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#### Recommended Citation

Yang, Jing; Jiang, Liyun; Jing, Yang; Mao, Liwen; and Wang, Chunmiao, "Research on institutional contradiction and legitimacy crisis of internet car-hailing platform with the Grounded Theory" (2019). *WHICEB 2019 Proceedings*. 26.

<https://aisel.aisnet.org/whiceb2019/26>

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# Research on institutional contradiction and legitimacy crisis of internet car-hailing platform with the Grounded Theory

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**Abstract:** Based on the case of DiDi travel platform event, we used the grounded theory to analyze the legitimacy crisis occurrence mechanism of internet car-hailing platforms organizational field. We found that, the institutional contradiction between public welfare logic and profit logic in the process of DiDi's Institutional Entrepreneurship leads to the legitimacy crisis; the crisis event causes the government's supervision, media attention and consumer resistance, which ultimately leads to the deterioration and spillover of legitimacy crisis from DiDi to the whole internet car-hailing platforms organizational field.

Keywords: Internet Car-hailing Platforms; Institutional Logic; Organizational Field; Institutional Legitimacy and Crisis

## 1. INTRODUCTION

As the increasingly prominent difficulty in urban taxi hailing and the increase of people's travel demand, the Internet+ car-hailing emerged at the right moment with the advent of the "Internet +" era. The emergence of online car-hailing not only makes travel more convenient, but also reduces the cost of taking a taxi. However, with the continuous fermentation of two vicious incidents of online car-hailing on May 6, 2018 and August 24, 2018, online car-hailing has been criticized a lot in the recent waves of public opinion, and is now in the cusp of public opinion and under great pressure.

From the perspective of strategic management, researchers believe that legitimacy is an important resource to help organizations obtain the resources they need for growth. This kind of resource is especially important for the emerging organization field of institutional entrepreneurship. The first reason is that the new industry has not formed unified standards and norms. Second, the external recognition of the new industry is low, and the new enterprise must effectively obtain the legitimate resources of the organization to achieve the effective way of organizational growth.

Some literature pay attention on how entrepreneurship enterprises acquire legalization process<sup>[1]</sup>, particular for the internet car-hailing issue<sup>[2]</sup>. But they do not answer, in the process of institutional entrepreneurship, what factors will lead to the emergence and deterioration of legitimacy crisis? Some literature study the dark side of organizational legitimacy<sup>[3]</sup>, especially how the legalization lost effect the organization itself<sup>[4]</sup>. But, based on the Qualitative Research we found that, when the legitimacy of the organization field is destroyed, all enterprises in the organization field will be seriously affected. Far less study is known about how does the legitimacy crisis of institutional spill over into the organizational field? In order to answer these questions, this paper, based on the institutional logic, used the research method of grounded theory, takes the online ride-hailing market led by DiDi as case, study the factors which lead to the emergence and deterioration of legitimacy crisis. Combined with the important background of China's "Internet+" and entrepreneurial development, this not only provides suggestion for the healthy and stable development of online car-hailing market, but also provides important scientific suggestions for the development of innovative and entrepreneurial enterprises in China.

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## 2. LITERATURE AND THEORETICAL BACKGROUND

### 2.1 Institutional Logic and Organizational Legitimacy

Meyer et al.<sup>[5]</sup> pointed out that the core viewpoint of the neo-institutional theory is to obtain legitimacy based on organizational isomorphism, and then to obtain resources to ultimately realize the survival and growth of the organization. However, with the change of the times and the development of practice, the behavior of organizations to acquire legitimacy is gradually different. Traditional neo-institutional theory pays too much attention to the leading role of stable and single institutional logic<sup>[6]</sup>. Although it can tolerate or adapt to the differences of organizational structure and strategic response under the pressure of legitimacy, it still can't explain the differences of organizational legitimacy effectively. As a result, the theoretical study of Institutional Logic emerged at the historic moment. In recent years, the transformation and evolution of Institutional Logic in the organizational field has increasingly become the focus of attention of the theoretical circles<sup>[7]</sup>. The evolution of institutional logic is driven by the differentiated collective action mode constructed by the initiative strategy of the actors and the utilization of resources under different institutional opportunities. Institutional logic emphasizes institutional pluralism. In the process of its evolution, we need to further study the impact of the contradiction of institutional logic on it.

In the 1970s, the concept of organizational legitimacy with modern significance was first put forward by Morrel. In his opinion, the process of obtaining organizational legitimacy (i.e. legalization) means that "an organization can prove its right to survival to its peers or superior systems. This process continuously inputs, changes and outputs energy, matter or information. The definition generally accepted by academia is that "legitimacy refers to the activity of an entity in a system of norms, values, beliefs and meanings constructed by society that is regarded as a desirable, appropriate and appropriate universal perception or assumption". The study of legitimacy in the 21st century pays more attention to emphasizing organizational initiative, that is, how organizations use legitimacy as a resource or means to improve social performance.

### 2.2 Organizational field

The new institutionalism view of organizational analysis holds that the organizational field is an important unit between organization and society, which is used to analyze the relationship between institution and organization in the medium sense. It refers to a generally recognized area of institutional life, which includes key suppliers, resource and product consumers, regulatory agencies and organizations providing similar services or products. Its formation can be seen as a series of organizations affected by similar institutional forces, which interact and consult with other organizations around specific interests and objectives<sup>[8]</sup>. Organizational field can be divided into mature field and emerging field according to field maturity. Mature field refers to those fields which are highly structured and whose organizational roles and rules have been established, while emerging field refers to those fields which are less structured, unstable organizational roles, fierce competition and high uncertainty.

The formation of organizational field is mainly embodied in the acquisition of institutional legitimacy around three dimensions<sup>[9]</sup>: firstly, the legitimacy of regulation mainly comes from the government's regulatory policies, laws and regulations, professional groups and standards formulated by some powerful organizations; secondly, the legitimacy of regulation is also called moral legitimacy, that is, to do the right thing, from social norms and values. Professionalization and socialization processes such as occupational standards, conventions, traditions and education and training force organizations to follow certain codes of conduct and norms, not just from the perspective of utilitarianism<sup>[10]</sup>; third, cognitive legitimacy, that is, the degree of public understanding and awareness of something depends on the cultural consensus and understanding that constitute the social reality and understanding framework. Symbol: If a new product or service or even an industry is widely accepted by the public, it gains cognitive legitimacy<sup>[11]</sup>.

### 3. METHOD

#### 3.1 Research method and sample

This paper intends to use the case study method and grounded theory to discuss the above issues in depth. Reasons are as follows: Firstly, This paper attempts to explore the process mechanism of the evolution of this kind of institutional logic contradiction<sup>[12]</sup>. Secondly, the evolution of crisis events is not the same in different stages. This paper focuses on the role of different actors in the fermentation of crisis events at different levels. Longitudinal case study can rank key events according to time, which is conducive to understanding the evolution of different institutional legitimacy crises and revealing their internal mechanisms. Grounded theory is a qualitative research method developed by Glaser et al.<sup>[13]</sup>, aiming at establishing substantive theory from bottom to top from a large number of detailed data. Grounded theory is an outstanding representative of qualitative research with scientific and standardized operation process, and its theory is rooted in real data, which helps to produce a realistic and robust theory.

This paper chooses DiDi as the research object because it meets the criteria of consistency with the research question. DiDi almost monopolizes the ride-hailing market in China, and its operating volume occupies a large market share. But due to frequent victimization of DiDi passengers, the company is facing a crisis of legitimacy. This case study is still in its early stages and we present preliminary findings and proposals for future research.

#### 3.2 Archival data

Source 1: official website of the enterprise. The official website of the enterprise provides basic information such as introduction, development history, annual report, social responsibility and enterprise news. This study paid special attention to DiDi's official website, and obtained 21 news reports through sorting out.

Source 2: news reports on car-hailing and DiDi from Chinese mainstream media. On the one hand, through the search engines of these media websites, search by DiDi behavioral keywords, and then eliminate the news irrelevant to the research topic by reading the news headlines. News source media websites mainly include: phoenix finance and economics, SoHu news, People's Daily, Beijing news, Sina news and other mainstream media. On the other hand, search Chinese media news reports through Baidu search engine, and search "ride-hailing - DiDi" as the key word. By scanning the headlines, remove the news that is less relevant to the research content. A total of 32 news reports were collected.

**Table 1. Archival data sources**

	The data source		Name	Site	Number	Data use
01	Enterprise website	official	DiDi	Enterprise official website in English and Chinese	21 News articles, over 30,000 words of documents	coding
02	Chinese reported	media	Baidu search engine	The world's largest Chinese news platform	32 News articles, over 60,000 words of documents	coding

#### 3.3 Semi-structured Interviews

In order to verify the second-hand data, this paper conducted semi-structured interviews with Chauffeured Car driver, Taxi driver and Car passenger, on the one hand, to provide more authentic and rich research materials for this study, and on the other hand, to inquire and reconfirm the ambiguous or even contradictory parts of the previous second-hand data.

**Table 2. Descriptive statistics of interviewees**

The interview object	Recording time	Number of research	Number of interviews	of Respondents
Chauffeured driver	Car 80 min	4	4	DiDi driver (3) Meituan driver (1)
Taxi driver	15 min	1	1	Nanjing (1)
Car passenger	60 min	4	4	Nanjing (4)

## 4. DATA ANALYSIS

### 4.1 Background

Uber officially launched its first App in San Francisco in October 2010. On July 14, 2014, Uber officially entered the Beijing market. In 2012, DiDi (predecessor of DiDi) and Kuaidi taxi platforms were launched in Beijing and Hangzhou respectively. In December of the same year, DiDi (the predecessor of DiDi) opened the booking function, which enables instant booking of taxis for tomorrow and even the day after tomorrow. In May 2015, DiDi Kuaidi launched its platform, which operates vehicles at a lower price than private cars, with zero starting price. In July, DiDi began testing its "ride-sharing" system internally, making every seat on taxis, express trains and private cars an independent and marketable resource. Since then, more and more online car-hailing services have appeared.

With the in-depth development of "Internet +", the development trend of online car-hailing is increasing. However, various problems have also come along. "May 2015 DiDi stewardess incident", "August 24, 2008 Yueqing incident" and other crisis events have caused people to think about the legality and safety of online car hailing. On June 5, 2018, the ministry of transport, the central cyberspace administration office, the ministry of public security and other seven departments jointly issued relevant documents on the management of online ride-hailing, which clearly strengthened the joint supervision and control of online car-hailing in and after the incident.

**Table 3. DiDi hitchhiking crisis events**

Code	Time	The event
01	May 6, 2018	Zhengzhou stewardess killed by taxi
02	August 24, 2018	Yueqing girl killed
03	September 27, 2018	DiDi has announced that it will launch hitch-hikers nationwide indefinitely

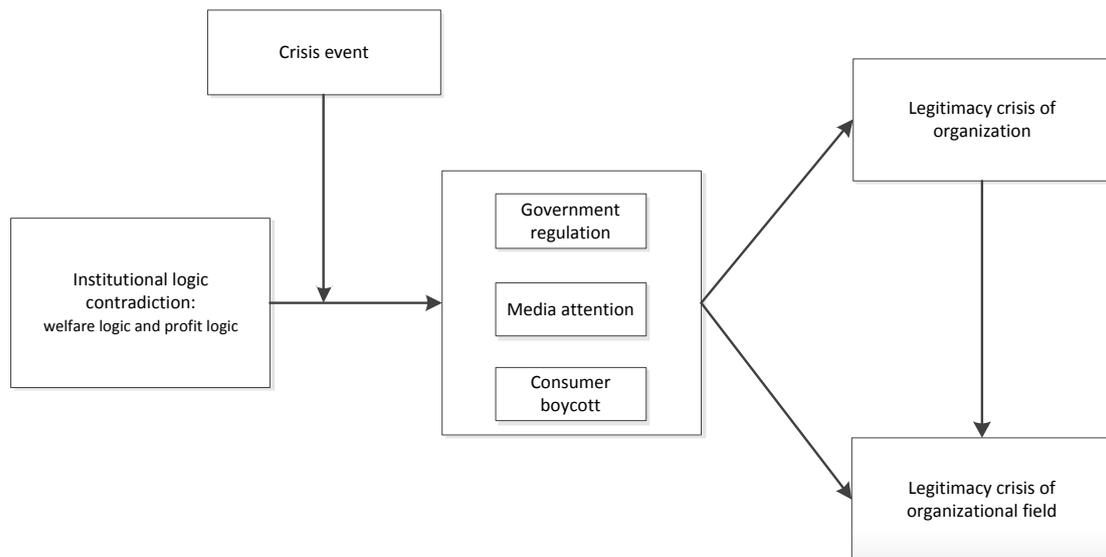
### 4.2 Data analysis

Grounded theory is an effective research method to construct theoretical models based on qualitative data. In order to minimize subjective characteristics of qualitative data, this study collected data from a variety of sources to support each other and form a triangle of evidence, to improve the reliability and validity in the research of, See table 4 for detailed data sources. Coding is the core and key process of grounded theory, including open coding, axial coding and selective coding<sup>[14]</sup>.

The selective coding makes the typical sample present a relatively clear story line: the profit logic formed by DiDi in its development process conflicts with the original public welfare logic, resulting in a series of tragic events. To sum up, the structural model formed by DiDi crisis events in typical samples can be sorted out from the context of the relationship between core categories, as shown in figure 1.

**Table 4. Open coding process**

Definition Phenomena (Labeling)	Conceptualization	category
a1: shared economic	a17 : Competition scares consumers	A1: Good logic (a1 a24)
a2: industry monopoly	a18: Online criticism, public boycotts	A2: Money logic (a5 a7 a10 a23)
a3: advertising does not correspond with reality	a19: The government issues relevant documents	A3: Government regulation (a19 a25)
a4: lack of social responsibility	a20:lack of regulation	A4: Consumer boycott (a17 a18 )
a5 : pursue traffic and valuation	a21:Close inspection	A5: Media attention (a15 a16 )
a6 : People and cars don't agree	a22:The entire recording	A6: Industry damage (a12 a13 a14 a21)
a7: High yield for hitching a ride	a23: stick a card	A7: Industry monopoly (a2 a14 a20 )
a8 : Social networking platform	a24: Good thoughts	A8: Social marketing (a3 a8 )
a9: Disregard safety bottom line	a25: Drops the rectification	A9: Security issues (a6 a9 a10 a11 a22 )
a10: Desire marketing		
a11: Growth of thinking		
a12: Low threshold operation		
a13 : Drivers are of low quality		
a14: Cross-border part-timer		
a15: Meituan fights DiDi		
a16: The media do not like subsidised competition		



**Figure 1. Institutional logic contradiction and legitimacy crisis**

**5. FINDING**

**5.1 Contradictions between Public Welfare Logic and Profit Logic.**

In May 2015, DiDi launched the DiDi express business with private cars as the object of appointment. The main purpose is to alleviate the shortage of transportation capacity in urban peak period by means of idle vehicles and transportation capacity, especially for consumers, which will bring about significant improvement in travel efficiency. As a result, DiDi positioned the DiDi express as a public service, through advocating public welfare, to change the government and the market's original understanding of DiDi . Then, in June 2015, DiDi

launched the DiDi hitch business, and creatively put forward the concept of “sharing green travel”, which coincides with the government's “green travel”, so it quickly gained the recognition of the government and the market, and its public welfare logic was successfully rooted in the widespread public awareness.

The cases of suspected intentional homicide, rape and indecency by the owners of DiDi hitch are not the first, but DiDi is reluctant to give up the DiDi hitch. The reason is that the DiDi hitch is a few of its business lines with high cost-performance ratio and can continue to generate positive cash flow. For the sake of flow and money, DiDi use of desire marketing, soft pornographic propaganda, after the accident growth thinking overrides safety awareness, the crime behind the logic of making money is hard to write. On two occasions, the Ministry of Transport has pointed out that the excessive pursuit of flow and valuation, concern for the face of investors, and put social responsibility and passenger safety and interests behind. In the past, the DiDi hitch was a simple sharing mode. The owners did not want to make a living, nor did they spend more time on it. They just wanted to digest some expenses as much as possible. In the past, DiDi express only wanted to use idle private cars to relieve urban traffic pressure and make full use of idle resources. However, due to the contradiction between the system logic of "public welfare logic" and "profit logic", the DiDi express and the DiDi hitch have already violated the original intention of sharing and become a large-scale operation behavior, and the small-scale sharing mode has also become a general form without marginal restrictions.

Proposition1: The Logical Contradiction which is Public Welfare Logic and profit Logic Contradiction, arise in the Institutional Entrepreneurship Process of DiDi.

## 5.2 The Emergence of Legitimacy Crisis under Logical Contradiction

The evolution of institutional logic is driven by the differentiated collective action mode constructed by the initiative strategy of the actors and the utilization of resources under different institutional opportunities. In the course of its evolution, different action strategies will produce vague areas of Institutional Logic in the short term, while the contradiction between the action strategies aimed at making money and the previous public welfare logic in the course of its evolution has led to a series of problems, such as monopolizing the market by DiDi, advertising not in line with reality, using the means of desire marketing, sacrificing the risk cost to achieve positive cash flow, etc.

On September 2, 2016, the Ministry of Commerce held a regular press conference. Shen Danyang, a spokesman, said that the merger (DiDi and Uber) had not been declared to the Ministry of Commerce. At present, the Ministry of Commerce has launched an anti-monopoly investigation into the merger and conducted two interviews with DiDi ChuXing. On February 9, 2018, Shanghai traffic law enforcement authorities talked about DiDi, demanding that technical loopholes be corrected, that drivers be prohibited from canceling orders at will, and that taxi license plates be maliciously refused. On April 4, 2018, Shanghai traffic law enforcement authorities fined 100,000 yuan each for illegal passenger traffic in the online car market. On August 28, 2018, the National Development and Reform Commission, the Ministry of Transport and the Ministry of Public Security issued a circular, deciding to carry out a special management of serious dishonest behavior in the field of transportation travel; on August 31, 2018, the second joint inter-ministerial meeting of new forms of transport and co-supervision was held, and it was decided to carry out a comprehensive inspection of all online car-hailing and DiDi hitch platform companies throughout the country from September 5. The responsible person of Transport Services Department of the Ministry of Transport said that the online car booking industry is not an extrajudicial place, and ensuring passenger safety is the bottom line of the standardized development of online car-hailing.

Proposition 2: Institutional contradiction between public welfare logic and profit logic in the process of DiDi's Institutional Entrepreneurship leads to the legitimacy crisis of institution.

### 5.3 Crisis Events and Crisis of Legitimacy

Legitimacy refers to the universal perception or assumption that an entity's activities are considered desirable, appropriate and appropriate in a system of norms, values, beliefs and meanings constructed by society. In 1994, Aldrich and Fiol divided the dimensions of legitimacy into two categories: political legitimacy and cognitive legitimacy<sup>[12]</sup>. Cognitive legitimacy refers to the dissemination of knowledge of new enterprises, while social and political legitimacy refers to the process of accepting new enterprises by key leaders, government departments and the public under certain laws and standards. It also points out that cognitive legitimacy plays an important role in a specific context. DiDi crisis events have a great impact on the government, the media, consumers' awareness of the legitimacy of their enterprises, and led to Legitimacy Crisis.

**Government regulation.** On August 26, 2018, the Ministry of Transport, the Ministry of Public Security and other units interviewed the company and ordered it to immediately carry out a comprehensive rectification of the DiDi hitch business, accelerate the process of compliance, strictly adhere to the safety baseline, in fact, implement the main responsibility of the carrier's safety and stability management, ensure passengers' safety and legitimate rights and interests, and timely announce the rectification to the community. **Media attention.** On May 6, 2018, after the stewardess case, as of 22:00 on May 11, there were 963 posts related to this issue on WeChat Public Platform, most of which were comments on the latest developments of this event, apologies and rectifications of DiDi Company, and discussions on matters needing attention in the future. Mainstream media and related commercial websites have reported and followed up on this issue in an all-round way. More than 300 media websites, including Netease, Sina, Tencent, China Networks, Beiqing and others, have entered and reported the incident. **Consumer boycott.** From the current situation of online media reports and comments, the main points of view of the media and netizens are as follows: First, appeal to provide information about the suspect Liu Mou, and request the police to seize the suspect as soon as possible. The second is to make positive and negative comments on the company's apology and reward for seeking Liu Mou's behavior. The third is to comment on the legitimacy and potential harmfulness of online car-hailing. Fourthly, some media and Internet Big V made ambiguous reports and comments on the follow-up of the incident, even appeared to launder the land for the criminals, causing a large number of netizens to criticize and forward comments.

Proposition 3: the crisis event play a catalyzing role that cause causes the government's supervision, media attention and consumer resistance, which ultimately leads to the deterioration and spillover of legitimacy crisis from DiDi company to the whole internet car-hailing platforms organizational field.

## 6. CONCLUSION

Based on the institutional logic, we used the research method of grounded theory, takes the online ride-hailing market led by DiDi as case, study the factors which lead to the emergence and deterioration of legitimacy crisis. The study found that, the institutional contradiction between public welfare logic and profit logic in the process of DiDi's Institutional Entrepreneurship leads to the legitimacy crisis of institution; the crisis event causes the government's supervision, media attention and consumer resistance, which ultimately leads to the deterioration and spillover of legitimacy crisis from DiDi company to the whole internet car-hailing platforms organizational field.

We suggest several potentially fruitful avenues for future research. First, this paper chooses the organizational field of online car booking as the research object. Although it is representative, it also has some limitations on the research conclusions. Therefore, the subsequent research can break through the analysis of single case, through the comparison and synthesis of multiple cases, establish a more general and accurate theory. Secondly, the online car-hailing industry is a monopoly industry, which has certain particularity. Second, when using grounded theory, case data are mainly qualitative data, and there is subjectivity of researchers in the

coding process. Quantitative research methods can be used to test the results in future research..

## ACKNOWLEDGEMENT

This research was supported by the National Natural Science Foundation of China (Grant No. 71702068, 71701088). We would like to thank some students of NUFE, Jiajie Li, Shenrong Zhang, Lu Xu and Chaoyue Chen for their help with the data collection and coding.

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