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Adaptive governance and decentralization: Evidence from regulation of the sharing economy in multi-level governance

Sounman Hong*, Sanghyun Lee

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

ABSTRACT

When does decentralization lead to adaptive governance? This study proposes a conceptual framework of the necessary conditions in which decentralization may result in adaptive governance. We thereby consider two distinct forms in the context of multi-level democratic governance: central and local governments. Based on prior findings that local governments are more sensitive to democratic influences than central ones, we point out that decentralization may hinder the process of adaptation if the considered policy embodies entrepreneurial politics (i.e., if the adaptation generates widely distributed benefits but narrowly concentrated costs). To support our analyses, we use the example of the recent rise of the sharing economy, as manifested by Airbnb, and present qualitative evidence suggesting that higher-tier (central or federal) governments are relatively more favorable to such sharing services than lower-tier (local or city) governments.

1. Introduction

Governments are often required to adapt to changes in the political, social, and technological environments to provide better service. This is especially true in today's turbulent times, when policy environments and citizens need to interact in a highly variable and unpredictable manner. The new challenges resulting from the rapid growth of the global economy and technological developments (e.g., cybersecurity and online privacy) can offer a partial explanation for how turbulence has become the “new normal” in public governance (Ansell, Trondal, & Øgård, 2016). Despite the increasing need for adaptability in such circumstances, the risk-averse nature of government agencies tends to prefer stability to change, thus lagging behind environment changes (Wilson, 1980).

Prior research has explored characteristics or strategies that allow governments to become flexible, agile, and adaptive without becoming unstable (Gong & Janssen, 2012; Janssen & Van der Voort, 2016; Mergel, 2016). Among the many possible characteristics of adaptive governance, scholarly attention has been drawn to the implementation of decentralized, bottom-up decision-making in governments (e.g., Brunner & Lynch, 2010; Janssen & Van der Voort, 2016). For instance, according to Janssen and Van der Voort (2016, p. 3), the “core characteristics of adaptive governance are decentralized decision-making, engagement of many stakeholders in decision-making and the use of tacit decentralized knowledge.”

In this study, “adaptive governance” is defined as governance that

advances public interests through greater responsiveness leading to a change in policies that are no longer beneficial to society in keeping with the changes in the environment. The need for adaptive governance arises from “the mismatch between the characteristics of the environment and the way organizations are governed” (Janssen & Van der Voort, 2016, p. 3). Building upon previous literature concerning agile and adaptive governance, this study presents a conceptual framework that may help answer the following question: *Under what conditions does decentralized governance become more conducive to adaptive governance?* Decentralized governance may take many different forms. Decentralization is usually considered with regard to the entire government structure (rather than limited to a single public organization). We look at two distinct forms of governance in the context of multi-level democratic governments: first, complete centralization, with only the central government having authority over major policymaking; second, total decentralization, under which local governments assume greater roles. This study challenges the notion that decentralization necessarily leads to adaptive governance, and it proposes necessary conditions for the former (decentralization) to become the latter (adaptive governance). Specifically, using Wilson's (1980) typology, we argue that decentralization generally hinders adaptive governance in entrepreneurial politics (which is an adaptation that generates widely distributed benefits but narrowly concentrated costs).

This study uses the examples of the accommodation service Airbnb, which are representative of the recent rise in the so-called “sharing economy.” Specifically, we propose a conceptual framework that

* Corresponding author.

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

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explains why regulators at the central and local government levels may respond differently to these new sharing services. As we explain later, public administrators in local governments are incentivized to be more responsive to democratic forces. This is because the chain of command between executives facing elections and lower street-level bureaucrats is significantly shorter in local governments. The greater responsiveness of local governments may indicate that decentralization leads to adaptive governance if the governments' adaptation to new environments produces benefits to the electorate within the local jurisdictions. Conversely, if governments' proposed adaptation imposes costs on the local electorate (albeit producing net benefits to society as a whole), then decentralization would not be conducive for adaptive governance.

This research is related to several strands of prior scholarly work. Primarily, this conceptual study has implications for the literature on governments' responses to newly emerging technologies and industries, specifically in debates over adaptive and agile governments (Gong & Janssen, 2012; Janssen & Van der Voort, 2016; Mergel, 2016). Second, it also contributes to the literature on multi-level governance and federalism (Feiock & Carr, 1997; Hong, 2017; Hooghe & Marks, 2003; Ostrom, Bish, & Ostrom, 1988; Wright, 2001). Further, this study's logic is related to the public choice literature, which assumes that rational politicians and bureaucrats seek to maximize their own benefits (e.g. Voigt & Blume, 2012; Hong & Lim, 2016; Hong & Kim, 2017).

The study is organized as follows. In the Section 2, an overview of the literature on sharing economy is presented, which is the focal case of our argument. In Section 3, we set out the conceptual framework of the necessary conditions under which decentralization may lead to adaptive governance. In Section 4, we present the findings of our interviews with personnel from Airbnb, a company offering global accommodation-sharing services, which has had trouble with the existing regulations that block the company from fully entering a particular market. We also present key insights from interviewing several public officials in central and local governments in Korea, who are responsible for policies on operating sharing economy services. Finally, in Section 5, the discussions and conclusions are presented.

2. Regulating the sharing economy

The rise of the sharing economy has changed the way people throughout the world shop, commute, and travel (Belk, 2014; Bond, 2015; Cohen & Sundararajan, 2015; Cusumano, 2015; Malhotra & Van Alstyne, 2014; Zervas, Proserpio, & Byers, 2016). In giving consumers options for purchasing a variety of services at lower costs, the sharing economy has also disrupted traditional industries and created a new type of part-time work. The innovation of such "sharing services," which use internet-based platforms to match consumers and suppliers, has introduced unprecedented competition and threats to traditional transportation and accommodation industries.

Previous studies (Cramer & Krueger, 2016; Koopman, Mitchell, & Thierer, 2015) have generally found welfare gains associated with the sharing economy's growth. In fact, the most remarkable aspect of the sharing economy is that its internet platform significantly lowers transaction costs by connecting consumers with those willing to provide their underutilized assets at prices lower than those offered by traditional suppliers. With social welfare maximization defined as maximizing consumers' utility given the limited resources of traditional suppliers, the sharing economy certainly appears to benefit society from an efficiency perspective,¹ provided governments maintain fair competition between the sharing economy and traditional suppliers (Cannon & Summers, 2014; Cramer & Krueger, 2016; Koopman et al., 2015).

¹ By "efficiency perspective," we mean that emphasis is not on equitable distribution of welfare across the population in the society.

Government reactions to these new types of services, however, have not always been positive. As Cannon and Summers (2014) observe, "rather than rolling out the red carpet, city governments have resisted many of these new entrants issuing subpoenas and cease-and-desist orders." For instance, in Korea, from where we collected the evidence for this study, Uber faced strong opposition from taxi unions, and many of the company's services were eventually banned by the government. Similarly, in many European countries, including France, Germany, Spain, and the UK, taxi driver associations organized high-profile protests against Uber, and there is a rising concern that government regulators may respond to these complaints in favor of the associations.

One noteworthy observation is that regulators' responses to these new sharing services have differed across the multiple tiers of the government. The general trend across the world is that governments at the higher level (central or federal) are relatively more favorable to this sharing economy than governments at the lower level (local or city). For instance, in November 2016, the US' Federal Trade Commission (FTC) released a report discussing the economic implications of the rise of sharing economy companies (Federal Trade Commission, 2016). In this report, the FTC emphasized the significant consumer gains brought about by the competition between these companies and traditional industries, and clearly argued against regulations that protect incumbent suppliers. Despite such endorsement at the federal level, states and municipalities in the US are generally hesitant in removing entry barriers for these new companies. For instance, New York and San Francisco prohibit individuals from offering their residences for short-term rentals (Forbes, 2016).

Such different responses across multiple levels of government are observed in other parts of the world as well. In May 2016, the European Commission released guidelines arguing that any restriction imposed by EU member states on these new online services must be justified by public interest (Reuters, 2016). These guidelines were in response to many cities imposing an outright ban of several sharing economy services. In Korea, the central government drafted the Sharing Accommodation Act in 2016 to promote sharing economy industries. However, the central government faces a challenge from local governments that are unwilling to implement this policy (Financial News, 2016).

In what follows, we present a conceptual framework to understand how the manner of regulating the sharing economy may differ between central and local governments. Specifically, we explain why central or federal governments are, in general, relatively more accepting of this innovation than local, city, or municipal governments. We then present the findings from our interviews with Airbnb personnel and public administrators responsible for regulating the sharing economy's business operation in central and local Korean governments.

3. Conceptual framework

In this section, we present a conceptual framework explaining the conditions under which decentralization leads to adaptive governance. In Section 4, we present qualitative evidence showing the difference between the responses of regulators at the central and local governments toward the rising sharing economy businesses.

Our conceptual framework is based on the following premise. A situation requiring a policy change brought on by changes in the environment is always a new challenge for governments. Governments then consider adapting to the environmental change by implementing a new policy proposal that benefits the society they serve. Specifically, the proposed policy generates both benefits and costs that must be borne by the society's members. We assume further that the policy has a net benefit; in other words, the policy under consideration, if implemented, would improve social welfare from an efficiency perspective compared to the status quo. In such a setting, a government's implementation of the policy proposal is considered adaptive governance.

3.1. Decentralization and adaptive governance

Our framework relies on three critical assumptions all strongly supported by prior literature. The first assumption concerns the typical nature of career bureaucrats who believe in “blame avoidance.” As careerists (who do not have to face an election to continue in their position), public administrators are more threatened by a crisis or scandal than gladdened by a success in the organization (Wilson, 1980). Consequently, career bureaucrats tend to avoid blame for negative outcomes rather than seek credit for positive results (Hood, 2010). This blame-avoidance attitude of public managers leads to public organizations becoming risk-averse, preferring status quo to change, and not having a strong incentive to adapt to changes. This is because adapting to environmental changes generally requires innovations, and there is an element of uncertainty (i.e. the possibility of losses) inherent in all innovative activities (Rose-Ackerman, 1980).²

However, the blame-avoidance nature of individual bureaucrats does not necessarily mean that a public organization as a whole becomes risk-averse. Previous studies have nevertheless found a “risk culture” prevalent in public organizations (e.g., Bozeman & Kingsley, 1998), and it is not surprising that individual attitudes can significantly influence the culture of an organization (see Baumeister, Ainsworth, & Vohs, 2016 for a recent review of the relevant literature in social psychology). Evidence in public administration and political science literature also suggests that the blame-avoidance attitudes of individual public managers may create a climate of risk aversion in public organizations (Charbonneau & Bellavance, 2012; Hood, 2010; Norman, 2002). Following this line of research, we make the following assumption:

Assumption 1. Public organizations tend to be risk-averse and, thus, prefer stability to change, which makes it difficult for them to adopt adaptive governance.

The second assumption concerns differences in the attitudes of central and local governments. Prior research has studied the division of functions across multiple government tiers (Feiock & Carr, 1997; Hong, 2017; Hooghe & Marks, 2003; Ostrom et al., 1988; Wright, 2001). Some studies have observed that central and local governments differ with regard to the extent to which public administrators are held accountable by elections. For instance, Hong (2017, p. 132) notes, “the attitudes and behaviors of local government officials are often significantly shaped by local elections, whereas public officials in central governments are relatively insulated from national elections due to a longer hierarchical chain.”

To understand this, let us look at the separate elections held for both types of governments (i.e., central and local). The heads of central governments (either the prime minister or president) are elected in the national elections, whereas the heads of local governments are elected in the local elections. In such an institutional arrangement, public administrators working for local governments are generally more influenced by election outcomes than are those working for the central government. This is because the central government is generally larger than any individual local government, and the chain of command between the government heads facing elections and the lower-level public administrators is much longer in central governments. For instance, in

² A related question is whether being risk-averse can be conceptualized as the opposite of being adaptive. For instance, it is not impossible to imagine a situation in which public administrators consider it risky to maintain a stable policy. However, this potential criticism stems from the many possible definitions of “risk.” If we define the concept of “risk-averse” as aversion to “uncertainty,” as often seen in previous literature, it follows that public organizations’ adaptation to new environmental changes necessarily involves greater uncertainty from the standpoint of public administrators than the status quo situation. Relying on such a definition of “risk,” previous studies explain that public managers are less responsive to incentives because they are more risk-averse (e.g., Dixit, 1997). Following this line of thinking, we conceptualize being risk-averse as the opposite of being adaptive to changing environments.

many countries, the heads of local governments are directly responsible for personnel management of all administrators working for the local governments, whereas the prime minister or president delegates this authority to ministers or agency heads. Consequently, street-level bureaucrats in central governments are relatively more insulated from the whim of political forces than are those in local governments. Since local governments are relatively more influenced by democratic forces, they may show a greater sensitivity to the electorate’s opinion. Therefore, we propose:

Assumption 2. Democratic forces have relatively greater influence on local than on central governments in determining bureaucrats’ attitudes and behaviors.

Prior literature in public administration and political science suggests that regular elections holding executives of public organizations accountable may serve as an effective instrument to push risk-averse bureaucrats to become adaptive. As Rose-Ackerman (1980, p. 593) puts it, “politicians must take risks if they hope to be reelected.” Empirical evidence also supports the notion that elections constrain a politician’s attitude and behavior in a significant and positive way (e.g., Ashworth, 2012; Ferraz & Finan, 2008). Executives (who face elections) and lower-level administrators connected through the chain of accountability are motivated by the goal of winning elections. Therefore, executives become significantly less risk-averse in changing existing policies that no longer benefit society and implementing new policies if they feel sufficiently rewarded by their reelection, as do career bureaucrats working for public organizations as they are subject to hierarchical control (e.g., through promotion or punishment) by the executives. Therefore, we propose:

Assumption 3. Public organizations become less risk-averse and, thus, more adaptive to the citizenry’s needs when their leaders are held accountable by regular elections.

Combining these three assumptions, one can infer the relationship between the level of decentralization and the extent to which the institutional structure is conducive to adaptive governance. Essentially, the relatively shorter chain of command makes local governments more adaptive to democratic forces and, thus, to environmental changes than central governments. It then follows that decentralization (i.e., moving the locus of policymaking decisions from central to local governments) would lead to adaptive governance, all else being equal.

Hypothesis 1. All else being equal, decentralization leads to adaptive governance.

The hypothesized relationship is demonstrated in Fig. 1. The horizontal axis represents the level of decentralization, shown on a one-dimensional spectrum. At one end of this spectrum is total centralization, under which central governments play a major role in public policymaking; at the other end is complete decentralization, with local governments having greater authority over policymaking. The vertical axis represents the degree to which the institutional structure is more inclined to adaptive governance, which we term “the level of adaptiveness.” As shown in Fig. 1.1, the three key assumptions suggest that, all else being equal, decentralizing the locus of policymaking may lead public organizations to become more adaptive to changing environments. This hypothesis is consistent with the ideas presented in previous literature (Brunner & Lynch, 2010; Janssen & Van der Voort, 2016).

3.2. The moderating role of a policy’s perceived benefit-cost distribution

So far, we have shown that decentralizing a government’s institutional structure may lead to adaptive governance, holding all other factors constant. In what follows, however, we show that this association may be significantly altered if we consider the benefit-cost distribution of a proposed policy change. Prior literature has found that

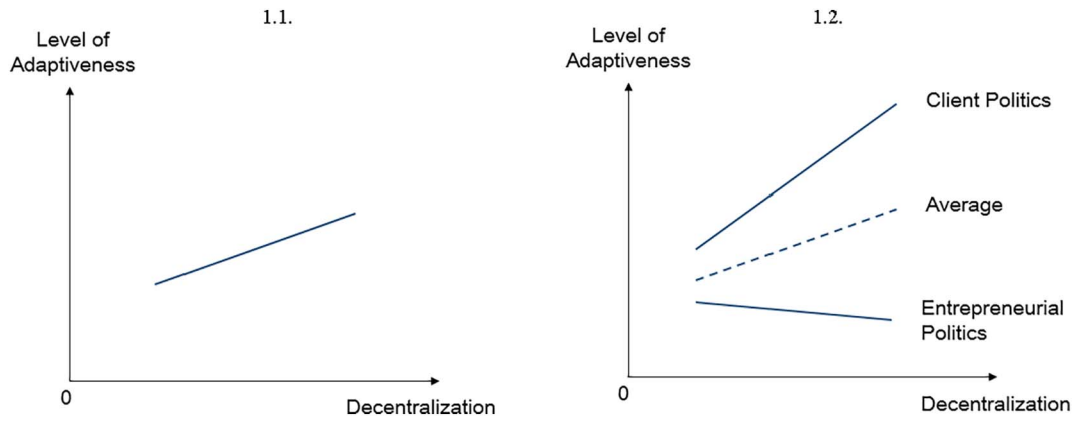


Fig. 1. Decentralization and adaptive governance.

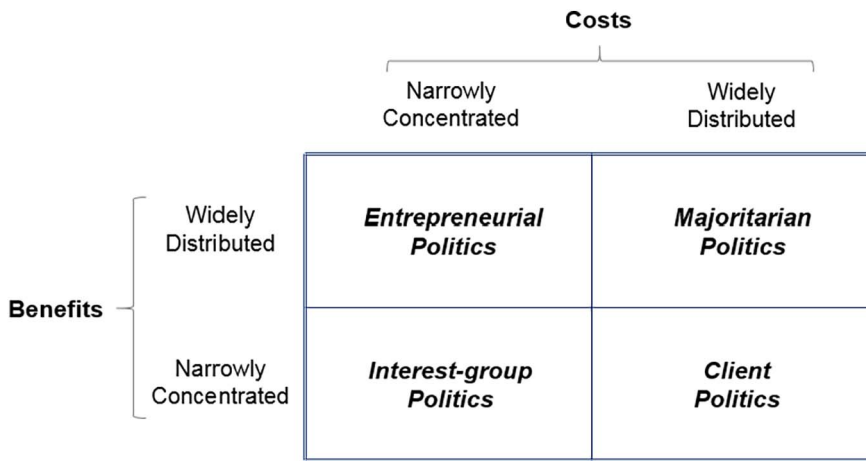


Fig. 2. A typology of cost-benefit distribution.

the political significance of economic stakes derives from how the stakes are distributed across a society's members (e.g., Ferguson & Rogers, 1984). Wilson (1980) suggests that a policy agenda can be classified in terms of the perceived distribution of its benefits and costs. Specifically, both benefits and costs may be either narrowly concentrated or widely distributed, producing a 2-by-2 matrix, as shown in Fig. 2.

The first quadrant of the 2-by-2 matrix is where both costs and benefits are widely distributed across various members of society. Wilson (1980) called this situation *majoritarian politics*. In such policy proposals, interest groups have little incentive to organize around common interests as neither the benefits nor the costs of the proposed policy are disproportionately captured by a definable segment (e.g., occupations or a locality) of society. The reverse is the case when both costs and benefits are narrowly concentrated, a situation called *interest-group politics*. If a small group of the citizenry expects to chiefly bear either the benefits or costs of a prospective policy, they will have a strong incentive to organize around common interests and exercise political influence to support or oppose the policy. Those expecting to be affected by the policy will therefore organize around common interests; one group will support the policy and the other will oppose it.

Majoritarian- and interest-group politics are not the main subject of our analysis: in these two cases, there may be a variety of factors moderating the relationship between decentralization and adaptive governance, making it difficult to generate a predictive hypothesis. In majoritarian politics, whether a government adopts a given policy may largely depend on the public sentiment toward the issue. In interest-group politics, governments' decisions may depend on the relative strengths of the political influence of organized interests. They may also depend on electoral constituency boundaries. For instance, in a case

where the benefits (or costs) are concentrated in an industry located across various regions of the country, the organized interests may have a better chance of exerting political influence over the higher-tier governments. Conversely, if the benefits (or costs) are concentrated in a small locality, the voices of those affected may have the greatest influence on lower-tier (i.e., local) governments' policymaking.

Our conceptual framework, thus, focuses exclusively on the other two quadrants in the 2-by-2 matrix. The top-left quadrant of Fig. 2 is the case in which a policy's benefits are widely distributed but the costs are narrowly concentrated: a situation called *entrepreneurial politics*. The last (bottom-right) quadrant covers the case in which a prospective policy's benefits are narrowly concentrated but the costs are borne by the public at large, the so-called *client politics* situation. In entrepreneurial politics, governments may be reluctant to implement the prospective policy due to the political influence of the organized opposition, even if the policy's benefits outweigh its costs. Such reluctance may become stronger if decision-making is executed at the local, rather than at the central, government level; decentralization may thus hinder governments' adaptation to new changes. Conversely, in *client politics*, governments are incentivized to adopt the policy due to the political influence of organized support; decentralization may therefore further accelerate governments' adaptation to new changes. We, thus, posit the following hypotheses, which can be visualized in Fig. 1.2:

Hypothesis 2-1. In entrepreneurial politics, decentralization hinders adaptive governance, all else being equal.

Hypothesis 2-2. In client politics, decentralization accelerates adaptive governance, all else being equal.

Before we proceed, the following points should be clarified. First, our argument builds upon a specific difference between local and

central governments (i.e., the different responses to a phenomenon at the central and the local level). This difference between the two modes of governance can be used to infer how government policies may change under the process of decentralization (i.e., when the locus of policymaking decision moves from central to local governments). Second, although our theoretical framework attempts to provide a complete description of the effect of decentralization, our main goal is to show the negative association between decentralization and the level of adaptiveness in the case of entrepreneurial politics. Client politics can be viewed as the flip side of entrepreneurial politics, and, the political implication of client politics can thus be inferred from the analysis of entrepreneurial politics. For instance, an often-cited example of client politics is tariff policy on imported goods; the costs of protection are widely distributed across consumers, whereas the benefits are concentrated on domestic manufacturers. The reverse of trade protection is free trade, a policy exhibiting the characteristics of entrepreneurial politics; the benefits are widely distributed, whereas the costs are chiefly borne by the manufacturers. For this reason, we hereafter focus on a public policy area with impacts characteristic of entrepreneurial politics, namely, regulation of the sharing economy.

4. Evidence from the Korean government's regulation of the sharing economy

4.1. *The sharing economy as a case of entrepreneurial politics*

The main implication of our conceptual analysis is that decentralization may not necessarily lead to adaptive governance, a point often ignored in prior literature. If a proposed policy change produces a benefit-cost distribution, following the pattern of entrepreneurial politics (i.e., widely distributed benefits and narrowly concentrated costs), the centralized governance as an institutional structure is typically more conducive to adaptation than the local governance.

In this study, we test this key aspect of our conceptual framework considering recent evidence from Korean governments' responses to the sharing economy industry. Governments across the world have faced the challenge of deciding whether to remove entry barriers in favor of new sharing services or to protect traditional industries. We assume that the governments' choice of removing barriers and passing regulations on these new services can be viewed as an adaptation to benefit society as a whole. This assumption is supported by a relatively large number of previous studies identifying the efficiency gains of these businesses (Cannon & Summers, 2014; Cramer & Krueger, 2016; Koopman et al., 2015). Specifically, evidence certainly suggests that the sharing economy benefits consumers (Wallsten, 2015); otherwise, they would not have chosen to purchase the new service. Such an advantage is created primarily by two factors: first, the existence of online platforms offered by the sharing economy businesses, which connect consumers with people willing to provide their idle assets at prices lower than traditional suppliers, and second, the resulting greater competition between the sharing economy and traditional suppliers. From the efficiency standpoint, the resources available to society are better utilized with the existence of the sharing economy (Cramer & Krueger, 2016).

Of course, the evidence of efficiency gains does not indicate that the rise of the sharing economy is necessarily desirable. Notably, the efficiency analyses tell us little about whether the new businesses will promote more equitable or fair distribution of gains. For instance, there are concerns regarding lower employability, a potential decrease in governments' tax revenues, and the disruption of traditional industries, to name a few (Malhotra & Van Alstyne, 2014). These concerns indicate that not all members of society would benefit from the rise of the new service.

Indeed, the political implication of such an inequitable distribution of benefits is the primary focus of our study. The distribution of benefits and costs associated with the sharing economy's growth generally follows the pattern of entrepreneurial politics: the resulting benefits are

widely distributed across the public, but the costs are chiefly borne by the disrupted traditional suppliers or those working for them. Further, the benefits are not only diffuse but also uncertain: these services are newly introduced and have never been experienced by most potential consumers. Therefore, government action allowing sharing economy companies to operate would face strong organized opposition from traditional industries but gain relatively weak support from potential consumers.

4.2. *Qualitative evidence from interviews*

The evidence for this comes from our interviews with the employees of Airbnb, one of the most prominent participants in the sharing economy, and several government employees in Korea, who work in offices that are involved in regulating sharing economy businesses. Data gathering through interviews occurred via a two-stage process. First, we conducted exploratory interviews with Airbnb employees, asking them about the company's experience in the Asian market (including Korean) and the responses of the various regulatory agencies to the company's services. Second, we contacted numerous public employees in Korea and asked for their views on some of the issues raised during our Airbnb interviews. We interviewed 13 persons in all, 3 from Airbnb and 10 from Korean governments.

Airbnb is headquartered in San Francisco, California, and it provides an online platform that enables people to list or rent out short-term lodging in residential properties. The company charges a service fee from both guests and hosts using the platform. One of the regulatory challenges faced by Airbnb was that individuals listing their residential properties do not usually have proper business licenses to provide a lodging service. This is problematic, as many regulatory agencies (including Korean governments) require property owners to obtain licenses before they host Airbnb guests. Since it began operations in Korea, Airbnb has addressed these regulatory challenges by advocating changes that allow regular people to rent out their homes. In response, the Korean central government drafted the Sharing Accommodation Act in 2016 that lowered the regulatory bars; however, this has failed to appeal to local governments, which were unwilling to implement this regulatory change (Financial News, 2016).

Our interviews with Airbnb employees were conducted in January 2017 in Seoul, Korea, with each interview taking up an average of one hour, and these were later transcribed. The primary goal of this first stage of interviews was to check how well our conceptual framework's key insights explain public agencies' actions. Overall, the first-stage interviews achieved their objectives; the interviewees agreed strongly that central governments have been significantly more sympathetic to the operation of sharing economy services than Korean local regulators. Their comments also supported some of the assumptions made in this study. For instance, one interviewee said:

We worked with officials from both central and local governments to help them understand how Airbnb benefits our community. During our meetings, we gained the impression that the officials from the central government work for the country while officials from the local governments work for the elected executive.

This comment relates to one of the assumptions of our conceptual analysis. We assumed that the chain of command between government executives facing elections and lower-level career administrators is significantly shorter in local governments than in the central government. This short chain of command made local officials more responsive to the executives' control mechanisms (and arguably to citizens' needs), but it also made them shortsighted and unwilling to consider the full impact of the policies with regard to externalities (i.e., the benefits generated by the service are not fully enjoyed by the local communities).

We then conducted the second-stage interviews to explore why the central and local governments' policy responses to the new services are

Table 1
The profiles of the interviewees.

Group	Organizations
Industry	Airbnb
Local government	Chungcheongnam-do government Seoul Metro City government
Central government	Ministry of Culture, Sports and Tourism Ministry of Agriculture, Food, and Rural Affairs Ministry of the Interior Ministry of Strategy and Finance Ministry of Information and Communication Office for Government Policy Coordination (Regulatory Reform Office) Presidential Committee on Regional Development National Assembly

different. The interviewees were public officials currently working for or retired from Korean governments. Of the 10 interviewees, two had worked for both central and local governments and therefore had a good understanding of the difference in the decision-making processes between the local and central governments. One of the interviewees was responsible for regulating accommodation services in the Korean central government and was thus involved in the process of drafting the Sharing Accommodation Act in 2016. The remaining interviewees held responsibilities related to regulatory policies in various government agencies, although their work was not directly related to regulating the sharing economy. The list of public organizations in which those interviewed were current or previous employees is shown in Table 1. The second-stage interviews with these public officials were conducted during January and February 2017, and these too were transcribed.

The results of the second-stage interviews also supported this study's hypotheses. With little disagreement, the interviewees reported that local government administrators are heavily influenced by political considerations than are central government officials. Essentially, career bureaucrats in central governments are relatively more insulated from democratic influences than are those in local governments. This difference may increase local governments' reluctance to adapt to changes if the consequences conflict with the interests of local residents and/or interest groups.

One of the interviewees also informed us of a recent case that matches well with our hypotheses. In 2015, Call-bus Lab, a sharing economy company headquartered in Seoul, Korea, launched an online platform titled "Call-bus." This Internet-based platform collects people who want to travel from one place to a common destination (within the city of Seoul) at late night when public transportation is no longer available. When the number of people with the same origin and destination exceeds a certain threshold, the company sends a minibus for them. This online carpooling-type service experienced a remarkable growth in terms of its users. However, in December 2015, the city government of Seoul announced that the service may have violated its rule on transportation and imposed bans on the service's operations.

The story of Call-bus Lab shows how regulators' responses to the sharing economy may differ across multiple tiers of governments. With regard to the regulation of the service, two agencies were involved: a central government agency, the Ministry of Land, Infrastructure, and Transport (MOLIT), and the city government of Seoul. The MOLIT was supportive of the new service, whereas the city of Seoul strongly opposed it. The following remark from the CEO of the Call-bus Lab describes this well (Sisa Press, 2016):

At first, the officials from the Seoul Government were supportive of the idea of our call bus service. They just wanted us to get the service approved by the MOLIT. Once we got the approval from central government, however, the Seoul government changed its position and strongly opposed our business. This was embarrassing, as the Seoul government had openly announced its strong support for the

sharing economy industries. [...] After several months of negotiations with the Seoul government, I am rather confused by whether the city government works for the welfare of Seoul citizens or the interests of taxi associations.

Last, some interviewees pointed out an aspect that we had not considered in our framework: that the different regulatory responses of the two government types may be partly explained by the fact that many of the sharing service companies are headquartered in foreign countries. This could make citizens wonder whether the governments' removal of regulations against these new services was providing unfair benefits to foreign companies. However, this point is partly covered, albeit not explicitly, in our conceptual framework. The fact that foreign companies benefit is consistent with what we described as the "widely distributed benefits." From Fig. 2, it is evident that the more widely distributed the benefits of government adaptation, the more likely the policy change can be classified as entrepreneurial politics, as opposed to interest group politics. That some of the benefits are shared with foreign stakeholders makes it less likely that those supporting the change will organize to exert political influence, as the right to vote is limited to Korean citizens.

5. Discussion and conclusion

In this study, we have proposed a conceptual framework that explains the relationship between decentralization and adaptive governance. Prior research results have revealed that implementation of decentralized bottom-up decision-making is an important condition for adaptive governance (e.g., Brunner & Lynch, 2010; Janssen & Van der Voort, 2016). This study contends, however, that researchers must be cautious in claiming a positive association between these two concepts. We do agree with prior literature that, all else being equal, decentralization does contribute to making governments adaptive, flexible, and agile. In the case of entrepreneurial politics (i.e., when the benefits of adaptation are widely distributed but the costs are narrowly concentrated), decentralization may obstruct local governments' adaptation to changing environments.

This study, then, uses the example of the recent rise of the sharing economy to test whether decentralizing the locus of policymaking to local governments leads to adaptive governance in the case of entrepreneurial politics. The sharing economy provides an excellent context for testing our hypotheses, as removing regulations that restrict these new services embodies a situation of entrepreneurial politics. Specifically, we considered decentralization of the entire institutional structure of government (rather than a single public organization) and collected qualitative evidence on whether the new internet-based economy received greater support from the central rather than from the local governments in Korea. The findings of our interviews with employees of a sharing service company and with public officials from Korean governments all provide support for the key arguments in our conceptual analyses.

This study's findings have broad implications for literature on the trade-off between bureaucracy and democracy (Gawthrop, 1997; Gormley & Balla, 2004; Hong, 2017; Kirlin, 1996; Meier, O'Toole, 2006; Waldo, 1977). Regular elections to choose local government heads are an effective way of holding local bureaucracies politically accountable. However, politicians who face regular elections (and the public administrators these politicians influence) are bound to become short-sighted and care only about policies producing outcomes observable by the electorate (Hong, 2017). If regulatory decisions are made by local governments, which are more sensitive to democratic influences, society may oppose governments' adaptation to changes even when the benefits far outweigh the costs. This study shows that such negative consequences of decentralization are likely in a situation of entrepreneurial politics.

Our research is also broadly related to the concept of polycentric

governance (McGinnis & Ostrom, 2012; Ostrom, 2010). According to the key rationale of the polycentricity theory, for a system of governance to be conducive to efficient allocation of resources, cross-sector collaborations among multiple levels of governance units are essential (McGinnis, 2016; Ostrom, 2010). Ironically, elections, political parties, and interest groups, all designed to ensure policymakers' accountability, often create barriers hindering such cross-level collaborations inducing them to choose actions that are suboptimal for society as a whole. This research, therefore, advocates the need for effective cross-sector collaborations and consultations among multiple tiers of governance in making important policy choices.

To reiterate, this study's goal is to build plausible and theoretically relevant hypotheses, rather than rigorously test them. Although we provide some qualitative evidence, we acknowledge that we have not presented a falsifiable test that supports our conceptual analyses. With regard to the sharing economy, in particular, we await sufficient observations to perform quantitative tests, as this is a relatively new phenomenon. Nevertheless, the conceptual framework proposed in this study certainly contributes to understanding the relationship between decentralization and adaptive governance, and, more specifically, governments' responses to the rise of newly emerging industries in the context of multi-level governance.

We also clearly acknowledge the simplification employed in comparing two different modes of governance. Central and local governments may operate in different political, social, and economic environments, and these environmental differences vary between countries. These unobservable factors lead us to admit that it may be premature to conclude central and local governments' different responses as solely attributable to the identified institutional difference. There may be other influential factors: for instance, during our interviews, we noticed that residents in small county areas have a negative perception of foreign companies such as Airbnb. Such perceptions may be another factor explaining local governments' relative reluctance to remove regulatory barriers restricting such companies. The relative strengths of various factors that influence central and local governments' decision-making may be tested through large-N studies in the future when a sufficiently large number of cases have accumulated.

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Sounman Hong is an associate professor at Yonsei University in South Korea. His research focuses on bureaucratic control, innovation, and reform and how to achieve a more efficient, responsive, and accountable public administration. He holds master of public policy and doctoral degrees from Harvard University and a bachelor's degree from Yonsei University.

Sanghyun Lee is a PhD student at Yonsei University in South Korea. Sanghyun holds a master of public administration degree from Harvard, a master of business administration from MIT, and a bachelor's degree from Emory University. He currently works at Airbnb and previously was with Google.