes in the Taxi Law, although with different end-goals. We disagreed on a number of issues and we thought it would be good to simply meet and discuss our different views. We were invited to their [Uber's] head office in Amsterdam, but we just received a standard marketing talk. It was never a real discussion or debate. (Member of the board, Royal Dutch Transportation Association)

In the beginning of 2016, Uber hired two influential figures to increase their political influence: Neelie Kroes, the former Dutch European Commissioner, and Bart de Liefde, a member of the Dutch parliament. However, Uber's institutional strategy remained aggressive, e.g., recommending its non-licensed drivers to use the licenses of other taxi drivers when they were inactive. Again, this strategy backfired, and in November 2016 Uber was fined € 650,000. The SE policy officer of the municipality of Amsterdam explains their response:

UberPop did not conform to existing regulations, creating unfair competition with existing taxi companies. We see UberPop as just another business model where rules are already there and because their drivers do not have all the required licenses, we cannot guarantee that their taxi rides are safe.

Uber chose defiance in the Netherlands with the hope of reaching a scale large enough to give it a fighting chance in the courts. In a response to UberPop's ban, Uber has adapted a more relational approach:

Our regular disruptive strategy [the initial strategy that Uber tried in the Netherlands] backfired. We had difficulties in getting around the table with the government since they regarded our service as illegal. Now that we have discontinued UberPop, it is much easier to talk to the government... Our main strategy is a more gradual approach now, showing the government that we work to comply with the rules and seeing if we can decrease legislation one step at a time. The government plays a major role and we can lobby to extend the boundaries of our elbow room. (Operation manager Uber)

The municipality agreed that with more gradual and relational strategies, Uber would have better chances of establishing themselves as a legitimate player in the Dutch market:

Uber has learnt their lesson... They have a very clever app and some interesting things are happening there. If one can link Uber's app to the taxi-tracking system of the government, then why do you still need an expensive board computer in each taxi? These are discussions if their app can deliver the same results and this would lower the barriers for new taxi drivers. Also, the law still states that you need to provide a receipt when you pay for a taxi ride. This is ridiculous of course. We now had talks at the national level saying that UberPop is banned but there are some very interesting elements that we perhaps should change the existing regulations to accommodate them. (SE policy advisor municipality of Amsterdam)

### **Airbnb in the Netherlands**

The first Airbnb listings in the Netherlands started appearing in the beginning of 2009. After 2011, the number of listings started to increase exponentially, and, by the end of 2015, there were approximately 20,000 listings in the Netherlands, half of which were in Amsterdam.

The SE policy advisor of the Municipality of Amsterdam highlighted that there was no "real regulation on house sharing" and Airbnb was free to operate in the Netherlands.

However, as Airbnb scaled up in Amsterdam and issues such as an increased number of tourists and misbehaving renters emerged, Airbnb adopted a relational and additive strategic

approach. In 2014, the municipality and Airbnb agreed on a set of rules to limit the negative outcomes of short-term rentals for stakeholders, e.g., inconvenience for neighbors (a maximum of four guests), unfair competition for hotels (apartments to be rented out for 60 days per year and guests pay tourist taxes), and the lack of safety for users (houses to conform to basic fire regulations).<sup>11</sup> There was some resistance from the Royal Dutch Hospitality Association, which argued that Airbnb created unfair competition against hotels that are subject to stricter regulations (Frenken *et al.*, 2017). However, this lobby did not become influential enough, partly due to the booming tourism sector in Amsterdam and the additional revenue Airbnb created for other hospitality businesses, such as restaurants. Airbnb quickly responded to such discussions by organizing meet-ups with hosts to discuss regulation and safety issues, and they retained a close relationship with the municipality:

Airbnb regularly organizes meet-ups with new hosts to which we [the municipality of Amsterdam] are also invited. They discuss how owners can be a good host, tax regulations, and safety and fire regulations. These are always great meet-ups. (SE Policy Advisor Municipality of Amsterdam)

2016, however, represented a turning point in terms of the relationship between Airbnb and the Dutch government. The number of Airbnb listings in Amsterdam alone had grown beyond 12,500, and residents began to protest against the amount of tourists in their local communities.<sup>12</sup> When research by ING Bank (ING Economic Research, 2016) showed that Airbnb has led to a significant increase in housing prices in the already extortionate Amsterdam housing market (Dutch Central Bank, 2016), a larger debate began on the negative impact of Airbnb. Airbnb reacted by providing their own analysis and downplaying the discussed effects; however, this had little impact.

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<sup>11</sup> Amsterdam, London and New York were among the first cities to co-develop house-sharing regulation with Airbnb.

<sup>12</sup> Per 100 inhabitants, there are approximately 1.52 active Airbnb listings in Amsterdam versus 0.38 in London.

In addition, as Airbnb does not share individual-level data on property owners (Frenken *et al.*, 2017),<sup>13</sup> the municipality could not track which hosts were paying taxes (Airbnb only handles tourist taxes), renting out their apartment for more than 60 days, or renting to more than four tourists at a time.<sup>14</sup> To solve this problem, the municipality introduced ‘Airbnb cops.’ Consistent with their additive strategy, Airbnb responded by opening a complaint reporting service; however, this was perceived as insufficient by key stakeholders (i.e., residents, municipality). The municipality of Amsterdam teamed up with cities such as New York, Paris, and Barcelona to discuss actions against Airbnb and how to force Airbnb to provide individual-level data on property owners.<sup>15</sup> During our interview with the Chief Economist of Airbnb, we were told that Airbnb was willing to provide additional and individual-level data (already occurring in Chicago and New Orleans) but that this would not solve the problems because most municipalities were not equipped and resourceful enough for processing such big data.<sup>16</sup>

-----Insert Table 3 about here -----

Table 3 shows the change in the allocation of costs and benefits among key stakeholders as Airbnb grows over time. In the emergence stage ( $t = 0$ ), Airbnb did not harm the interests of major stakeholder groups. However, as it grew in scale over time, the benefits of Airbnb increased at the cost of others (cf. Dorobantu *et al.*, 2017). Increased discontent among key stakeholders created pressure on Airbnb, and Airbnb’s additive strategies seemed unable to counter such effects. The founder of a local SE firm in the Netherlands described the evolution of Airbnb over time as follows:

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<sup>13</sup> According to EU regulation, digital platforms are allowed to protect the privacy of their users.

<sup>14</sup> Research by Dutch journalists shows that Airbnb hosts frequently violate the 60-day policy.

<sup>15</sup> Shortly afterwards, Airbnb provided additional data to the municipality of Amsterdam. The municipality, however, indicated that such data were not sufficiently detailed to effectively enforce the existing regulations.

<sup>16</sup> In a recent attempt to reduce the nuisance caused by Airbnb tourists, the municipality of Amsterdam announced to decrease the maximum number of nights a private home may be rented from 60 to 30 days on January 10, 2018. The labor party has even called for a ban on Airbnb-type temporary stay rental platforms, and made it a part of the party's mandate for the upcoming (March 2018) municipal elections.

I always looked at Airbnb as a primary example of a successful, international, SE firm that made a positive impact on communities. More recently, this has changed. People are experiencing lots of trouble with Airbnb tourists and as such they [Airbnb] are creating costs for society.... They [Airbnb] could also take a more active governing role but I guess the profits are more important than the effects on the city. The founding story of Airbnb is still great, but they are not about sharing and local community building anymore. (Founder, Dutch SE firm)

To compare the Netherlands with another country with a high degree of institutionalization but where the government has taken a more proactive stance toward the SE, we describe the findings for Uber and Airbnb in the UK below.

### **Uber in the UK**

Uber arrived in London in 2012, just before the London Olympics. From the beginning, it used an aggressive driver recruiting strategy, making drivers a special introductory offer: they received a free iPhone and £25 an hour regardless of whether they completed any trips. In the words of Uber's first UK executive: "We gave these guys a security that they didn't previously have." After six months, Uber began to replace the guaranteed hourly rate with pay by commission, which continued to boost driver acquisition. This process led to 40,000 Uber drivers in London alone in 2017, while the number of black cab drivers remained at 25,000.

Similar to the Dutch case, Uber triggered a defensive response by key stakeholders and, subsequently, the government. In June 2014, thousands of taxi drivers protested, closing off London roads and bridges. Reflecting on a meeting with the government at that time, the chairman of the London Cab Drivers Club made the following statement:

I'm from a working-class family; I grew up in social housing. I said, 'I believed in the conservative ethos: Work hard, better myself. I don't want no benefits. But what you have done is you're killing us for an American company that is paying taxes in the Netherlands. (Chairman, London Cab Drivers Club)

Uber's relationship with regulators and the government has been relatively hostile ever since. In London, for example, Uber has been taken to court by the local transportation authority, Transport for London (TfL), several times since 2015. While the first two cases, in

which TfL sued Uber for using its app as a taximeter and for not observing the mandatory wait time of five minutes by private-ride customers before they could begin their journey, were rejected, the third case finally had an impact on Uber. In October 2016, Uber lost its right to classify its drivers as self-employed and was forced to pay its drivers a national living wage and holiday pay. The ruling came as a landmark in employment law towards preventing Internet platforms that avoid employment taxes over £300 m annually by listing their service providers as self-employed. Uber's reaction to these court cases and proposed rules was to protest aggressively and to frame the issue as a matter of personal freedom and ask its users to put pressure on local authorities. The regional general manager of Uber in the UK stated the following:

Tens of thousands of people in London drive with Uber precisely because they want to be self-employed and their own boss. The overwhelming majority of drivers who use the Uber app want to keep the freedom and flexibility of being able to drive when and where they want. (Regional general manager, Uber)

Uber went on to appeal the decision and was still awaiting the result by the time of data collection. In addition to the TfL, Uber has also been in a hostile relationship with the UK government. For instance, the Labor Business Minister Long-Bailey publicly stated in 2017 that using Uber was “not morally acceptable.” Other ministers have advised the UK government that London should cap the number of Uber cars due to congestion and pollution.

Public interest groups have also been increasingly hostile. Together with the General Municipal Boilermakers (GMB) union (the general trade union for the UK), they petitioned TfL not to renew Uber's license that was to expire in September 2017 unless it guaranteed safe working practices and basic employment rights. As an attempt to reduce the hostility from the various stakeholders in its environment, the Head of Policy for Uber in the UK stated the following in 2017:

We know drivers want more security which is why we're already investing in discounted illness and injury cover, and will be introducing further improvements soon. (Head of Policy, Uber)

These announcements were insufficient, and on September 22, TfL announced that Uber's license would not be renewed. The use of controversial technology to avoid local legislation along with the company's approach to reporting criminal offences, obtaining medical certificates, and obtaining criminal record checks was cited by the TfL as the main reasons for not renewing Uber's license (Chapman, 2017). Currently, Uber is waiting for the appeal, and CEO Khosrowshahi admitted that the company had "got things wrong" and apologized for the "mistakes ... made."

Overall, however, Uber has not shown any specific efforts to legitimize itself through relational strategies such as community service and cooperation with local authorities as Airbnb has, as discussed below. Instead, Uber has relied much more on increasing demand and supply for its service commercially and legitimizing itself by obtaining a large user base. Uber's campaign "Keep London Moving," which included advertisements, discounts, and a petition signed by over 200,000 people, is an example of this approach. It is interesting to note that one of the early decisions of SEUK, the UK's SE trading association, was to not let Uber become a member due to Uber's "controversial" practices that would "damage the reputation and influence of the organization."

### **Airbnb in the UK**

A comparison of Airbnb and Uber regarding the approaches they have taken to establish themselves in the UK reveals patterns that are similar to those in the Netherlands. The first Airbnb listings in London were available as of 2009; however, Airbnb officially entered the UK in early 2012. At present, London has one of the highest numbers of active Airbnb listings in the world, just behind Paris and New York. According to the Airbnb UK community manager, the platform prides itself on entering new markets through

“collaboration and communication with local authorities and community.” As part of its relational and additive strategy, Airbnb created multiple community and public related positions in its UK headquarters, e.g., global and country community managers, a public relations manager, and a head of policy. In London, where it is most active, Airbnb worked hand-in-hand with the municipality from the beginning by providing them information about the growth of tourism in London’s outer boroughs to help spread the economic benefits across the city:

On Monday we released a report with the Mayor’s office in London talking about how it was the outer borough of London that were seen as the biggest growth in terms of tourism or at least Airbnb guests and then people were gravitating more towards the outer borough. The outer boroughs were growing something like 20-25 percentage points faster than the area that we are in now. The tourism board actually helps to promote. Certainly most city tourism boards have a problem of how do you disperse tourism receipts across the city rather than it just staying very centralized. (UK Community Manager, Airbnb)

In addition to providing information to the municipality, Airbnb organizes regular events for hosts to give them information and to help with issues such as fire safety, taxation or how to provide better service. It also works with local fire departments to improve fire safety in homes and neighborhoods, particularly in poorer ones. The company frames these relational and additive strategies as “giving back to the community,” which executives say helps improve the company’s image and gives them an advantage in local and government-level affairs.

We have worked with two fire officers associations as to what is an appropriate level of safety and we have also done a lot of work to actually help facilitate people in getting things like fire extinguishers if they don’t have them... Naturally, our efforts to create a win-win relationship with local authorities pay off. (UK Community Manager, Airbnb)

[We] work with them on how to make these better places to live as well as better places to visit. And so that’s also about what the impact to our community is in terms of the housing or promoting how our guests can be more respectful. (UK Public Relations Manager, Airbnb)

Finally, Airbnb has been a founding member of the SEUK, the trading body for SE firms in the UK. One of the global executives of Airbnb describes how supporting this trading body was important for Airbnb although, strictly speaking, it was not needed:

It is important for us to fit into our environment and support our environment. This includes supporting smaller sharing platforms that could provide complementary services to us. Of course, while doing that, we also support smaller competitors, but this needs to happen...It matters because when you lobby, it's very different to represent the entire UK sharing platforms versus when you do it just for yourself. (Global Community Manager, Airbnb)

Airbnb's strategy of building close relationships with local authorities and smaller competitors, combined with the UK government's centralized and positive approach to SE firms has paid off. For instance, in 2015, Airbnb negotiated a more favorable deal with the city of London in comparison with Amsterdam, which allowed residents to rent their rooms or homes for up to 90 days per year and earn up to £7,500 without having to file taxes. This helped Airbnb grow exponentially from 1 million guests in 2015 to 4 million in 2017. Of course, there was some backlash, but it was at smaller scale.<sup>17</sup> Airbnb addressed these issues more proactively in the UK. For instance, in 2017, Airbnb started delisting London apartments that do not have change-of-use permission after a 90-day stay. An Airbnb interviewee explained:

At Airbnb UK, we consider our hosts kind of like suppliers. We feel and work with them as our business partners rather than as our customers so we are all in it together as part of a way to help people to have great trips and to provide hospitality. But since these are business partners, they need to fulfill their legal obligations as well. (UK Public Relations Manager, Airbnb)

A first comparison of Uber and Airbnb in countries with higher levels of institutionalization reveals that these firms apply distinct institutional strategies. Uber follows a disruptive and transformative approach to influence existing regulations and seeks to obtain

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<sup>17</sup> In comparison with Amsterdam, the number Airbnb listings per inhabitant is substantially lower in London. At the time of writing, there were 33,636 active Airbnb listings in London, which is equal to approximately 0.38 listings per 100 inhabitants. In Amsterdam, the number of active listings per 100 inhabitants is 1.52, i.e., which is 4 times higher.

asymmetric advantages (Dorobantu *et al.*, 2017), eliciting strong reactions from incumbents and other stakeholders in the process. In contrast, Airbnb adopts a relational and additive approach characterized by collaboration with key stakeholders, self-regulation, and supplementing existing institutional structures with new ones (cf. Marquis & Raynard 2015; Dorobantu *et al.*, 2017). The comparison between the Netherlands and the UK further shows that whether the additive approach can lead to legitimacy depends on a) the government's stance towards regulating the new product or service, and b) the ability of the firm to sustain a positive (or at least neutral) value proposition for key stakeholders in the country. Before we discuss these factors in detail in the discoveries section, we present our third country comparison of Uber and Airbnb in Egypt, which provides insights into institutional strategies in a context with lower degrees of institutionalization.

### **Uber in Egypt**

As in the Netherlands and the UK, Egyptian incumbent firms and taxi drivers described concerns about unfair competition upon Uber's entry (particularly in Cairo). However, the protests were more severe. In the beginning of 2016, taxi drivers blocked the streets of Cairo to protest Uber, which they characterized as an illegal taxi service. Strikes were not the only way taxi drivers reacted against Uber. A member of the Egyptian parliament explains other reactions:

When Uber entered Egypt, it was illegal for a privately-owned car to operate as a limousine. Taxi drivers were deliberately ordering rides just to turn them into the police. The police were cooperating because many taxi cars are owned by police officers and they split the profit with the drivers. When we first took notice of the protests by the taxis, our first instinct was to ban Uber's services. You have to understand we are in a position where every move counts and is being watched. We cannot afford bad days again in the international press. (Egyptian Parliament Member)

However, an emerging country such as Egypt faces grand socio-economic challenges that can create win-win outcomes between government institutions and SE firms. The manager of the American Chamber of Commerce in Egypt explains this as follows:

The benefits from mobile services of SE firms may be greater in countries with less developed ‘old’ infrastructure but a high penetration of mobile phones. Innovation may actually prove less disruptive as it does not destroy jobs—simply because they did not exist in the first place. (Manager, American Chamber of Commerce in Egypt)

Countries with higher degrees of institutionalization usually offer well-developed and functioning infrastructural conditions, such as an efficient public transport system (e.g., taxis, busses, trains, metro). In Egypt, however, there are no established taxi stations, on-demand cab services, and some areas do not have access to public transportation at all. Combined with high unemployment rates, this provides Uber with the opportunity to address these problems and leverage the power it gains to transform institutions to their advantage. The Egyptian parliament member told us that the most important challenges that Uber addressed in Egypt were i) public safety and, in particular, the sexual harassment of women<sup>18</sup>, ii) unemployment, and iii) access to public transportation. He explained how Uber helps address such problems, especially when the government has difficulty in enforcing protective and preventive laws and regulations:

Safety for women in public transportation is an issue we take very seriously. The high percentage of harassment, particularly in public transportation, is one of our top priorities. With technological solutions such as tracking and rating systems, this issue can be policed more heavily when using platform technologies. There are even a large number of women working as drivers in these platforms. (Egyptian Parliament Member)

Our data show that Uber used transformative strategies tailored to the local conditions to achieve legitimacy. A strict enforcement of their internal governance mechanisms to address safety and sexual harassment in public transport was one of the most effective ways to quickly gain social approval and legitimacy in the Egyptian market:

We had a woman who rated a driver poorly and wrote ‘sexual harassment’ as a comment. 30 minutes later we emailed her apologizing for the incident, explaining the procedure we took with the driver. We refunded her trip and gave her extra ride

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<sup>18</sup> According to the United Nations, 99.3 percent of women in Egypt have experienced some form of sexual harassment; with 81 percent reporting frequent harassment while using public transportation.

credits. The driver was banned from Uber services and was reported to the authorities. (Operations Manager Uber Egypt)

In terms of gaining legitimacy, this move helped Uber establish their position in Egypt in two ways. First, it helped Uber communicate the benefits of its technology to potential customers. In the Egyptian context, reactions to low ratings proved to be extremely effective in Uber's efforts to gain legitimacy. Stories such as the one quoted above are posted regularly on Uber Egypt's social media pages. Within 72 hours, the above story was the most shared story on Egyptian social media, and Uber rides spiked. Uber has used such incidents strategically to show (potential) customers how Uber aims to help the government regulate the market for both suppliers and consumers, ensuring safety, stability, and convenience, as well as consistency in transportation services. Such actions increase awareness among (potential) customers and legitimize the services offered by Uber.

Second, these strategic moves also show the government how Uber can create value by solving grand societal challenges. This way, despite the protests by taxi drivers in Cairo, Uber was allowed to operate officially. The operations manager of Uber Egypt explains how they used societal problems to highlight the added value of Uber to the Egyptian market:

Taxis in Egypt regularly refuse service to customers if they feel like the destination is not to their liking. This is not possible with our drivers. You pick where you want to go, and if a problem like that happens, the customer can give the driver 1-star and leave a comment explaining the situation. They can then watch us react. Moreover, safety is our main pillar. If providing high quality is one of our main targets, safety is even higher on the list. We are working with HarassMap<sup>19</sup> and educating our drivers on sexual harassment to make sure these incidents do not occur. We also do not hesitate to take the most severe measures possible when such an issue occurs. (Operations Manager, Uber Egypt)

-----Insert Figure 3 about here-----

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<sup>19</sup> HarassMap is a mobile and online non-profit technology that uses interactive mapping to try to reduce the social acceptability of sexual harassment throughout Egypt.

Figure 3 shows the stickers used by Uber in Egypt to signal the safety of their rides. Such actions help Uber gain legitimacy and establish its market presence. The Egyptian parliament member explains how they view the role of SE firms in the transportation sector:

They [SE firms] still don't count for even 1% of the transportation market and they have already solved a huge problem for a lot of people. They are collectively adding about 50,000 jobs and counting. The technology is also allowing women to feel safe when using transportation. This is a priority for us and innovative solutions are always welcome. (Egyptian Parliament Member)

So far these platforms are solving a number of transportation and employment issues for a large segment of the population. This is why we are working hard to accommodate these platforms further and really establish them as key players in the transport industry. We are hoping this sends a message to anyone with an innovative idea that we are willing to work together for the good of this economy and the good of this country. (Egyptian Parliament Member)

The challenges faced by Uber in Egypt are, however, more complex. Uber must adapt to local conditions and deploy infrastructure-building strategies (cf. Marquis & Raynard, 2015) to gain legitimacy among key stakeholders. For example, Uber is currently investing E£500 million (approximately \$ 27.9 million) to optimize the quality of the GPS system in Egypt. This move strengthens their relationship with the government; however, it is also important for Uber itself, as noted by a driver:

In Egypt the GPS system is still not perfect. We have to constantly contact our clients by phone to reach our pickup destinations. The roads as well, the roads are breaking our cars in half. Some clients understand and walk to pick up points on the main roads, others ask us to drive into roads that most SUV's wouldn't survive in. (Uber driver)

Crucially, the operations manager of Uber Egypt suggests that success depends on whether SE firms can establish themselves as local firms. To achieve this, they must adapt their technologies and procedures to the local infrastructural conditions. For example, while the penetration of mobile services has reached 108.5% of the total population, only 2% have credit cards. This means that global SE firms must adapt their platforms to the local conditions:

If you want to appeal to the general population, you need to allow cash transaction, and it was one of our biggest moves. Since that addition, our rides have gone up like crazy. (Operations Manager Uber Egypt)

### **Airbnb in Egypt**

Tourism is one of the most important sectors in Egypt. At its peak in the period from 2009 to 2010, approximately 12% of the working population was employed in the tourism sector (Dziadosz, 2009) with over 14 million tourists visiting the country on an annual basis (World Bank, 2015). After the Arab revolution in 2011, and a series of incidents of political unrest that led to the deterioration of government institutions, the popular press and foreign governments raised serious concerns about the safety of tourists.<sup>20</sup> As a result, the number of tourists plummeted after 2011 with only 9 million tourists visiting Egypt in 2015 (World Bank, 2015).

Similar to the UK and the Netherlands, the first Airbnb listings in Egypt were already available as of 2009. However, although Lonely Planet ranked Sharm el-Sheikh among the top 10 trending Airbnb destinations worldwide in 2017 (Butler, 2017), Airbnb has been unable to become a major player in the Egyptian market. Most crucially, this is due to its inability to adapt to local conditions and, in particular, to successfully encourage trust between lenders and borrowers. Given the current image of safety in Egypt and traveling recommendations by foreign governments, staying in a private home in Egypt is seen as very risky (Ert, Fleischer, Magen, 2016; Resnick & Zeckhauser, 2002). As a result, the vast majority of Airbnb listings in Egypt consist of official hotels and holiday resorts that use Airbnb as an additional outlet. Airbnb's inability to facilitate trust in the Egyptian context was well captured during our interviews.

A lot of people who book never show up and even if they do, they are usually surprised that the place actually looks like in the pictures. You will find a lot of people

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<sup>20</sup>At present, the UK government still has a negative travelling advisory to some parts of Egypt, and until the end of 2016, all direct flights from the UK to Sharm el-Sheikh were cancelled.

who keep their bags in the car until they come up and see the room. In practice, they book two or three different places and shop around when they arrive. (Host in Airbnb)

Similar to the Netherlands and the UK, there were no major protests against Airbnb by industry incumbents (e.g., hotels, restaurants, and tourism associations). In addition, given the economic problems, local citizens and communities welcomed any extra income and employment generated through Airbnb tourists. The former CEO of NHS Tourism (one of largest tourism companies in Egypt) explains why he does not see Airbnb as a competitor:

The market is big enough for both of us. Additional tourists are good for the country; they eat in our restaurants, and make use of some of our services. Anything that can increase tourism in Egypt is welcomed. (Former CEO, NHS Tourism)

While online hotel reservation websites such as Booking.com, Trivago, or Expedia have quickly become established players in the Egyptian market—relying more on traditional reputation mechanisms that better promote trust between service providers and customers—Airbnb has been unable to develop similar or alternative reputation mechanisms and adapt to local conditions to legitimize their position.

Airbnb is probably my least favorite option and there is relatively little activity on the platform. Booking.com is another story. Much more activity, more access to data so that you can improve your online offerings, and the option to add a cancellation fee. I'm now also applying for Expedia. There is a four-step process with an interview and training. They really implement quality-screening processes. (Host in Airbnb)

Whereas Airbnb's relational and community building strategies are crucial in communities that are disrupted by Airbnb tourists, this seems not to be the case in the Egyptian setting. By not adapting to local conditions, Airbnb struggles to gain legitimacy in the Egyptian accommodation industry. However, Trivago recently hired famous YouTube and advertisement figures to legitimize their brand and cater to the local users.

The app [Trivago] itself is similar to Airbnb and Booking.com but is specifically targeting the Middle East region and is an example of the hotel industry's answer to Airbnb. (Marketing Executive, NHS Tourism)

## Overview of Discoveries

Our comparison of Uber and Airbnb in the Netherlands, the UK, and Egypt show that in all three countries, SE firms take strategic action to shape their institutional environment in their favor. However, similar strategies can result in different outcomes depending on the institutional environment in which these strategies are applied (see Table 4). For example, Uber managers in Egypt argue that the high popularity of the service is due to the peer-to-peer rating systems, mobile GPS tracking, and internal governance structures (i.e., eliminating misbehaving and/or noncompliant drivers), which represent an improvement to the existing infrastructure (e.g., government tracking systems, taxi licenses) to tackle societal challenges such as harassment, safety, and quality. As a whole, our case illustration of Uber's successful transformational institutional approach in Egypt provides a striking example of how a firm can use grand societal problems to their advantage in a country where laws are in place but enforcement is limited due to lower degrees of institutionalization.<sup>21</sup> Thus, our first discovery is that countries with a lower degree of institutionalization and larger societal problems offer firms an opportunity to address these problems and in turn achieve power to transform their institutional environment favorably at the national level. Compared to high degrees of institutionalization where there are less or no such problems, SE firms in emerging countries are able to grow with relatively little resistance by addressing societal problems through technology and community-based practices. A case in point is that UberPop is not banned in Egypt.

Comparing Egypt to the Netherlands and the UK, our second discovery is that in countries with higher degrees of institutionalization, the legitimacy and commercial success

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<sup>21</sup> Interestingly, while Airbnb works hand-in-hand with local authorities and addresses the needs of the communities in the Netherlands and the UK, it was not able to adapt to local needs or solve grand societal problems in Egypt (e.g., mistrust in society). One explanation of this could be that the company knows how to follow an additive strategy with existing institutions in a country; however, it does not know how to operate in institutional voids.

of SE firms has much less to do with their ability to solve grand societal problems, and much more with how they approach the existing institutions and key stakeholders in their environment. We find, for example, that disruptive and transformative strategies aimed at quickly changing the country's regulations and institutions (e.g., Uber) can provide rapid gains; however, they are likely to backfire and lead to resistance from key stakeholders, such as regulators and incumbent firms. In comparison, more relational and additive strategies (e.g., Airbnb) allow for more opportunities to co-develop (new) regulations that provide more sustainable legitimacy gains. However, there is a limit to applying additive institutional strategies. As firms grow over time, other non-market stakeholders (e.g., residents of Amsterdam in the Netherlands Airbnb case) may be affected negatively. If firms do not adequately address such misalignments in their value proposition, they risk losing legitimacy.

Finally, the third discovery reveals that whether acting locally and addressing the needs of the community leads to legitimation, and market penetration largely depends on the approach of the national government regarding the regulation of the new service or product. When governments play a more proactive role (e.g., in the UK), politically active industry associations and lobbying various higher institutional actors (e.g., ministers) offer additional opportunities to gain legitimacy and influence regulation. These institutional strategies also provide firms with better opportunities to pre-empt or counter resistance by other stakeholders.

-----Insert Table 4 about here-----

### **THEORETICAL CONTRIBUTIONS**

Our exploratory empirical study of SE firms bridges and expands the extant research in various ways. At the broadest level, we contribute to the prior institutional theory research on firms' strategic actions to influence the perceptions of key stakeholder groups in their institutional environment (Aldrich & Fiol 1994; Maguire *et al.*, 2004; Gurses and Ozcan,

2015) by highlighting the diversity and contextual dependence of these institutional strategies. In particular, our findings emphasize the coevolution of firm strategy and the institutional environment in several ways, as detailed below.

### **The Coevolution of Firm Strategy and the Institutional Environment**

First, we specify the different ways in which our focal firms can attempt to shape their institutional environment. We build on the recent typology provided by Dorobantu *et al.*, (2017) that firms can employ additive or transformative strategies towards the existing institutional environment, and we link these strategies to different institutional environments for Uber and Airbnb. Specifically, we identify whether and how additive versus transformative strategies provide legitimacy gains in countries with high versus low degrees of institutionalization, as explained above.

Our finding on how Uber could gain power and legitimacy more easily in a country with a lower degree of institutionalization also expands extant research on how institutional voids can create opportunities for entrepreneurial firms to grow without facing strong resistance (Khanna *et al.*, 2005; Puffer *et al.*, 2005; Mair & Marti, 2009; Gurses & Ozcan, 2015). We show that leveraging technology to connect communities and address critical societal issues, such as security, helps entrepreneurs frame their products and services in the public interest and as complementary to extant institutions that they can then turn into favorable institutional conditions for growth.

Similarly, the comparison between the Netherlands and the UK draws connections to the international business literature, e.g., the “glocalization” tensions associated with competition across borders (Robertson, 1995). We find that the extent to which acting locally and addressing the needs of the community leads to legitimation and market penetration largely depends on whether the national government leaves the regulation of a new service or product to local authorities or takes an active centralized role in establishing standards nation-

wide. Interestingly, however, our findings also show that the government's approach may not be entirely independent of the firms' strategies. Our example of how early SE entrepreneurs played a critical role in influencing the UK government to take an active role in "enabling the SE," which led to the government's commissioning and actively working with the SEUK trade association in making decisions about the SE hints at this coevolutionary relationship.

A second set of contributions from our study regarding the coevolution of firm strategy and the institutional environment is that while most studies in category creation and evolution consider categories as exogenous rules (Hsu & Hannan, 2005; Zuckerman, 1999; Durand & Paoletta, 2013), we take the view of legitimization as an endogenous process whereby governments and municipalities categorize them within existing or new rules and laws by examining the interactions among consumers, firms, and the relevant institutions (Ozcan & Gurses, 2017). We emphasize how different stakeholders' perceptions about Uber and Airbnb were formed as a result of the negotiations and interactions between key stakeholders, such as consumers, incumbent firms, local and central governments. Extant research shows that stakeholders' perceptions play a crucial role in firms' categorization (Gray, Purdy, & Ansari, 2015, Gurses & Ozcan, 2015; Kennedy & Fiss, 2013), and, consequently, performance and governance (Rindova, Dalpiaz, & Ravasi, 2011), as well as the construction of rivalry among them (Porac, Thomas, Wilson, Paton, & Kanfer, 1995), and the emergence of the market overall (Pólos, Hannan, & Carroll, 2002; Garud, Kumaraswamy, & Karnoe, 2010). Through a comparison of focal firm strategies and interactions with various stakeholders in three different countries, we show how the coevolutionary process between firms' institutional and market entry strategies and the initial as well as subsequent reactions of various stakeholders in the institutional environment leads to the eventual legitimization versus rejection of SE firms.

Overall, by describing how similar institutional strategies may have different effects in different country contexts, we hope to motivate a future contingency theory of country institutional environments and firm institutional strategies.

### **Understanding the SE as a Phenomenon**

In addition to the theoretical contributions discussed above, in which we treated the SE as an ideal setting to study the entry and growth of new firms in different institutional contexts, we believe that studying the SE itself offers important implications for management theorists and practitioners. First, the rise of the SE forces us to challenge the classical roles played by firms in a competitive landscape—e.g., suppliers, buyers, substitutes à la Porter (1980)—and even the definition of a firm (Moore, 2013). This new environment where a larger set of individuals and organizations create and exchange products and services without clear roles and borders, makes our findings about stakeholder thinking particularly important both for established firms that are under pressure to adapt as well as start-ups that aim to survive in the SE.

Anecdotally, we observe SE firms attempting to solve societal problems in other emerging country contexts as well. For example, Uber tackles safety issues in Mexico by offering a “share my trip” option whereby riders can let friends and family know their whereabouts and trip status. Similarly, Uber approached the Philippine government to form a partnership to offer its traffic technology solutions (e.g., data from thousands of trips both months before and after infrastructure projects open) to help determine the traffic impact of massive land infrastructure projects, such as roads and bridges.<sup>22</sup> Expanding our findings beyond Egypt to understand the larger impact of this new phenomenon in solving societal problems will help generalize our findings further.

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<sup>22</sup> This move came right after Uber had been banned (for a month) and paid nearly \$10 million in penalties. The firm experienced even more severe problems when it confirmed on November 2016 that the names, email addresses and phone numbers of 57 million riders and drivers, including Filipino users, were stolen in a previously undisclosed data breach.

To conclude, this cross-sector, cross-country study of the SE aimed to provide a multi-faceted account that includes the perspectives and actions of the different stakeholders in the SE as co-evolving within a large and constantly moving picture. It is our hope that future studies can build on these findings to expand our theoretical knowledge of the coevolution between firm strategy and the institutional environment and, in particular, the contingency effect of national and local stakeholders' actions. These findings will also advance the dialogue among SE firms and various other stakeholders, such as lawmakers, to provide benefits to all.

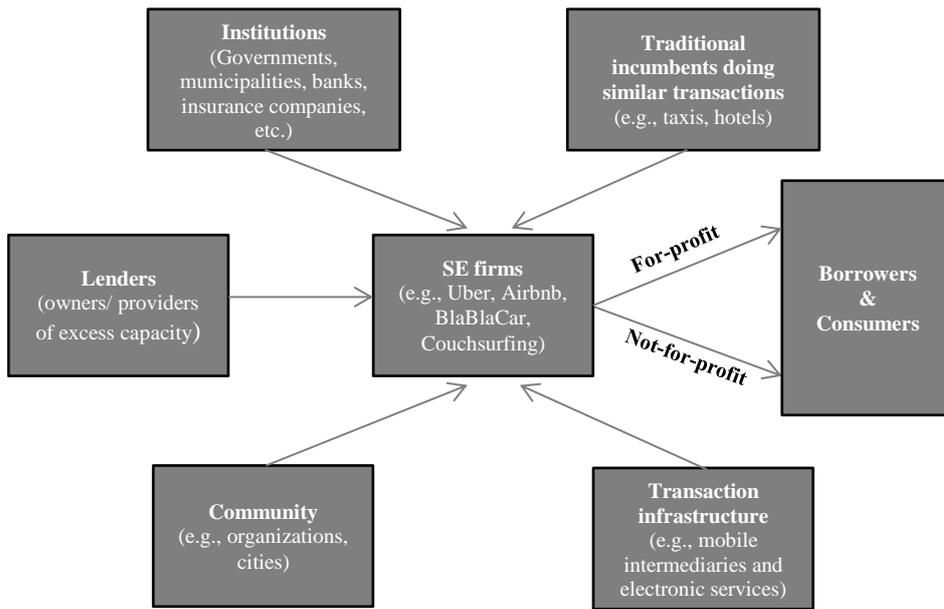
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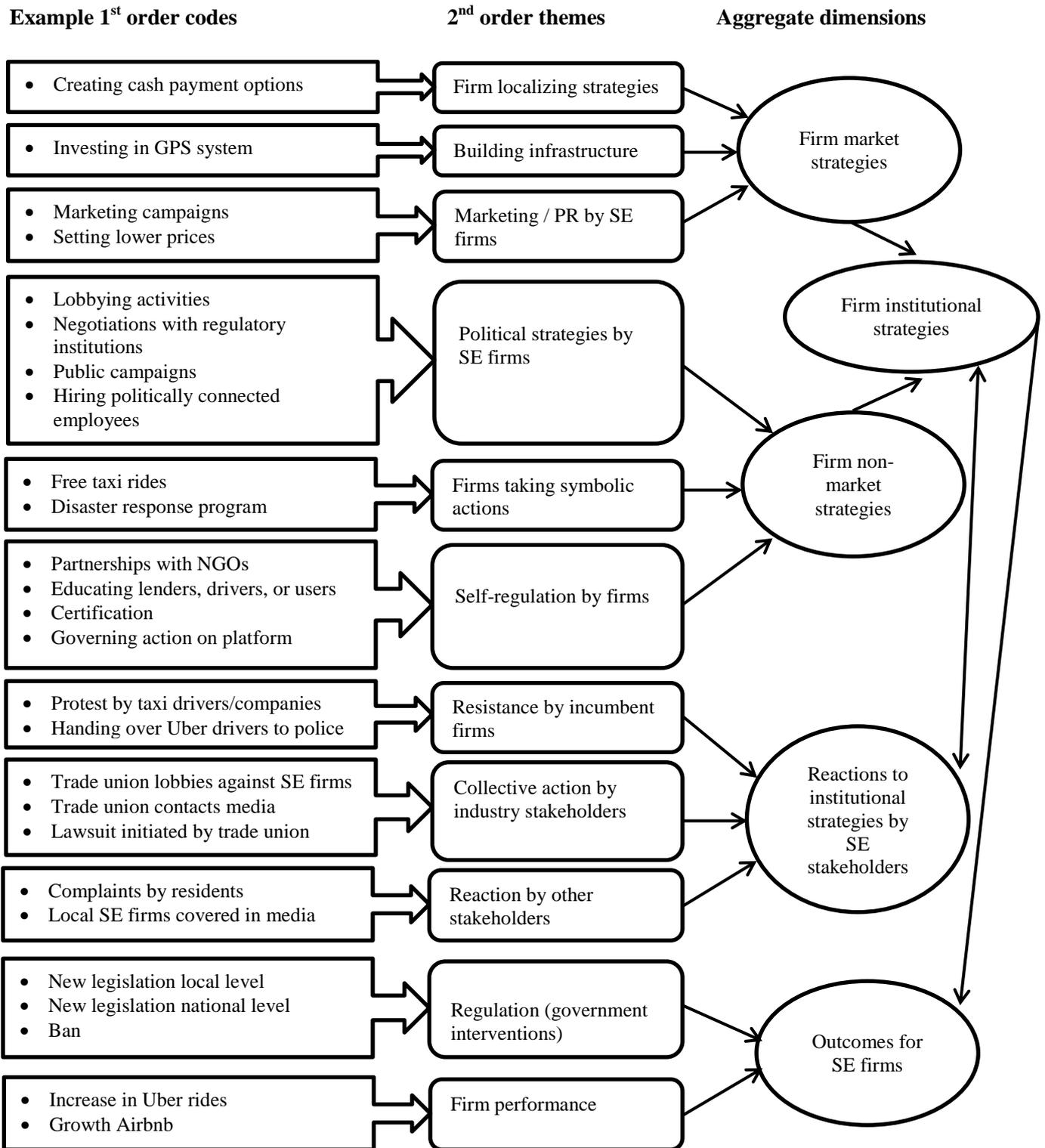
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**FIGURE 1**  
**Overview of Key Stakeholders in the Sharing Economy**



**FIGURE 2**  
**Overview code aggregation**



**FIGURE 3**  
**Uber's car stickers in Egypt**

**TABLE 1**  
**Institutional Conditions in Each Country**

	<b>The Netherlands</b>	<b>The United Kingdom</b>	<b>Egypt</b>
Overall level of institutionalization	Higher	Higher	Lower
Socio-economic characteristics	Higher levels of interpersonal trust (World Value Survey, 2014), safety, digital literacy and awareness of SE.	Higher levels of interpersonal trust (World Value Survey, 2014), safety, digital literacy and awareness of SE.	Lower levels of interpersonal trust (World Value Survey, 2014), safety (Abdelhafez, 2015), digital literacy and awareness of SE.
Infrastructural conditions	Well-developed commercial, technological, and financial infrastructures.	Well-developed commercial, technological, and financial infrastructures.	Less-developed commercial, technological, and financial infrastructures but high mobile penetration rate and large number of smartphone users (Ministry of Communication and Information Technology, 2015)
Trade association	Informal networks and knowledge institution (ShareNL). No trade association.	Well-established trade association (SEUK).	No formal networks or trade associations, largely informal contacts between firms and other SE stakeholders.
Initial government stance towards SE	Reactive and case-by-case approach	Proactive and supporting	Reactive and no formalized policy

**TABLE 2**  
**Overview Interviews and Secondary Data Sources**

	<i>The Netherlands</i>		<i>The United Kingdom</i>		<i>Egypt</i>	
<b>Global SE platforms</b>	<i>Platform</i>	<i>Name and position</i>	<i>Platform</i>	<i>Name and position</i>	<i>Platform</i>	<i>Name and position</i>
	Airbnb	Chief Economist	Airbnb	Regional Manager Public Relations Officer Regional Manager	Airbnb	From secondary interviews obtained from archival sources
	Uber	Operations Manager Technical lead - EMEA	Uber	Secondary interviews from archival sources	Uber	General manager
	<i>Secondary data</i>		<i>Secondary data</i>		<i>Secondary data</i>	
	Newspapers articles; digital articles		Newspapers articles; digital articles		Newspapers articles; digital articles	
<b>Local SE platforms</b>	<i>Platform</i>	<i>Name and position</i>	<i>Platform</i>	<i>Name and position</i>	<i>Platform</i>	<i>Name and position</i>
	De Deelkelder FLOOW2 Meetingplaza HomeExchange Seats2Meet Peerby	Founder Business development lead Location Manager Country Representative Location Manager (3) Founder	Lovehomeswap Bla Bla Car Easycar Under the Doormat	Founder and CEO Regional Manager CEO Founder and CEO	Rakna Careem	General manager General manager
<b>Regulatory institutions</b>	<i>Institution</i>	<i>Name and position</i>	<i>Institution</i>	<i>Name and position</i>	<i>Institution</i>	<i>Name and position</i>
	Ministry of economic affairs Municipality of Amsterdam	SE policy officer SE policy advisor	SEUK	Founder and President, Chief Operations Officer	Government	Member of parliament
	<i>Secondary data</i>		<i>Secondary data</i>		<i>Secondary data</i>	
	Newspaper articles, digital articles, government documents; research report.		Newspaper articles, digital articles, government documents; research report.		Newspaper articles, digital articles, report American Chamber of Commerce.	
<b>Other SE stakeholders</b>	<i>Actor</i>	<i>Name and position</i>	<i>Actor</i>	<i>Name and position</i>	<i>Actor</i>	<i>Name and position</i>
	Share NL Dutch association for SE platforms Forget the box (SE consultancy) Royal Dutch Hospitality association Royal Dutch Transportation association Taxi company (TCA)	Co-founder Founder Founder Member of the board Member of the board General manager	UK Share British Hospitality Association London Cab Drivers Club	President and Founder Member of the board Chairman	Taxi drivers NHS Tourism Golden Travel Hamdullah Properties	Uber drivers Former CEO Marketing Executive Airbnb host Airbnb host

**TABLE 3**  
**Overview costs and benefits for Airbnb's stakeholders**

<b>Stakeholder</b>	<b>Cost and benefits Airbnb small scale (t = 0)</b>	<b>Cost and benefits Airbnb large scale (t = 1)</b>
Airbnb	Benefits (+)	Major benefits (+++) (more apartments being rented out via Airbnb)
Community ( <i>citizens of Amsterdam</i> )	No major costs or benefits (0)	Major costs (--) (more problems with tourists/renters, increased house prices)
Government institutions ( <i>municipality of Amsterdam</i> )	Some costs (maintaining fire regulations) and benefits (additional tourists) (0)	Major costs (--) (protests by citizens, illegal hotels, taxation problems, problems with maintain fire regulations)
Lenders ( <i>property owners</i> )	Benefits (+)	Benefits (+)
Traditional incumbents ( <i>e.g., hotels, restaurants, and trade associations</i> )	Some costs for incumbent hotels, benefits for other hospitality businesses (-/0)	Some costs for incumbent hotels, benefits for other hospitality businesses (-/0)
Consumers ( <i>tourists using Airbnb</i> )	Benefits (+)	Benefits (+)

**TABLE 4**  
**Effectiveness of SE Firm Strategies in Different Institutional Contexts**

	<u>Higher degree of institutionalization</u> (Institutions are able to facilitate market transactions, but are more difficult to transform)	<u>Lower degree of institutionalization</u> (Institutions are less able to facilitate market transactions, but easier to transform)
<u>Additive strategies</u> (Institutional costs lower for the SE firm; unchanged for others, i.e. win-no effect)	A) Institutional environment is able to adequately facilitate market transactions, however higher resistance to change only allows for collaborative and “additive strategies”.  (e.g. Airbnb in the UK and the Netherlands)	B) Institutional environment is not able to adequately facilitate market transactions, it is difficult to implement collaborative and “additive strategies,”  (e.g. Airbnb in Egypt)  unless these strategies create similar levels of legitimacy as alternative options (e.g., taxis, hotels) in the country.  (e.g. Uber in Egypt)
<u>Transformative strategies</u> (Institutional costs lower for the SE firm; higher for others, i.e. win-lose)	C) Institutional environment is able to adequately facilitate market transactions, however higher resistance to change makes it difficult to implement disruptive and “transformative” strategies.  (e.g. Uber in the UK and the Netherlands)	D) Institutional environment is not able to adequately facilitate market transactions, giving SE firms opportunities to address grand societal challenges and leverage the power they gain to implement disruptive and “transformative” strategies.  (e.g. Uber in Egypt)