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THE LIABILITY OF DISRUPTION

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Research summary. We study the internationalization-related legitimacy challenges of firms with disruptive business models by using a case comparison of leading sharing economy companies Airbnb and Uber. We show that they are insulated from many traditional legitimacy challenges to multinationals entering host markets, but exposed to others that have not been noted previously. Specifically, we identify a novel market-entry legitimacy challenge, ‘liability of disruption,’ which manifests as regulatory, incumbent business and societal pushback against firms with disruptive business models. After presenting our cross-case analysis, we theorize about the nature and impacts of these three distinct but interconnected forms of host country institutional pushback on firms’ ability to achieve and maintain legitimacy, and how they are driven by national governance characteristics.

Managerial summary. Sharing economy companies Airbnb and Uber have engaged in rapid processes of global growth, but their practices and right to operate have been challenged by a variety of host country stakeholders. This study shows that their international expansion efforts have been affected by emergent regulatory scrutiny, incumbent businesses’ opposition, and other societal concerns about their impacts on employees, customers, competitors and the communities where they operate. We label these challenges as the ‘liability of disruption’ and illustrate their importance for understanding the internationalization-related complexities faced by sharing economy firms and, more generally, internationalizing ventures with disruptive business models that aim to restructure entire industry sectors.

Keywords: Internationalization, Legitimacy, Institutional Theory, Sharing Economy, Business Model
1. INTRODUCTION

In the wake of the 2008 Great Recession, strident anti-globalization rhetoric has gained momentum across a number of countries, including many that have held positive views of globalization such as the United States, United Kingdom, and Netherlands (Kobrin, 2017). Many thousands of protectionist measures have been passed worldwide since then (Global Trade Alert, 2019), as more and more politicians embrace nationalistic “zero-sum thinking” (Lund & Tyson, 2018). Even as governments and public opinion retreat from political and economic openness, though, the forces of technological change and globalization have continued their march forward (Lund & Tyson, 2018). In many cases, globalization is being driven by the new digital technologies that have unleashed the “transformation of work, play, learning, commerce, and communications through increased computing power, expanded access to mobile technologies, and creative minds’ search for solutions” (Palmisano, 2016). While celebrated in some circles, the institutional changes being forced upon societies and governments in part by technological advances are often the source of anti-global sensibilities and political and societal pushback against the uncertainty and fear engendered by such fundamental changes.

The tension between the “current skepticism of globalization” (Cuervo-Cazurra, Doz, & Gaur, 2017) and the “extraordinary opportunities” created by the evolving digital environment (Palmisano, 2016) is well captured by the international expansion of the leading ‘sharing economy’ firms Airbnb and Uber (MacMillan & Karmin, 2014). Born near the start of the 2008 Global Recession, Airbnb and Uber have experienced rapid global growth opportunities typical of new multinational digital platforms (Ghemawat, 2016) and highly skeptical responses from local institutions – legal, competitive, and cultural – in many of the foreign countries and localities that they have entered (Pascal, 2015). In line with this special issue’s focus, we
examine the legitimacy challenges faced by these firms as they enter new foreign markets. These cases offer a fruitful lens for examining the impact of the current skepticism of globalization on the global strategies of firms that are employing innovative ‘disruptive business models’ (Rogers, 2016; Snihur & Zott, 2013).

In particular, through our analytical case comparison (Miles & Huberman, 1994), we uncover three novel legitimacy challenges that are central to understanding the complexities faced by sharing economy firms and, more generally, internationalizing ventures with disruptive business models. Specifically, they are skepticism from host country government agents or ‘regulatory pushback,’ opposition from local incumbent businesses or ‘incumbent pushback’, and pressures from societal stakeholders concerned about the potential for negative externalities resulting from their operations or ‘societal pushback’. We propose that, together, these legitimacy challenges encompass a novel construct that we term ‘liability of disruption,’ and represent a key basis for the skepticism toward globalization that is the topic of this special issue.

We acknowledge that particular jurisdictions in a domestic market may also question the legitimacy of disruptive businesses and engage in these kinds of pushbacks. Indeed, an important finding of our study is that various local and regional institutions within foreign markets have responded differently to the entry of Airbnb and Uber. However, international markets often favor very similar domestic startups while resisting international entry. Further, as we show in a post hoc analysis based on a comparative capitalism framing, responses to our focal firms’ actions vary across countries with different models of capitalism.

Our contributions to the literature are threefold. First, we address recent calls for theory development about the legitimacy challenges experienced by firms with disruptive business models by identifying the liability of disruption facing prominent sharing economy firms as they
expand internationally (Foss & Saebi, 2017). This allows us to shed new light on the overall costs of doing business abroad for firms with disruptive business models and advance some preliminary insights into the legitimation strategies that they may need to deploy (Tallman, Luo, & Buckley, 2018). Second, we address recent calls in the business model innovation literature to examine how institutional systems may impact the success of firms with disruptive business models (Foss & Saebi, 2017) by illustrating the global nature of the liability of disruption and providing preliminary evidence of how it varies across institutionally-diverse host country contexts. Relatedly, our study shows how host country legitimating agents at different levels of analysis affect these companies’ legitimation efforts (e.g., Batjargal, Hitt, Tsui, Arregle, Webb, & Miller, 2013). While existing research tends to focus on the impact of varying country-level institutional forces on firm outcomes (e.g., Batjargal et al., 2013), our study points to the critical importance of also addressing regional (e.g., province and state) and municipal institutional forces for developing a more comprehensive understanding of the challenges experienced by internationalizing firms with disruptive business models. Third, in line with the special issue’s focus on “Global Strategy in the Age of Skepticism of Globalization,” our study illustrates the impact of such skepticism in the context of internationalizing firms with disruptive business models, and the role that both market and non-market actors play in generating such skepticism.

2. THEORETICAL BACKGROUND

As rapid advances in information and communication technologies have enabled fundamentally different ways of doing business (Snihur & Zott, 2013), “business models” and, more recently, “business model innovation” have become increasingly important constructs for explaining such processes of technological and economic change (Foss & Saebi, 2017). While a business model
captures “the way the company ‘does business’ with its customers, partners and vendors” (Amit & Zott, 2012: 42), business model innovation “refers to a business model that is new to the industry in which the focal firm competes” (Snihur & Zott, 2013: 3-4). Accordingly, disruptive business models reflect efforts by companies to offer “far greater value to the customer in a way that existing firms cannot compete with directly” (Rogers, 2016: 195). By implication, fully disruptive business models represent an existential challenge for incumbent business, as they can lead to their marketplace irrelevance and displacement (Christensen, 2013; Gans, 2016).

Disruptively innovative business models are closely tied to the Schumpeterian concept of the entrepreneur as one who marshals resources in a unique way to bring creative destruction to an industry (Schumpeter, 1934). As a consequence, firms with disruptive business models can expect to face considerable resistance as they attempt to enter new markets, including questions (often advanced by incumbents in the traditional industry) about the legitimacy of their entire basis for existence.

The importance of acquiring and maintaining legitimacy for the success of companies with innovative business models has been acknowledged in the institutional theory-driven business model innovation research (Amit & Zott, 2015; Foss & Saebi, 2017; Laïfi & Josserand, 2016; Snihur & Zott, 2013). Legitimacy is socially constructed and refers to “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, beliefs, and definitions” (Suchman, 1995, p. 574). A handful of exploratory and theoretical studies examine the legitimation strategies of firms with disruptive business models, such as ebook platforms (Wu, Zhao, & Zhou, 2018) and digital publishers (Laïfi & Josserand, 2016), and theorize about the nature of the legitimacy challenges faced by these firms (e.g., Snihur & Zott, 2013). In particular, this research suggests that
companies with disruptive business models are likely to face significant obstacles in achieving legitimacy for two main reasons. First, their operations usually affect many stakeholders, both internal and external to the firm, including customers, employees, suppliers, and regulators, which may all be skeptical about their new business model at the outset (Snihur & Zott, 2013). Second, these firms specifically “break many rules and change the way business is done in the whole industry, often reaching outside industry boundaries for their original ideas and inspiration” (Snihur & Zott, 2013: 13). To address these challenges, there is no ‘right’ or ‘established’ model to imitate (Zimmerman & Zeitz, 2002) because, by definition, firms with disruptive business models eschew existing marketplace norms and rules. Conforming to previously legitimized institutional models would require rejecting the very business model that is the basis of their competitive advantage.

International business research has shown that institutional challenges to legitimacy in a host market stem from a variety of sources, including firms’ newcomer status in host markets, their inexperience with the local institutions and business environment, institutional differences between home and host countries, and the unique difficulties inherent in managing globally dispersed operations (Bruton, Ahlstrom, & Li, 2010; Stinchcombe, 1965; Turcan, 2011; Zaheer, 1995; Zaheer & Mosakowski, 1997; Zahra, 2005). In addition, international business researchers have shown that legitimacy challenges faced by traditional firms differ across host countries owing to their varying institutional characteristics (e.g., Kostova & Zaheer, 1999). However, these findings may not apply, or may apply differently, to firms with disruptive business models. Indeed, given the dearth of research about internationalizing firms with disruptive business models, we still lack a robust understanding of the legitimacy challenges they may face as they grow their global footprint, and of how host countries’ institutional environments may affect
their ability to gain legitimacy. And finally, we do not know if there are additional sources of liability faced by firms that are fundamentally unable (or unwilling) to adapt their business models to local institutional requirements.

3. METHODOLOGICAL APPROACH

To begin addressing these gaps, we relied on an exploratory investigation based on the comparative case approach as exemplified by Hoffman and Ocasio (2001) and Miles and Huberman (1994) for the “purpose of making causal inferences about macrolevel structures and processes” (Skocpol & Somers, 1980, p. 181). Unlike a purely inductive theory development approach, we started “with a set of research questions and categories derived from previous theories” (Hoffman & Ocasio, 1999, p. 417) with the goal of assessing existing frameworks’ applicability to the new focal context, and then potentially extending them by developing new theoretical insights (Miles & Huberman, 1994, p. 17).

In line with the theoretical sampling approach, we decided to focus on Airbnb and Uber for our case comparison because they have specific characteristics that make them suitable for our research question (Eisenhardt & Graebner, 2007). First, they are two of the most visible and globally successful sharing economy companies. For example, in 2014 the Wall Street Journal noted that “Airbnb Inc. and Uber Technologies Inc. popularized the concept of a ‘sharing economy,’ where regular consumers share things like car rides and apartments” (MacMillan & Karmin, 2014). The so-called sharing economy consists of firms whose innovative business models are transforming traditional industries by relying on unused or underused resources (including assets, skills, time, money) that are provided by “decentralized crowds of individuals rather than corporate or state aggregates” (McKinsey, 2015; PWC, 2015; Sundararajan, 2016).
Like most other sharing economy firms, Airbnb and Uber rely on business models that aim to radically change existing markets for the services that they promote. Indeed, the focus on market disruption among shared economy firms such as Uber and Airbnb suggests an explicit intent to replace incumbent industries with new, digitally driven, efficient solutions to consumer needs such as transportation and housing.

In addition, both companies’ processes of international growth have been fast-paced and broad in scope. Airbnb was founded in 2008, launched its first official international expansion in May 2011 through the acquisition of the German clone Accoleo (Techcrunch, 2011), and by August 2018 had over 5,000,000 listings in 81,000 cities across more than 190 countries (Airbnb, 2018a). Uber was founded in 2009, officially began its international expansion in 2011 in Paris, and by August 2018 operated in over 75 countries (Uber, 2011; 2018a, b). The speed and scope of Airbnb and Uber’s global growth is significant since “[t]he few conventional multinationals with such broad footprints have taken decades, if not a century or longer, to put them into place” (Ghemawat, 2016: 3). For comparison, Hilton Worldwide, one of the largest global hotel chains, was founded in 1919 and as of August 2018 managed 5,400 properties with about 880,000 rooms in 106 countries and territories (Hilton, 2018a-b).

Lastly, a well-reported wave of pushback against these highly visible companies has unfolded across the globe, offering a valuable opportunity to examine their internationalization-related legitimation challenges across different institutional contexts (Pascal, 2015). Thus, while these firms do not exhaustively represent the panorama of internationalization-related challenges for disruptive business models, they offer instructive, relevant and compelling cases for strengthening our understanding in this arena.

3.1 Data sources and data collection
Following prior qualitative sociological research about organizations’ legitimacy challenges, we decided to utilize print media accounts as a source of information about Airbnb and Uber’s experiences in this regard (e.g., Deephouse & Carter, 2005; Lamin & Zaheer, 2012; Hoffman & Ocasio, 1999; Rindova, Petkova, & Kotha, 2007). Since “the media both influence and reflect societal values […] [t]he tenor of media accounts about a firm therefore reflects how the public perceives the firm” (Lamin & Zaheer, 2012, p. 56). In order to achieve broad geographic coverage of the internationalization-related legitimacy challenges across countries with significant institutional differences, we selected a sample of high-circulation, independent, and authoritative business press outlets based on five continents, which allowed us to collect insights on a major market from each continent as well as on other countries. From these sources we collected all extant articles about Airbnb and Uber that were published since their founding (2008 for Airbnb and 2009 for Uber) until August 15, 2016. Specifically, we use six key sources: *The Australian* (Australia), *Business Day* (South Africa), *The Financial Times* (United Kingdom), *The Hindustan Times* (India), *The South China Morning Post* (Hong Kong), and *The Wall Street Journal* (United States). While each newspaper covers both local and global instances of Airbnb and Uber’s operations, these companies first entered the countries where these newspapers are based at different times, which may have affected local coverage intensity. In some cases, the growth of Airbnb and Uber’s local user network predated the official establishment of a local office/subsidiary.

We also acknowledge that our use of English-language newspapers may underestimate relevant media coverage in countries like India or Hong Kong, where other languages are commonly spoken. It may also reflect certain cultural influences, a bias towards negative news (Grabe & Kamhawi, 2006), and the influence of powerful organizations within the news
industry. While these limitations should be acknowledged, there are several advantages to our approach. First, these outlets are reputable, and have broad circulation in their respective countries and globally (Dow Jones, 2016). Second, there is an established tradition in organizational sociology and management studies to rely on the “tenor of media coverage” as “a proxy for firm legitimacy” (Lamin & Zaheer, 2012, p. 56). This is because newspaper accounts provide a “historical record […] based on both insiders’ and outsiders’ interpretations of data” (Hoffman & Ocasio, 1999, p. 418), thus offering the researcher an opportunity to develop a longitudinal understanding of these companies’ paths to internationalization through a combination of information and perceptions about their moves in the global arena. The ability of such outlets to reflect broad societal views is particularly salient in countries with strong press freedom as is the case in these media marketplaces. Third, the selected newspapers provide coverage of the focal firms’ activity in both the newspaper’s country of domicile and in other countries where the focal firms operate. This helps us mitigate the potential for host country-specific cultural, political and media biases in assessing the focal companies’ internationalization experiences by triangulating information from multiple sources.

We began by downloading all articles about Airbnb and Uber in each of these newspapers in the Dow Jones Factiva database of periodicals. The numbers of articles per newspaper and year are listed in Table 1. Substantial coverage about our focal companies started in 2012. The data collection yielded a total of 174 articles about Airbnb and 663 articles about Uber, for a total of 837 articles. The list of all the newspaper articles included in the analysis is available from the authors upon request. The more substantial coverage of Uber likely reflects its faster pace of growth and efforts at attracting capital, which heightened media attention. Further, the firm has relied on an ‘old school controversy’ approach to the media, in which ‘any news is
good news’ appears to be an important component of its growth strategy (e.g., Battersby & Schetzer, 2015). To address the issue of comparability between Airbnb and Uber’s press coverage, we present descriptive information about the incidence of certain themes in percentage format. Airbnb’s non-US operations are discussed in 54 percent of all articles about the company, while Uber’s non-US activities are captured in 73 percent of all articles about the company. Some 80 percent of all articles concerned with Airbnb’s foreign operations also discuss some type of legitimacy challenge the company has been experiencing. For Uber, about 91 percent of all articles that focused on its foreign operations also discuss some type of legitimacy challenge.

3.2 Analytical process

Given our goal to develop new theoretical insights into the internationalization-related challenges of firms with disruptive business models, we believe that our qualitative approach is appropriate. In particular, our cross-case/cross-country comparison approach (Hoffman & Ocasio, 2001; Miles & Huberman, 1994) allowed us to develop more generalizable theoretical insights for firms with disruptive business models in a manner supported by multiple data sources. Our analytical approach involved an iterative process of cycling between the case data, our emerging theoretical insights, and the extant literature, until “no additional embellishment of emerging themes occurred” (Gioia, Price, Hamilton, & Thomas, 2010: 7). All in all, our analytical process followed five main stages.

3.2.1 Stage 1: Organizing the data

First, we analyzed the data to identify all instances in which our sources provided evidence of any internationalization-related challenge that may have been experienced by Airbnb and Uber.
During the examined timeframe. During this initial phase we used *invivo* coding, relying on terms and language from our printed sources (Gioia et al., 2013; York, Hargrave, & Pacheco, 2016) whenever possible, or simple descriptive phrases when an *invivo* code was not available. Our goal at this stage was to avoid any loss of data richness while establishing our initial inventory of challenges.

### 3.2.2 Stage 2: Identifying the internationalization-related legitimacy challenges

As we engaged in *invivo* coding, we also began to examine the data using the broad categories of the most common internationalization-related legitimacy challenges that we had compiled from our review of the existing literature. International business researchers have devoted significant attention to the study of the challenges that firms face in their host countries, because this social, competitive and/or regulatory judgment affects their ability to access resources and support from host country stakeholders and society (Pant & Ramachandran, 2012). While these challenges are often summarized as the “costs of doing business abroad” (Eden & Miller, 2001), the field has identified a taxonomy of six major obstacles to firms’ ability to succeed globally (i.e., liability of foreignness, institutional distance and multiplicity, liabilities of newness and outsidership, and operational complexity), which we briefly describe here.

First, firms’ ability to gain legitimacy in their host countries can be challenged by the so-called *liability of foreignness*, which refers to discrimination by a host country’s local stakeholders because of the firm’s foreign status (Zaheer, 1995). Second, and relatedly, internationalizing firms can also face challenges stemming from *institutional distance*—the degree to which the firm’s home country institutional environment varies from that of the host country (Kostova & Zaheer, 1999). Third, internationalizing companies are exposed to multiple and potentially conflicting institutional pressures across their foreign operations. The resulting
institutional multiplicity can create learning and adaptation difficulties for firms (Kostova & Zaheer, 1999). A fourth challenge involves liability of newness (Stinchcombe, 1965), which in the international business literature usually refers to firms’ young age or lack of experience in particular markets. Research suggests that new technological ventures expanding abroad are particularly vulnerable to such liabilities, especially in the form of appropriability risks in host countries that have poor intellectual property protection laws thus requiring savvy engagement with the host country’s institutional milieu (Coeurderoy, Cowling, Licht, & Murray, 2012; Mudambi & Zahra, 2007). A fifth challenge is liability of outsidership, which reflects the specific challenges associated with developing local user (or supplier) networks. Liability of outsidership ensues “because these firms may not be embedded in the foreign market user network and have no direct contacts with local users. This means that potential users in the foreign market might perceive uncertainty in adopting the firm’s platform because they lack information to be able to predict the future size of the network” (Brouthers, Geisser, & Rothlauf, 2016, p. 518). This uncertainty is salient for adoption decisions where network size relates directly to participant value from interacting within a particular platform network. Finally, firms face operational complexities from broader scopes of international activities, because an organization comprised of geographically distant units is more likely to experience tension between its internal (within-firm) and external (outside-firm) legitimacy requirements (Kostova & Zaheer, 1999).

In these initial phases of our analysis, we used the above-discussed six internationalization-related challenges as our coding grid to reflect our initial schema for categorizing complexities experienced by Airbnb and Uber in their global expansion efforts. As
we accumulated evidence about these six challenges, we also noted information about internationalization-related challenges that did not clearly fit these established categories.

3.2.3 Stage 3: Inducing new categories of internationalization-related legitimacy challenges

After the deductive stage, we engaged in a more inductive data analysis effort where we began to consider the array of internationalization-related challenges that did not conform to our initial schema with the goal to better understand their nature (Gioia et al., 2013). As the analysis advanced, we began to organize similar *invivo* codes into thematic first-order categories (Monaghan & Tippman, 2018). We then started to develop second-order themes, to create more abstract, theoretical categories. In this second-order analysis, we explored whether new constructs were needed to make sense of the emergent themes of internationalization-related legitimacy challenges that could not be explained with existing constructs from the literature. At this stage of our data analysis, we were “cycling between emergent data, themes, concepts, and dimensions and the relevant literature, not only to see whether what we are finding has precedents, but also whether we have discovered new concepts” (Gioia et al., 2013: 21). As we will further illustrate in the following sections, this process showed us that the challenges from our source material that did not fit our original schema all stemmed from Airbnb and Uber’s disruptive business models, which upend traditional approaches to service delivery in the established industries of hospitality and transportation. These challenges reflected different stakeholder groups’ pushback against the changes specifically brought about by these firms’ innovative business models.

During this more inductive portion of the data analysis, we began to engage in cross-case comparisons, to identify differences and similarities between the two firms. Since our goal was the development of generalizable theory, we sought to develop more generic themes that would
be replicated across the two firms and were supported by multiple data sources (Monaghan & Tippman, 2018, p. 480). We noticed that the predominant internationalization-related legitimacy challenges experienced by both Airbnb and Uber could be meaningfully organized around three dominant stakeholder groups (second order constructs), from which we derived the more abstract construct of liability of disruption, as we further detail below.

Figure 1 describes our final data structure, including: (a) first-order themes, which identify the novel internationalization-related challenges that emerged from the data; (b) second-order themes, which are higher order theoretical categories, from which we then derived (c) the construct of liability of disruption—an aggregate dimension capturing the novel legitimacy challenges facing Airbnb and Uber as they expand into new markets. Table 2 includes representative quotes for each first order code listed in Figure 1.

3.2.4 Stage 4: Examining the temporal evolution of the newly identified legitimacy challenges

As part of our case analysis, we also developed a detailed chronology of Airbnb and Uber’s newly identified legitimacy challenges across the data to examine temporal patterns. We summarize this analysis in Table 3.

3.2.5 Stage 5: Examining the contextual conditions of the newly identified legitimacy challenges

To explore the contextual conditions surrounding the emergence of the legitimacy challenges affecting the internationalization efforts of the examined firms, we noted differences in the way in which the liability of disruption emerged across the different countries discussed in our
sources. We summarize this analysis in Table 3, which illustrates the varying incidence of the newly identified legitimacy challenges by country and year for each of the five foreign countries of our business press sources.

Throughout the analytical process, we maintained careful records of all the source documents and our coding efforts. One of the authors gathered and coded all the data, with all authors regularly discussing emerging themes. In this way, two authors played the roles of the outsiders and ensured the reliability of our findings based on the evidence presented (Gioia et al., 2013; York et al., 2016). They did so by “playing ‘devil’s advocate’ by offering alternative explanations for developing findings” (Gioia et al., 2010, p. 9).

4. FINDINGS

Our analysis indicated that liability of foreignness, institutional distance, institutional multiplicity and operational complexity did not appear as significant challenges for Airbnb or Uber’s global expansion during the examined time period. In addition, our investigation did not identify liability of outsidership as a significant challenge for Uber, although it appeared relevant for Airbnb. The fluid regulatory environment surrounding Airbnb’s operations seems to have discouraged potential service providers and users from joining the platform for fear of greater scrutiny from regulators in the future. Our analysis also indicated that liability of newness was a significant challenge for both of these firms’ internationalization efforts, constraining their ability to quickly grow local two-sided markets in their host countries. Specifically, we found that liability of newness put these firms at a disadvantage compared to fast-moving local “clone” companies. As new firms trying to disrupt established businesses in new locations, Airbnb and Uber lacked brand and reputational assets often ascribed to established multinational firms.
Further, local clone companies benefited from knowing how to placate local regulators and leverage their local identity, even as they disrupted established local firms offering the targeted traditional service (taxis, hotels, etc.).

**4.1 Emergent internationalization-related legitimacy challenges**

Our analysis also pointed to a set of internationalization-related legitimacy challenges that have not been previously discussed in the extant international business literature about rapidly internationalizing (internet-based) firms, nor in extant strategy research about the legitimation efforts of firms with disruptive business models. Our analysis indicates that these novel challenges stem from the as-yet unexplored contingency of firms deploying disruptive business models in an international context. As we present our findings about the newly identified liability of disruption, we provide definitions and evidence of the identified themes (Monaghan & Tippman, 2018).

**4.1.1 Regulatory Pushback**

Chronologically, the first disruption-related challenge to emerge from our analysis is regulatory pushback by host country officials at both the local and national levels (Table 3 provides a breakdown of the incidence of each identified aspect of the liability of disruption over time). Regulatory pushback manifested in four main ways. First, it involved increased scrutiny of Airbnb and Uber’s operations in light of the two companies’ common practice of entering new markets without fully conforming to existing regulations at the outset of their expansion/host market entry. Such “permissionless” (Crovitz, 2014) expansion into foreign markets was possible because of the focal companies’ asset-light and internet-mediated business models, which reduced their initial exposure to the more typical compliance hurdles for asset-heavy business models. However, as the focal companies expanded their presence in a given foreign
market and gained additional visibility, they often ran into regulatory scrutiny (MacMillan & Fleisher, 2015), and investigations by committees of local or national legislative bodies and by other regulatory entities (such as, for example, taxation offices) into the overall legality of their operations and questionable compliance with existing rules (Griffith, 2013; Winkler & MacMillan, 2015). For Airbnb, regulatory scrutiny focused on the practice of running short-term rentals without appropriate permits and/or in spite of zoning restrictions (Woodhouse, 2016). For Uber, regulatory scrutiny focused on its reliance on non-credentialed drivers, usually in violation of existing transportation laws in many countries (Payi, 2015). For both companies, tax evasion and lack of employer contributions to public social services like unemployment insurance were foci of regulatory scrutiny at the local and national levels (Coulton, 2016; Schechner, MacMillan, & Kostov, 2016).

A second manifestation of regulatory pushback involved efforts by local and national authorities to develop new regulations to monitor the two companies’ service delivery (Schechner & Dalton, 2014; Woodhouse, 2016). Common themes for such legislative efforts included strengthening taxation and employee contribution requirements, tightening short-term rentals’ zoning and permit requirements to curtail the spread of Airbnb’s services to residential neighborhoods, and extending traditional taxi drivers’ credentialing requirements to Uber.

Third, regulatory pushback also took the form of enforcement actions, aimed at pressuring the two firms into regulatory compliance by, for instance, issuing warning notices, threatening and/or implementing fines, deploying police raids of local offices and rental operations, prosecuting and jailing service providers and company executives, and seizing assets (Brown, 2016; Schechner and Verbergt, 2015). In certain cases, regulatory pushback resulted in
partial or complete bans of the companies’ operations at the local and/or national levels (Brown, 2016; Pawle, 2016).

4.1.2 Incumbent Pushback

A second form of liability of disruption that emerged from our analysis involved opposition by incumbent businesses (and often their workers), such as hotels, bed and breakfast establishments, and taxi companies, and their representative industry associations. Incumbent pushback manifested in three notable ways. First, there was a general resentment among members of the hotel and taxi industries against Airbnb and Uber’s non-compliance with existing regulations, deemed a form of unfair competition (Coultan, 2016; Leahy, 2015). This resentment was deepened by what incumbents perceived as local and national regulators’ inability or, in some cases, unwillingness to take a stance against Airbnb and Uber’s “permissionless” expansion (Blitz, 2014; Sung, 2015). This may be most notable in the heavily regulated taxi and hotel industries, where regulation has frequently constrained even traditional competition (Carpenter & Moss, 2013). Second, incumbents sometimes translated such resentment into action by seeking to mobilize local and national authorities to increase their scrutiny of the two focal companies and more effectively enforce existing regulations and/or develop new ones to level the playing field (Morton & Coultan, 2015; Schechner & Verbergt, 2015). Incumbents did so through initiatives ranging from lobbying, protesting, and initiating legal challenges to Airbnb and Uber’s right to operate in specific markets (Ahmed, 2015; Financial Times, 2014). Around 76 percent of recorded instances of incumbents’ opposition to Airbnb and Uber indicated attempts to enlist local and national regulators’ support in pushing back against the two focal companies, sometimes summarized as ‘regulatory capture’. In closely regulated monopoly or quasi-monopoly sectors, incumbents have long worked with regulators to limit competition by
restricting new entry, offering strong and coordinated responses to disruptive entry in certain markets.

4.1.3 Societal Pushback

Our cross-case analysis also pointed to a third type of challenge reflecting societal pushback against Airbnb and Uber’s operations. This type of pushback manifested as broad concerns among local communities, consumer protection groups and union representatives regarding the focal companies’ non-compliance with existing regulations concerning, for instance, zoning permits, health and safety standards, and worker rights, which are deemed to be practices that have the potential to endanger individual and community wellbeing. As seen in Table 3, societal pushback represented the least intensive of the relevant set of disruption-related challenges identified, behind regulatory and incumbents’ pushback.

For Airbnb, societal pushback manifested as complaints involving property damage, rising rental prices, and safety concerns due to increased tourist influx into historically residential areas. For Uber, concerns emerged about passenger safety due to the firm’s reliance on unlicensed drivers and lack of background checks, and about basic worker rights protections for its drivers. These concerns led to some societal efforts to promote enhanced regulatory scrutiny of the two companies, from street protests and social media campaigns, to lobbying and legal actions. For example, individuals and neighborhood associations have formally complained about Airbnb to local city regulators in light of the increased traffic, noise and general safety-related apprehensions caused by the diffusion of its services into residential neighborhoods (Schechner & Verbergt, 2015). Globally, Uber has been targeted in social media campaigns against its surge pricing practices (Davidson, 2014), and by calls for implementing stricter background checks for drivers to weed out individuals who have a history of criminal activity...
(Crabtree, 2015), and by legal actions by workers’ unions to better protect Uber drivers’ rights (Ahmed & O’Connor, 2015).

Our analysis also indicated that, similar to what was discussed about the interaction between incumbent and regulatory pushback, societal pushback also interacted with regulatory pushback as individuals and organized groups actively sought to further mobilize local and national authorities into stricter enforcement of existing regulations or into the creation of new ones to better address the two companies’ operations. Indeed, about 58 percent of our recorded instances of societal pushback against Airbnb and Uber involved initiatives aimed at spurring further regulatory action. All in all, societal pushback can also be traced to Airbnb and Uber’s disruptive business models, and their ability to skirt expectations, norms and rules that apply to similar firms with traditional business models, thus raising questions and concerns among local communities, consumers, and union representatives about the potential and actual negative externalities generated by the companies’ operations. It is important to point out that while our emphasis is on societal pushback against the focal companies’ operations, both Airbnb and Uber have experienced significant consumer success globally, as demonstrated by their rapid global growth (to which we have alluded previously). While outside the scope of our data analysis, consumer support has been acknowledged as an important tool for potentially helping the two focal companies deal with regulatory pushback (e.g., McGinn, 2017). While societal support has been apparent in most markets, the degree of societal pushback has been greater than the firms seem to have anticipated in many, especially foreign, host markets.

4.1.4 Liability of Disruption

As we further illustrate in the discussion section, we see the three sets of challenges discussed above as different yet interrelated manifestations of the underlying issue facing all firms with
disruptive business models as they seek to gain recognition and acceptance in foreign countries, reflecting institutional pushback against these companies as they challenge established industry-specific expectations and rules. Therefore, we label this underlying challenge as the ‘liability of disruption’. We define liability of disruption as all the additional costs and travails of doing business abroad that stem from the disruptive nature of an internationalizing firm’s business model. It is experienced in the host country and captures the negative effects that firms with disruptive business models go through in their efforts to achieve and maintain their legitimacy, relative to firms with traditional business models in the host country, including both local firms and host country-based subsidiaries of foreign multinationals.

4.2 Liabilities of disruption across institutional systems

Since one of our goals is to assess whether and how different institutional environments shape the internationalization-related legitimacy challenges facing firms with disruptive business models, we examined our data using a country-level geographical lens. It is important to acknowledge that our country-specific findings should be interpreted with some caution due to the uneven nature of the available data across countries. In particular, 22 percent of all the articles devoted to the discussion of liability of disruption focused on on India, 19 percent on Australia, 16 percent on France, 10 percent on the United Kingdom, 9 percent on Hong Kong, and 7 percent on South Africa. This limitation is due, in part, to Airbnb and Uber’s distinct entry dates into each of the examined markets, and the resultant effects on the intensity of local press coverage.

With these caveats in mind, we briefly discuss here some variations in how the liability of disruption manifested across the five foreign markets in the analysis (i.e., Australia, Hong Kong, India, South Africa, and United Kingdom). We note that our data cover 23 foreign countries in
total, but that we only examined these five because that is where our business press sources are based. These 23 foreign countries include: Argentina, Australia, Belgium, Brazil, Canada, China, Finland, France, Germany, Hong Kong, Hungary, India, Indonesia, Italy, Netherlands, Singapore, South Africa, South Korea, Spain, Taiwan, Thailand, United Kingdom, and Vietnam. All in all, our context-specific analysis revealed that each disruption-related challenge discussed above unfolded in all five examined markets, albeit with varying degrees of intensity (as illustrated in Table 3) and with some distinctive traits. We highlight two of them here.

First, our analysis indicated that the British and Australian governments both combined regulatory pushback with a somewhat more open stance vis-à-vis Airbnb and Uber’s operations. Airbnb opened its first office in the United Kingdom in 2011 (Airbnb, 2018b; Manthorpe, 2018), while Uber officially entered the country in 2013 (Smith, 2017). Both companies officially launched in 2012 in Australia (Ong, 2012; Russell, 2012). This more open stance would translate into official statements by national authorities about the two companies’ ability to unlock additional entrepreneurial opportunities (Blitz, 2014) and the need for municipalities to deploy more conciliatory approaches towards them in light of their economic development potential (Ahmed, 2015). For example, in 2015 the head of the United Kingdom’s Competition and Markets Authority criticized London’s transport authority “over proposals aimed at curtailing the rise of Uber and other taxi app groups, saying that its actions threaten to ‘slam the brakes’ on innovation” and “artificially restrict competition, curbing developments that benefit the paying passenger” (Ahmed, 2015). In both countries we also found evidence of attempts by national and local authorities to develop new rules to monitor their operations that sought “to strike a balance” between lack of regulation and over-regulation (The Australian, 2015b; Blitz, 2014). However, such a supportive stance spared neither Airbnb nor Uber from a series of well publicized attacks...
from incumbents (Bingemann, 2014; Thompson, 2015), and/or regulatory initiatives aimed at curtailing and controlling their operations (Houlder, 2014; Murdoch, 2016). In Australia, our analysis also pointed to a patchwork of regulatory approaches, with some municipal and regional governments engaging in more regulatory scrutiny than others (The Australian, 2015a).

Second, our analysis revealed that both companies experienced strong enforcement actions aimed at stamping out their violations of existing hospitality and transportation regulations in India, South Africa and Hong Kong. Airbnb started in India in 2012 (Pahwa, 2012), while Uber began operations there in 2013 (Prithivi, 2013). Information about the start of Airbnb’s operations in Hong Kong is limited, but InsideAirbnb (a well-known tracking website of Airbnb’s global operations) provides evidence of a growing Airbnb’s user network as early as 2010 (Insideairbnb.com, 2018), while Uber officially launched there in 2014 (Uber, 2014). As for South Africa, Airbnb launched there in 2015 (Reuters, 2017), while Uber did so in 2013 (Russell, 2012). The enforcement actions in these countries ranged from threatening and/or implementing fines (McGroarty, 2015), to the seizing of corporate assets (Business Day, 2016), police raids and jailing of service providers (Harris, 2015). In India, we also noted that regulatory pushback would often go hand in hand with safety concerns about unlicensed drivers, especially following a high-profile rape case (McGroarty, 2015) that likely drove the higher incidence of societal pushback in India relative to the other countries (see Table 3).

5. DISCUSSION

To date, there has been little attention paid to the unique legitimacy challenges facing internationalizing firms with disruptive business models. We examine this topic through a qualitative analysis of two prominent firms operating in the sharing economy. Here we discuss
key findings through an institutional theory lens and develop propositions about how the liability of disruption can affect internationalizing firms with disruptive business models.

5.1 Traditional internationalization-related challenges

Our first finding is that several traditional internationalization-related challenges appear less relevant for sharing economy firms (the exception is liability of newness). Indeed, while disruption-related challenges were discussed in about 69 percent of all the articles about Airbnb and Uber’s internationalization-related challenges, other traditional internationalization-related challenges were discussed in less than five percent of these articles. Liability of newness-related challenges were discussed in about 29 percent of the relevant articles. Some key features of the examined companies’ business models may help explain this finding. As with other platform-based companies, sharing economy companies like Airbnb and Uber rely on an “asset-light” business model, which reduces the size of the investments needed to enter new markets relative to other companies, allowing rapid expansion and limiting asset exposure. Instead, since the actual services (e.g., lodging stays and passenger rides) are delivered by local suppliers (whether employees or contractors), the consumer-facing side of the company is inherently local. Additionally, platform software can be translated into the local language with relative ease and at low cost. As a result, these firms are less exposed to traditional liability of foreignness-related challenges, institutional distance and institutional multiplicity (Brouthers et al., 2016, pp. 517-518). Further, these operational features suggest that a relatively small, simple organizational infrastructure can effectively oversee large supplier networks in foreign venues, reducing the importance of operational complexity as a barrier to these companies’ internationalization efforts.
Relatedly, our second finding is that liability of newness appears as a significant obstacle in these firms’ internationalization efforts because local platforms have the advantage of stronger ties with local stakeholders. While there might be some sectoral differences that could affect the importance and form of liabilities of newness of these firms, we believe that this finding is generalizable because local two-sided network development privileges local firms that understand the nuances of local crowd-based supply and demand (e.g., Brouthers et al., 2016).

For sharing economy firms, liability of newness stems from the novelty of their service offering, which generates ambiguities around the value of platform adoption for potential users, making global approaches to local service markets less convincing. Further, the lack of traditional barriers to new entrants (e.g., capital intensity, the importance of proprietary technology, powerful local brands) has enabled the rapid emergence of local “clone” companies in many foreign markets. This argument follows recent international entrepreneurship research showing that new technological ventures expanding abroad are often vulnerable to intense appropriability risks (Brouthers et al., 2016; Coeurderoy et al., 2011; Mudambi & Zahra, 2007).

5.2 Liability of disruption: Definition and impacts

Our third set of findings involves identifying liability of disruption as the novel set of legitimacy challenges experienced by Airbnb and Uber in their process of internationalization. As discussed above, we see host country ‘regulatory pushback,’ ‘incumbent pushback’, and ‘societal pushback’ as three distinct but interconnected manifestations of the underlying issue facing sharing economy companies and other firms with disruptive business models as they seek to gain legitimacy in foreign countries. Thus, at a general level, liability of disruption reflects institutional pushback against innovative companies that challenge established industry-specific expectations and rules.
We should note that, because the liability of disruption stems from the innovative characteristics of a firm’s business model vis-à-vis existing industry-wide standards, it is likely to also unfold in the firm’s home country as a response to its efforts at “creative destruction” (Schumpeter, 1942). Indeed, our data analysis indicated that the regulatory, incumbent, and societal pushback also occurred in the focal firms’ domestic markets (e.g., Jopson & Harding, 2014; MacMillan, 2014; Purnell, 2014). Still, the international setting is likely to present additional complexities as the firm’s foreign status and potential institutional differences between its home and host countries increase the costs of deploying appropriate legitimation strategies to counter institutional pushback (Cuervo-Cazurra, Maloney, & Manarakhan, 2007).

We also see the liability of disruption as qualitatively different from the previously identified internationalization-related challenges in the international business literature. First, liability of disruption differs from the liability of foreignness and other related institutional challenges because it does not refer to a disadvantage derived strictly from the firm’s foreign status (Zaheer, 1995), country of origin (Ramachandran & Pant, 2010) or differences in the institutional characteristics between its home and host countries (Kostova & Zaheer, 1999). Instead, it stems from institutional pushback against business models that challenge existing industry-specific regulations and expectations. Liability of disruption is likely more severe for foreign firms than domestic disruptors because they have less of an understanding of local institutional pressures and interactions. Liability of disruption is also distinct from the challenges stemming from the broader scope of a firm’s international activities, which are less of an issue for firms with asset-light business models (Pedersen & Shaver, 2011). Moreover, it is inherently different from the liability of newness, because it does not stem from the firm’s lack of experience in a particular market or from its young age, nor its appropriability risks in host
countries with poor intellectual property protection laws (Coeurderoy et al., 2012; Mudambi & Zahra, 2007).

Instead, liability of disruption’s center of gravity is on the path-breaking nature of the firm’s approach to delivering value, which clashes with existing industry norms and standards, as opposed to a lack of familiarity with a local context due to inexperience or age. Thus, liability of disruption also differs from the liability of outsidership, which reflects difficulties in developing local user networks for digital platforms and focuses on the challenges faced by technological firms because of their lack of embeddedness in the foreign user network (Brouthers et al., 2016, p. 518). Figure 2 summarizes the differences between the liability of disruption and these established categories of internationalization-related challenges.

![Insert Figure 2 here]

Based on our findings, we propose that liability of disruption impedes the legitimation process by creating frictions with key local stakeholders who challenge disruptive companies’ right to operate and the appropriateness of their practices. In particular, our case analysis suggested that regulatory pushback by host country regulators at the local and national levels of government creates additional costs for firms’ foreign expansion efforts through an increased scrutiny of corporate practices, the establishment of new regulations to better monitor firms’ operations, the implementation of law enforcement actions, and service bans to sanction non-compliance with existing standards and regulations. Such regulatory actions represent a reaction to disruptive business models’ discordance with, and challenge to, existing industry norms and regulations (Zimmerman and Zeit, 2002). More generally, we propose that:

**Proposition 1 (P1):** Internationalizing firms with disruptive business models will face host country-based regulatory pushback when their business models challenge existing
industry norms and regulations set by governments, regional authorities, municipalities, and standard setting and credentialing bodies.

In addition, our analysis shows that incumbents’ pushback due to existing businesses’ (and often their workers’) perception of unfair competition by disrupting companies can also challenge disruptive firms’ international expansion efforts; as such, incumbents may respond by mobilizing authorities to level the playing field. The effectiveness of incumbents’ pushback is based on disruptive companies’ lack of industry-level legitimacy due to their inability or unwillingness to “use the industry’s standards, norms, practices, and technology” or rely on “the past actions of industry members” (Zimmerman & Zeitz, 2002, p. 420). Thus, we suggest that:

**Proposition 2 (P2):** Internationalizing firms with disruptive business models will face host country-based incumbents’ pushback when their business models do not conform with existing industry standard, norms, practices and technologies and/or are seen as a violation of fair competition standards that requires countering regulatory actions.

In addition, we found that firms with disruptive business models can also be challenged by host country-based societal pushback against certain aspects of their operations due to the real or expected negative externalities they may generate for customers, employees and the broader communities where they operate. This type of pushback often reflects concerns from consumer protection groups, union representatives, and local communities about disruptive companies’ reliance on practices that are in conflict with existing institutional expectations such as health and safety standards, worker rights, and zoning permits. More generally, we suggest that:

**Proposition 3 (P3):** Internationalizing firms with disruptive business models will face host country-based societal pushback when their business models do not conform with established norms and rules about firms’ roles and responsibilities vis-à-vis their customers, employees, and broader communities where they operate.

Our analysis also provides some preliminary evidence that the liability of disruption may change over time. In particular, we saw that the initial regulatory scrutiny of the two focal companies was followed by opposition from incumbent businesses and some form of societal
pushback, which would then stimulate further regulatory action. This suggests that over time the effect of liability of disruption on a firm’s operations can intensify as the different facets of this challenge dynamically reinforce each other, at least until the stakeholders involved are satisfied that appropriate restraints have been placed on these firms.

Moreover, while institutional theory predicts that, over time firms can gradually strengthen their legitimacy through isomorphic behaviors, by learning and conforming to the institutional expectations of host markets, our analysis suggests that adaptive compliance strategies may not help disruptive firms address their liability of disruption. This is because adapting to host country norms and regulations may imply forgoing important sources of competitive advantage. Instead, we see these companies as more likely to succeed in their legitimation efforts with strategies that “manipulate” or “create” their institutional environments (Oliver, 1991; Zimmerman & Zeitz, 2002). Manipulation refers to “develop[ing] bases of support specifically tailored to the distinctive needs” of the organization (Suchman, 1995, p. 591), or “the purposeful and opportunistic attempt to coopt, influence or control institutional pressures and evaluations” (Oliver, 1991, p. 157). Creation, on the other hand, refers to new ventures acting to “pioneer and establish the basis of legitimacy for those that come after it […], often to address its idiosyncratic needs and to provide access to resources” (Zimmerman & Zeitz, 2002: 425). Both may involve corporate political strategies that aim to modify existing regulations, forge new norms and values, and change industry practices or setting new ones (Zimmerman & Zeitz, 2002). More generally, we suggest that:

**Proposition 4 (P4):** Firms with disruptive business models will forgo isomorphic legitimacy-seeking strategies to manage their liability of disruption as they internationalize and will instead use manipulation and/or creation strategies to establish legitimacy while maintaining their source of competitive advantage.

**5.3 The incidence of the liability of disruption across institutional contexts**
Our study’s fourth set of findings concerns how the liability of disruption unfolds across countries, as our analysis points to some variation in country-specific themes and the intensity with which each component of the liability of disruption manifested. As we set out to explore how host country contexts potentially affected the manifestations of the liability of disruption, we did not have specific predictions given the novel nature of our research question and context. Thus, we present here a post-hoc assessment of cross-country variations in how liability of disruption manifested itself using a comparative capitalism lens. Comparative capitalism research places emphasis on studying the relationship between “the institutional structure of a particular political economy […] [and] particular types of activities there” (Hall & Soskice, 2001, p. 37). Thus, it allows us to consider a country’s governance system as a factor that could moderate the effects of liability of disruption.

Comparative capitalism posits that liberal market economies, such as the United Kingdom and Australia, have an institutional comparative advantage for the promotion of industries featuring radical innovation because “fluid capital markets with short-term employment and general skills in liberal market economies enable more efficient production in industries with radical patterns of innovation, as these conditions support firms that use external markets to mobilize risky equity finance and employ workers with different skill sets, and thereby take advantage of new technological breakthroughs” (Witt & Jackson 2016, p. 781). “(R)adical innovation” refers to “substantial shifts in product lines, the development of entirely new goods, or major changes to the production process” (Hall & Soskice, 2001, p. 38). In this way, radical innovation underpins the development of many disruptive business models including asset light sharing economy models. Liberal market economies’ advantages in the promotion of such innovations helps explain the more ambivalent regulatory responses to Airbnb
and Uber’s expansion into Australia and the United Kingdom, as compared to the more aggressive regulatory actions taken against Uber (and to a lesser extent Airbnb) in India, Hong Kong and South Africa. According to Fainshmidt, Judge, Aguilera and Smith (2018), India is an environment where the state continues to play “an active and direct role in the economic ordering of society” (p. 316), which is coordinated through political networks. As for South Africa and Hong Kong, these are countries where “state dominance [remains] in orchestrating the establishment of a regulatory government system” (p. 316), notwithstanding the advanced stages of economic development and a blend of liberal market economy-type characteristics. Thus, the prominent role of the state across these three markets may allow local and national authorities to adopt more aggressive stances against business models that skirt regulation, as regulatory actions appear to be a key organizing force of the local economy.

Thus, drawing on the findings from the examined five cases, we infer that the character of capitalist institutions in a host market is more relevant to the eventual legitimation of firms with disruptive business models than are the differences between home and host or unfamiliarity of the firm with the host market. More generally, we suggest:

**Proposition 5 (P5):** Host countries’ national governance structures affect the intensity of the liability of disruption for firms with disruptive business models. In particular, liability of disruption is less intense in liberal market economies than in countries where the state continues to play an active and direct role in the economy and regulatory actions are a key organizing force of the local economy.

Finally, our analysis also revealed the multilevel nature of the institutional forces that channel these challenges onto the examined sharing economy firms, as they engage with regulatory and societal stakeholders operating at both the national and sub-national levels. This suggests that these companies may be operating in polycentric institutional environments with “multiple governing authorities at different scales rather than a monocentric unit […]” (Ostrom,
2010, p. 552), whereby regional (e.g., province and state) and municipal institutional forces also play an important role vis-à-vis these firms’ ability to achieve and maintain legitimacy. Institutional polycentricity helps explain why liability of disruption affects firms with disruptive business models in both home-and host country. Specifically, since these firms’ services are ultimately delivered on a local basis, stakeholders in local markets at home and abroad generate institutional pushback on these firms. However, the extreme consequences in the international setting (where, for instance, Uber has been banned from entire countries and has been forced by intense competition by local firms with regulatory connections and insight to sell entire national operations) emphasize the particular importance of legitimacy in foreign markets.

5.4 Contributions
Our study makes three contributions to the global strategy and business model innovation literatures. First, we contribute to the institutional theory-driven global strategy and business model innovation literatures by identifying a novel legitimacy challenge faced by internationalizing companies with disruptive business models. In so doing, we corroborate the view that “global strategy is not merely about developing competitive advantage but also about overcoming competitive disadvantages” (Pant & Ramachandran, 2012, p. 225). Moreover, this finding extends international business research about the global growth of new technology ventures, which has recently begun to illustrate the network-related challenges faced by platform firms as they expand globally, and identified the resources, capabilities and strategies that may help them in this regard (Brouthers et al., 2016; Parente, Geleilate, & Rong, 2018; Stallkamp & Schotter, 2019). Our study complements this research by focusing on a specific segment of the platform economy (i.e., the sharing economy), and by providing support for the central idea that
host country market and non-market stakeholders matter vis-à-vis these firms’ ability to succeed given their disruptive business models.

Relatedly, this finding also contributes to global strategy research on host country-based legitimation strategies (Ramachandran & Pant, 2010; Pant & Ramachandran, 2012) by providing evidence that the legitimation strategies available to firms with disruptive business models may be different from those available to traditional firms. Indeed, the underlying argument of much neo-institutional theory driven research for acquiring legitimacy in host countries is that over time foreign firms should “conform[…] to the institutional demands of the host country environment and becom[e] similar (i.e., by the process of isomorphism) to established organizations in the relevant organizational field” (Ramachandran & Pant, 2010: 251). However, our finding suggest that these adaptive compliance strategies may not be available to firms with disruptive business models because doing so would involve forgoing a central source of their competitive advantage. Instead, they may have to engage in “manipulating” or “creating” the local institutional environment (Zimmerman & Zeitz, 2002) in order to preserve their advantage in avoiding certain regulations.

Second, our study begins that task of answering calls to examine how institutional systems impact the success of these firms (Foss & Saebi, 2017). While our findings on this topic are preliminary, they suggest that host countries’ institutional characteristics may be an important contingency for the type and intensity of the legitimacy challenges faced by firms with disruptive business models. Our arguments focused on the role of national governance institutions, and in particular about how more centralized economies generate more regulatory pushback against firms with disruptive business models, which are designed in part to skirt state priorities such as taxation and employment benefits. Our study also highlights the polycentric
nature of government for firms with disruptive business models. In doing so, it shows how these firms’ legitimacy depends on their standing with stakeholder groups at the national, regional and municipal as well as industry (private governance) levels. Thus, we show that their legitimacy challenges involve institutional complexity both within and across countries. While we believe that over time these firms will gain greater legitimacy as their business models become more institutionalized (Scott, 2008), the fragmented and multi-level nature of the institutional forces they experience across countries will likely continue to push them to develop different local arrangements in order to be perceived as legitimate corporate actors.

Third, in line with the special issue’s focus on “Global Strategy in the Age of Skepticism of Globalization,” our study provides an in-depth exploration of what such skepticism looks like in the context of internationalizing firms pursuing disruptive business models in the digital economy. For Airbnb and Uber, skepticism of globalization entails heightened concerns among host country stakeholders about the legitimacy of these firms’ operations in light of their disruptive impacts on traditional industry players, and their misalignment with established industry norms or existing regulations. The skepticism of globalization embodied in the liability of disruption points to the important role that both market and non-market actors play in the success of firms’ internationalization efforts, and the negative consequences on firms when that institutional support is contested or rescinded. Airbnb and Uber have indeed faced “a questioning of the activities […] in the countries in which they operate, and a need to justify the benefits that their companies bring to each country” that is consistent with socio-political uncertainty surrounding globalization in the wake of the 2008 Great Recession (Cuervo-Cazurra et al., 2017; see also: Kobrin, 2017). At the same time, some of the markets that have reacted strongly to Airbnb and Uber have been more open to similar local disruptors – fear of global forces rolling
over local institutions seems to have been used as a competitive posture by these equally disruptive emergent local firms.

5.5 Managerial implications

Our study suggests that sharing economy firms’ reliance on disruptive business models creates unique internationalization-related legitimacy challenges, while insulating them from some traditional concerns. We believe that these conditions have significant managerial implications for internationalizing sharing economy companies, and firms with disruptive business models more generally.

First, the important role of the fragmented nature of the institutional environment in governing these firms suggests that Airbnb and Uber may be able to focus on legitimacy with local stakeholders without affecting their ability to succeed across broader national contexts or globally. However, this fragmentation also means that these firms may find it more difficult to leverage their legitimation efforts into other polities within the same country. As a result, the costs of advocacy and regulatory engagement may be remarkably high for these firms as each operating venue (which at the extreme could encompass a unit as small as a village or even a jurisdiction like a neighborhood governed by a single home owners’ association) may ultimately demand a bespoke tailoring of the business model for a small group of consumers (and/or providers). By implication, their ability to leverage and extend successful engagement in one arena into new ones through advocacy and promulgation of standards initiatives will prove critical in reducing the legitimacy costs of these firms’ global expansion.

Second, and as mentioned above, given their disruptive impacts on a range of regulatory, competitive business and societal institutions, adaptive compliance strategies in host markets may not be appropriate for these firms. Instead, they may need to force local institutions to
accept and adapt to their disruptive benefits, making them the first (or at least early) entrants to, and primary beneficiary of, a newly defined industry. Therefore, we see the ability to develop alliances with local groups and individuals that can champion their cause with relevant, powerful stakeholders as an extremely important source of sustained competitive advantage for their global expansion efforts. Indeed, both Airbnb and Uber have enlisted powerful global political brokers in their new foreign markets, including, David Plouffe (an Obama Administration alumnus) and Chris Lehane (who served in the Clinton White House). Both platforms regularly rely on other “high-powered lobbyists” both in their home and foreign markets (Sundararajan, 2016).

5.6 Limitations and future research
We see several avenues for advancing our understanding of the internationalization-related legitimacy challenges for firms with disruptive business models. First, by showing how the liability of disruption affects the host country-based legitimacy seeking opportunities of Airbnb and Uber, our study provides findings that have value for other platform firms beyond our sample of sharing economy firms, since they share some similarities, including the use of computer-based information systems and the Internet to deliver a system that allows users to interact easily with each other (Brouthers et al., 2016; Forsgren & Hagström, 2007), and the often rapid processes of internationalization (Stallkamp & Schotter, 2019). This offers fertile ground for additional empirical work within different platform types and in platform firms originating from different countries. Moreover, while we focused our attention a subset of the platform economy, we believe that our findings provide relevant insights for other technology-intensive, digitally-mediated firms with disruptive business models outside of the platform economy, such as, for example, FinTech (McKinsey, 2018) and digital healthcare (McKinsey,
Therefore, future research could expand upon our work by examining the relevance of our findings for these types of firms.

Second, while our study relies on a case comparison of two leading US based sharing economy firms, future work should replicate it with non-US sharing economy firms to explore whether home country institutional effects might shape the relevance of the challenges faced by companies operating in new industries as they internationalize. For example, internationalizing sharing economy companies from less technologically-advanced countries than the United States might be more susceptible to operational complexity-related challenges abroad, since they might find it harder to absorb global best practices compared to their US counterparts.

Third, our study suggests that temporal considerations are also important to internationalization-related challenges faced by firms with disruptive business models, as illustrated by the emergence of different aspects of the liability of disruption at different periods of these firms’ expansion efforts into specific markets. Since our study focuses on these firms’ early internationalization efforts, future research could examine the extent to which the relevance of the specific forms of these challenges may change over time as these firms age and their business models become more mainstream.

Fourth, while we have begun to shed some light on the role that host country institutions play vis-à-vis the emergence of the liability of disruption, our preliminary results could be further refined by examining the role that specific facets of the host country institutional environments play relative to these firms’ legitimation efforts. One possible question is, what is the relative importance of formal institutions such as competition, privacy and Internet security laws vs. informal institutions such as generalized societal trust for these firms’ success? Moreover, future research could examine the emergence of the liability of disruption from a
broader spectrum of host countries relative to those examined in this study to increase the heterogeneity of the examined institutional environments.

Fifth, while our study acknowledges Airbnb and Uber’s global success, it mostly focuses on their disruption-related challenges to the exclusion of the advantages that are associated with their disruptive business models. Such advantages are, however, an important aspect of their internationalization efforts because they reflect these companies’ ability to offer greater value to customers in ways that existing firms cannot replicate (Christensen, 2013; Gans, 2016; Rogers, 2016). Therefore, future studies could analyze the interaction between liabilities and advantages of disruption on the legitimacy and performance of firms endowed with disruptive business models as they step into foreign countries.

We also believe that the internationalization of firms with disruptive business models provides opportunities for future research on institutional polycentricity and its impact on firms’ global competitive strategies. Our study illustrates how the varying and multi-level institutional requirements faced by sharing economy companies in their internationalization efforts are affected by a concentration of power at the municipal level. However, over time, regional and national regulatory institutions may begin to play a larger role, and therefore are worthy of continued study. We believe that additional research could be directed towards assessing the challenges of operating globally across and within such fragmented institutional environments.
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Business Day.
1. Statements about local/national authorities examining the legality of the two companies’ business models.
2. Statements about local/national authorities developing new regulations to monitor the two companies’ service delivery.
3. Statements about local/national authorities engaging in law enforcement actions of existing taxi/hospitality regulations on the two companies.
4. Statements about local/national authorities banning the companies’ services for not conforming with existing laws.

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1. Statements about the negative disruptive effects of the examined companies’ innovative business model on incumbent businesses’ market potential.
2. Statements about incumbent businesses mobilizing local/national authorities to increase scrutiny of the two companies due to their lack of compliance with existing industry rules through lobbying, protests, strikes, and legal action.

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1. Statements about Airbnb and Uber’s negative impacts on local communities, consumers and workers that lead to societal groups’ protests and attempts to increase local/national authorities’ scrutiny of the two companies due to their lack of compliance with existing industry rules.

**FIGURE 1** Data structure
**Figure 2** Conceptual differences between the liability of disruption and established categories of internationalization-related challenges

<table>
<thead>
<tr>
<th>Liability of foreignness: Discrimination by host country’s local stakeholders because of the firm’s foreign status (Zaheer, 1995)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutional multiplicity:</strong> The challenges stemming from internationalizing companies’ embeddedness across different host countries with multiple and potentially conflicting institutional requirements (Kostova &amp; Zaheer, 1999)</td>
</tr>
<tr>
<td><strong>Institutional distance:</strong> The challenges stemming from the differences in the institutional environments of the firm’s home and host countries (Kostova &amp; Zaheer, 1999)</td>
</tr>
<tr>
<td><strong>Operational complexity:</strong> The challenges of managing internationalized companies’ geographically disaggregated organizational structures across multiple foreign markets (Pedersen &amp; Shaver, 2011)</td>
</tr>
<tr>
<td><strong>Liability of newness:</strong> The challenges stemming from a firm’s young age or lack of experience in particular foreign markets (Coeurderoy et al., 2012; Stinchcombe, 1965)</td>
</tr>
<tr>
<td><strong>Liability of outsidership:</strong> The challenges associated with developing local user (or supplier) networks due to the lack of embeddedness in the foreign market user network (Brouthers et al., 2016)</td>
</tr>
</tbody>
</table>

**Liability of disruption** reflects institutional pushback against firms’ disruptive business models that challenge existing industry-specific regulations and expectations. Thus, it differs from the **liability of foreignness, institutional multiplicity and distance** because it does not refer to a disadvantage derived strictly from the firm’s foreign status, country of origin or differences in the institutional characteristics between its home and host countries. On the same grounds, it is also distinct from the challenges stemming from **operational complexity**-related challenges, which are focused on the broader geographic scope of an internationalized firm’s operations.

Liability of disruption is also inherently different from the **liability of newness**, because it does not stem from the firm’s lack of experience in a particular market or its young age, nor its appropriability risks in host countries with poor intellectual property protection laws. Instead, its focus is on the path-breaking nature of the firm’s approach to delivering value, which clashes with existing industry norms and standards. For this very reason, it also differs from the **liability of outsidership**, which focuses on the lack of firm’s embeddedness in a foreign market’s user network.
TABLE 1 Press coverage about Airbnb and Uber since their founding to August 15, 2016 in The Australian (Australia), Business Day (South Africa), Financial Times (United Kingdom), Hindustan Times (India), South China Morning Post (Hong Kong), and Wall Street Journal (United States)

<table>
<thead>
<tr>
<th>Newspaper name</th>
<th>Number of articles about Airbnb</th>
<th>Number of articles about Uber</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Australian</td>
<td>29</td>
<td>63</td>
</tr>
<tr>
<td>Business Day</td>
<td>2</td>
<td>31</td>
</tr>
<tr>
<td>Financial Times</td>
<td>52</td>
<td>180</td>
</tr>
<tr>
<td>Hindustan Times</td>
<td>1</td>
<td>88</td>
</tr>
<tr>
<td>South China Morning Post</td>
<td>6</td>
<td>61</td>
</tr>
<tr>
<td>Wall Street Journal</td>
<td>84</td>
<td>240</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of articles about Airbnb</th>
<th>Number of articles about Uber</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>2012</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>2013</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>2014</td>
<td>42</td>
<td>124</td>
</tr>
<tr>
<td>2015</td>
<td>70</td>
<td>329</td>
</tr>
<tr>
<td>2016 (until August 15)</td>
<td>42</td>
<td>195</td>
</tr>
</tbody>
</table>
### TABLE 2 Representative quotes for each one of the first order codes listed in Figure 1

<table>
<thead>
<tr>
<th>Internationalization-related challenges</th>
<th>Representative quotes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disruption-related challenges: (a) regulatory pushback</td>
<td>1. <strong>First order code</strong>: Statements about local/national authorities examining the legality of the two companies’ business models:</td>
</tr>
<tr>
<td></td>
<td>“Singapore is reviewing guidelines governing the kind of short-term rentals used by home-sharing companies including Airbnb, underscoring the regulatory uncertainties the fast-growing startup faces as it expands abroad. At question in wealthy, tightly controlled Singapore: Should homeowners be allowed to rent out their residences for short periods, as Airbnb users typically do? It is a legal gray area that the San Francisco-based company – one of the world's hottest startups, valued at $10 billion – has faced in various markets as it has expanded throughout Europe and Asia. In Singapore, where Airbnb provides listings for hundreds of properties, the city-state's Urban Redevelopment Authority [URA] late last month began soliciting feedback from the public regarding existing regulations. According to the rules, private homes cannot be rented out for a period of less than six months, meaning anyone who uses Airbnb or other home-sharing sites for just a few days are in violation of the law. A URA spokeswoman said the body has been receiving “an increasing amount of feedback, both for and against short-term stays.”” (Purnell, 2015)</td>
</tr>
<tr>
<td></td>
<td>“[…] Airbnb has told an NSW [New South Wales] parliamentary inquiry that it provides valuable income for hosts, attracts tourists who would not otherwise travel and is complementary to the existing industry.” (Coultan, 2016)</td>
</tr>
<tr>
<td></td>
<td>“While the status of Uber looks likely to be resolved through [South Africa’s] National Land Transport Amendment Bill, the next hurdle to the ongoing local success of the service will most probably arise in respect of labour law. The question whether Uber drivers are independent contractors or employees is of particular significance.” (Norval, 2016)</td>
</tr>
<tr>
<td></td>
<td>“Embattled transport company Uber will face court on two fronts in coming months as its disputes with Victorian authorities and the Australian Taxation Office over its allegedly illegal “ride-sharing” service heat up. In Victoria, Uber took a heavy blow yesterday when a court upheld the power of the Taxi Services Commission to pursue criminal charges in a test case against Nathan Brenner, a former rock band manager who drives for the company’s low-cost ride-sharing service UberX.” (Butler, 2015)</td>
</tr>
<tr>
<td></td>
<td>2. <strong>First order code</strong>: Statements about local/national authorities developing new regulations to monitor the two companies’ service delivery:</td>
</tr>
</tbody>
</table>


“Cities such as London, New York or Berlin, which have introduced regulations that prohibit commercial Airbnb use of residential properties, generally focus their enforcement efforts first on commercial hosts with many listings [...] (Woodhouse, 2016)

“Barcelona and Berlin are debating new laws that limit short-term rentals, while other European cities, such as Paris, enforce onerous licensing requirements.” (Dembosky, 2013)

“Uber faces fresh regulatory opposition in France, with a parliamentary proposal to block the use of a certain permit by private drivers. Measures to give additional protection to traditional taxis, introduced in committee on Tuesday evening, would prevent ride-hailing apps from working with drivers who hold a “collective transport” permit.” (Williams, 2016)

“Draft ministry rules threaten to stifle the nascent sector with bureaucratic red tape. A set of proposed regulations for China’s online ride-hailing industry are shaping up as a bellwether of how much internet “disruption” Beijing will tolerate – and are being closely watched by the country’s biggest tech companies. Last month the Ministry of Transport published draft rules that would legalise the nascent sector but could also stifle it with bureaucratic red tape, and gave the industry one month to respond. That has thrown ride-hailing companies including San Francisco-based Uber and Didi Kuaidi, its local competitor, into a behind-the-scenes lobbying effort over the new rules, which could raise their costs prohibitively.” (Clover, 2015)

3. First order code: Statements about local/national authorities engaging in law enforcement actions of existing taxi/hospitality regulations:

“Housing officials in Paris are cracking down on tourist rentals like those Mr. Fouquerand offers, saying their growth is driving out residents. A team of investigators scours the city for unauthorized apartments, threatening fines of 25,000 euros ($28,400) each.” (Schechner & Verbergt, 2015)

“[In Hong Kong,] enforcement is carried out by the Office of the Licensing Authority under the Home Affairs Department, and a spokeswoman said the office now had a dedicated team to browse the internet for suspected unlicensed guest houses. Last year the department secured 132 convictions relating to unlicensed guest houses, some of which had been rented over the internet.” (Woodhouse, 2016)

“On Tuesday, the Paris prosecutor's office ordered Uber France and two of the company's top executives in Europe to stand trial on charges that included “misleading commercial practices” and “complicity in the illegal exercise of the taxi profession.” Pierre-Dimitri Gore-Coty, Uber's general manager in western Europe,
and Thibaud Simphal, head of operations in France, received news of the September 30 trial after spending a night in custody. That followed a scheduled appointment with the police to answer questions arising from a complaint filed late last year by one of the country's taxi unions. Yesterday the French government was quick to claim victory. “The government's tough stance has paid off,” says Manuel Valls, prime minister. “This isn’t the law of the jungle. Our society needs authority and rules.” (Thomson, 2015)

“Yet Uber’s mission to become “everyone’s private driver” is itself being disrupted by the establishment. Last week Uber drivers in Brussels were threatened with €10,000 fines for carrying private passengers. The order was branded “outrageous” by Neelie Kroes, the European Union’s digital commissioner. But two days later, a Berlin court sided with the local taxi association against Uber in ruling that its drivers are rental car businesses rather than taxis. That classification of Uber's service, which can hail professional limos or part-time “ride-sharing” drivers but does not employ either directly, is a familiar challenge to Mr. Owens and often trickier to handle than the tough-but-clear rules in New York and London.” (Phakhati, 2015)

4. First order code: Statements about local/national authorities banning the companies' services for not conforming with existing laws:

“Berlin has banned residents renting out their homes to tourists on Airbnb. From this week, residents caught renting entire houses or apartments to tourists or other short-term stayers could be fined up to €100,000. The law is intended to keep the city’s property prices low. It is “a necessary and sensible instrument against the housing shortage in Berlin,” Berlin’s head of urban development, Andreas Geisel, told The Local. Authorities said some landlords were renting exclusively to tourists and keeping local residents out, which in turn was driving up prices for accommodation in the city.” (Pawle, 2016)

“Airbnb has been enjoying a sharp increase in listings, even as Hong Kong outlaws unlicensed rentals. […] The maximum penalty for operating an unlicenced guest house is a HK$200,000 fine and two years' imprisonment. There is also a fine of HK$20,000 for each day the offence continues.” (Woodhouse, 2016)

“Uber has been given the green light by the ACT [Australian Capital Territory], NSW [New South Wales] and West Australian governments, but is banned in the Northern Territory.” (Brown, 2016)

“Seoul's city government has launched an effort to ban Uber, dealing a blow to the Asian expansion drive of the $18bn driver-hailing smartphone app.” (Butler, 2014)
1. **First order code**: Statements about negative disruptive effects of the examined companies’ innovative business model on incumbent businesses’ market potential:

“To competitors in the hotel industry, the company is a crypto-hotel operator, tapping into the residential real-estate market to run a professional business while avoiding tourist taxes and other regulations. Activists argue the company gives owners an incentive to convert residences into tourist apartments, driving up rents. […] Paris has bragged about its status as the top Airbnb market. But the firm’s impact on housing remains a matter of discussion. Paris officials say there are some 30,000 tourist apartments available for rent in the city – about 2% of the total number of units – with as many as two-thirds operating illegally. Airbnb says that it is a fringe issue on its platform; just 17% of hosts in Paris say they rent out apartments other than their primary residences. It isn’t clear how many of those might be doing so without city authorizations. Some hotel owners and other activists argue that full-time tourism apartments likely account for more than that in revenue terms, however. “You can't call this a sharing economy anymore,” said Laurent Duc, president of the French Hotel Federation. “This is an underground shadow economy.”” (Schechner & Verbergt, 2015)

“One of the nation’s largest hotel chains, Mantra, could come under pressure from Airbnb, which is significantly increasing its Australian presence and offering room nights at up to 56 per cent less than the average cost of a Sydney hotel.” (Allen, 2016)

“In recent months Uber has met resistance from meter cab operators, who complained that their traditional clients had abandoned their services in favour of the firm which rendered a cashless and cheaper offering. Uber has also come under fire for supposedly using unlicensed drivers, which placed it in contravention of provincial legislation and municipal by-laws. The Gauteng and Western Cape governments had to wade into the dispute and calm the waters.” (Magubane, 2015)

“Hundreds of French taxi drivers burnt tyres and clashed with police yesterday, declaring an indefinite strike to protest against competition from Uber, the US start-up transport service. Rampaging drivers blocked the Paris ring road at several points, spreading chaos throughout the capital - and leaving one US rock star irate.” (Thomson, 2015)

2. **First order code**: Statements about incumbent businesses mobilizing local/national authorities to increase scrutiny of the two companies due to their lack of compliance with existing industry rules through lobbying, protests, strikes, and legal action.

“But the Tourism and Transport Forum called on the NSW [New South Wales] government to “level the playing field” for all accommodation offerings. It says platforms such as Airbnb should list only “registered,
The Backpackers Operators Association of NSW [New South Wales] said Airbnb had an unfair advantage because hosts bypassed many of the costs of traditional operators, including licensing, insurance and taxes. It said Airbnb marketed itself as a service for people wanting to rent out a spare room, but 60 per cent of its listings were for entire houses. One-third of hosts listed more than one property and one agent had 136 properties, it claimed. Airbnb said 85 per cent of its hosts rented out the homes in which they lived. A dozen NSW councils have introduced regulations with varying time limits on letting short-term accommodation, from 45 days to 90 days. The Local Government Association said councils were caught between residents who wanted to limit short-term rentals and those who wanted to benefit from the sharing economy.”

(Coultan, 2016)

“There are two factors that would-be Airbnb investors should monitor. The first is regulation. Out of concern for the public or (more likely) under the influence of hotel lobbyists, some local authorities have accused Airbnb of skirting existing lodging laws. Legal outcomes are hard to predict, whatever the benefits or risks to consumers.” (Financial Times, 2014)

“This year, through its development of other car-pooling services, Uber has all but destroyed the traditional metered taxi industry. So what does the latter do? Arguably beset by clear innovative limitations, the metered taxi industry’s response has not been to collectively reduce extortionate charges or improve the customer experience of their vehicles or to send their drivers to charm school for that matter. Spitting blood, they approach the authorities demanding protection – the very same authorities whose rules they often break.” (Lincoln-Reader, 2015)

“In a criminal court in Paris’s Palais de Justice, Pierre-Dimitri Gore-Coty, head of Uber’s operations in Europe, the Middle East and Africa, and Thibaud Simphal, its chief in France, face six charges on counts including illicit storage of personal data and operating a service that connects passengers with car-service drivers who have no professional licenses. […] Earlier Friday, lawyers for several taxi unions finished their arguments before the court in support of the government’s case, adding their own demands for damages as permitted in French criminal trials.” (Schechner, 2016)

Disruption-related challenges: (c) societal pushback

1. First order code: Statements about Airbnb and Uber’s negative impacts on local communities, consumers and workers that lead to societal groups’ protests and attempts to increase local/national authorities’ scrutiny of the two companies due to their lack of compliance with existing industry rules:
“The approach hit a wall in Barcelona, however. “Each day, we are losing a neighbor,” said Sol Ruiz de Vargas, president of the Old City residents' association, which has organized protests. The Catalan regional government has backed those complaints, fining Airbnb 30,000 euros last year for tourist law violations, and saying it is considering further action. Since then, Paris has ramped up inspections to enforce its new rules. During a three-day operation in late May, inspectors made surprise visits to 2,000 apartments in the Marais district. Using tablet computers to compare apartments to online listings on various sites, they turned up about 100 potential violations, said unit chief Francois Plottin. “The center of our city is becoming deserted,” Mr. Plottin said. “More and more, it's just tourists.”” (Schechner & Verbergt, 2015)

“Sharing apps that enable travelers to book stays in private homes are changing not only the nature of urban tourism, but the cities themselves – for better and for worse. In many cities, the surging popularity of services like Airbnb Inc. that let homeowners turn their properties into vacation rentals is bringing tourists into neighborhoods they never visited before, experts studying the issue say. New revenue and revival can come into poorer areas as a result. But in some of these neighborhoods, there can be an unfortunate side effect: An influx of tourists, and the money they bring, can lead to higher rents and retail prices, and the displacement of locals who can no longer afford to live there. […]A 2015 study by a Free University of Berlin graduate student, Kerstin Bock, picks up on that theme. In her research about the changing nature of tourism and its implications for cities, Ms. Bock says she found that as city tourism has increased, the boundaries between locals and tourists have blurred. Visitors often opt for longer stays and get online tips about neighborhood bars and cafes. Also, neighborhoods are seeing prices rise as the tourists fuel demand for more expensive restaurants. Some neighborhoods have been almost taken over by tourists in a process known as "museumization," Ms. Bock says in her study.” (Anderson, 2016)

“Safety is a concern for the company, especially after high profile rape case in India, which led to ban of the company from the country - Uber Technologies Inc. said it is conducting a review of its safety practices around the world and outlined measures the cab-hailing startup is taking to address concerns about its service. The company said in a blog post that it is exploring technologies, such as biometric tools for driver screening and a way for riders to instantly reach the company in an emergency. […]” (Ma, 2014)

“A former driver for US-based Uber has been convicted of raping a 25-year-old female passenger in New Delhi last December - the culmination of a case that highlighted the taxi-hailing group's lack of effective driver background checks in India. […] The victim, an employee of a multinational finance company, had hailed an Uber vehicle after a Friday night dinner with friends. She said that she fell asleep in the cab and awoke to find herself being assaulted in a secluded area. The crime triggered an outcry against Uber in New Delhi, a city with heightened concerns about women's safety after the lethal gang rape of a young woman aboard a bus in 2012.” (Kazmin, 2015)
### TABLE 3 Incidence of the liability of disruption by year and country

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory pushback&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Incumbent pushback&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Societal pushback&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2013</td>
<td>60%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>2014</td>
<td>58%</td>
<td>24%</td>
<td>18%</td>
</tr>
<tr>
<td>2015</td>
<td>63%</td>
<td>30%</td>
<td>7%</td>
</tr>
<tr>
<td>2016</td>
<td>67%</td>
<td>26%</td>
<td>7%</td>
</tr>
</tbody>
</table>

<sup>a</sup>Percentages based on the reported instances of regulatory, incumbent and societal pushback out of all reported instances of liability of disruption per year.

**Panel A. Australia<sup>b</sup>**

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory pushback</th>
<th>Incumbent pushback</th>
<th>Societal pushback</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>54.5%</td>
<td>36.5%</td>
<td>9%</td>
</tr>
<tr>
<td>2015</td>
<td>65%</td>
<td>26.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>2016</td>
<td>66.5%</td>
<td>33.5%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Panel B. India<sup>b</sup>**

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory pushback</th>
<th>Incumbent pushback</th>
<th>Societal pushback</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>50%</td>
<td>2.5%</td>
<td>47.5%</td>
</tr>
<tr>
<td>2015</td>
<td>52%</td>
<td>19%</td>
<td>29%</td>
</tr>
<tr>
<td>2016</td>
<td>82%</td>
<td>0%</td>
<td>18%</td>
</tr>
</tbody>
</table>

**Panel C. Hong Kong<sup>b</sup>**

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory pushback</th>
<th>Incumbent pushback</th>
<th>Societal pushback</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>56%</td>
<td>41%</td>
<td>3%</td>
</tr>
<tr>
<td>2016</td>
<td>86%</td>
<td>14%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Panel D. South Africa<sup>b</sup>**

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory pushback</th>
<th>Incumbent pushback</th>
<th>Societal pushback</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>50%</td>
<td>46%</td>
<td>4%</td>
</tr>
<tr>
<td>2016</td>
<td>67%</td>
<td>33%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Panel E. United Kingdom<sup>b</sup>**

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory pushback</th>
<th>Incumbent pushback</th>
<th>Societal pushback</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>45.5%</td>
<td>50%</td>
<td>4.5%</td>
</tr>
<tr>
<td>2015</td>
<td>44%</td>
<td>40%</td>
<td>16%</td>
</tr>
<tr>
<td>2016</td>
<td>50%</td>
<td>50%</td>
<td>0%</td>
</tr>
</tbody>
</table>

<sup>b</sup>Percentages based on the reported instances of regulatory, incumbent and societal pushback out of all reported instances of liability of disruption per year/country.
## TABLE 4 Definitions

<table>
<thead>
<tr>
<th>Liability of disruption and its constitutive dimensions</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liability of Disruption</strong></td>
<td>Liability of disruption reflects the additional costs of doing business abroad that stem from the disruptive nature of an internationalizing firm’s business model as it seeks to achieve and maintain legitimacy in the host country.</td>
</tr>
<tr>
<td><strong>a. Regulatory pushback</strong></td>
<td>Regulatory pushback refers to host country regulatory actions such as increased scrutiny of corporate practices, the establishment of new regulations to better monitor firms’ operations, the implementation of law enforcement actions and even service bans to sanction disruptive companies’ non-compliance with existing standards and regulations.</td>
</tr>
<tr>
<td><strong>b. Incumbents’ pushback</strong></td>
<td>Incumbents’ pushback refers to actions by host country-based existing businesses (and often their workers) aimed at mobilizing authorities to level the playing field with disrupting companies, which are perceived as unfairly competing due to their inability or unwillingness to “use the industry’s standards, norms, practices, and technology” or rely on “the past actions of industry members” (Zimmerman &amp; Zeitz, 2002, p. 420).</td>
</tr>
<tr>
<td><strong>c. Societal pushback</strong></td>
<td>Societal pushback refers to actions by consumer protection groups, union representatives, and local communities against disruptive companies, due to their perceived negative externalities of practices that challenge existing regulations concerning health and safety standards and worker rights, among the others.</td>
</tr>
</tbody>
</table>