Government Information Quarterly xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Government Information Quarterly

journal homepage: www.elsevier.com/locate/govinf

# Adaptive governance, status quo bias, and political competition: Why the sharing economy is welcome in some cities but not in others

Sounman Hong*, Sanghyun Lee

*Yonsei University, 50 Yonsei-ro, Seodaemun-gu, Seoul 03722, Republic of Korea*

A B S T R A C T

Examining the variation in policies across 47 U.S. cities, we show that political competition has a significant effect on governments' regulatory responses to the sharing economy. Specifically, a greater level of political competition is associated with a more favorable regulatory response for sharing companies such as Airbnb. This finding is explained using the concepts of governmental status quo bias and adaptive governance. When considering the interests of the public and market incumbents, governments generally favor the latter (i.e., the status quo). This is because single-industry economic interests can more easily be organized into interest groups that can influence policymaking through lobbying. However, a greater level of political competition was found to reduce the power of entrenched market incumbents. This finding provides broad support to the hypothesis that the promotion of political accountability through greater political competition is conducive to adaptive governance.

## 1. Introduction

Across the world, mayors of various cities are grappling with regulatory challenges posed by the rapidly growing "sharing economy services" offered by companies such as Uber, Zipcar, and Airbnb. These cities serve as laboratories for this constantly evolving business model. In 2013, the United States Conference of Mayors issued a resolution urging "support for making cities more shareable." Further, a 2015 National League of Cities survey of 245 cities in the United States found that city officials were generally aware of the value created and offered to citizens by the new sharing economy industries. Despite such rhetoric and endorsement, many cities in the United States continue to maintain strong regulatory barriers against ridesharing and short-term rental, as well as a number of other broad sharing economy services (Cannon & Summers, 2014; Hong & Lee, 2017; Katz, 2015; Paik, Kang, & Seamans, 2017; Rauch & Schleicher, 2015; Sundararajan, 2016; Tzur, 2017).

The controversy surrounding the sharing economy regulation stems partly from the strong disruptive effects this new service may generate. The general public provides a large potential consumer base for sharing service suppliers and has largely been supportive of the growth of this new business model. For instance, a host of the Airbnb service initiated a petition campaign titled "Save Airbnb in New York: Legalize Sharing" in response to the regulation of short-term rentals in New York. This petition received widespread support from citizens and gained at least 210,000 signatures. However, regulatory challenges arose as short-term rental companies such as Airbnb began to address the needs of customers who would have otherwise given their business to a hotel. Such situations encroached on the established interests of the lodging industry (e.g. Guttentag, 2015). This garnered the attention of the American Hotel and Lodging Association (AHLA), which represents the U.S. lodging industry. In order to address the increasing competition, the AHLA framed short-term rental companies (including Airbnb, HomeAway, Flipkey, Wimdu, and 9flats) as "illegal hotels" that endangered the security of residential neighborhoods (Sundararajan, 2016).

Notably, different U.S. city governments have proposed substantially different solutions in response to such ongoing conflicts. In 2010, New York adopted a law that prohibited residents of multiple-unit dwellings from subletting their homes for < 30 days. Similarly, in 2015, Santa Monica instituted tough regulations against Airbnb by requiring hosts to register for a license, live on the property during the renter's stay, and collect a 14% city tax. In contrast, cities such as Galveston and Savannah chose to accommodate the sharing economy by enacting a favorable legal framework for short-term rental owners (Moylan, 2016). A number of other cities have simply refrained from explicitly taking a position on short-term rentals. These varied solutions and responses proposed by city leaders form the subject of this research. Specifically, this study seeks to advance the understanding of *why peer-to-peer sharing services such as Uber and Airbnb are welcome in some cities*

* Corresponding author.
*E-mail address:* sounman_hong@yonsei.ac.kr (S. Hong).

https://doi.org/10.1016/j.giq.2018.02.001
Received 29 September 2017; Received in revised form 13 February 2018; Accepted 14 February 2018
0740-624X/ © 2018 Elsevier Inc. All rights reserved.

Please cite this article as: Hong, S., Government Information Quarterly (2018), https://doi.org/10.1016/j.giq.2018.02.001

*but not in others*.

To explore this issue, we use the concept of "adaptive governance" as established by previous literature (e.g. Hong & Lee, 2017; Janssen & Van der Voort, 2016; Mergel, 2016; Wang, Medaglia, & Zheng, 2017). In this study, we define adaptive governance as a form of governance that advances public interests through increased responsiveness to changing environmental circumstances. Rapid environmental changes (especially those brought about through the impacts of new technological developments) require organizations to adapt. However, governments are generally slower to respond to such changes, which results in a disparity between environmental characteristics and governmental policies. Previous studies have explored a variety of characteristics and strategies that allow governments to address this problem by becoming more flexible, agile, and adaptive (Gong & Janssen, 2012; Janssen & Van der Voort, 2016; Mergel, 2016). This study contributes to this line of research by exploring the rise of sharing economy businesses and the resulting regulatory responses of U.S. cities.

Governments often fail to adapt to changing environmental conditions. This results in the failure to enhance public interests. Previous studies have identified the tendency of governments to protect established interests (i.e., the status quo) as a major obstacle to successful governmental adaptation (e.g., Bernstein, 1955; Cobb & Elder, 1972; Schattschneider, 1960). Such "status quo bias" in governmental decision-making is explained by the prevalence of "policy monopoly," which describes a situation in which single-industry economic interests "capture" policymakers and insulate them from democratic forces (e.g., Baumgartner & Jones, 2010; Jordan, 1972). Research has also shown that market incumbents (i.e. the regulated firms) generally prevail in the struggle to influence policymaking (Bernstein, 1955; Schattschneider, 1960; Schlozman, Verba, & Brady, 2012; Stigler, 1971; Verba, Schlozman, & Brady, 1995). Hence, political pressure from established interest groups influences governmental organizations to prefer the status quo and resist adaptation to environmental changes. Thus, we conceptualize the "status quo" as a state in which governments implement policies that favor market incumbents, while "adaptiveness" is the state in which governments accommodate new market entrants that may disrupt the status quo and potentially advance public interests.

In this study, we focus on the role of political competition in weakening policy monopolies, which leads to adaptive governance. Here, we assume that city regulators consider both the public welfare and the interests of market incumbents (i.e., the lodging industry) when deciding whether to accommodate or oppose new market entrants. These two entities compete for political favor when a new entrant's innovations generally benefit the public, but disrupt the activities of market incumbents (Christensen & Raynor, 2003). As previously explained, the prevalence of a policy monopoly influences city regulators to favor the established interests of market incumbents over the public interest. Such protection of the status quo may, however, be challenged when a high degree of political competition exists. In other words, political competition may significantly influence which of the two competing interests sway regulatory decisions; it is hypothesized that a greater level of political competition will tilt the balance against the entrenched market incumbents. To support this hypothesis, we examine the short-term rental regulations of 47 U.S. cities to demonstrate that government regulators tend to more attentively consider the public interest over the interests of local lodging industries in cities with high levels of political competition, and thus adopt more favorable regulations for Airbnb in these areas.

## 2. Airbnb and government regulation of short-term rentals

The evidence used in this study comes from U.S. city regulations on short-term rentals that were implemented to address the rapid growth of peer-to-peer accommodation rental platforms, such as Airbnb. Founded in August 2008 and based in San Francisco, California, Airbnb is an online marketplace that enables people to lease or rent short-term lodging, including vacation rentals and homes. Airbnb collects fees from both guests and hosts; a per-reservation service fee of 3% is charged for hosts, while guests are charged 5–15% depending on reservation length (Zervas, Proserpio, & Byers, 2017). As of September 2017, Airbnb provides services in > 65,000 cities worldwide, and is one of the fastest-growing companies in the world.

As the home-sharing service expanded, Airbnb faced tough regulations on short-term rentals in many parts of the world. The successful expansion of this sharing platform posed a direct competitive threat to the traditional lodging industry; lower-end hotels and hotels not catering to business travelers experienced substantial revenue declines (Forgacs & Dimanche, 2016; Zervas et al., 2017). As the hotel and lodging industry has historically been heavily regulated by local governments (especially in the United States) (Miller, 2016), market incumbents began complaining that Airbnb and other home-sharing services presented unfair competition because they were able to avoid occupancy taxes, zoning laws, and public health regulations (Lee, 2016).

As noted, government regulators have taken various approaches in dealing with home-sharing platforms. As sharing services expanded their operations, some cities accommodated the new industry by occasionally incorporating short-term rentals into existing regulations (Palombo, 2015). However, many other cities instituted new regulations that were strongly opposed by sharing companies. Some of these regulations included requiring hosts to register at a city office overseeing short-term rentals, limiting the number of days that hosts were allowed to rent their homes, preventing hosts from renting anything other than their permanent residences, restricting the same individual from listing multiple properties, and requiring hosts to reside in the building that contains the rented unit (Childers, 2017). Such varied regulatory responses have been observed not only in U.S. cities, but also in cities across the world. With the rapid expansion of Airbnb, some cities (e.g., Berlin, Barcelona, and Paris) have imposed tough regulations on Airbnb hosts and the platform itself, while others (e.g., Amsterdam and London) have welcomed the new service.[1]

When considering the pros and cons of regulating the sharing economy, it is highly probable that city governments would have considered the opinions of the hotel and lodging industries, which have fiercely opposed the home-sharing service because it has disrupted their business practices. Although the opposition from these market incumbents has been ubiquitous in all U.S. cities (Paik et al., 2017), its impact on government decision-making has differed. Thus, such opposition has achieved remarkable success in some cities, but not in others. Further, the strong regulatory responses toward the sharing economy in some cities are also inconsistent with the view that sharing economy industries generate welfare gains by lowering transaction costs and allocating limited resources more efficiently (Cannon & Summers, 2014; Cramer & Krueger, 2016; Hong & Lee, 2017; Koopman, Mitchell, & Thierer, 2015).

Some researchers have proposed that negative externalities of home sharing exist as a possible explanation for such responses (e.g. Coles, Egesdal, Ellen, Li, & Sundararajan, 2017; Quattrone, Proserpio, Quercia, Capra, & Musolesi, 2016). For instance, a noisy Airbnb guest can certainly impose costs on the neighborhood. However, prior research has suggested that such negative externalities can be dealt with using market solutions such as Pigouvian taxation or Coasian bargaining (Coles et al., 2017; Horton, 2015). The existence of negative

[1] For instance, the city of Berlin banned hosts from renting out > 50% of their apartments on a short-term basis. In Barcelona, all holiday rentals require a tourist license. On the other hand, the city council of Amsterdam made it easier for local residents to rent out their homes by approving a new law that allows local residents to share their homes for fewer than 60 days per year without any obligations. Similarly, the city of London also passed a new law clarifying that the use of residential property as occasional guest accommodation for up to 90 days per year does not require permission.

Download English Version:

https://daneshyari.com/en/article/7428526

Download Persian Version:

https://daneshyari.com/article/7428526

Daneshyari.com