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**Car Hire Service in Hong Kong:  
Changing Dynamics of Governance and Policy Tools**

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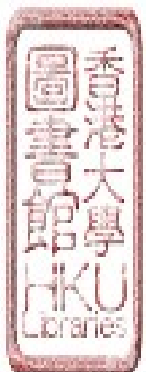
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Dissertation Submitted in Partial Fulfillment of the Requirements  
for the Course of Capstone Project (POLI8028)  
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at the University of Hong Kong (HKU)

July 2016



## Declaration

We declare that this Capstone Project Report represents our own work, except where due acknowledgement is made, and that it has not been previously included in a thesis, dissertation, or report submitted to this University or to any other institution for a degree, diploma, or other qualifications.

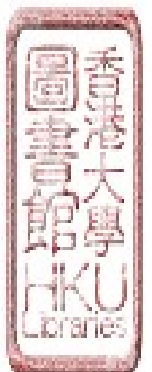
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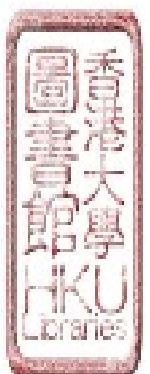
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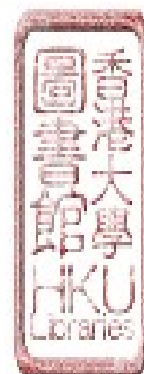
We would like to express our gratitude to our supervisor, Professor Ian THYNNE, for his valuable and professional guidance, coaching and advice throughout the compilation of this Capstone Project Report. His encouragement and supervision have led us overcome various hurdles and difficulties during the research period. We also wish to thank the other professors, lecturers, staff members and our classmates of the Master of Public Administration Programme for their unfailing support. Last but not the least, we have to express our deepest gratitude to our family members and friends for their constant support and companion over the past two years.



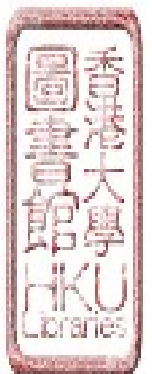
## Abstract

Car hire service is one of the most important public transportation modes in Hong Kong. It has a long history of more than a century. Taxi was first introduced in 1924 and is one of the important modes of car hire services. It is a personalized and point-to-point form of transport service. Through the long history of car hire service, the Government developed different policies to manage the car hire service in Hong Kong. There were changing policy dynamics. The dynamics happened with a number of critical events, such as police corruption, taxi strike, stakeholders' actions and influence, economic environment and social development. In addition, there was a gap between the decreasing car hire service quality and the people's increasing expectation. Coupling with the technology advancement, it gave rise to a new form of car hire service, such as Uber, to compete with the existing car hire service. However, this provoked interaction among different major stakeholders including the passengers, taxi companies, Uber and the Government.

In this study, focus was made on the car hire service policy in Hong Kong and its evolution. The car hire service history was categorized into four distinct eras and analysed with an analytical framework which was established from John Kingdon's

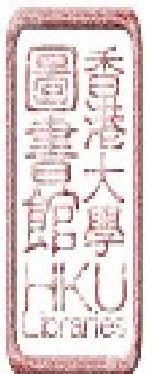


(1995) three-stream model on agenda setting, Knill and Tosun's (2012) theories on types of governance, and McDonnell & Elmore's (1987) classification of policy tools. The four eras are Centralised Ownership Era (1924~1964), Dispersed Ownership Era (1964~1994), Service Quality Oriented Era (1994~2014) and, Mobile Apps Era (post-2014). By travelling through the Eras, policy windows opened in various situations that car hire service became the Government's policy agenda. The Government has been altering its control over the car hire service by adopting a hybrid of different governance modes. The dominance of interventionist and regulated self-governance was swinging across the historical timeline as if a pendulum in relation to critical events which have taken place. Also, the Government has been adopting different policy tools to manage the car hire services. In the early Eras, the Government has been strengthening the use of mandates. After the 1984 taxi strike, the Government started to increase the use of inducements and capacity-building to rectify the service quality problem, in particular during the Service Quality Oriented Era. In the recent Mobile Apps Era, the Government proposed to launch premium taxi to cope with the technology development in the 20th century. As a result, system-changing may become the major policy tool in the near future. This study provides a comprehensive policy review on car hire service in Hong Kong and also a gateway for future analysis.



## List of Abbreviations

GDP	Gross Domestic Product
PTSS	Public Transport Strategy Study
PTU	Public Transport Unit
QTSSC	Quality Taxi Service Steering Committee
TCU	Transport Complaints Unit
TD	Transport Department
TPCC	The Transport Policy Coordinating Committee
Uber	Uber Technology, Inc.



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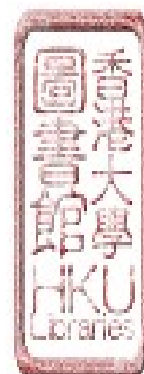
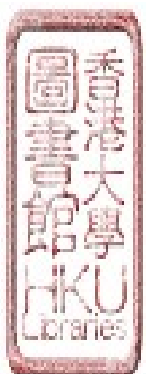




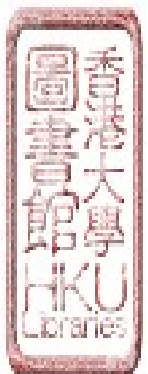
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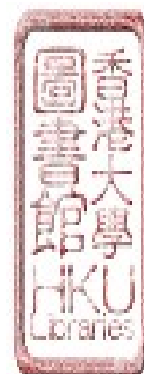


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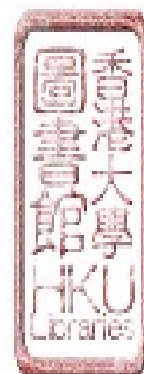
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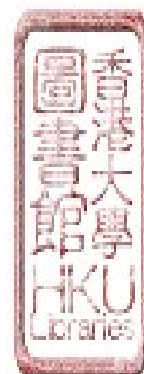
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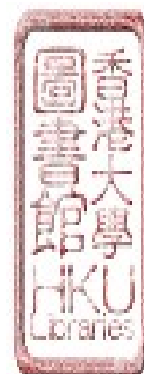
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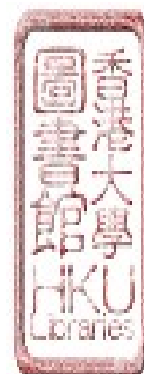
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# Chapter 1 Introduction

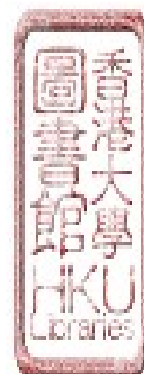
## Focus and Objectives of the Project

This study addressed the car hire service policies in Hong Kong. The objective of this study is to identify, by eras, the policy agenda setting, the types of governance models and the policy tools adopted by the Government in the management of car hire service.

By applying related theories and criteria, this study analysed how the major stakeholders have interacted with each other and how they have affected the type of governance and policy tools adopted by the Hong Kong Government. The last part of this study explored the possible way forward of car hire service policies in Hong Kong.

## Background

Car hire service has a history of more than a century in Hong Kong from the earlier era of sedan chairs and rickshaws to the taxis nowadays. Within the time span, there were changing dynamics on governance and policy tools which the Government adopted to manage the car hire service industry. Sometimes, the dynamics were due to the types of governance and policy tools itself, while the dynamics were also related to economic and social development, political climate, growth in population, expansion of transport network, construction of infrastructures and the advancement of technology. The



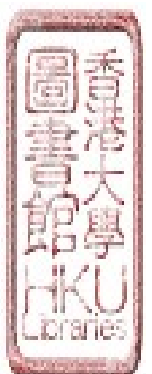


deterioration of car hire service quality, coupled with the increasing passenger expectation and the emergence of new forms of car hire service, such as Uber, made the issue more controversial. All these factors act as catalysts for car hire service related issues being put on the Government's agenda.

In this study, an analytical lens is used to look backward in time car hire service policies in Hong Kong. The analytical lens is formed with Kingdon's (1995) multiple streams framework, Knill and Tosun's (2012) types of governance and, Elmore's (1987) policy tools. In different periods of time, catalytic factors have caused the policy window to open for policy agenda setting. These factors have also caused the Government to exercise different levels of control and employed different policy tools to manage the car hire service.

This study categorized the car hire service into four critical stages along the time horizon to provide a clearer vision for analysis. They are the Centralized Ownership Era (1924~1964), the Dispersed Ownership Era (1964~1994), the Service Quality Oriented Era (1994~2014) and the Mobile Apps Era (post-2014).

The four different Eras were quite distinct taking into account the specific issues



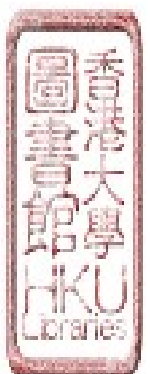
happened within the Eras that dictated the Government's decision and approach on policy making and design. Such issues include (i) significant events (e.g. strike and riot) occurred or a drastic change in external factors (e.g. supply and demand in the market) which caused obvious dynamics among the stakeholders; (ii) an obvious action / response initiated or taken by the Government; (iii) a radical / drastic action taken by any of the stakeholders which has triggered immediate and critical Government action; and, (iv) external forces including evolution of new technology and public expectations.

### **Research Questions and Propositions: Theory and Practice**

The following research questions are addressed in the project:

1. What theories and related ideas concerning the policy process, governance, policy tools and stakeholders are likely to assist in exploring the development of the car hire service policy in Hong Kong?
2. To what extent have identifiable aspects of the development of the car hire service policy accorded with the relevant theories and related ideas?
3. How might the political, policy and administrative dynamics in Hong Kong evolve concerning car hire service policy?

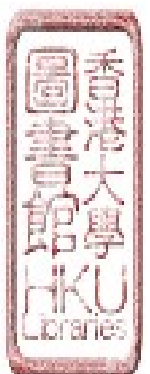
Different forms of car hire service have been emerged over the past years while taxi



remains as the commonest one from its first appearance in 1924 till today. With the increasing emphasis on efficiency, living quality and technology advancement, public's expectation towards car hire service increased. However, car hire service did not always uphold its service quality standard. It was indeed deteriorating in recent decades and had attracted more complaints. The Government had been using different types of governance and policy tools to manage the gap between the supply and demand sides of car hire service in Hong Kong. Various factors, like stakeholders' influence and the ever-changing socio-economic conditions, had played vital roles in the development of car hire service policies. During the process of policy development, there were dynamics among the political and administrative perspectives. To facilitate the public administrators to plan for the future car hire service policies, it is worth reviewing and analysing the Government's role, strategy, governance mode and policy tools adopted in the whole history of car hire service, in particular the taxi, in Hong Kong. It is expected that this study will provide insights for policy options and tools suitable to the car hire service in Hong Kong.

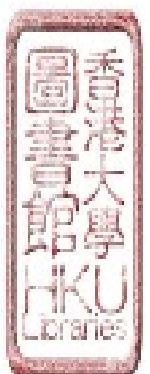
## **Overview of the Analytical Framework**

Kingdon's (1995) multiple streams theory, Knill and Tsoun's (2012) theory on types of governance and Elmore's (1987) classification of policy tools form the foundation of



the analytical framework. These three concepts are essential elements in public administration which embody and embrace different parts and stages of a policy cycle. Kingdon's theory (1995) focuses on the chemistry of the three streams for a policy window to be opened and for an issue to be put on government's policy agenda. This is the early stage in a policy cycle. Knill and Tosun's (2012) four ideal types of governance are subject to government's hierarchical control, cooperative degree of public and private action as well as the degree of legal obligation. Types of governance embrace the subsequent part of the policy cycle. Instead of a distinct governance type, a hybrid of governance type can be observed. Elmore's (1987) policy tools theory, on the other hand, embodies the part of the policy cycle after the types of governance is set. It looks at government's actions from a relatively microscopic perspective. Four distinct policy tools are classified according to Elmore (1987). They are mandate, inducement, capacity-building and system-changing. Each of these policy tools has its own strengths, weaknesses, resources requirements and attributes. Like the types of governance, a combination of policy tools can be used. Government can implement more than one policy tool to solve a single social problem.

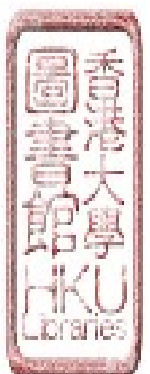
In the context of car hire service in Hong Kong, there were diverse influential



stakeholders' groups whose interests were highly conflicting with each other. Dynamics of the stakeholders catalysed the political stream, external factors such as socio-economic condition arouse issues under the problem stream and, the Government's transportation policy reviews established the policy stream. Coupling issues among these three streams, policy window opened for car hire service related issues to be placed on government agenda intermittently. Types of governance and policy tools are not in a lineal relationship. Government may not necessarily and merely use mandates under interventionist governance. On the contrary, under cooperative governance, government can still apply mandates and exert hierarchical control. The concern lies on whether the whole governance is still state-led. The components in the analytical framework provided a clear and systematic approach for this study to look into the evolution of Government's role and action over the car hire service in Hong Kong.

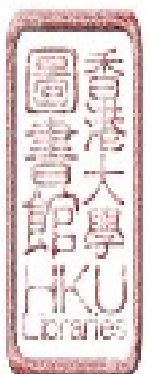
## **Research Methodology**

In this study, literature review on agenda setting, governance modes and policy tools was carried out. This literature review helped in developing an integrated analytical framework for the analysis of car hire service policy in Hong Kong. Thesis study was primarily a desktop study and qualitative analysis on the changing dynamics of



governance and policy tools with adoption of empirical data. A desktop approach is appropriate for this study because information from various channels including policy documents, legislative council papers, journals, newspaper clippings, and magazines, which are extensive and covering early stage of the development, could be taken into review simultaneously. The official and legislative documents provide factual information and historical background in terms of the key policy changes in car hire service along its development while other sources supplemented views and actions from stakeholders. Based on the analytical framework, the empirical data retrieved were analysed from various perspectives and the findings provided insight for drawing recommendations to the Government.

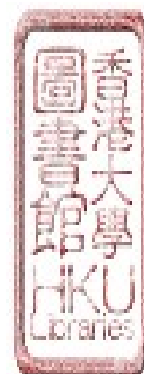
Since car hire service in Hong Kong has a history of more than 100 years, some records of events, in particular those happened before the early 19th century, were not traceable. Meanwhile, quantitative research using survey to collect public opinion was not carried out due to the limited access to a large population that is required for accuracy and the risk of low response rate. To supplement this, information such as complaint statistics was retrieved from websites of relevant government departments and through emails to provide an objective basis for analysis.



## Outline of the Project

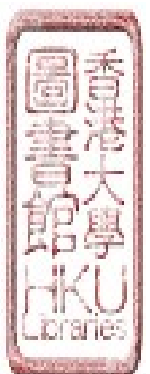
This study is structured into 7 chapters, including this chapter. In Chapter 2, an overview of a structured analytical framework which is used to analyse the changing dynamics of governance and policy tools that the Government has adopted to handle car hire service in Hong Kong is introduced. The structured analytical framework is built by integrating three main theories from the literature: Kingdon's theory (1995) of three-stream model on policy agenda setting, Knill and Tosun's theory (2012) on governance and, Elmore's theory (1987) on policy tools. Academic literature reviews of all these three theories are presented in Chapter 2.

From Chapters 3 to 6, the history of the car hire service in Hong Kong with respect to the Government actions and public / stakeholders' actions were illustrated with the socio-economic status and political situations. Whether, when and how did the policy window open for car hire service to become the Government's policy agenda would be evaluated. The evolution and dynamics of governance and policy tools are also analysed. The history illustration, evaluation and analysis were divided into four main periods: the Centralized Ownership Era (1924~1964), the Dispersed Ownership Era (1964~1994), the Service Quality Oriented Era (1994~2014) and the Mobile App Era (post-2014). Each Era was discussed in each of the Chapters 3 to 6 in a chronological



order. Chapter 3 discussed the situation of car hire service in Hong Kong during the Centralized Ownership Era (1924~1964) when the car hire service licences were held by several big companies only. Chapter 4 discussed the issues happened in the Dispersed Ownership Era (1964~1994) when the traditional practices were found inappropriate and led to a taxi strike in 1984. Chapter 5 discussed the Government's attitude towards the car hire service during the Service Quality Oriented Era (1994~2014) with particular concern on the deteriorating car hire service and with the lessons learnt from the 1984 taxi strike. Chapter 6 discussed the latest Mobile Apps Era (post-2014) up to now. Uber is the product of having technology intermingles with car hire service. Chapter 6 discussed the reasons why Uber emerged in Hong Kong and the impacts Uber brought to the car hire service in Hong Kong. The views instituted in and the actions taken by different stakeholders towards Uber's emergence and the associated political turbulence it created were also discussed.

In Chapter 7, a summary of the study was given with the research questions revisited. The experience and lessons learnt from overseas countries were taken into account to draw insights for the Government to deal with the issue in relation to Uber car hire service. Before delivering the concluding remarks and a way forward of the study, the limitations of the study and lines for further research were elaborated.



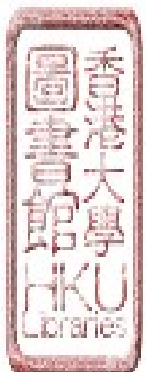


## Chapter 2 Analytical Framework

### Introduction

This chapter elaborates the analytical framework adopted to guide, structure and inform the empirical study in the subsequent chapters. The framework is composed of three main underlying concepts which are policy agenda setting, governance types and policy tools. They are critical elements in public administration and embodied different parts of a policy cycle.

Corresponding to a specific social problem, there are conflicting interests and dynamics among the stakeholders, of which the extent of dynamics is subject to the nature of social issues involved. The dynamics would affect how the three streams under Kingdon's theory (1995) are coupled with each other and facilitate the opening of a policy window for the issue to be placed on the Government's policy agenda. Along the policy formulation and implementation processes in the subsequent parts of the policy cycle, government may adopt various governance types and policy tools. Knill and Tosun's (2012) governance model is adopted to analyse the government's attitude and behaviour from a board perspective. It looks at the overall dominance, degree of intervention and hierarchical imposed by the government. Under the spectrum of



governance type, Elmore's theory (1987) is used to review the concrete policy instruments and tools being implemented from a relatively microscopic perspective.

There may not be an identified distinct or ideal type of governance and policy tool to deal with a single social problem. Indeed, governments usually adopts a hybrid type of governance and a combination of policy tools which are mutually reinforcing along with the change of socio-economic factors and the rising public expectation. They oscillated and shifted from one to another over the social issue across the time horizon.

The interlocking relationship among the key elements in the analytical framework is set out in the Figure 1.1.

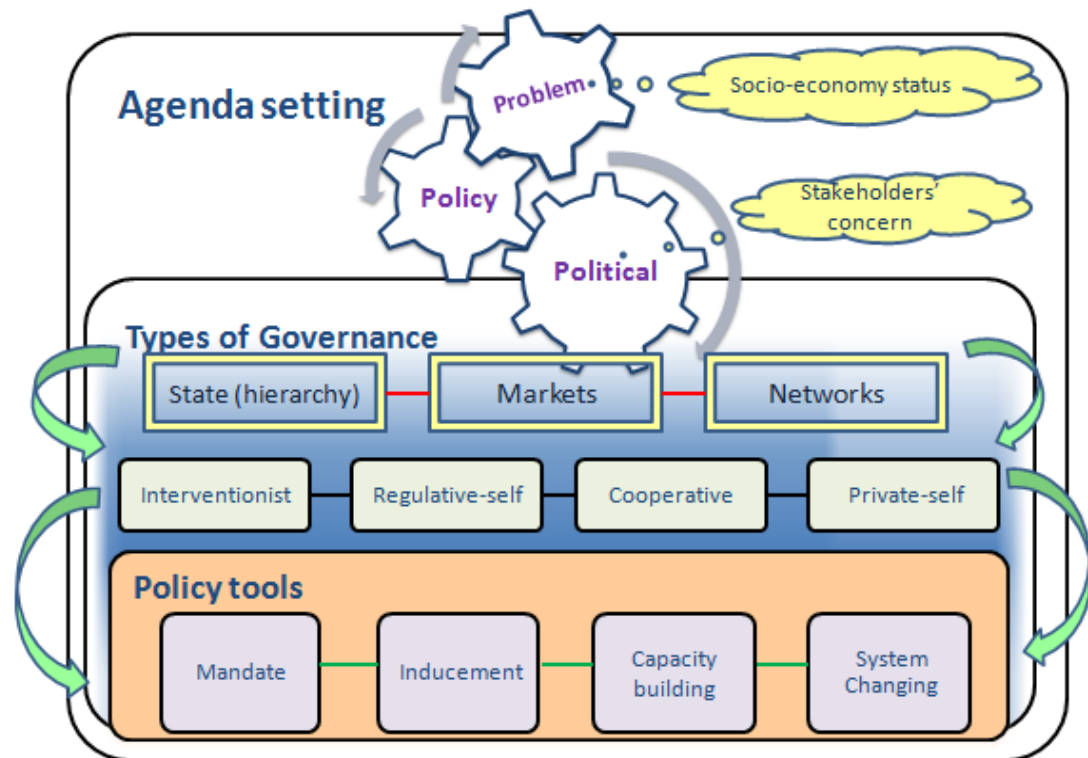
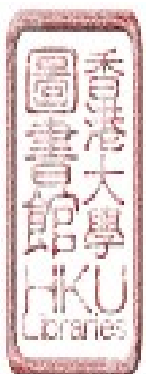


Figure 1.1 Analytical Framework – Interlocking Relationship between Agenda Setting, Types of Governance and Policy Tools

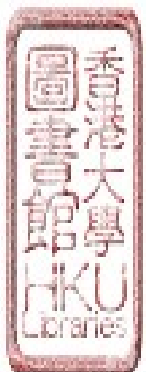


## **Agenda Setting – Outcomes of the Three Streams**

Kingdon's (1995) Multiple Streams Framework explains how an issue gets onto the government's policy agenda. It is about a process that determines what issues the government officials or decision makers will pay more serious attention on than the other issues. Under the framework, there are three major streams, namely the problem stream (problem recognition), the policy stream (generation of policy proposals), and the political stream (political events). Kingdon (1995) defined that each stream was separated from the other two until a policy window (an opportunity) opened, and the three independent streams would join to interact with each other at the critical time and get the issue a higher chance onto the agenda.

### ***Problem Stream***

A condition exists when there is a gap between the desired goal and the reality. Though it exists, it would need to be identified through various means as a problem. When the condition occupies the attention of the government officials and is recognized as a problem, it might get on the government's agenda. Kingdon (1995) pointed out that '[t]here is a difference between a condition and a problem... [c]onditions come to be defined as problem, and have a better chance of rising on the agenda, when we come to believe that we should do something to change them' (pp.198).

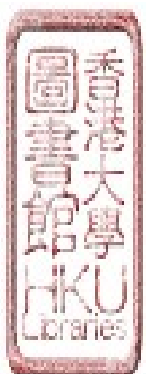


Indicators, focusing events, and feedback are the three main sources that would catch the attention of government officials. Indicators are used to assess the magnitude of the problem, and to discern changes in the problem. Focusing events, including disaster, crisis and riot, draw their attention to a problem. Feedbacks of the operation of the existing programs, both formal and informal, might also reveal a problem.

Problems can either appear on governmental agendas or fade away. Such situation can take place when a condition ceases to be a problem as its nature changes over time. It also depends on if the government has properly addressed the problem or failed to solve a problem, after which the attention has drawn to other issues that take higher priority. In addition, it can take place when people simply feel frustrated or fatigued to a persistent problem or become accustomed to it.

### ***Policy Stream***

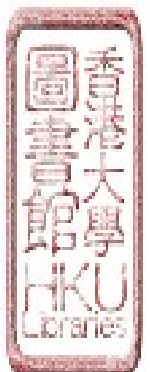
In the policy stream, policy proposals are generated, debated, redrafted, combined and subsequently accepted for serious considerations on the decision agenda. It is an intellectual selection process in which a large number of proposals are narrowed down to a short list. Proposals meeting certain criteria, such as right timing, technically feasible, etc., could enhance their chance of emergence in the process. Proposals



which do not meet policy community values are less cost-effective, and most likely cannot gain mass public support. There are visible and hidden participants, in which visible ones refer to those who receive press and public attention. These participants include political celebrities and specialists such as academics, researchers and consultants, etc. (Kingdon, 1995).

### ***Political Stream***

This stream is developed independent of the problem and policy streams. It refers to political factors that influence the government's policy agendas. The political factors include national mood, organized interests, election repercussions, and the orientations of the elected. However, Kingdon (1995) stresses that notional mood of participant changes and swings inevitably like a pendulum. The political stream is mostly about bargaining rather than persuasion to reach consensus, and participants would try their best to bend the outcomes to their advantages and vested interests. They would seek support from all important actors in the system, not just the politicians. Thus, the political power among the participants has a critical role to play. The combination of national mood and elections can generate powerful impact on policy agendas, and is capable in overwhelming the balance of organized forces.

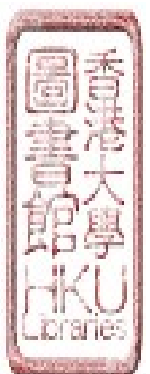


## ***Stakeholder Analysis***

Kingdon's (1995) problem, policy and political streams, in particular the political stream, are closely interrelated with stakeholders' dynamics. Stakeholders refer to any person, group or organization who can be positively or negatively impacted by, or cause an impact on, the actions or activities proposed in the incident, and they can be identified according to their interests and level of influence and may vary in their influencing power, legitimacy, and attention-getting capacity (Freeman, 1984). While identifying policy actors under the respective streams, stakeholder analysis offers a quick and useful way of identifying stakeholders, their interests and powers. Through stakeholder analysis, the government can be more effective in consolidating the stakeholders' views from a focal organization, identifying key strategies, and buying coalitions of support against opposition (Bouton et al., 2015). For stakeholders who have high influential power and high interest on the subject, the government should try to fully engage them and make the greatest effort with them.

## ***Policy Window and Evolving Governance Arrangements***

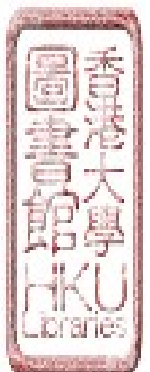
The policy window has to be opened for the competition of a place on the government's policy agenda. Kingdon (1995, pp.165, 166 & 203) specified that '[t]he policy window is an opportunity for advocates of proposals to push their pet solutions, or to



push attention to their special problems... policy windows open infrequently, and do not stay open long... [they] are opened by events in either the problems or political streams’.

Advocates would have their proposals ready, and when the policy window opens, they would rush to push their desired solutions forward, and make critical couplings. They would attempt to make use of the three streams, hooking ‘solutions to problems, proposals to political momentum, and political events to policy problems’ (Kingdon, 1995, pp.182). When all three streams couple, the proposal would get a higher chance to appear on the decision agenda while partial couplings between two streams are relatively less likely to result in a positive way. On some occasions, even the policy window is opened, the issue could not pass through the window as issues in the three streams may not be overriding enough.

Hence, whether an issue could appear on the agenda is subject to its level of attention, public perception on the issue, how the political actors framed the issues and the extent to which the conflict would be expanded or contained. Policy agenda setting and stakeholder analysis look at issues from an early stage of a policy cycle. Policy windows open for issues to pass through, subject to the chemistry of the three streams.

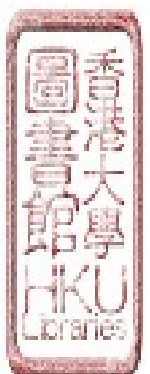


On the other hand, types of governance focus on the regulation and intervention of the government. Similar to the momentum of the policy window for agenda setting, types of governance can also shift back and forth, like a pendulum, corresponding to the decision making capacity of the state, policy implementation effectiveness and, institutional setting of the governance system.

## **Types of Governance**

Governance in general refers to the classification of modes of political steering, including both hierarchical intervention and non-hierarchical modes. The different modes are relevant to self-organizing and inter-organizational networks which is closely related to the coordination and interaction between public and private actors in a polity (Knill and Tosun, 2012). Types of governance also shapes the alignment of state, market and the civil society as they are interrelated sectors in a political system. The form and levels of state dominance, market penetration and civil society participation determine the type of governance to be adopted.

One of the most distinct ways to understand governance is provided by Knill and Tosun (2012), who categorized governance according to management by hierarchy, markets and networks. There are four types of governance, namely interventionist governance,





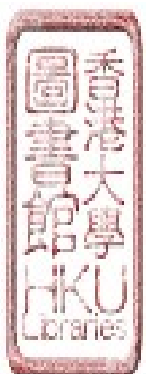
regulated self-governance, cooperative governance and private self-governance. Its classification is based on (i) degree of hierarchical control by the state, (ii) degree of cooperation between the public and private actors in the policy making process; and, (iii) the degree of discretion or legal obligation established or provided in the policy formulation and implementation process.

### ***Interventionist Governance (Hands-On and ‘Push’ Approach)***

Interventionist governance is the most classical and traditional type of governance in managing public goods and services through command and control. This type of governance stresses on formal rules and regulations, and a top-down binding process over the private actors. Under this type of governance, the state plays a crucial role and private sector’s involvement is very limited. The state hierarchically intervenes to produce or supply the services and goods. Clear and stipulated legally binding provisions are set for strict compliance on a ‘state push’ approach (Knill and Tosun, 2012).

### ***Regulated Self-Governance (Parental and ‘Pull’ Approach)***

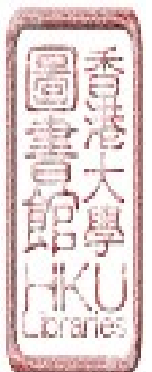
There is an increasing trend in the collaboration between the public and private sectors during the formulation and implementation of public policies. More authority and



power is decentralized by the state. Compared with interventionist governance, regulated self-governance has the top-down approach gradually shifted to a way which induces more negotiation and guidance from the top although the government is still playing a dominant role. Regulated self-governance provides parental type of guidance and rule for compliance. In this context, there is still heavy reliance on the use of regulatory frameworks and rules in which the private sectors participate in the policy formulating process in a formalized and institutionalized manner. It inherits the intervention element. The regulated self-governance is regarded as a relatively effective way of governance. The state intervenes by penetrating some ‘societal pull’ elements into the regulatory system (Knill and Tosun, 2012).

### ***Cooperative Governance (Hand-in-Hand and Networking Approach)***

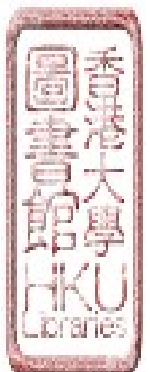
The main difference between cooperative governance and the previous two types of governance is that, private actors, instead of the state, play a dominant role in policy formulation and implementation. Application of instruments is not based on legal binding rules, but through voluntary negotiations and bargaining between public and private actors. Any policy decisions are not taken unilaterally by public actors and then exerted on civil society bureaucratically. Instead, policy decisions are collective agreement reached between the actors who discuss alternatives collaboratively. The



highlight of cooperative governance is its emphasis on a wider scope of private and public participation instead of simply hierarchical intervention through legal binding instruments. It appreciates the importance of networking and bottom up mechanism which demonstrates mutual trust and complementarities of resources. This approach ultimately brings synergy effect and reciprocal actions. However, the government may need to be aware who are to be included in the scope for discussion to avoid exclusion of importance stakeholders in the policy making process. Industrial association reflects feature of this type of governance (Knill and Tosun, 2012).

### ***Private Self-Governance (Hands-Off Approach)***

In private self-governance, implementation of public policies is in the control of private sectors. There is no more principal-agent relationship while an entire hands-off approach is revealed. Similar to cooperative governance, private self-governance takes higher priority in voluntary basis over the legal binding instruments. It is the private actors who play the dominant roles in setting and implementing the rules for public service delivery. Government's involvement is minimal. The government just takes a facilitator and steering role in providing complementary governance guidelines to private sector in delivering the public service. Conflicting interests among the stakeholders are resolved by mediation, communication and well-

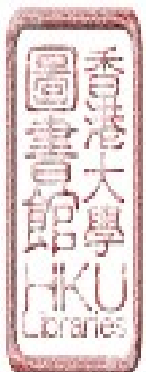


coordination during the process (Knill and Tosun, 2012). This governance mode may only exist in situation in which the state has fully developed trust in the private sector on that particular policy aspect or a system has already been in place so that the service can be regulated by private sector to bring more mutual benefits.

### ***Choice of Governance***

No governance model works exactly the same under all policy context and conditions. Types of governance with less hierarchical control may still indicate the need of a great involvement of the state, either through typical approaches of hierarchical intervention or through cooperation and negotiation between the state and private sectors in an institutionalized manner.

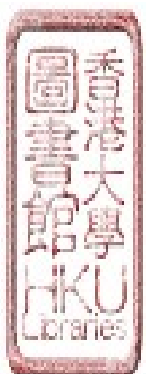
Choice of types of governance is not entirely free. It indeed is governed by various factors, such as the prevailing institutional structures, governing capacity, organizational strength (power to exert influence on stakeholders and ensure compliance of the decisions), nature of the social problems and the availability of policy tools. For instance, government may shift from interventionist to self-regulated approach should it thinks that it is ready to involve more actors in the policy formulation process to facilitate efficient allocation of resources. Yet, it may shift back to



interventionist approach should there is agitated public response or complaints on the service quality in which public demands more stringent government action.

For newly devised policy alternatives or controversial issue, interventionist approach would usually take over the other governance modes. Nevertheless, for a particular policy issue in which the controversial issues have already been scaled down while improving it may require extensive resources and new technology, self-regulated or cooperative governance may appear and be adopted. On the other hand, cooperative or private self-governance cannot work well if the relevant associations or representatives do not have sufficient influencing power on its members or the societal structure is fragmented.

Meanwhile, the types of governance are not mutually exclusive but are mutually reinforcing. Most of the time, a hybrid types of governance is adopted. The types of governance shift away from hierarchical control to more widely use of market or networks and vice versa from time to time. It can also adopt market as the major mechanism in service delivery while still setting rules and regulations for compliance. Hence, reliance on market mechanisms not necessarily represents shrinkage in hierarchical intervention. On the contrary, even if there is wider adoption of network



governance, element of interventionist approach may still reveal. It is therefore difficult to judge whether there is a shift to non-hierarchical umbrella on a particular social issue. Figure 1.2 shows the interrelationship of the four ideal types of governance.

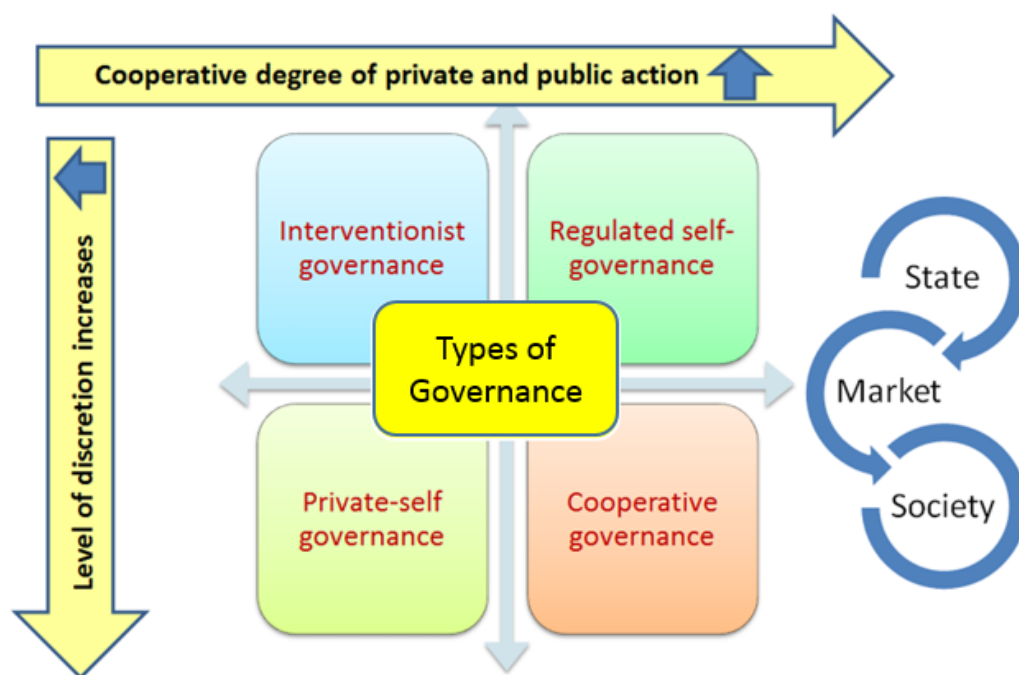
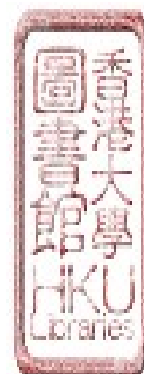


Figure 1.2 Four Ideal Types of Governance

### From Policy Agenda and Types of Governance to Policy Tools

Kingdon (1995) proposes that an issue can have a political agenda when there is a policy window opens from the three main fluxes. With social problems arise, the government needs a policy window to identify and implement suitable solutions for handling the problems properly and avoiding adverse consequences. Although

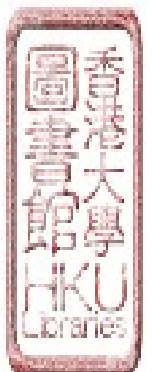


government's actions include the situation when the government decides to do nothing, Cairney (2012) claimed that such inaction allowed policy to be processed without having the government to state the intention formally. Thus, accountability for the outcomes is unclear.

Public policies are designed to solve social problems. With political support, they can be implemented to solve social problems. Eliadis et al. (2005) raised that choices of public policies could be linked systematically and integrated with governance and broader contemporary challenges of designing government. While types of governance embody government's attitude, behaviour and role towards a social issue from a holistic perspective, adoption and implementation of policy tools would reflect government's strategy in a more specific and precise way. Same as types of governance, different policy tools are not mutually exclusive but are complementary. Corresponding to a social issue, a combination of different policy tools can be adopted instead of a single type of policy tool.

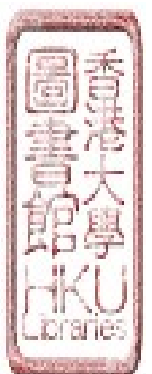
## **Policy Tools**

Elmore (1987) advised that there are four main kinds of public policy tools, namely mandates, inducements, capacity-building and system-changing. He claimed that



each type of policy tool has its assumptions, consequences, costs, benefits, constraints and other unique characteristics. Other scholars delve into different but similar policy classifications. Vedung et al. (1998) categorized policy tools into carrots, sticks and sermons. Lowi (1972) categorized policy into distributive policy, constituent policy, regulative policy and redistributive policy according to the applicability of coercion, likelihood of coercion and types of politics. Hood (1983) categorized policies into eight types according to two mechanisms, which are detection and affection, and four government resources, which are nodality, authority, treasure and organization (NATO).

Although different scholars use different terms for different policy tools, they are neither exhaustive nor mutually exclusive (Smith, 2002). They are actually complementary to each other and sometimes referring to similar categorizations with similar attributes. To name a few, the carrot of Vedung et al. (1998) refers to subsidies. It is similar to Elmore's (1987) inducement. The stick of Vedung et al. (1998) refers to regulation. It is similar to Elmore's (1987) mandates. The sermon of Vedung et al. (1998) refers to information exchange or transfer. It can be a sub-set of Elmore's (1987) capacity-building when sermons lead to enhancing participants' knowledge and techniques which in turn build up participants' capacity. Freiberg (2010) even further categorized the regulatory policy tool into six broad approaches: economic,



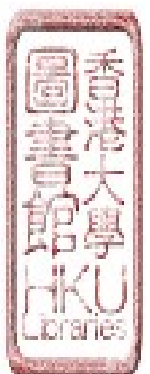


transactional, authorisational, structural, informational and legal. Despite this, Smith (2002) revealed that typology of policy is difficult and based on arbitrary criteria; while taxonomy of policy also has defects because the empirical observations and measurable characteristics it based on are not immediately apparent and rooted in individual perceptions.

Nonetheless, among the different categorizations, this study analyses Hong Kong Government's policy tools based on Elmore's theories (1987) due to its comprehensiveness. Despite the fact that Elmore (1987) distinguished policy tools into four main types, viz. mandates, inducements, capacity-building, and system-changing, it is common for the government to implement a combination of two or more types of policy tools rather than a single one when dealing with complicated social problems. Elmore's (1987) classification of policy tools would be detailed as follows.

### ***Mandates***

Elmore's (1987) 'Mandates' is commonly termed by other scholars as coercion, regulations or stick. It is setting the minimum standards by which all parties are required to comply with, assuming that all parties have such capacities to do so. It aims to remove intolerable performance and behaviour among the entire community,

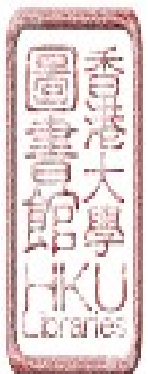


in lieu of searching for the highest quality outcome. Requirements, rules and consequences of failure have to be clearly and formally laid out. Participants bear the cost of compliance while the government bears the cost of compliance assurance. Due to limited resources and absence of rewards on performance beyond minimum, participants do not have incentives to strive for excellence but tend to merely meet the specified minimum.

### ***Inducements***

Elmore's (1987) 'Inducements' policy tool includes subsidies, grants and the carrots of Vedung et al. (1998) etc. It assumes that participants have the capacity to perform better and they will produce better performance if they are provided with additional money. It can elicit competent participants to perform better and can elicit them to maintain good performance consistently.

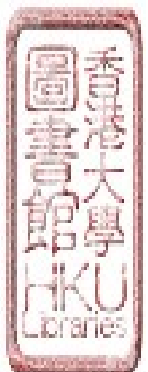
Due to the fact that not all participants have the capacity to achieve the high performance standard, implementing Elmore's (1987) 'Mandates' policy tool to compel achievements becomes meaningless because some participants fail due to incompetence rather than unwillingness to comply. Mandates can hardly achieve the desired policy outcome in such situation. Elmore's (1987) 'Inducements' policy tool



would become more suitable because it searches for better performance and/or encourages constantly high performance when the worst performance among all participants has already fallen within the tolerable limits.

Attaining better performance requires resources. Agency looking for efficiency will not put in additional resources to improve performance if it cannot see the benefits outweigh the costs (Weimer, 2008). When the government identifies the need to obtain better performance or to maintain consistently good performance from the participants, but it cannot obtain consensus from the participants, then inducements in terms of monetary incentives can drive the participants to attain this target. In other words, the Government has to bear the cost of monetary incentives and the cost of assuring the proper use of the money in line with the policy objectives.

To make the inducement policy tool effective, the Government has to define comprehensibly the policy objectives, produces a set of rules on how to allocate the monetary incentives and, has to monitor the use of money together with the performance outcomes.

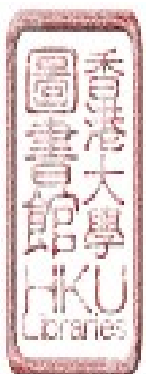


## ***Capacity-Building***

Elmore's (1987) 'Mandates' and 'Inducements' policy tools presume all participants have the capacities to perform above the tolerable minimum and some participants have the capacities to achieve even higher targets. If the community is not in this case and some participants have fundamental failures of performance, investment is needed to build up the capacity. Elmore (1987) termed this type of policy tool as 'capacity-building'.

Similar to inducement policy tool, capacity-building policy tool requires monetary input. The difference is that inducement policy tool uses money as procurement while capacity-building policy tool uses money as investment.

Capacity-building policy tool upgrades the participants' knowledge, skill and competence to produce future value. The individual participant's enhanced capacity is the short term benefits of the investment while, the value produced as a result of the enhanced capacity would be the distant benefits of the investment. As the ultimate benefits would appear in the distant future, returns are uncertain, ambiguous and intangible, making the measurements of the successfulness of the policy tool very difficult if not impossible. As the investment costs are immediate but the benefits

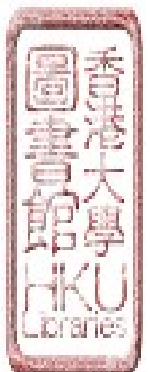


come in the future and the future return cannot be readily measured immediately, some policymakers tend to use other policy tools than capacity-building to reflect their accomplishments within their own terms of services. Alternatively, Elmore (1987) pointed out that policymakers use immediate measures as proxies for their longer-term effects.

### ***System-Changing***

When the existing institutions are defensive to changes or unresponsive to changes under a set of existing incentives, Elmore (1987) suggested using 'system-changing' policy tool to change the distribution of authority, change the products / services or change the production method in order to improve efficiency and produce desired results.

System-changing can be system-broadening or system-narrowing. System-broadening changes public quasi-monopoly to public-private competitive market. System-narrowing changes predominantly private market to public monopoly. Therefore, system-changing policy tool may create or eliminate significant participants in the public service delivery process. Elmore (1987) reminded that system-changing policy tool is not problem-free. Before choosing and implementing system-changing

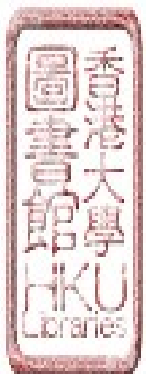


policy tool, careful considerations on participants' perception to the new policy, participants' capacities, level of control over the participants and performance requirements of the participants should be taken.

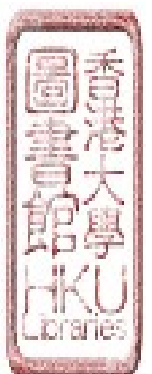
Elmore (1987) addressed that the choices of policy tools are affected by resources and constraints. Institutional context, governmental capacity, fiscal resources, political support or opposition, information and, past policy choices are the six attributes affecting the choice.

### **Concluding Remarks**

This chapter elaborated the analytical framework which would structure and guide the analysis and discussion of car hire service in Hong Kong based on the empirical information collected. From policy agenda setting to type of governance and policy tools, stakeholders have played a vital role in coupling the three streams, and shaping the type of governance and policy tools adopted by the Government along various stages in the policy cycle. The framework embraces the key elements in understanding government's action or inaction from the perspective of public administration and it acts as the pillars for us to analyse critically how and why government responded towards a social issue.



This study puts the analytical lens from multi-angles corresponds to the real situation in which government acts back and forth under the content of administrative and political dynamics. The analysis is conducted and deduced from the types of governance and the concrete tools adopted. The following chapters will look into the history and development of policies relating to car hire service in Hong Kong with due reference to the components of the analytical framework. Evolution of types of governance and policy tools along with the changing policy, political and problem dynamics will also be discussed.

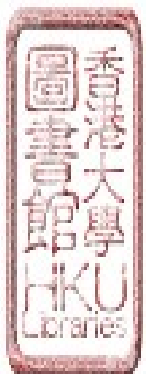


## Chapter 3 Centralised Ownership Era (1924 ~ 1964)

### Introduction

For systematic analysis, this study identified four eras in the history of policy on car hire service in Hong Kong. The four eras are Centralized Ownership Era (1924~1964), Dispersed Ownership Era (1964~1994), Service Quality Oriented Era (1994~2014) and Mobile Apps Era (post-2014).

The first era of Centralized Ownership Era is discussed in this chapter. In this Era, the Police was the authority to issue licences on car hire service, as well as setting regulations and carrying out enforcement actions. The licences were issued to a few big companies but not individuals, so the ownership of licences for car hire service were centralised to big companies. Through the big companies, the Police could effectively and efficiently exercise mandates to control the operation and quality of car hire service. However, it caused potential corruption opportunity among the Police in that period of time. In this Era, the Government allowed certain flexibilities to taxis in respect of taxi colours and model types etc. This created the characteristics of ‘brand name effect’ which provided incentives for the taxi companies to improve service quality.

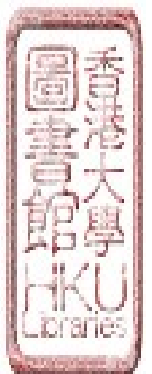




## **The Birth of Taxis – Getting into 1924**

During the early colonial times, sedan chairs were the only public conveyance and were the earliest type of car hire services which were found in hotels, wharves and major cross roads. Sedan chairs were licensed and charged according to tariffs. Using sedan chairs were also a representation of social status and wealth. The number of sedan chairs peaked in 1920. It was recorded to have 1,215 sedan chairs on the roads. Rickshaws were imported from Japan in 1870. Rickshaws had been popular as they were cheaper and faster than sedan chairs. There were around 7,000 rickshaws in the early 20th century. Both public sedan chairs and rickshaws were owned by companies at that time.

Sedan chairs and rickshaws co-existed as they were used in different areas of different accessibilities. Sedan chairs were more suitable to climb up the steep terrains of Hong Kong Island and they were used by rich residents at the peak area before the introduction of peak tram in 1988. The regulatory power of sedan chairs and rickshaws rested in the Police. Licences were required for both sedan chairs and rickshaws. This marked the Government's strong interventionist approach to control the number of vehicles on the streets through licensing in this early stage. Apart from licences, the Police had mandates and required strict compliance on the fares, the

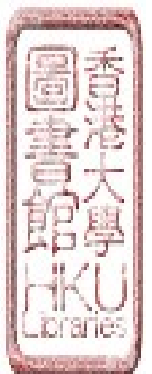


service standards, operating hours and even the outlook of the rickshaw bearers. The interventionist approach and mandates applied on sedan chairs and rickshaws appeared to be effective and run in harmony. The first taxi was introduced in 1924 as technology improved. When the sedan chairs and rickshaws were gradually replaced by taxis, the executive-led colonial Government continued this type of governance and policy tools on the regulation of taxis. The policy on car hire service in Hong Kong at this early stage was therefore strong interventionist approach accompanied with strict mandates.

### **After the Birth of Taxi in 1924**

Since the introduction of taxi, the number of taxis grew slowly. There were about 693 Urban Taxis in 1957 (The Annual Traffic Census, 2003). The taxi licence prices were set at zero until 1964. The taxi licences were non-transferrable. The Police issued new licence when they considered that there was a shortage of taxis. However, there was no record of statistics or researches carried out by the Police to justify their decision on issuing new licences.

All the taxis at that time were owned by taxi companies. From the information disclosed by the Commissioner of Labour in 1947, there were eight major taxi



companies operating in the colony. On the Hong Kong Island, these taxi companies were Star Taxi Co., the Shanghai Taxi Co., the Yellow Taxi Co., and the Central Co. In Kowloon and New Territories, these companies were the Peninsula Taxi Co., the New Taxi Co., the Blue Taxi Co., and the Kowloon Taxi Co. (Hall, 1996). The company-owned nature of the taxi industry characterized the policy on car hire service in this Era and it implied that taxi services were centralized with a principle-agent relationship formed.

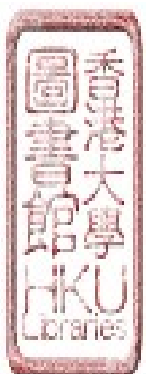
## **Agenda Setting**

### ***Policy Stream Solely Manipulated by the Government***

As there was a considerable lapse of time between the first Era and now, traces of major issues under the policy stream in this Era could not be found in the literatures or documentaries. Furthermore, it was believed that the people in those times were neither vocal nor interested in political issues. The colonial Government used to adopt a top-down approach to manage most public affairs. Therefore, little traces in this stream could be located from history.

### ***Over-Empowerment of the Police in Problem Stream***

Police was vested with statutory powers to issue licences and take enforcement actions,

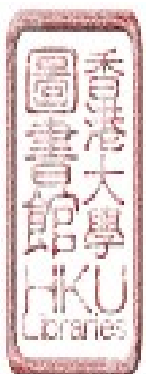


but little monitoring was imposed on Police's use of these powers. This left a trail for potential condition in the problem stream in subsequent Eras that the taxi companies would attempt to manipulate the taxi industry by offering bribery to the Police to ensure their licence ownerships and avoid stringent enforcement. Having paid the Police bribery money, taxi companies attempted to ensure their profits and minimize their costs by ill-treating its employees via harsh employment terms and working conditions. This created discontent among taxi drivers in general. However, none of these issues were serious enough to generate a condition under the problem stream.

### ***Political Stream with Respect to the Dynamics among Stakeholders***

The Police was vested with statutory power to issue licences and coercive power to enforce lawful regulations. In addition, the Police were keen on maintaining its monetary benefits which were obtained from corruption related activities. Thus, the Police was the stakeholder with high power and high interest.

The major taxi companies possessed the entire car hire service market share. They were identified as stakeholders with high influential power as they were the monopoly controlling the services and employing all drivers. It is of no doubt that they had high interest on the car hire service policy which would directly affect their business and



earnings.

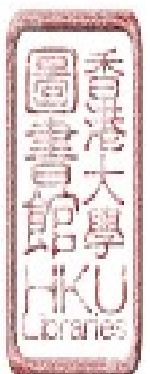
There were a lot of taxi drivers who were frontline car hire service providers and had direct contact with the passengers. The service they provided would directly affect passengers' perception on car hire service. However, they were individuals employed and controlled by several big taxi companies such that they had almost no power and ability to influence the car hire service policy. Thus, the taxi drivers were classified as stakeholders with high interest, but much lower influential power.

Car hire service was a personalized form of luxury transportation. The riders were mainly the British, and citizens who had high income and high social status. They were stakeholders who were highly influential in the colonial times. Also, they were the frequent and main users of car hire services, so they had high interest on car hire service.

### ***Policy Window and Evolving Governance Arrangements***

Evidence of the coupling of the three streams was not strong and could not be observed in this Era. Issues in the problem stream were not serious enough to form a condition.

People were neither vocal nor interested in political issues to make an action in the



policy stream. In addition, the colonial Government adopted a top-down management approach which suppressed action in the political stream. As such, no policy window was observed and no critical event took place in this Era.

All actors were legally bound by rule and regulations to reinforce strict compliance with the car hire service policy. Features of this top-town policy making and coercive approach exhibited a hybrid of interventionist and regulated self-governance.

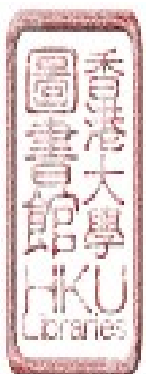
### **Hybrid of Interventionist and Regulated Self-Governance**

In this Era, the Government retained the regulatory and enforcement powers and exerted high degree of hierarchical control on car hire service through Police and the taxi companies. Since the power struggle and dynamics among stakeholders was relatively less in this Era, the polity was stable and no significant policy was launched.

For critical aspects like fares, operating hours and boundaries, the Government exerted control through well-established legal-binding rules and regulations in which most of them were former products from rickshaws and sedan chairs in pre-1924. The private sector, mainly the taxi companies, was not involved in the policy formulation process.

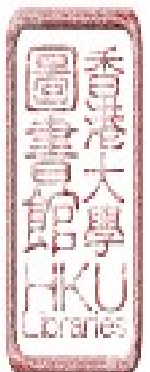
Negotiations between the Government and the private sector were limited.

Nevertheless, the strict legal-bindings rules did not apply but the Government steered



on aspects like car models, colours, compartment sizes and seating capacities, etc. The private sector, viz. the taxi companies, were encouraged to regulate on these aspects for upholding their car hire service quality.

The private sector, to some extent, did possess some ‘informal power’ in regulating the car hire service. There were some internal house-rules and control established and executed by the taxi companies. They provided car hire service upon passengers’ requests which were made through telephone booking and they required their taxi fleet to standby at the hotel entrances to avoid unnecessary wandering on streets and overspending of resources. As some enforcement actions were taken by the private sector instead of the Police, the type of governance was not entirely by hierarchy. The Government utilized the private sector to govern the car hire service. The reliable framework of sedan chair and rickshaw in the past played a role in facilitating the governance. The taxi companies maintained as gatekeeper and cooperated with Government to ensure the car hire service quality. The complementary relationship between the Government and the private sector, through the taxi companies, contributed to the hybrid form of governance with reliance of regulatory framework in this Era.

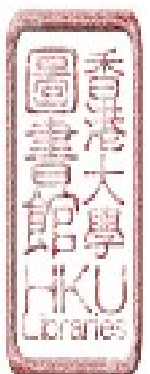


## **Use of Mandates to Control the Operation of Car Hire Service**

The regulations of taxis were mostly inherited from the regulation of sedan chairs and rickshaws. It could be traced back to 1863 when the Acting Governor and Commander-in-Chief of the colony and his Excellency W.T. Mercer set out the rules and regulations on car hire services controlling the licences, fares, service standards, operating hours, the display of car plate numbers and the use of car lights. Therefore, in this era, the Government was considered to be mainly imposing mandates on car hire services. Elmore (1987) emphasized that compliance of mandates requires coercive force. The level of enforcement by the initiating Government is the key determinant on the level of compliance. Since the Police were vested with both the licensing, regulatory and enforcement powers, they could manage the compliance effectively.

### ***Flexibility within Mandates to Upkeep Service Quality***

Although the Government had imposed stringent measures on car hire services, such as fares, number of taxis, operating hours and operating boundaries and, the Police had absolute enforcement power on these car hire service mandates, the Government still allowed certain flexibilities to the taxi companies. For example, taxi companies had flexibilities on choosing car models, colours, compartment sizes and seating capacities etc. The Government did see the benefits of this non-uniformity. Different taxi

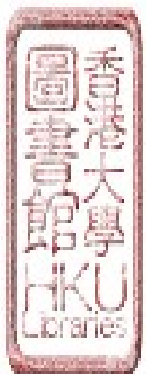




companies used different car models with different colours. Passengers could distinguish different taxi companies easily at a glance. While the taxi fare was regulated, these flexibilities provided incentives for the companies to invest more to upkeep and improve their service in good conditions and high quality as they wished to compete with their rival taxi brands and attract more passengers. This created the so-called ‘brand name effect’ such that each taxi company was keen on improving its services and creating a good brand name. The brand name effect was one of the characteristics in this Era.

### ***Informal Delegation of Power to Exercise Mandates***

Another characteristic in this Era was the informal delegation of power from the Police to the taxi companies in respect of controlling car hire service quality. Taxi companies employed taxi drivers. Companies provided drivers with depots and maintenance service. Taxi drivers were subjected to tight control and service standard requirements by the taxi companies. Some responsibilities and coercive efforts for assuring compliance of mandates fell into the hands of the taxi companies. The taxi companies, instead of the Police, undertook enforcement and remedial actions to ensure that the car hire service complied with the Government’s mandates. This informal delegation of power from Police to taxi companies helped increase the efficiency and

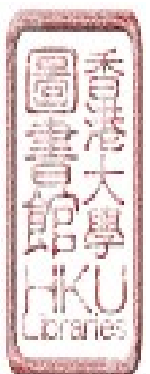


car hire service quality. The taxi companies formed a class of agencies sandwiched between the Government and the taxi drivers. It thus reduced the Government's implementation cost of mandates. The Government saved cost and at the same time, ensured quality and efficient taxi service.

In addition, mandates are susceptible to adversarial relationship between the initiators and the targets, but such potential adversarial relations between the Government and the taxi drivers could be lightened through the existence of taxi companies as the middle men. The taxi companies, instead of the Government, required most taxis served on telephone booking basis and assigned some taxis to wait at hotel entrances. These strict control on the taxi drivers avoided unnecessary expenditure and traffic congestion arising from vehicles wandering on streets. It could also ensure adequate car hire service to the tourists.

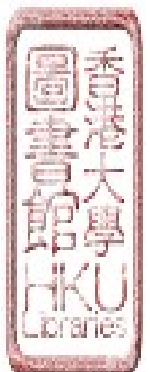
### **Concluding Remarks**

The birth of taxi in 1924 marked an important change of form of transport from sedan chairs or rickshaw. Although there was a transition of physical form of car hire service, the policy of car hire services remained more or less the same. The Government held the power to issue licence and with strict mandates on critical issues

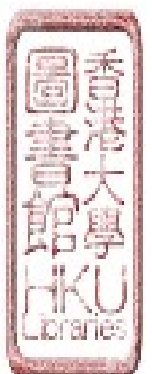


such as fares, operating hours and boundaries of taxis. Due to the culture of people at that time and the harmony of car hire policy that existed for long, the issues did not warrant the opening of policy window. However, the issues in the problem stream laid down clues for the potential corruption of Police as they had high power and high interest to control the issuing of licences.

As inherited from the practice of using high mandates on sedan chairs and rickshaws, the Government continued the well-established framework and similar policy tools on car hire services in this Era even after the birth of taxis. The Government employed interventionist governance in general. Due to the nature of centralized ownership of taxi licences, principle-agent relationship existed in car hire service industry. The Government rest assured that self-governance could be adopted such that the taxi companies regulated and upheld the car hire service quality properly. This contributed to a hybrid of governance. From policy tools point of view, mandates were imposed on some critical aspects such as fares, operating hours and boundaries of taxis. While the Police hold both the policy making and enforcement powers in hands, flexibility to taxi companies was given on the outlook and car model types. This created a brand name effect to compete for passengers, so the operation and service quality of car hire service were properly controlled and maintained at a satisfactory



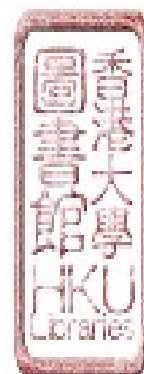
level. In addition, through licensing car hire services solely to taxi companies, the Police could efficiently and effectively exercise the mandates with lower cost and less conflict with the taxi drivers.



## Chapter 4 Dispersed Ownership Era (1964 ~ 1994)

### Introduction

In this Dispersed Ownership Era, the economy of Hong Kong grew rapidly because of the expansion of manufacturing industry in the 1960s. Demand on car hire service also grew. The number of taxis increased to match with the increasing demand, causing serious traffic congestion. While demand on taxi grew, the supply decreased as the taxi companies were less willing to operate taxi due to the increasing staff cost. They chose to invest in properties instead. In addition, police corruption was commonly observed in the management of car hire service. Traffic congestion, police corruption and the emergence of *pai-pais* had all caught the Government's attention and new policies were developed. In the 1980s, the Government intended to strengthen its management over the car hire service. However, the Government's stringent proposals caused the taxi trade to go on a strike in 1984 which eventually turned into a riot. The strike and the riot critically changed the Government's attitudes towards the car hire service policy.



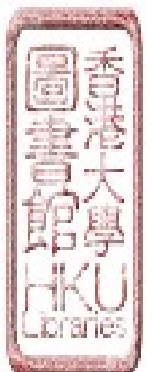
## **Agenda Setting for the First Policy Window**

### ***Taxi Licence Tendering to Individuals in Policy Stream***

With respect to policy stream, the Government proposed to adopt an economic barometer method in approving new taxi licence. The economic barometer method means that the Government would approve and issue taxi licences according to economic situation and market conditions as detectors. This was a tendering mechanism which allowed the market conditions to determine the number of taxi licences to be issued. The proposed policy included the issuing of taxi licences issued through public tender regularly. Apart from the taxi companies, tenders were opened to individual taxi owners. The licence holders also had the perpetual rights to own and operate taxis individually.

### ***Supply below Demand in Problem Stream***

Due to economic development in the 1960s, the staff cost and property price surged. The taxi companies would rather invest in property development for better profits. Figure 4.1 compared the growths in Gross Domestic Product (GDP) against that of taxi fare for the first two kilometres in the late 1970s to the late 1980s. Citizens in general became wealthier and more affordable to car hire service. The imbalance in supply and demand aggravated in the problem stream.



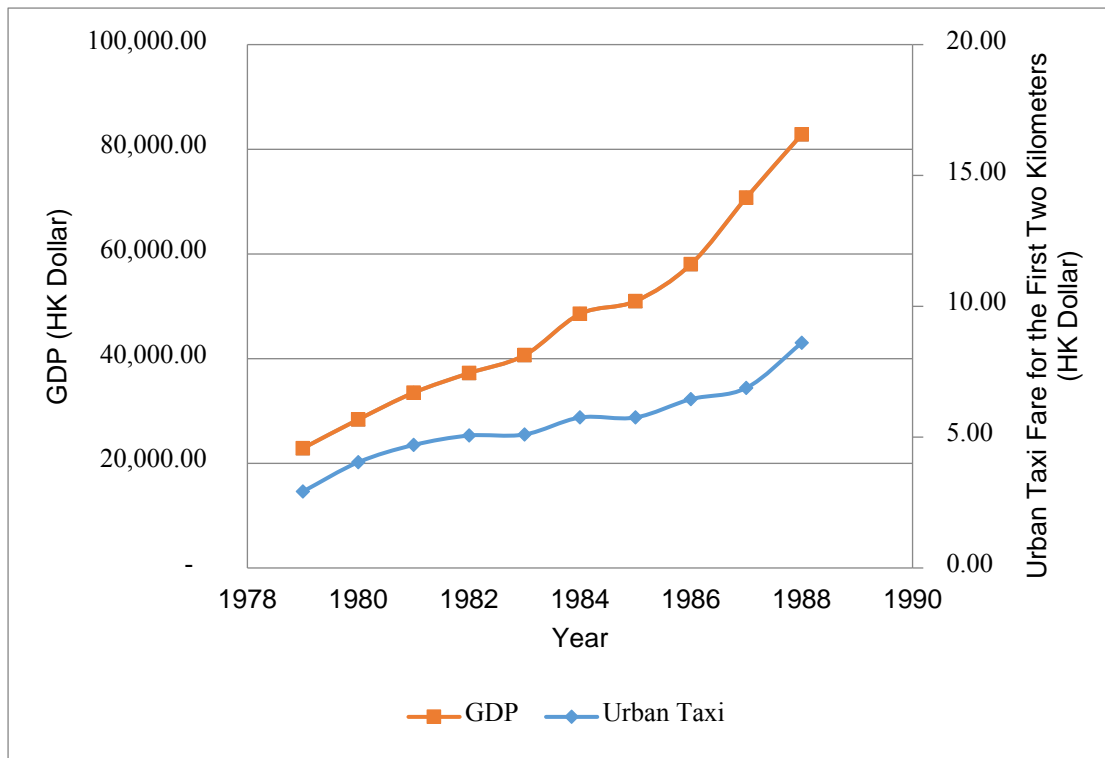
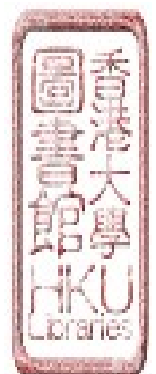


Figure 4.1 Comparison of Growths in GDP and Taxi Fare for the First Two Kilometers between 1978 and 1990

Source: Transport Department (2004)

The serious corruption scandal of police officers was another issue under the problem stream. Though there was little information and evidence showing the bribery of police from the car hire service industry, opportunity of corruption was high (Hall, 1996). *Pak-pais*, which are ordinary vehicles providing car hire service without valid licences, were common in this Era. It was reported that '[o]wners and drivers in Kowloon paid \$560,000 a month as "protection money" to the Police for, in effect, granting a substitute taxi licence in 1968. The 3,500 *pak-pai* operators each paid \$40 a week. The operators received a sticker and displayed it on the windscreen in order to operate legally.' (Hall, 1996, pp.8) This revealed that *pak-pais* drivers paid

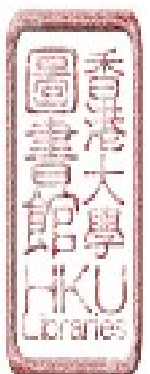


‘protection money’ to a gang of people who claimed to be collecting money on behalf of the Police. Having paid the ‘protection money’, the *pak-pais* would rarely be prosecuted by Police. This implied a high possibility that Police corruption was serious in the car hire service in this Era.

### ***Political Stream with Respect to the Dynamics among Stakeholders***

The corruption scandal of Police also provoked the political stream. The issues got so serious that the Government could not just turn a blind eye on them. The colonial Government was the stakeholder with high influential power and low to medium interest as it possessed the ultimate statutory power to issue licences, regulate the car hire service industry and amend the corresponding policies.

The taxi companies almost monopolized the car hire service industry. They were stakeholders who had high interest in the car hire service policy. However, as the Government held the ultimate and overriding policy decision making authority, the taxi companies were considered to have medium influential power only. On the other hand, individual taxi drivers were under the employment and control of the taxi companies, so they were stakeholders who had interest but minimal power in influencing the car hire service policy.

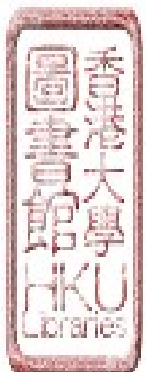




The public in general were stakeholders with medium interest and medium influential power. They did not really concern who was the provider of the car hire service. They would choose whichever became available. Taxi service became more and more common to the public due to economic growth. However, the simultaneous increase in staff cost deterred the taxi companies from further investment on taxi supply. Public discontent thus appeared and pressure started to arise in this stream.

### ***Policy Window and Evolving Governance Arrangements***

With the imminent demand by the stakeholders under the political stream, the existence of illegal car hire service by *pak-pais* and the Police corruption scandals under the problem streams as well as, the Government's proposed taxi licence tendering system under the policy stream, a policy window was opened and policy change occurred. The Government took away the taxi licensing power from the Police. The power of issuing licences was transferred from the Commissioner of Police to the Public Transport Unit (PTU) in 1964. The PTU later restructured to Transport Unit and became the Transport Department (TD) in 1968. The shift of the authority in issuing taxi licences was a critical issue in this Era. This also shifted the revenue generated from issuing new licences from the pocket of the Police back to the public coffers. The



Police no longer held the power to restrict the transfer of the existing taxi licences.

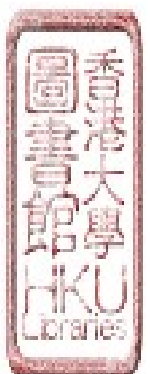
Furthermore, the effect of the economic barometer through the taxi licence tendering system was that it opened up chances for individuals to own taxi licences and made the taxi licences transferrable. The taxi companies were allowed to sell their taxi licences to individual taxi drivers. This change had granted taxi licences a value for investment and encouraged more taxis running on streets to accommodate the car hire service needs.

These changes paved the way for the Government's hierarchical control and intervention in a more strengthening approach. The actors, mainly the individual taxi drivers and the taxi companies, could only react to the policy change while not able to shape the decision agenda with their relatively weak and dispersed influencing power.

This shed the light on the strengthening governance approach.

### **Intended Increase in the Degree of Interventionist Governance**

Inherited from the governing system in the Centralized Ownership Era, the Government continued to exert hierarchical control on car hire service policy. The shift of power of issuing taxi licences from Police to PTU aimed at making the issuing system more systematic and to avoid corruption. This demonstrated the Government's intention to

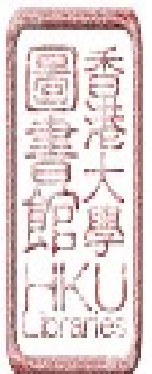


reinforce its regulatory power and authority in a more formal and institutional manner.

In addition, the launch of the new economic barometer tendering system and the policy change which made taxi licences transferrable tightened the Government's control on the licensing mechanism. This demonstrated an intended increase in the degree of intervention. All the policies were formulated by the Government and implemented in a top-down manner.

On the other hand, as the taxi licences could now be transferred from taxi companies to individual taxi drivers, the taxi companies shrank. The dissolution of taxi companies caused the Government unable to exercise its regulatory power through the taxi companies, but had to strengthen its own power and adopt a push approach to enforce the mandates in a command and control way on its own. Besides, with the loss of taxi companies as the partner, the Government's decision making capacity was further shrunken and the reinforcement of interventionist approach was therefore required.

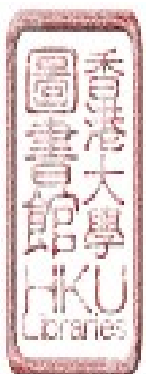
Up to this stage, the Government had been increasing the degree of intervention subject to the dynamics among the stakeholders and the external environmental factors. It swung like a pendulum in the domain of interventionist and regulated self-governance.



## Policy Tools

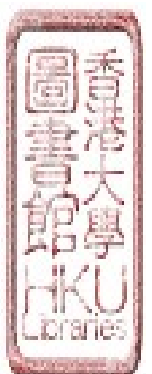
Since this Era, TD manages the new licence tendering system and oversees the transport policy in Hong Kong. While the licence issuing power was shifted from the Police to the TD with the launch of the licence tendering system, the Police kept the law enforcement power over the malpractices of taxi drivers. The separation of licensing power, policy formulating power and enforcement power among two authorities made the implementation of mandates become more difficult.

On the other hand, the policies of allowing both taxi companies and individuals to bid for taxi licences in the tendering system and, the selling of taxi licences from taxi companies to individuals were implemented with a soft policy tool similar to inducement. The policies had the effect of inducing individuals to own and operate taxi with the aim of having more taxis running on roads turned out to simulate a system-changing as well. From the policy-tool point of view, this inducement caused taxi companies to diminish as they were holding fewer taxi licences than before. The taxi companies began to disintegrate and restructure. The number of company-owned taxis and their residual influence decreased significantly. The dissolution of this significant party, the taxi companies, from the taxi service delivery, resembled the characteristics of system-changing. This Era marked the beginning of the



individualized ownership of taxi licences.

Allowing individuals to participate in the taxi licence tendering exercise and allowing individuals to buy taxi licences from taxi companies could be viewed as inducements to attract drivers to operate taxi in the car hire service industry. The use of inducement extended to the 1970s. In 1970, the TD launched another inducement to attract people to work as taxi drivers. The TD loosened the requirement of taxi drivers by cancelling the road test. The drivers only needed to pass a written test to be qualified as a taxi driver. As the Government loosened the control over the taxi driver licensing and the taxi demand continued to grow, the taxi supply grew to 4,994 units in 1976, a double within ten years. The total number of taxis boosted and reached 9,856 in 1980, a 200% growth within a decade. Figure 4.2 showed a significant growth in the number of taxis from 1976 to 1997.



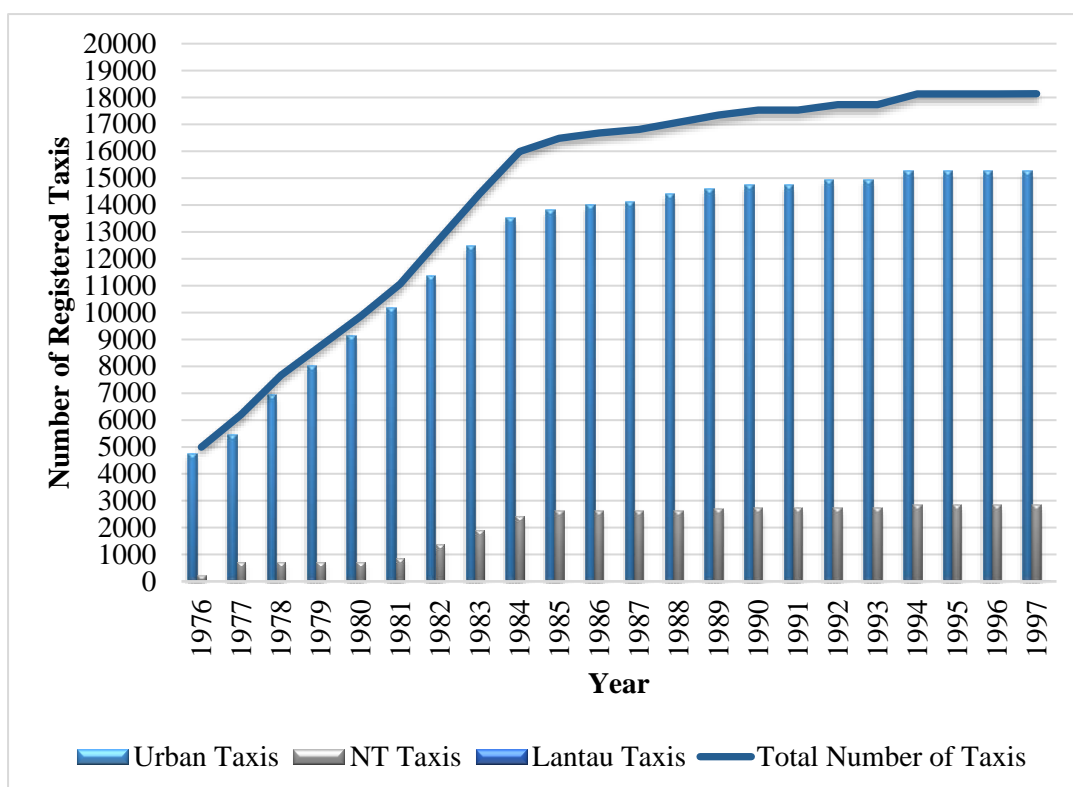


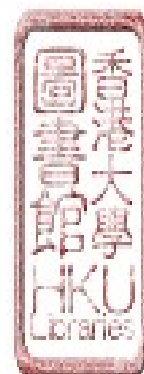
Figure 4.2 Number of Registered Taxis between 1976 and 1997

Source: Report of the Investigation on Taxi Licensing System

The inducement measures appeared to be effective in meeting the Government’s aim of increasing taxi supply. While the inducement-like policy was a solution to the phenomenon of decreasing taxi supply, it created problems of over-loading the road network and degrading the attention to taxi service standard.

### Dissolution of Taxi Companies and Problems Created from the Perspective of Policy Tools

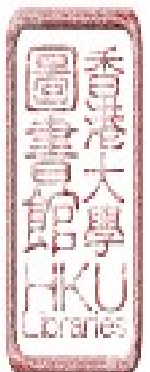
The Government’s policy tool in this Era was not drawback free. Indeed, it developed the roots of deteriorating taxi service quality in the later Eras and now. The reasons



were two folds. First, the individualistic nature of the taxi industry implied that taxi service became decentralized and independently operated. Second, the taxi industry lost its momentum to modernize and failed to enjoy economies of scale under company management.

With the dissolution of taxi companies, the advantages of having taxi companies to assist the Government to ensure the compliance of mandates were gone. The subsequent systematic reform to upgrading of service quality were made difficult as it could only be achieved through coherent cooperation and support among the individual operators. However, mandates to achieve cooperation and mutual support were impractical if not infeasible. Inducements to achieve cooperation and mutual support were difficult. Time required for capacity-building to achieve cooperation and mutual support would be very long. Therefore, the policy tools corresponding to the system change from company-owned taxi industry to individual-owned taxi industry were ineffective.

In addition, the Government destroyed the brand name effect previously allowed in the Centralized Ownership Era. It implemented mandates to standardize the taxi colours. The Urban Taxis and NT Taxis were standardized to red and green respectively in mid-



1970s. Lantau Taxi was set to blue in its first appearance in 1982. Fare and licence price of NT taxi were cheaper than that of Urban Taxi. The original intention of the colour mandate was to allow the government officials and the public to identify NT Taxis easily from Urban Taxis. This served to deter the NT Taxis to operate in urban area which would affect the supply NT Taxis in the rural areas and affect the market share of Urban Taxis. However, the effect of eliminating the brand name effect had made it impossible for the passengers to identify instantly on roads those taxis with good services. The taxi service industry lost the momentum to upgrade its service quality because their effort could hardly be acknowledged to potential passengers.

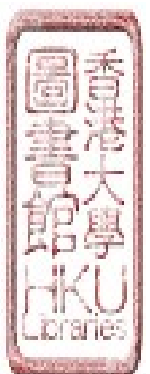
## **Policy Agenda for the Second Policy Window**

### ***Traffic Congestion in Problem Stream***

As discussed above, the policies adopted were effective in increasing the car hire service supply on streets, but it over-loaded the road. Traffic congestion became so serious that it became a problem catching the attention of the public and the Government.

### ***1983 First Comprehensive Taxi Policy Review in Policy Stream***

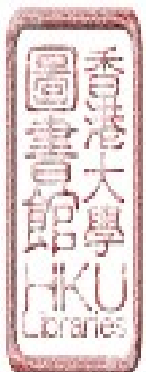
The Government proposed policy to control the number of taxis on streets and





conducted the 1983 First Comprehensive Taxi Policy Review. The review was carried out by an inter-departmental working group which included Government officials but not the taxi trades. The working group aimed at figuring out the role of taxis in the transportation system and to plan for its future directions. The Transport Policy Coordinating Committee (TPCC) was also set up in 1983 to offer recommendations to taxi reform. It was stated by Hall (1996, pp.28) that ‘Cited in the 1983 review, the Executive Council announced some six new measures on 11 January 1984:

- (i) treat taxi as a form of personalized transport;
- (ii) impose the upper limits on Urban Taxis and NT Taxis to 12,000 and 3,000 respectively;
- (iii) freeze the issuance of Urban Taxi licences for an initial period of two years and then subject it to annual review while the NT Taxi licences were issued by tender as 50 per month, up to the gazetted limit of 3,000;
- (iv) remove the preferential taxation for taxis;
- (v) make the first registration fee of taxis the same as private cars, that was to raise from 15% to 90% of the Cost Insurance and Freight value;
- (vi) increase the annual licence fees from \$1,600 to \$4,600 (NT Taxi) / \$6,800 (Urban Taxi) per annum.’



### ***Political Stream with Respect to the Dynamics among Stakeholders***

The major taxi companies sold their taxi licences in this Era. They started to lose their influential power. As the taxi companies considered that they could achieve profit maximization by selling taxi licences to individuals taxi drivers through the new policies, they did not raise any major issues under the political stream.

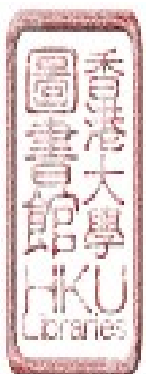
On the other hand, individual taxi drivers could purchase taxi licences and detached from taxi companies. They become disperse stakeholders with increasing influential power and high interest. If agitated, they would hold large-scale strike that could paralyse the road network system in Hong Kong for the sake of their own benefits.

The general public were stakeholders with medium interest and medium influential power. Their primary concern was to have convenient and satisfactory car hire service.

Although they were satisfied with the surge of taxis on roads so that they could catch taxis more easily, the society as a whole did suffer from the traffic congestion. Public discontent started to grow and it formed pressure in the political stream.

### ***The Second Policy Window Opened with Political Stream Ignored***

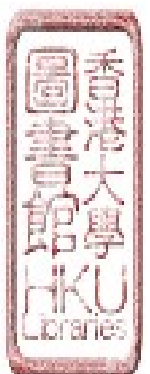
A policy window opened for the Government to put forward its recommendations as



stated in the 1983 First Comprehensive Taxi Policy Review. However, the Government ignored the political stream while pushing forward its pet proposals through the policy window. Dynamics among stakeholders were vigorous. The taxi companies were less influential as they were in the Centralized Ownership Era while the taxi drivers and the taxi licence owners were more dispersed and unorganised stakeholders. It was difficult for the Government to manage such large and diversified stakeholder groups. Without getting these stakeholders involved in making and implementing tight mandatory policies, they got agitated.

### **The 1984 Taxi Strike and the Corresponding Effects**

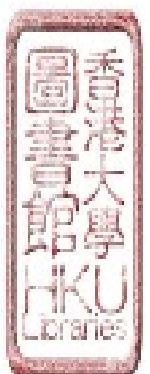
The attempt to use tighter mandates without consultation forced the taxi trade and other stakeholders to express their anger vigorously. Following the announcement of the Review recommendations, the taxi drivers and the licence owners triggered a two-day taxi strike that nearly paralysed the road network in Hong Kong on 12 January 1984. This was the 1984 taxi strike, a tipping point that changed the Government's attitude on making car hire service policies and the use of policy tools. They mobilized approximately 5,000 vehicles in the protest. The strike turned into riots in Yaumati, Mongkok and Tsimshatsui districts of Kowloon, accompanied with looting, arson and vandalism that the Police had to resort to batons and tear gas to quell (Wren, 1984).



They fight against the TPCC's recommendations in particularly the substantial increase in the first registration fees, fuel duties and annual licence fee which they believed to be damaging their benefits.

The strike had effects on policy. Facing the imminent political threat, the Government committed to withdraw two out of the six recommendations made in the 1983 Review, which were the measures of increase in the first registration fee of taxis and the increase in the annual taxi licence fees. This meant that not all proposed policies could pass through the policy window. The Government's commitment pacified the protestors and the strike finally ended on 15 January 1984. The taxi industry successfully coupled the political stream with the other two streams, causing changes in policy formulation and implementation.

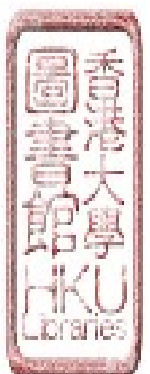
The strike also forced the Government to withdraw its stringent interventionist approach. This 1983 First Comprehensive Taxi Policy Review was a product under Government's interventionist approach. The Review laid down detailed legal binding rules which were formulated by a group of committees composing of government officials only. In putting forward the recommendations, the government officials played the dominant roles in the working group. Negotiation and bargaining among



stakeholders throughout the formulation of recommendations were limited. This embodied the governance of hierarchy and regulatory framework and reflected the Government's intention to intervene and implement mandates from a top-down approach.

The strike shaped the type of governance adopted by the Government afterwards. It pushed the Government to withdraw some of the proposed tighter mandates and started to pay more attention to the influential stakeholders and to get their support when imposing new policies. Though the Government still dominated the regulation of the taxi service, the intended increased degree of interventionist approach was abolished along with the removal of tighter mandates. This demonstrated a reduction in the degree of interventionist approach within the hierarchical umbrella. After the strike, the Government tended to be silent and there was no significant policy raised, proposed or implemented for the next ten years.

Thereafter, the Government learned to be more cautious on the use of tight mandates. It had been using mandates for more than 60 years on car hire service industry and believed that mandates were effective in controlling the industry. Hence, most of the measures raised in the 1983 First Comprehensive Taxi Policy Review were mandates-

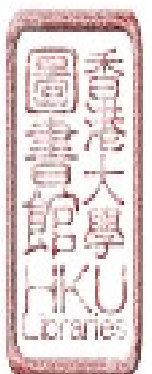


related. However, the attempt to strengthen the mandates caused the taxi drivers and the licence owners extremely upset. The taxi drivers and the licence owners strongly opposed to the proposed measures and led to a taxi strike ultimately. Using mandates to achieve cooperation and mutual support from stakeholders were impractical.

The vigorous actions by the taxi trades was a good lesson to the public administrators on the importance of adequate consultation before announcement of policy which involved large scale change. The outcome of the strike matched with Elmore (1987) who mentioned that mandates demand the greatest governmental capacity, high support level and great effort in understanding the possible response of the targets. However, the Government overlooked the tremendous capacity required in proposing the six stringent measures in a top-down manner. The Government neither consulted nor involved the stakeholders, causing failure of the taxi policy reform in this Era.

### **Concluding Remarks**

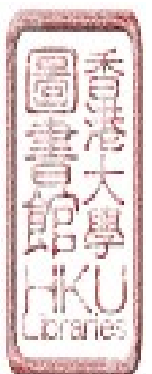
The strike taken by the taxi trade was a critical event marked in this Dispersed Ownership Era. Within this Era, policy windows opened twice corresponding to two issues which were Police corruption and the imbalanced supply and demand of car hire service caused by external economic factors. The Police corruption made the illegal



*pak-pais* popular on the street. In response, the Government adopted major unilateral policy changes to retrieve the taxi licensing authority from the Police, launched the economic barometer tendering mechanism and, to allow individual drivers to own taxi licence. This shifted taxi licence ownership from major companies to individuals, causing dissolution of large taxi companies and the whole management decentralized.

The second policy window opened corresponded to the serious traffic congestion. The Government conducted the First Comprehensive Taxi Policy Review in 1983 which embodied interventionist governance with a number of measures of tighter mandates. Without consulting the stakeholders, the recommendations stated in the Review led to the 1984 taxi strike. The strike forced the colonial Government to withdraw some of the recommendations.

As inherited from the previous Centralized Ownership Era, the Government intended to increase its hierarchical control and intervention through implementing tighter mandates without consulting the stakeholders. The taxi strike gave the Government a valuable lesson. It became more cautious and incremental in putting forward car hire service policies that were mandatory in nature and involved substantial changes. This was distinct from the regulatory and authoritative power in the previous Eras.



## Chapter 5 Service Quality Oriented Era (1994 ~ 2014)

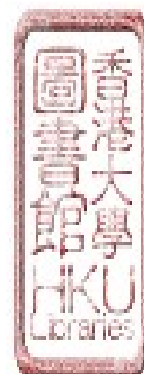
### Introduction

In this Service Quality Oriented Era, the demerits of individualized ownership of taxi licences emerged. The global economy grew and the trading of taxi licences became an investment tool. The taxi licence price increased rapidly and aroused public attention. In addition, car hire service quality deteriorated. The Government set up working groups to review the taxi policy on licence price and tightened the enforcement action against taxi drivers' malpractices. It also set up committee to engage various stakeholders to formulate taxi policies. However, these policies were found ineffective.

### Agenda Setting for the First Policy Window

#### *1994 Taxi Policy Review in Policy Stream*

Figure 5.1 reveals that the growth in licence price was generally higher than GDP growth over the years. To tackle the issue of high taxi licence price and the poor car hire service quality, the Government took actions under the policy stream by proposing policies through the 1994 Taxi Policy Review. As recommended by the TPCC, the TD set up the Transport Advisory Committee (TAC) in 1985. TAC was a working





group to communicate with the public and with any organization when making recommendations to the Government on transport policy. TAC formed a sub-committee to undertake a second comprehensive review on taxi policy. This was the 1994 Taxi Policy Review. The Review suggested that the taxi licences should be issued with flexibility and without quota; that taxi licences transfer should be tightened by prohibiting any transfer within 12 months after the date of issue; and that the maximum penalty for several serious taxi-related offences should be greatly increased. The report mainly focused on limiting speculation on taxi licences and also improving the car hire service quality.

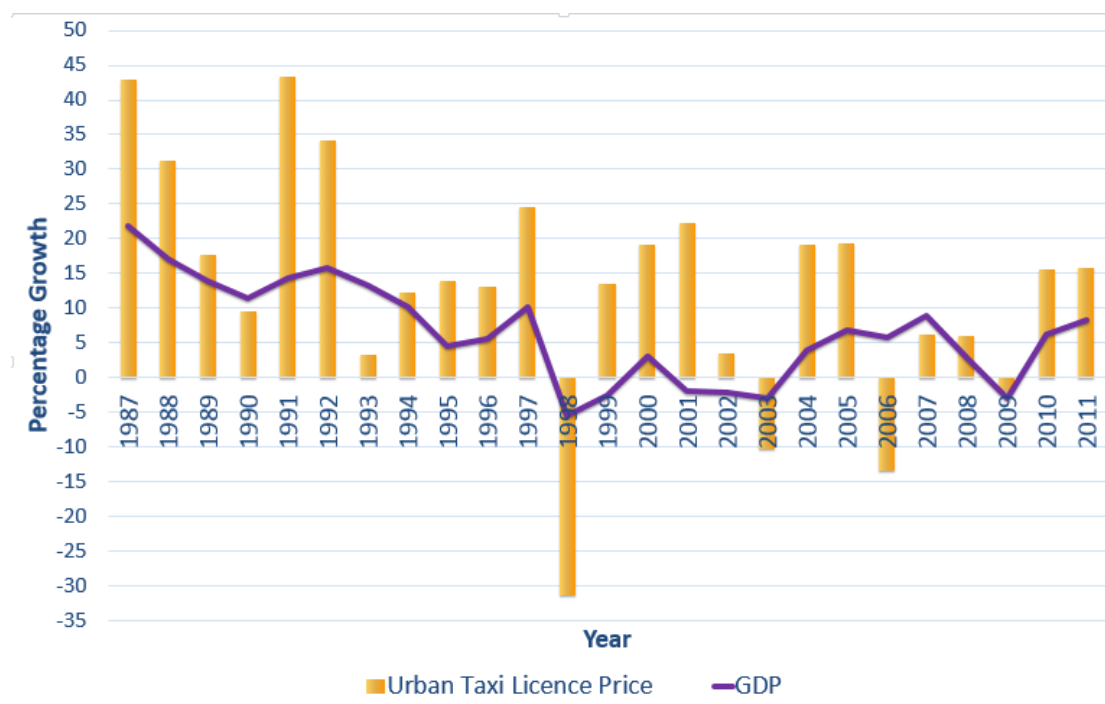
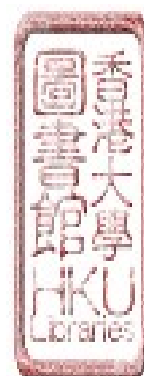


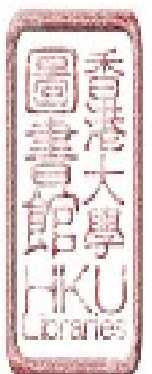
Figure 5.1 Comparison of Urban Taxi Licence Price with GDP between 1987 and 2013

Source: Report of the Investigation on Taxi Licensing System



### *Unsatisfactory Service Quality in Problem Stream*

In this Service Quality Oriented Era, the negative effects on individualized taxi licence ownership appeared and created social problems. Since the major owners of taxi licences shifted from several big taxi companies to individual taxi drivers, the taxi drivers needed not be employed and controlled by taxi companies. The taxi companies could no longer control and maintain the car hire service quality. Without the control of the taxi companies, malpractices of taxi drivers started to emerge which induced passengers' dissatisfaction. The numbers of taxi complaints received were 1,666 cases in 1989, 1,480 cases in 1990 and 1,670 cases in 1991. Most of the complaints were related to the behaviour and malpractice of taxi drivers as shown in Figure 5.2.



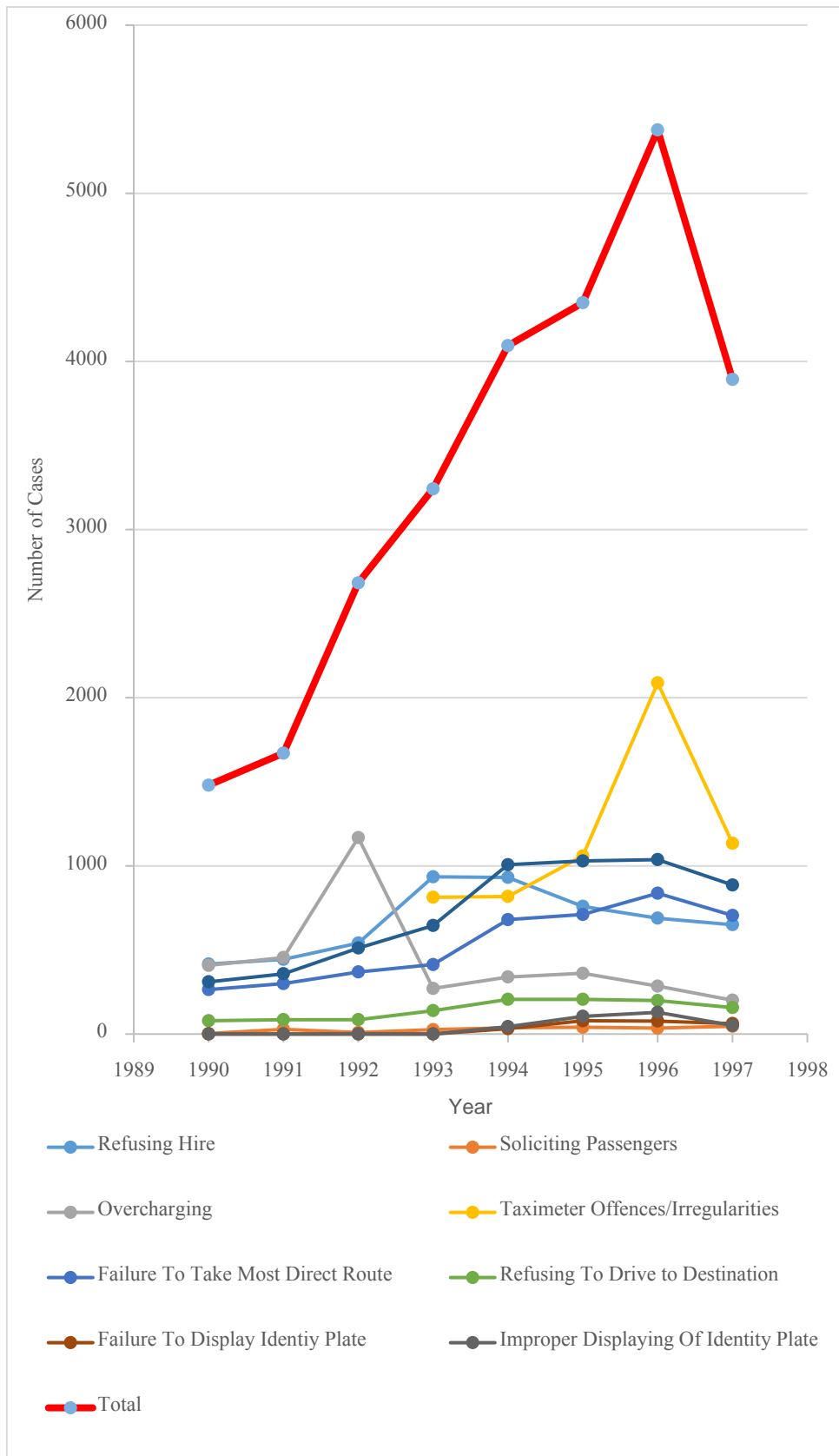
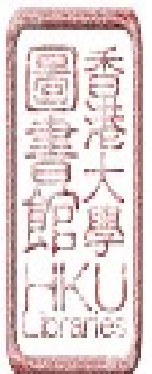


Figure 5.2 Complaints on Taxis between 1990 and 1997

Source: Taxi Policy Review 1994 & Review of Taxi Licensing System 1998

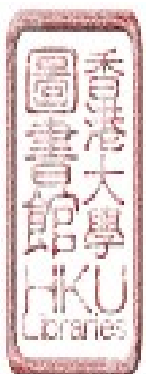


In addition, the numbers of prosecutions against taxi drivers' malpractices were 1,076 cases in 1989, 615 cases in 1990 and 721 cases in 1991. These statistics revealed that the car hire service quality was below satisfactory level and the public demanded better taxi service quality (Consultative Paper on Taxi Policy Review 1992).

On the other hand, the blooming economy raised the value of the taxi licences as well. The taxi licence price became so high that they were unaffordable to drivers who wished to join the industry but had to rent taxis with a high rate. Taxi drivers who already owned a taxi licence were more interested in speculating on trading the taxi licences rather than on providing good car hire service quality to attract patronage. Since the 1990s, there has been a continual increase in the number of taxi complaints and prosecution. Taxi drivers' malpractices with the high complaint and prosecution rates created a social problem

### ***Political Stream with Respect to the Dynamics among Stakeholders***

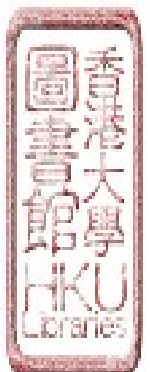
The colonial Government, in particular the TD, continued to be the stakeholder with high influential power as empowered under the law. However, the Government's interest on the subject was no longer high as corruption activities were minimal. The Government's primary concern would turn to be keeping the industry and the society



stable.

In this Era, taxi industry, including drivers and taxi licence owners, became stakeholders who had both high influential power and interest. As the managerial role of the taxi companies faded along with the decreasing number of taxi licences they possessed, their power became less influential. Instead, the power and interest of the taxi drivers and taxi licence owners grew stronger because they were particularly concerned on maximizing their monetary benefits, both from provision of car hire services and speculating on trading the taxi licences.

In addition, car hire services become more popular and the pool of passengers was enlarged because taxi was no longer a luxurious mode of transport in this Era. The passengers were the general public. They were a large group of stakeholders with medium influential power on the car hire service policy but high interest on car hire service quality. The public was interested in having convenient and satisfactory car hire service. However, the rapid deterioration on service quality attracted immense media and community concern. About 1,700 complaints and 700 prosecutions were recorded annually in the early 1990s. The gap between the public expectation for better car hire service and the taxi drivers' malpractices was so large that it generated



much public dissatisfaction. This created an issue in both the problem and political streams.

### ***First Policy Window and Evolving Governance Arrangements***

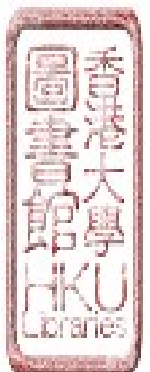
The three streams coupled and the 1994 Taxi Policy Review was put forward by the Government. The issues of poor car hire service quality and high taxi licence price got onto the Government policy agenda, opening the first policy window in this Era. The Government adopted the proposals stated in the 1994 Taxi Policy Review.

### **Agenda Setting for the Second Policy Window**

#### ***High Taxi Licence Price and Unsatisfactory Service Quality in Problem***

##### ***Stream***

Despite the recommendations made in the 1994 Taxi Policy Review, problems still arose. The first problem was the up surging of taxi licence price. It continued to increase from around one million dollar to around one and a half million dollars in twelve months in 1991. The sharp increase in the taxi licence price raised much public attention. The second problem was that the malpractices of the taxi drivers persisted. In 1994, the total number of complaints on taxi was 4,904 while the prosecution figure was 2,589. But in 1996, the figures reached 5,376 and 2,963 respectively.



### ***Persistent Conditions among the Stakeholders in Political Stream***

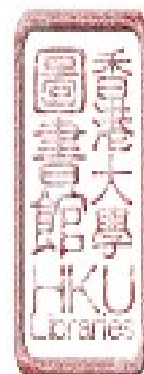
The dynamics between the stakeholders was constant throughout this Era, except that the passengers' dissatisfaction on car hire service started to rise. Since the policy change did not solve the problems as it intended to be, the passengers' dissatisfaction on car hire service quality escalated to an extent that they lodged substantial amount of complaints. The Government was somewhat under the increasing pressure from the public on the need to improve the situation of poor car hire service quality.

### ***1998 Policy Review in Policy Stream***

As the recommendations made in the 1994 Taxi Policy Review were ineffective, TAC reconvened its working group to discuss taxi licensing system and taxi service quality.

Another round of policy review was conducted in 1998 with focus on two issues. The first issue was whether the surges in taxi licence prices would lead to an increase in taxi fares and its relationship with taxi rentals, the GDP, the Hang Seng Index and the residential property prices, the inflation rate and the interest rates etc. The second issue was the deterioration of taxi service quality. The major findings of the working group were:

- (i) The high taxi licence prices did not have any direct impact on the taxi service



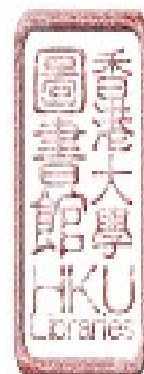
quality;

- (ii) It was inappropriate for the Government to intervene in the taxi licence price which was mainly due to the overall investment climate;
- (iii) The working group re-affirmed the conclusion reached in the 1994 Taxi Policy Review that there could not be unlimited issue of taxi licences and that new taxi licences would continue to be issued in accordance with demand and supply;
- (iv) In order to promote competition for better taxi service through service differentiation, the Government should conduct more-in-depth studies into the feasibility of introducing premium taxi services by a group operator, through pooling together existing taxi owners.

### ***Second Policy Window and Evolving Governance Arrangements***

The three streams coupled again and the 1998 Taxi Policy Review was put forward.

The TAC's working group stated that there was no direct relationship between the upward movements in taxi licence prices and changes in taxi fares and rentals. It also stated that it was inappropriate for the Government to intervene the level of taxi licence prices through regulations because it was basically an investment activity. In considering the recommendations made by the working group, the Government tended to keep its hands away from taxi licence prices but concentrated effort on improving



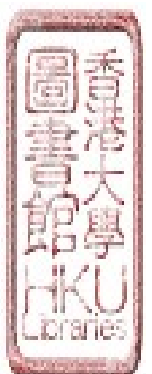


car hire service quality. The Quality Taxi Services Steering Committee (QTSSC, 2016) was set up in 1999, aimed at upgrading the service quality.

Collaboration between diversified groups started to increase with the establishment of the Committee. Though the Government still steered and planned for car hire service policy, instead of entirely top-down approach as reflected in the previous Eras, it had stepped back to oversee the whole situation, adopting a parental but consultative approach with reliance on regulatory frameworks as the basis of governance.

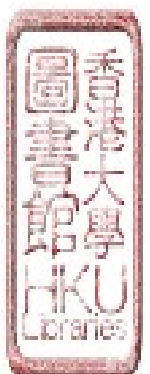
### **Gradual Shift from Interventionist Governance to Regulated Self-Governance**

In this Service Quality Oriented Era, there was a gradual shift from interventionist governance to regulated self-governance. Government's strategic direction and aims of policy change were very clear. Both Taxi Policy Reviews conducted in 1994 and 1998 aimed at addressing the service quality. Instead of launching the legal binding rules and regulations from the top strictly, an increasing collaboration process such as consultation which involved stakeholders from various industries into the discussion was observed. During the process of putting forward the recommendations and policy formulation, the Government tried to loosen its degree of hierarchical control though



more communication with the public and seek more diversified views when proposing the recommendations. The setting up of the TAC and QTSSC in 1985 and 1999 were the examples. It demonstrated that the Government was more willing to engage stakeholders in formulating car hire service policy. The QTSSC comprising representatives from taxi associations, District Councils, Hong Kong Tourism Board, Consumer Council and the TD encouraged negotiations among relevant stakeholders. It characterized an extended degree of cooperation between public and private sectors and a reduction of hierarchical control. Though the whole regulatory framework was still dominated by the Government, the process did encourage negotiation and discussion with various stakeholders and symbolize larger extent of cooperation between public and private actors. However, ineffectiveness of the policy tools under the review was reflected by the steady complaint figures. This made the Government revisited its approach by adjusting the degree of intervention and hierarchical control over the time horizon, resulting in a hybrid form of governance dominated by regulated self-governance in this Era.

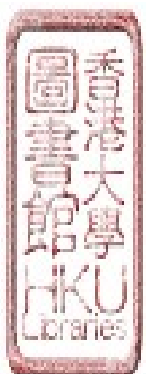
Overall, in this Era, the Government regulated the car hire service mainly through rule-based guidance which was similar to the Centralized Ownership Era. Reasons could be the increasing stability of the policy development and political system as well as the



increasing awareness of civic engagement. Power struggle and diversity of influence among stakeholders were relatively less. Nevertheless, since governing capacity still remained limited and the society was still fragmented with various groups of stakeholders co-existed, in addition to previous failure in regulating the service and the numerous critical events happened, the Government needed to retain and grasp its authoritative power and hierarchical control to maintain social stability.

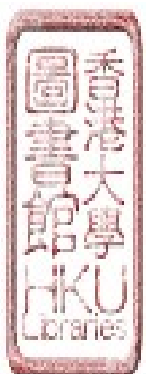
### **From Mandates to Inducements and Capacity-Building**

From the view point of policy tools, the 1994 Taxi Policy Review tried to tighten the mandates of taxi licence transferal so as to influence the taxi licence price and, tried to raise the cost of non-compliance to service quality mandates so as to improve the car hire service quality. However, the Review was only on the advisory level and had no binding status to the car hire service. The lessons learnt from the 1984 taxi strike showed that over-strict mandates or implementing mandates without support could lead to disasters. Obviously, the Government understood that it did not have sufficient capacity and power, and so it would not attempt to implement tight mandates from a top-down approach directly after the 1984 taxi strike. The global economy and the local property market were boosting frantically towards the peak in the 1990s. The taxi licence prices reached six million dollars in 1996. The taxi licence owners would



trade taxi licences rather than to provide good car hire service. The taxi drivers who rent taxis from the taxi licence owners would risk to violate the mandates for earning higher revenue to cover the expensive rents. At that time, if the taxi driver committed malpractices, the court could only disqualify the driving licence of the driver but not the valuable taxi licence. As the cost of consequence of non-compliance to mandates was not set high enough in comparison to the potential benefits which could be obtained by violation of the mandates, the mandates became ineffective. In fact, mandates were the very first policy tool the Government adopted before the birth of taxis. Although these early mandates include regulations which controlled car hire service quality, they became ineffective as time passed and economy bloomed. Despite the fact that the Government had invested more resources in this Service Quality Oriented Era to raise the level of enforcement on mandates related to car hire service quality, the compliance was still unsatisfactorily and the taxi drivers' behaviour and service attitude were still unacceptable. Changes were needed to the ineffective mandates policy tool.

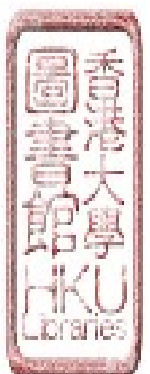
The Government refrained from adopting tighter mandates. The Government created inducements in the hope to elicit better taxi service. The Government has adopted three-pronged approach by putting more resources on mandates and capacity-building. The three-pronged approach was to step up enforcement actions, enhance publicity and



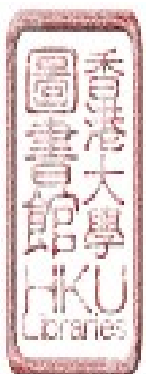
educate the taxi drivers.

The first approach relied on the Police to step up enforcement actions in combating crimes involving taxis operated by unscrupulous drivers. The Government was neither imposing more nor tighter mandates. The Government was putting more effort to ensure higher compliance to the existing mandates. It strengthened patrols at black spots, launch intelligence-led operations. It also initiated 1,620 prosecutions in 2010 and 1,557 prosecutions in 2011. The prosecutions were mainly related to overcharging, refusing hire and taximeter-related offences.

The second approach was to increase publicity in order to build the industry's capacity in observing the mandates and to build the public's capacity in supervising the car hire service. The Police strengthened liaison with the tourism and taxi trades. The Police delivered messages to the taxi trades that malpractices of car hire services would be under close surveillance. The tourism board and the Police disseminated leaflets and erected signboards on major tourism points, such as the Peak and the theme parks, informing the tourists on the approximate taxi fares of their selected routes. The Police also set up and made it well-known the telephone complaint hotlines in order to facilitate the taxi trades and passengers to report any car hire service malpractices.



The third approach was to conduct a series of educational programmes to taxi drivers. The QTSSC launched the Outstanding Model Taxi Driver to act as an incentive to promote better service quality in 2000. In 2002, Taxi Driver Commendation Scheme was put in place to recognize well-performed taxi drivers. Inducements would not be effective if the taxi drivers did not have the capacities to perform well. Therefore, the Government introduced capacity-building policy tools at the same time. QTSSC then organized educational programmes such as the Workplace English and Putonghua Programmes to better equip the taxi drivers. However, the increasing number of car hire service complaint shown in Figure 5.3 reflected that the commendation awards and educational programmes did not really work in improving the service quality. Even worse, cases relating to theft of passengers' luggage and belongings were on the climb. These created a bad image to Hong Kong and arose the Government's attention. From 2010 to 2012, on average, 14% of the total complaints per year were lodged by tourists. The inducements were not attractive enough and the aspects of capacity-building were too narrow on languages only. These policy tools were ineffective and some other measures, even a car hire service industry reform, were in need.



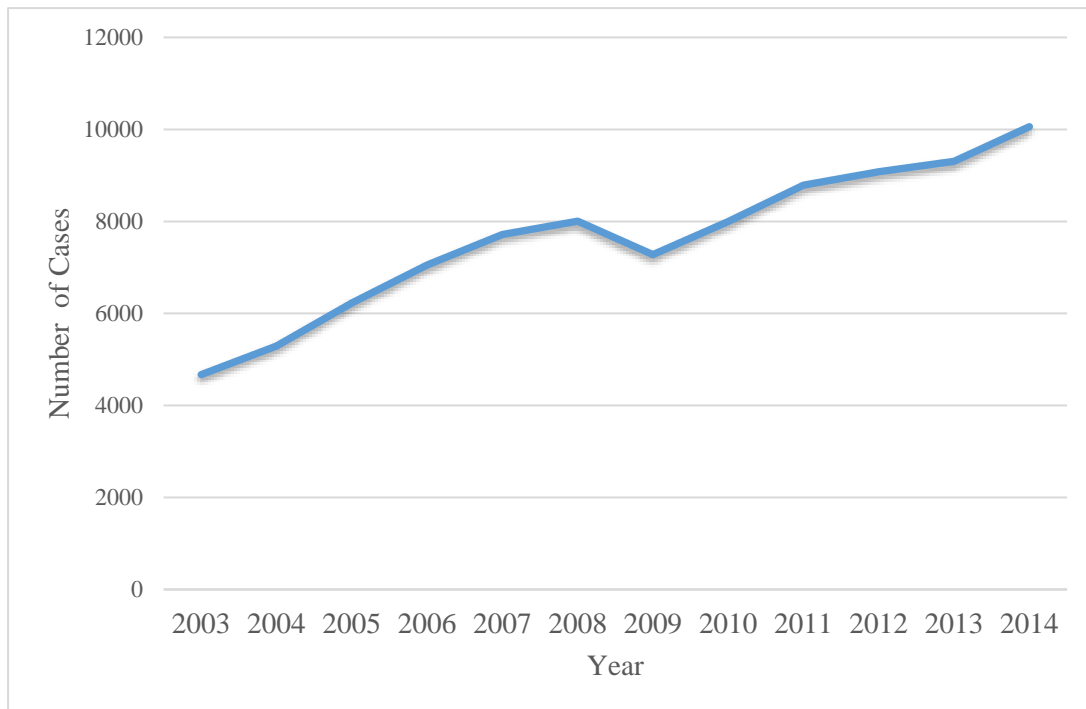
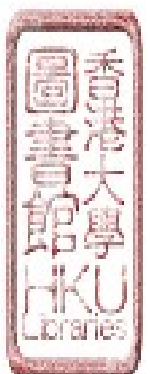


Figure 5.3 Complaints on Taxis between 2003 and 2014

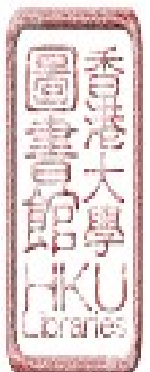
Source: Review of Taxi Licensing System 1998 and Monthly Traffic and Transport Digest 2000

### Concluding Remarks

In this Service Quality Oriented Era, the economic growth caused the licence price to increase. This encouraged taxi licence trading but discouraged improvement of car hire service quality. The passengers expressed their dissatisfaction by launching complaints and there was a surge in complaint figures. These issues in the problem and political streams caused policy windows opened twice in 1994 and 1998 for the two Taxi Policy Reviews. These reviews marked a gradual shift from interventionist governance in the previous Eras to regulated self-governance in this Era. From policy tools point of view, the Government put more resources to ensure compliance with the existing mandates to prosecute unscrupulous drivers. There was also increasing



negotiation and collaboration between the Government and the stakeholders in the policy formulation and implementation processes, like the setting up of TAC and QTSSC. Instead of strict command and control, the Government laid more emphasis on guidance and consultation. A series of commendation schemes and educational programmes which aimed at enhancing taxi service quality demonstrated that the Government used a combination of diverse policy tools including inducements and capacity-building instead of solely heavy mandates. It could be seen that the 1984 taxi strike was a good lesson for the public administrators. The Government avoided over-strict mandates and would not implement mandates without support from influential stakeholders after the strike. However, the three-pronged approach adopted by the Government, namely enhanced enforcement, publicity and education did not work. These measures did not really solve the car hire service malpractices which were persistent until now. The unsatisfactory car hire service quality and the advancement of technology brought the car hire service into the fourth Era. This study named this fourth Era as Mobile Apps Era. The fourth Era created a golden opportunity, or in fact a need, for the Government to revisit its current policy.

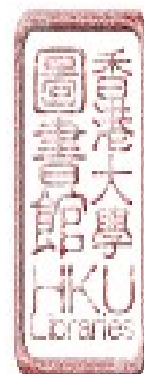




## Chapter 6 Mobile Apps Era (Post-2014)

### Introduction

In this Mobile Apps Era, Hong Kong people are tech-savvy and more accustomed to use mobile apps to hail car hire service. Uber Technology, Inc. (referred as “Uber” hereafter) was first launched in San Francisco in 2010 (Hyder, 2014). It subsequently came to Hong Kong in June 2014 (Sam, 2014) and emerged as a competitor to car hire service. With the ineffective policies previously put forward by the Government on improving the car hire service quality, passengers continued to raise complaints on car hire services, and urged for Uber’s luxury mode of point to point transport. This agitated the taxi industry as they thought that Uber had affected their income and the licence price. They pressed the Government to prosecute Uber against any illegal car hire service, which induced dynamics among various stakeholders. In August 2015, the Police prosecuted seven Uber drivers. The Government undertook a strategic review on the position of taxi and proposed to launch premium taxi. It again raised the anger of the taxi industry to protest, forcing the Government to withdraw the proposal.



## **Agenda Setting**

### ***Political Stream with Respect to the Dynamics among Stakeholders***

Uber provides personalized transportation services similar to taxis. It developed mobile apps which facilitate passengers to make trip requests through mobile phones.

Upon receiving the trip requests, the mobile app platform would search for available vehicles by matching the pick-up points, destinations and the requested vehicle types.

Passengers would be notified with messages of pairing-up results showing available drivers nearby. Although Uber became an alternative mode of car hire service directly

competing with the taxi industry, it brought up insurance problems, legality problems and posed challenges on governance. Uber's emergence did force the Government to

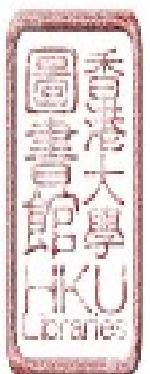
revisit the existing car hire service industry and think of ways to re-establish its governance capacity. While the Government continued to combat against Uber's

illegal activities in response to the requests of the existing car hire service providers,

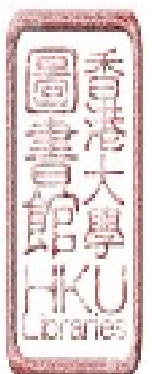
Uber passengers requested for legalization of Uber's services in Hong Kong.

Dynamics among groups of stakeholders, including the Uber, the existing car hire service providers, the passengers and the Uber users, arouse under the political stream.

Uber attempted to join the stream, branding themselves as solutions to problems, and framing their proposals to political momentum through the platforms of internet and mobile phones.



The taxi industry was regarded as the stakeholder with high interest and high influence in the political stream. Uber brought indirect and keen competition to taxi in Hong Kong. Taxi was originally the monopoly in the car hire service regime. Though *pak-pais* existed throughout the years, it was never a competent competitor to put up a fight with taxi. However, with the emergence of Uber bringing in higher standard of service, the investment prospects of taxi licences are in doubt. The taxi licence prices could worth up to 5.8 million dollars in 2016 (Mei Kan Motor Limited, 2016). Moreover, the taxi drivers in Hong Kong have criticized the unlicensed drivers and the Uber mobile app for violating the law and creating an ‘unfair competition’ (Staff Writer in Business, 2015). Feeling intimidated, the taxi trades generated substantive pressure under the political stream through protests on 10 June 2015, 6 July 2015 and 24 July 2015, urging the Government to amend the regulations on the car hire services to eliminate the existing grey area and request more stringent enforcement actions to be taken. The taxi drivers blamed that the Government did not offer support to the licensed taxi drivers but was too slack in ensuring the high level of compliance of mandates. They considered the slackness as an effective ‘preferential treatment’ to the unlicensed drivers to provide illegal car hire service. The Hong Kong Taxi Dealers and Owners Association concerned that the industry had suffered loss in the recent

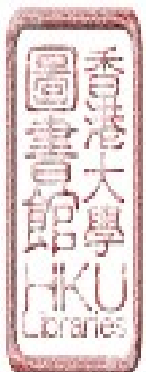


years due to the offering of illegal car hire services through car-hailing apps. Yet, no response from the Government was observed (He, 2015).

The public is the stakeholder with high interest, but low influence in the political stream.

Unsatisfactory car hire services have attracted huge criticism from the public. Over the past decades, the public expressed their dissatisfaction on taxi drivers by lodging more complaints. In 2015, the Transport Complaints Unit (TCU) received a total of 10,359 complaints relating to taxi service, which was a 3% increase when compared to 2014 (Transport Complaints Unit, 2015). It accounted for 48% of all complaint cases against public transport services (Transport and Housing Bureau, 2015). This figure hit a high record in TCU history when it started compiling taxi complaint figures in 2003. The nature of complaints relating to taxi malpractices have further spread into many areas including taxi drivers refusing a hire, overcharging and not taking the most direct route. Over the past 11 years, the numbers for these types of taxi complaints increased five folds (Lee, 2015). The complaint figures were clear evidences that there were increasing public dissatisfaction on the deteriorating car hire service quality.

With respect to the public views towards Uber, there was no comprehensive and formal survey carried out by the Government. An international based private market research



firm, YouGov, conducted a survey ‘What do Hong Kong people think of Uber’ in August 2015. The survey method and the reliability of the survey results were unknown but it could serve as a clue of the public’s positive views towards Uber. The survey results are shown in Figures 6.1 to 6.6 (YouGov, 2016).

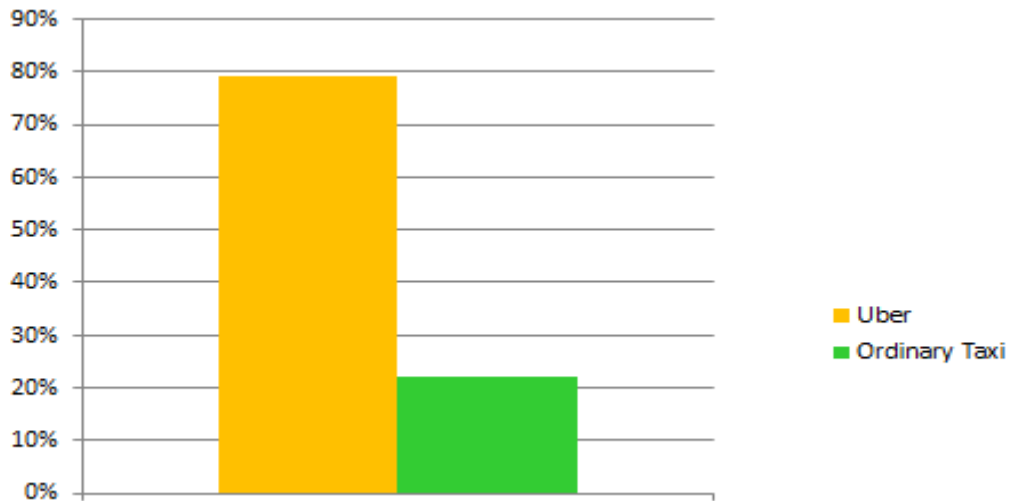


Figure 6.1 Rating of Uber and Taxi  
(for those who have used both Uber and Taxi)

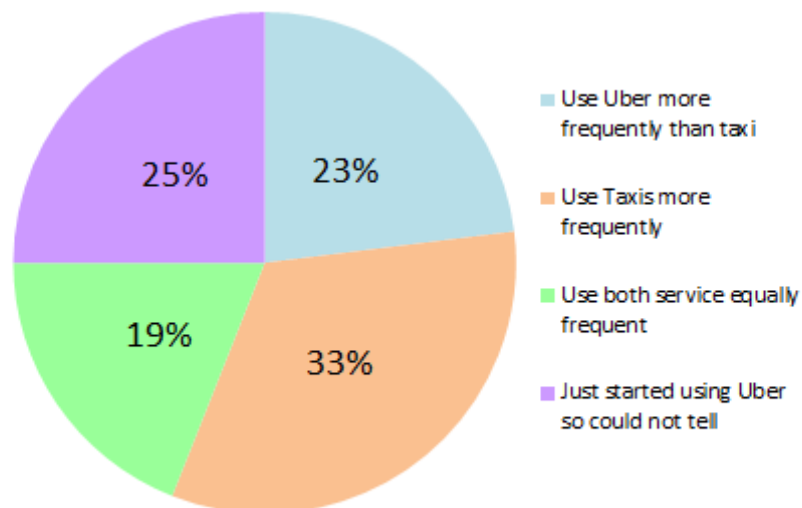
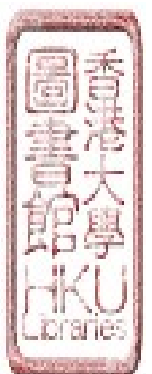


Figure 6.2 Frequency on Using Car Hire Service  
(for those who have used Uber service)



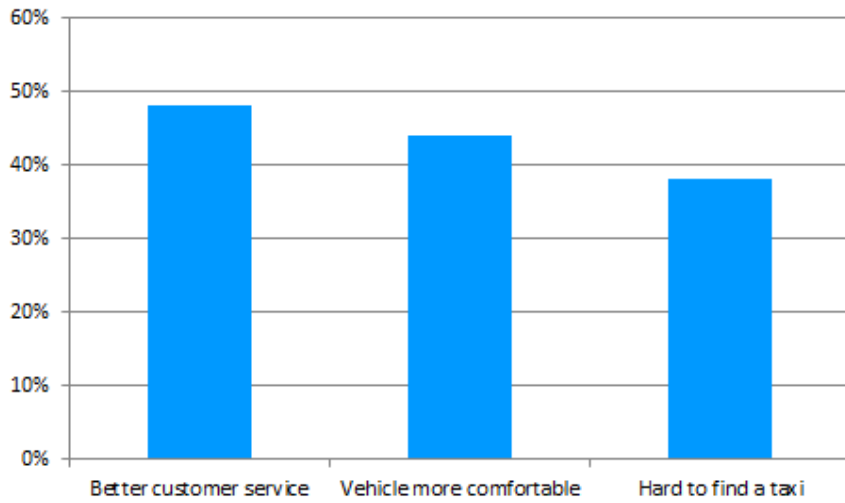


Figure 6.3 Top Three Reasons for Using Uber

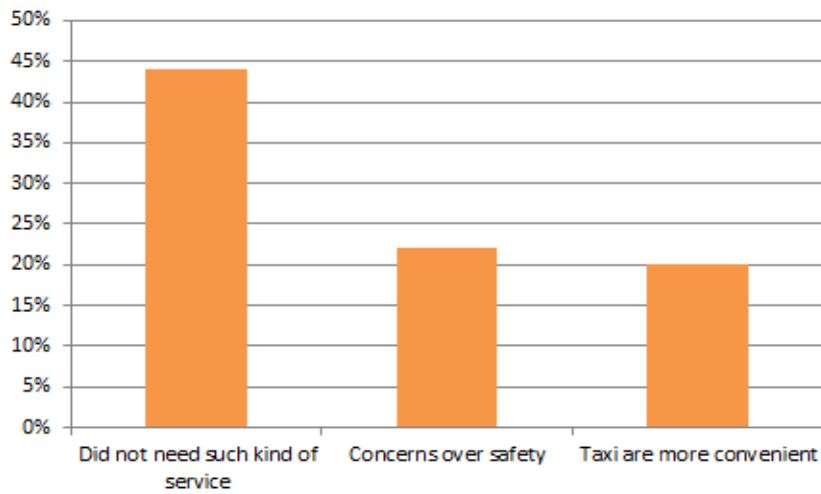


Figure 6.4 Top Three Reasons for Not Using Uber

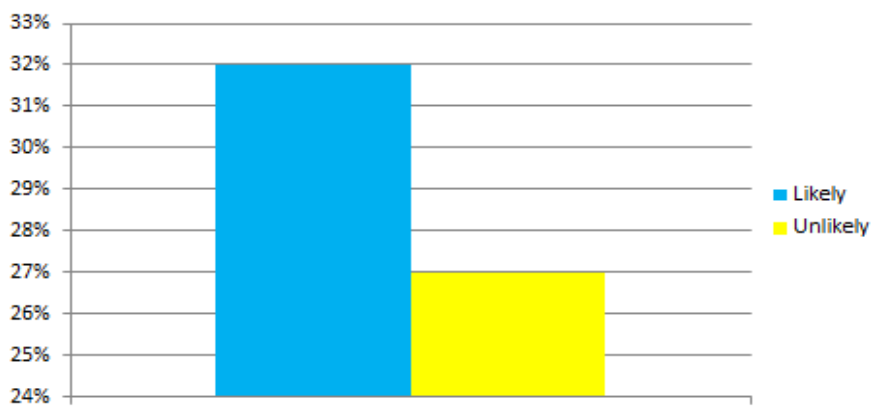
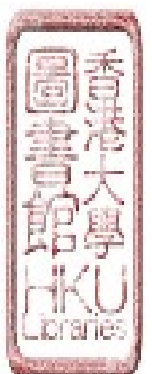


Figure 6.5 Possibility to Use Uber in the Future  
(for those who have not used Uber before)



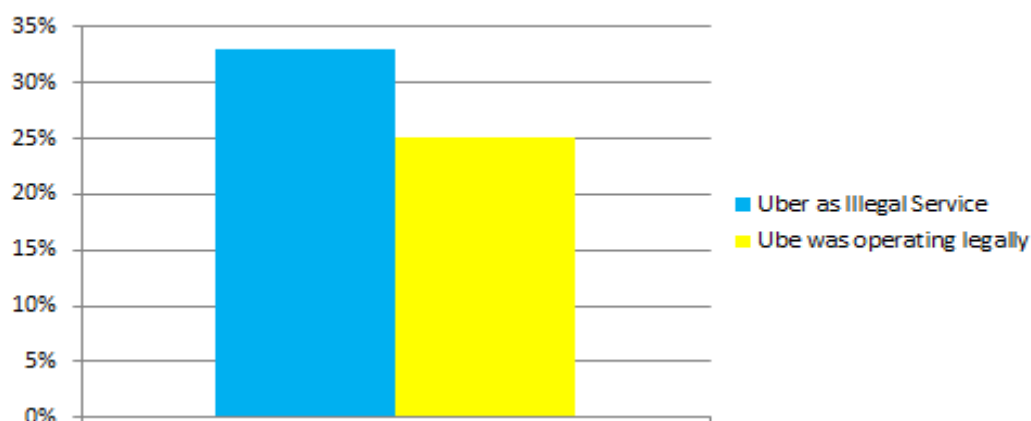
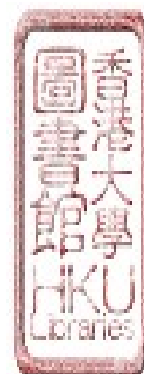


Figure 6.6 View towards Legality of Uber  
(for those who have heard of Uber before)

Although the above unofficial survey results are only indicative to the public opinion, it could not be denied that Uber has become increasingly popular. About 50,000 Hong Kong people signed a petition in August 2015 showing their support to car hailing app after the Police carried out stringent enforcement actions. A survey published by the Hong Kong Internet Registration Corporation in August 2015 revealed that nearly one in three frequent internet users in Hong Kong supported sharing service economy.

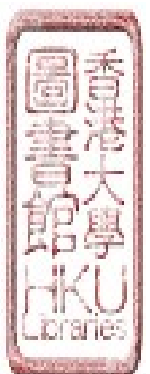
The Government is the stakeholder with low to medium interest but high power. Facing pressure in the political stream, the Government enhanced its enforcement actions with its regulatory power. On 11 August 2015, the Police raided the office of Uber following the arrest of five Uber drivers on charges of operating illegal car hire services (Reuters, 2015). On the other day, two more Uber drivers were arrested.



They were charged with two offences namely, ‘using a car for hire without a permit’ and ‘driving without third-party insurance’ (APF, 2015).

Uber, being another major stakeholder but high interest but low influence, has been requesting the Government to legalize their services. It tried to put the issue of Uber legalization onto the policy agenda by coupling the problem and political streams. It attempted to persuade the press since its official launch in Hong Kong through various social media platforms. After the arrest of the seven Uber drivers in Hong Kong, Uber put up an online signature campaign to gather public support. It has also been proactively communicating with the Government, and joining alliance with Legislative Councillors and other powerful stakeholders (Chu, 2015). Uber tried to mobilize a policy change and push forward the trend of ‘share economy’. It saw the need of upgrading the existing car hire service policy to match with the modernized environment, globalization and technology advancement.

The Legislative Council's Transport Panel chairman, Mr. Michael Tien Puk-sun, opined that the taxi drivers should shape up or else would lose the people's goodwill. He expected that public pressure would force the Government to introduce new regulations instead of prosecuting the drivers. On the other hand, Mr. Frankie Yick Chi-ming, the

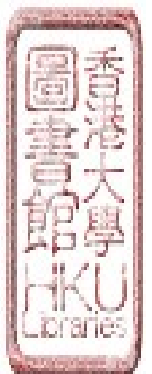




Liberal Party Legislative Councillor representing the transport sector, urged the Government to prosecute as soon as possible in order to form law cases to test any loopholes in the existing law (Lee & Sung, 2015). However, understanding that the problems in taxi industry were due to lack of incentives to improve, the Government was planning to launch premium taxis to exercise the policy tools of inducements, capacity-building and system-changing. This will be discussed in the later part of this chapter.

### ***Issues Caused by Uber in Problem Stream***

The emergence of Uber had created a number of side issues under the problem stream. Uber brought challenges to the rule of law as Uber cars did not meet the statutory requirements of hire car permits in Hong Kong. Currently, the TD has only issued five types of hire car permits to vehicles with specified purposes such as vehicles providing transportation services for hotels, tour and residential estates. The approval of hire car permit was subject to stringent criteria stipulated by the Contract Hire Car Permits Selection Board which includes members from the Transport and Housing Bureau and the TAC (Transport Department, 2009). However, most Uber cars did not acquire the hire car permits as they could not meet the objective criteria established by

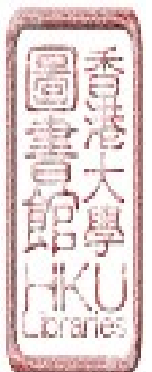


the Selection Board. Providing car hire services without valid hire car permits made Uber car hire services illegal.

In addition, Uber also brought up the issue of public interest and safety. It is illegal for vehicles to be used on roads without proper insurance coverage. Since the prerequisite of such insurance policy was a valid hire car permit, Uber did not have third-party insurance policies for their private cars if they used their cars for hire and reward purposes. Passenger suffered loss and damages from accidents might not be able to get the indemnity (Kwiksure, 2016). This puts Uber passengers and other road users at grave risk.

### ***Government's Proposed Measures of Car Hire Service in Policy Stream***

Development under the policy stream took place gradually. On February 2016, the Government mentioned in its press release that it would adopt an open-minded approach in the aspect of applying new technologies in transport area, such as the use of mobile applications for calling vehicles for hire or reward. However, it also stressed that all services operated on whatever technologies or platforms must be lawful. Due regards should be paid on the interest and safety of passengers (Transport and

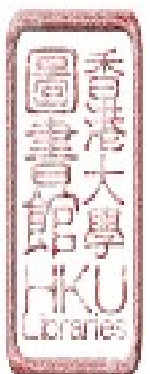


Housing Bureau, 2016). In response, the taxi association within the taxi industry launched a mobile app with a hope to compete with Uber.

In the aspect of car hire service quality, the Government acknowledged the need for service improvement. As a short term measure, the TD has instigated the Public Transport Strategy Study (PTSS) in 2015 with several objectives, namely (i) to look into the concerned issues associated with the trade and other stakeholders in respond to the demand of the public; (ii) to review the roles and positioning of public transport services; and, (iii) to review existing taxi service. As a medium and long term measures, the Government will explore the feasibility of introducing premium taxi service as a key study in the PTSS. The study includes the service standard, fare structure, operating and management models, taxi hailing mobile apps as well as other ancillary arrangements.

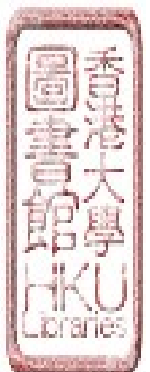
### ***Policy Window and Evolving Governance Arrangements towards Possible Alternatives for Car Hire Service***

Although the handling of Uber and the use of technology in transportation have been put on Government's discussion agenda, no proposal has passed through the policy window and there was no policy change so far. The discussion provided chance for



different stakeholders to throw out their pet proposals, but the power among the key stakeholders such as the Uber, the taxi trade and the passengers are not lopsided and thus none of the proposal initiated by them could pass through the policy window till now. In June 2016, the Government announced the proposal of premium taxi. The proposal consists of three premium taxi operating franchises which aims to improve the car hire service quality. Each of them runs 150 to 200 premium taxis. In order to attract passengers who are tech-savvy mobile users, the proposal also recommended the provision of Wi-Fi and mobile phone charging service inside the premium taxis and supported electronic fare payments by credit cards or octopus cards (Li, 2016).

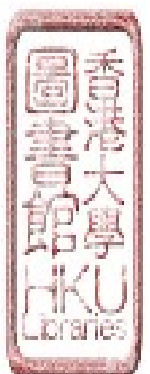
The proposal immediately upset some stakeholders. On 21 June 2016, the taxi trades protested. They threatened to launch a violent action to force the Government to call off the plan (Li & Li, 2016). They opposed the Government's premium taxi proposal for three reasons. One of the reasons was that the industry was fully aware of the public expectation on their service quality and they wanted to strive for improvement at their own initiatives. In fact, the taxi industry rolled out a mobile taxi-hailing application in May 2016 to facilitate taxi passengers to rate the drivers' service quality. Another reason was that the ordinary taxi trades considered that the premium taxi scheme was an unfair scheme to the ordinary taxi drivers because premium taxis would



be allowed to operate throughout the Hong Kong territories without boundaries. This means that the premium taxi will be a direct competitor to the ordinary taxi. The ordinary taxi drivers will be forced to enhance their service quality in order to gain patronage without the right to charge higher fares. The third reason was that the taxi industry casted doubt on the effectiveness of the scheme. Six taxi owners associations instigated Hong Kong Shue Yan University to conduct a survey. The survey results revealed that two-third of a thousand taxi drivers responded they were not interested in joining the premium taxi scheme. What they concerned most was the drop of taxi licence market price (Li, 2016) instead of the probable increase in revenue generated from the taxi patronage.

The taxi industry indicated its dedicated efforts in improving the taxi service quality. It set up a self-regulatory body in November 2015, the Hong Kong Taxi Council, to self-regulate the taxi industry (Hong Kong Taxi Council, 2016) with the hope to resolve the poor service quality on their own without the need of having the Government to impose more and stricter mandates on them.

In response to the opposing views of the taxi industry, the Government responded that it would liaise closely with the stakeholders of the industry. It clearly cited that the

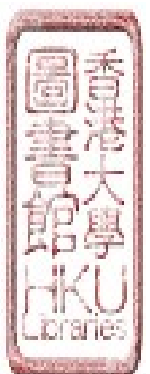


Government would balance views, expectations, demands and interests of different parties. The Secretary for Transport and Housing Professor, Anthony Cheung also advised that there was community support for the premium taxi plan, so the Government would finalize the plan with incorporation of different stakeholders' voices by end of 2016 (Information Services Department, 2016).

### **Types of Governance - Similar Cycle in Previous Eras**

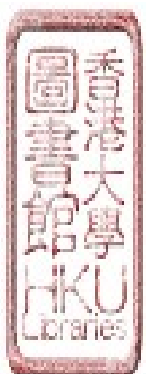
The Government's approach in handling this new form of car hire service, such as Uber, went through similar cycle. The Government, who first exerted hierarchical control and implemented measures in a top-down approach, has again abstained from imposing stringent measures or action after serious protest or opposition. The process of launching the premium taxi proposal was a good illustration on this. Learnt from the past, the Government tried to engage relevant parties into the policy formulation process through consultation and put forward policy change on the basis of the established regulatory framework. However, the process was only done after strong political pressure imposed by the taxi trades.

The recent development of car hire service in this Mobile Apps Era showed that the Government still dominated the overall direction and management. It remained its



dominant role in the final decision on policy content and the regulatory model. A hybrid of interventionist and regulated self-governance remained. Nevertheless, the degree of hierarchical control was being adjust and it had been relatively loosened compared with previous Eras. Due to the persistent high level of public expectation and the failure of intervention approach, the Government was forced to involve the stakeholders more frequently in the policy formulation with increasing awareness of civil engagement. Critical change in governance would not be expected due to the ingrained governance mode by hierarchy since the colonial period. Even with the advent of new technology and the mind set of governance by market and network become increasing popular over the world, the Government still dared not to follow the trend. Instead, it chose to follow past practices to impose intervention by developing a monitoring framework for better regulating the taxi service quality and addressing passengers' needs through a third party. The franchise company under the premium taxi proposal would play a similar role as the taxi companies appeared in the Centralized Ownership Era. The Government envisaged to work with the franchise companies to uphold taxi service standard in a collaborative manner.

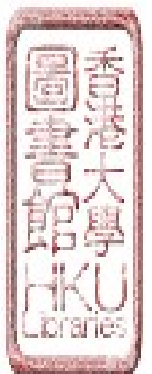
The dynamics among stakeholders in this Era was extremely controversial as different groups hold different views towards the possible policy options. The interests among



Uber, taxi industries, and passengers were especially diversified and conflicting. Nonetheless, aligning the interests of all the groups would require high governing and decision making capacity and a very stable societal structure. It is also subject to the legitimacy of the Government. These internal and external factors have inevitably shaped the Government to remain cautious in putting forward proposals to pass through the policy window and arrive on the car hire service policy agenda ultimately.

### **Policy Tools to Uber and Premium Taxi**

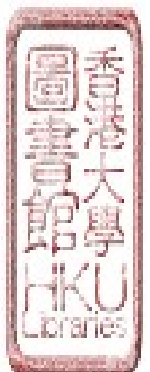
In previous Eras, the Government has all along been striving to assist in maintaining taxi services quality. In particular, the Police had deployed more resources to take stringent enforcement actions to ensure compliance of the existing mandates. The TD has also been using the capacity-building policy tool to educate drivers on legal knowledge and appropriate service behaviour and, has been using the inducement policy tool to reward / show appreciation to model drivers. Deploying more resources to ensure compliance of mandates is highly costly and is not a long term solution. Capacity-building was launched in the form of voluntary participation by taxi drivers. The capacity-building programmes and the inducement policy tool are not attractive enough to make them effective. As a result, the malpractices and unsatisfactory taxi service continued to brew under the problem stream. Reputation of taxi drivers





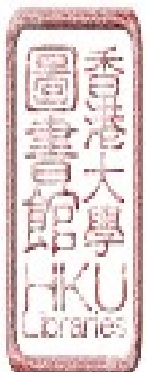
deteriorated. The former chairman of the Hong Kong Taxi and Public Light Bus Association, Mr. Eddie Wong Chung-keung, admitted that the root of the problem was the declining quality of taxi drivers over the past years (Lee, 2015). As the taxi trade did not proactively rectify the situation and the Government failed to intervene effectively, Uber appeared to catch the rising public demand on better car hire service quality, though, it was illegal.

With respect to the illegal Uber car hire service, the Government deployed more resources and stepped up the law enforcement actions to ensure better compliance to the existing mandates rather than imposing tighter mandates. The taxi trade saw the need to review the existing mandates to cope with modernization, globalization and technology advancement. On the other hand, the Government tries to enhance publicity and education to the public that any illegal transport service can hardly fully protect passengers from loss and damage because the illegal service would cause the third party insurance invalid. The TD also holds regular meetings with the transport trades to remind drivers on the law requirements. However, this was a relatively weak capacity-building tool because the Government was merely raising the drivers' awareness of observing the mandates, but not enhancing the industry's capacity to provide better services to respond to the passengers' expectation.



The Government also realized that higher service standard requirements are required to be imposed on the proposed premium taxis, otherwise, the proposal will have no merit. To attract drivers to drive premium taxis and provide better service quality, the Government allowed premium taxi to operate with a fare structure which will charge the passengers higher than the ordinary taxis. This new fare structure which is only applicable to the premium taxis serves as an inducement for the drivers to operate premium taxis in lieu of the ordinary taxis and to provide car hire services with better service quality.

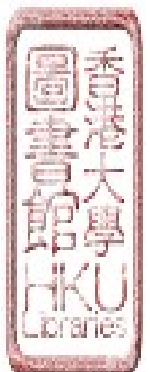
Apart from inducement, the Government is trying to launch a change in the current system of car hire service. The premium taxis will be managed by franchised companies. This simulates the operating and management model adopted in the Centralized Ownership Era. The Government appears to use system-changing policy tool so that the benefits of the operating and management model using franchised companies can be regained. Such benefits, including saving of the Government's cost on ensuring compliance of mandates, reducing conflicts between the Government and the taxi drivers, allowing flexibilities simply through liaison with the franchise companies and, better control of a large group of stakeholders etc. have already been



discussed in Chapter 3 clearly.

The Government also tried to mobilize capacity-building policy tool by assisting the premium taxis to construct and launch mobile car hire service hailing apps as well as other ancillary arrangements. This would help the car hire service to make use of the benefit of technology advancement and match with the communication habits of their potential passengers, in particular the youngsters. The entire PTSS will take two years to complete. Learnt from past experience, the Government will consult the public and relevant stakeholders when concrete proposal is developed (Transport and Housing Bureau, 2015).

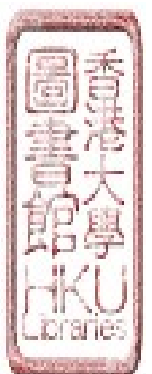
This issue provided insights on the drawbacks of using mandates as the dominant policy tool in Hong Kong on car hire service. Mandates should not be used as a sole policy tool because they could never cover all unwanted behaviours. Other policy tools such as inducements, capacity-building and system-changing should also be used simultaneously to encourage targeted results and suppress unwanted behaviours in all aspects. Also, effective former mandates could become ineffective over time. Although mandates on car hire service have been well established in Hong Kong over 100 years and were performing well in the early eras, they were not regularly reviewed



to match with the modernization. The economic globalization welcomed international companies to run business in Hong Kong. The technology advancement facilitated these international companies to make monetary transactions at places outside countries where their services were provided. As a result, the mandates established in Hong Kong could hardly be enforced on cross-countries activities. This problematic issue illustrated that mandates were not only constrained by enforcement resource capacity, but were also constrained by physical boundary and affected by modernization and globalization.

### **Concluding Remarks**

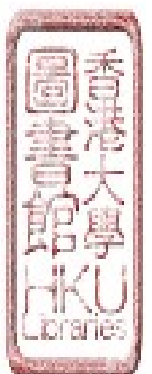
In this Mobile Apps Era, the quality of taxi services continued to deteriorate. The advent of technology makes people more adaptable to use mobile app to hire car. Emergence of Uber and the like provides a more luxurious mode of transport which fit people's demand. However, it caused agitation to the taxi industry who enjoyed the 'nearly monopoly' for a long time. The Government's car hire policy relied on capacity-building and inducement since the Service Quality Era was proved to be ineffective. Besides, with the lesson learnt from the 1984 taxi strike, the Government did not put forward big changes in car hire policy since the 1990s. There were conflicting attitudes towards Uber and the taxi trades, who possessed the strongest



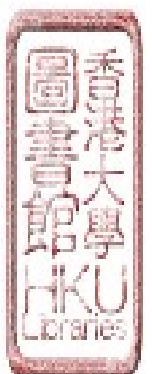
power and interest to push the Government to suppress Uber. A number of protests were held by the taxi trades. The Government suffered great political pressure. It thus carried out studies to review the role of taxi and devised proposals to improve taxi service quality. Nevertheless, up to the conclusion of this study, none of the proposals have passed through the policy window.

In determining the types of governance and policy tools, the Government faced dilemmas. Various factors have to be balanced such as the public's expectation, taxi trade's reaction, impact on licence price, impact on transport network, trend of technology, passenger's safety, the existing legal framework, programme and the cost benefits etc. The Government's proposed premium taxi proposal allowed premium taxi drivers to charge higher fares under a new fare structure. Therefore, it served as an inducement for the drivers to provide better car hire service quality. This model was similar to the regulatory system adopted in the Centralized Ownership Era in which management of taxis was through large taxi companies. It saves Government's cost on ensuring compliance of mandates by using franchised companies sandwiched in the management system.

The legality of Uber is a worldwide problem. Currently, the Government only



claimed that the existing criteria of hire car permit would be reviewed. There are still other unanswered questions such as (i) whether the taxi industry would accept the Government's proposal of premium taxi; (ii) whether premium taxi could bring along an improvement in the taxi service quality and provide incentives for taxi industries to improve; (iii) whether people's expectation to other car hire services such as Uber would die down due to the premium taxi; and, (iv) whether the Government would legalize Uber to facilitate sharing of economy and hence it could co-exist with other forms of car hire service.



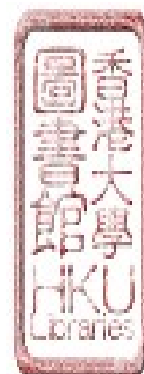
## **Chapter 7 Conclusion and Recommendations**

### **Introduction**

Car hire service in Hong Kong has its historical development for more than a century. From the birth of taxi in 1924 until today, the Government's policies, types of governance and, policy tools have been evolving over the time horizon according to numerous focusing events and changing socio-economic conditions. The details of which have been discussed in previous chapters. This chapter summarizes the findings of this study. With reference to historical lessons and overseas countries experience, recommendations for the Government's way forward with respect to car hire service and the lines of further studies are proposed.

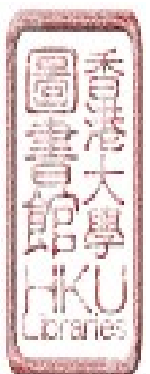
### **The Research Questions Revisited**

In Chapter 1, three research questions were proposed. The first one is related to the theories and idea applied to explore the car hire service development. In this study, an analytical framework was formed based on Kingdon's (1995) Multiple Streams Framework, Knill and Tsoun's (2012) theory on types of governance and Elmore's (1987) classification of policy tools. Kingdon's (1995) Multiple Streams Framework and the dynamics among stakeholders were adopted to review when and how policy



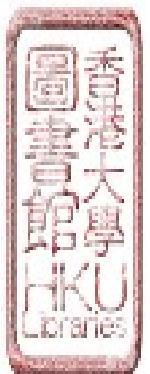
windows were opened for car hire service to be placed on Government agenda. The dynamics among stakeholders, in terms of their interests and influential powers, were addressed using stakeholders' analysis. Knill and Tosun's (2012) theory of four ideal types of governance had been employed to look into the role and approach the Government had adopted across different Eras. Also, Elmore's theory (1987) of policy tools was applied to review the different policy tools the Government had adopted. The coupling of Kingdon's (2012) three streams, the shaping of different types of governance and a number of policy tools adopted by the Government caused dynamics among each other across the time horizon. Review of types of governance provides a holistic view of the Government's overall strategy and behaviour towards the social issue while policy tools reflects government's actions in a more precise way.

The second and third research questions looked into the degree of interrelation between the theories and the identifiable aspects of development of car hire service policy and how the dynamics evolved across the time horizon. To facilitate the analysis, the time horizon had been divided into four Eras as detailed in Chapters 3 to 6. Distinct characteristics for each Era had been identified and the Government's action toward car hire service were analysed with the above-mentioned analytical framework.



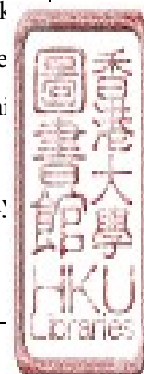


By adopting the analytical lens in Chapters 3 to 6 to look backward in time, the identifiable development on car hire service across different Eras embodied various types of governance and policy tools adopted. By applying the theories into the context of car hire service development, which have been detailed in Chapter 3 to 6, it is observed that the Government's approach on car hire service in the last century swung like a pendulum. The dynamics of change between the different types of governance and policy tools were related to the Government's responses towards the industry's actions and the social-economic climates. Across the Eras, change in the types of governance was gradual and in medium scale as the social and political reality in Hong Kong still could not accommodate a sudden and critical change. The chemistry of the three streams started to emerge since the second Era (i.e. Centralised Ownership Era) in which policy window opened to facilitate subsequent policy change. The 1984 taxi strike was a tipping point. Thereafter, the Government learnt to involve stakeholders in the policy formulation process more often. The types of governance gradually changed from interventionist dominated to regulated self-governance dominated. Instead of top-down, and strict command and control, the Government shifted to rely more on regulatory framework as the basis of intervention against its dominant role. The adoption of policy tools also shifted from mostly reliance on mandates to more inducements. In recent decades, a combination of policy tools with



more intensive use of capacity-building and system-changing were embodied. The evolution of the types of governance and policy tools along car hire service development is summarized in Figure 7.1.

	<b>Centralised Ownership Era (1924-1964)</b>	<b>Dispersed Ownership Era (1964-1994)</b>	<b>Service Quality Orientated Era (1994-2014)</b>	<b>Mobile App Era (Post-2014)</b>
<b>Agenda Setting and Policy Window</b>	<ul style="list-style-type: none"> <li>• <b>No Policy Window</b> (Issues under the 3 Streams were not Serious Enough)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Problem Stream</b> (Traffic congestion and corruption)</li> <li>• <b>Political Stream</b> (Public discontent appeared and started to become vigorous)</li> <li>• <b>Policy Stream</b> <ul style="list-style-type: none"> <li>- Shift of taxi licensing power from Police to TD and launch of taxi licensing tending system</li> <li>- Part of the polices covered in 1983 Taxi policy review</li> </ul> </li> <li>• <b>Policy Window Opened Twice</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Problem Stream</b> (Deteriorating taxi service quality)</li> <li>• <b>Political Stream</b> (Increasing public demand)</li> <li>• <b>Policy Stream</b> (The 2 taxi policy reviews)</li> <li>• <b>Policy Window Opened Twice</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Problem Stream</b> (Poor service quality persisted)</li> <li>• <b>Political Stream</b> (Vigorous dynamics among Uber, Taxi Trades, the public and the Government)</li> <li>• <b>Policy Stream</b> <ul style="list-style-type: none"> <li>- Premium Taxi</li> <li>- Uber Legalization</li> </ul> </li> <li>• <b>Policy Window Now Opened</b> (None of the policy options can pass through the window so far)</li> </ul>
<b>Type of Governance</b>	<ul style="list-style-type: none"> <li>• <b>Hybrid</b> of Interventionist and Regulated-Self Governance</li> <li>• <b>Interventionist Dominated</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Hybrid</b> of Interventionist and Regulated-Self Governance</li> <li>• <b>Intended Increase</b> in the Degree of <b>Interventionist Governance</b> (Withdrawn after the 1984 Taxi Strike)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Gradual shift</b> from Interventionist Governance <b>to Regulated Self-Governance</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Hybrid</b> of Interventionist and Regulated-Self Governance</li> <li>• Rule-based and regulatory framework</li> <li>• A cycle similar to the Centralised Ownership Era was proposed (Franchised Company vs Taxi Companies)</li> </ul>



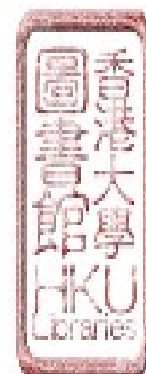
	<b>Centralised Ownership Era (1924-1964)</b>	<b>Dispersed Ownership Era (1964-1994)</b>	<b>Service Quality Orientated Era (1994-2014)</b>	<b>Mobile App Era (Post-2014)</b>
<b>Policy Tool</b>	<ul style="list-style-type: none"> <li>• Mandates with flexibilities</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Tighter Mandates</b> (Withdrawn after the 1984 Taxi Strike)</li> </ul>	<ul style="list-style-type: none"> <li>• Mandates</li> <li>• Inducements</li> <li>• Capacity-Building</li> </ul>	<ul style="list-style-type: none"> <li>• Mandates</li> <li>• System-Changing</li> <li>• Inducements</li> <li>• Capacity-Building</li> </ul>

Figure 7.1 Evolution of Types of Governance and Policy Tools along Car Hire Service Development

The current measures proposed by the Government placed emphasis on improving car hire service quality. It put forward the premium taxi proposal as detailed in Chapter 6. At present, the Government has not given a clear stance on whether Uber would be legalized in the near future. However, in the long run, the Government may still suffer from the pressure on Uber legalization which is stemmed from public demand and expectation on better car hire service quality. The legality of Uber is a challenge worldwide. It is therefore prudent to make reference to selected overseas countries for drawing insight for Hong Kong.

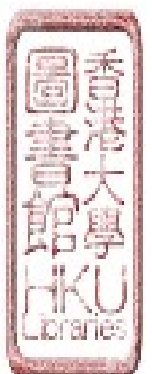
### **Overseas Countries Experience on Legality of Uber**

In Singapore, Uber is legal. As a renowned “Smart Nation”, the Singapore authority takes a liberal approach to advocate technology. Although Singapore had received pressures from taxi trades, it did not reject Uber but adopted a balanced approach to accept it. In September 2015, Singapore passed laws to regulate the Uber and the like.



It required Uber and the like to register with the Land Transport Authority in order to operate. The new regulations also stipulated that only taxi drivers who have already received certain training and qualification may join Uber companies and the like (Nicolas & Popspoken, 2015).

Mainland China is paving ways to legalise Uber. Although taxi drivers protested for a number of reasons such as low wages, high franchise fee and competition of Uber-like competitors, the mainland authorities have gathered public opinions and decided to abolish the old regulations. The Mainland China amended in March 2016 the legislation to legalize online hailing services by granting them vehicle licences. The new legislations include plans to regulate drivers' and vehicle licences, and to establish a mechanism to monitor their operations (Jennifer, 2016).



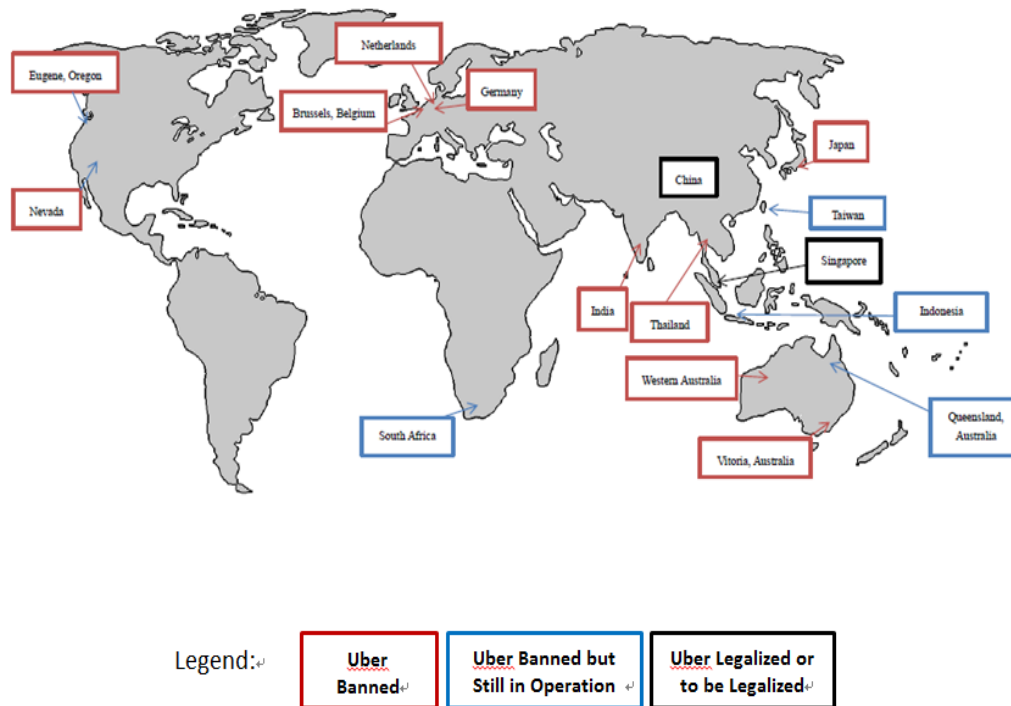
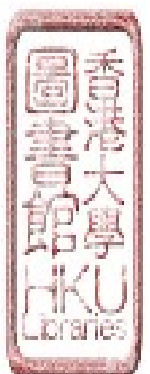


Figure 7.2 Legality of Uber in Different Countries, Khosla (2015)

On the contrary, countries like Taiwan, France, India, Indonesia and Thailand viewed Uber as illegal. For example, in India, Uber was banned after a rape accusation of a woman by an Uber driver (Lakshmi & Gowen, 2014). Taiwan changed its attitude from laissez-faire stance, after the strong taxi protest in July 2014, to formally announce that Uber was illegal. Taiwan has a penalty system on illegal car hire service similar to Hong Kong. In March 2016, Taiwan announced new regulation that illegal Uber drivers might face tougher punishment.

Uber in Thailand and France, ignored the government's ban and continued its business. Thailand took a laissez-faire approach. The French government took enforcement



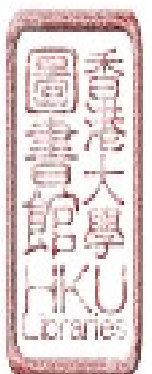
actions against Uber's illegal services, similar to the situation in Hong Kong. In June 2016, the Paris court ruled that the Uber Company was running illegal transportation service and fined two Uber executives. Uber maintained that its activities in France were legal and said it would appeal the decision (Ivana Kottasova 2016).

### **Insight for Hong Kong**

From overseas experience, the common rationales of banning Uber were: (i) the government wanted to protect the taxi industries and forced Uber to shut down its business; (ii) taxi drivers held protests and demonstrations against Uber and the like as their livelihoods were affected by the unfair competition created; and, (iii) the government concerned passengers' safety and privacy about their use of mobile apps.

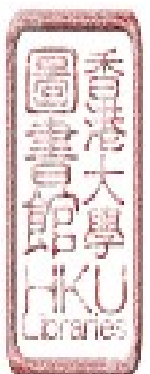
Even though the government had strengthened the enforcement actions, collecting evidence in enforcement actions was difficult because electronic payments via mobile app and credit card was adopted by Uber. No physical money exchange took place at scene.

The current situation in Hong Kong is similar to that in Taiwan and France, in which prosecution and fining were imposed on illegal car hire service. There were also



similar protests by taxi trades which imposed pressure to the Government. Seven Uber drivers were arrested immediately after the taxi protest. Despite these prosecution and enforcement actions, Uber services are still operating in Hong Kong. Similar to France, halting Uber completely in Hong Kong would be very difficult until critical court judgement is available.

On the other extreme, Singapore embraces smart technology and opens the gateway for Uber. Even the mainland China is now amending legislation to accommodate Uber-like services. Hong Kong has similar initiatives in taking forward strategies of innovation and technology development through the Commerce Industry and Technology Bureau. As said by Rinsky Yuen Kwok-keung, the Hong Kong Justice Secretary, there should be legal space for Uber, as well as other similar car hire service, to continue to operate in the city (Lee & Chen, 2015). This statement concurred with Chief Executive Leung Chun-ying's agenda of promoting technology-driven value-added services in the economy. However, it is doubtful whether the Government would take such similar bold step, especially when taking into account of the bitter lesson learnt from the history. Not to mention that the Government is facing strong opposition from the taxi industry on the premium taxi regime, it is highly uncertain when and whether the issue of legalizing Uber would be put on the agenda.

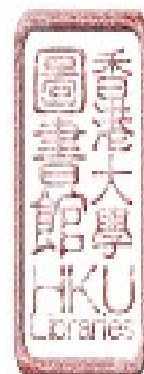


## **Recommendations**

The study of car hire service policy was an epitome of how the Government dealt with controversial social issues involving diversified conflicting interests. The 1984 taxi strike acted as a learning point for the Government in dealing with car hire service policy. After the 1984 taxi strike, the Government started to seek consultation and got stakeholders involved in the policy formulation process. The Government also learnt to be more cautious and adopted an incremental approach in implementing new policy, especially for policy that has great deviation from past practice. Strong support from the influential groups and using a combination of policy tools would be crucial.

### ***Get into the Problem Stream Earlier and Prudent Use of Policy Tools***

With reference to the past experience, the Government only reacted when it could no longer turn a blind eye into a serious problem. To retain legitimacy, the Government should be proactive to the problem stream the earlier the better. In the context of car hire service, it is suggested that the Government should proactively review ordinances and regulations relating to issuing taxi licence and hire car permit as well as insurance policy to see if they still fit the current situation with the emergence of Uber and the like. Regarding the policy tools, the Government should avoid over reliance on either



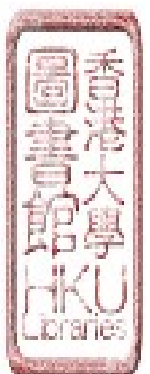


mandates, such as prosecution, or inducements, such as commendation schemes.

There should be prudent use of capacity-building and system-changing to address the root cause of problems in the long term. Nevertheless, this definitely requires involvement of strong leaders, resources and time.

### ***Trust Building***

The key stakeholders in formulating policies of car hire service include the taxi trades, passengers, Uber drivers, Uber and, the Government. To better understand the preference of various stakeholders, the Government should engage them in a more active way and to look early into the matter to explore possible policy options. This would be a crucial step for the Government to gain support and minimize the risk of causing social instability. In order for the Government to successfully engage various stakeholders in the policy making process, it is essential to build up trust among them to ensure strong bonding.



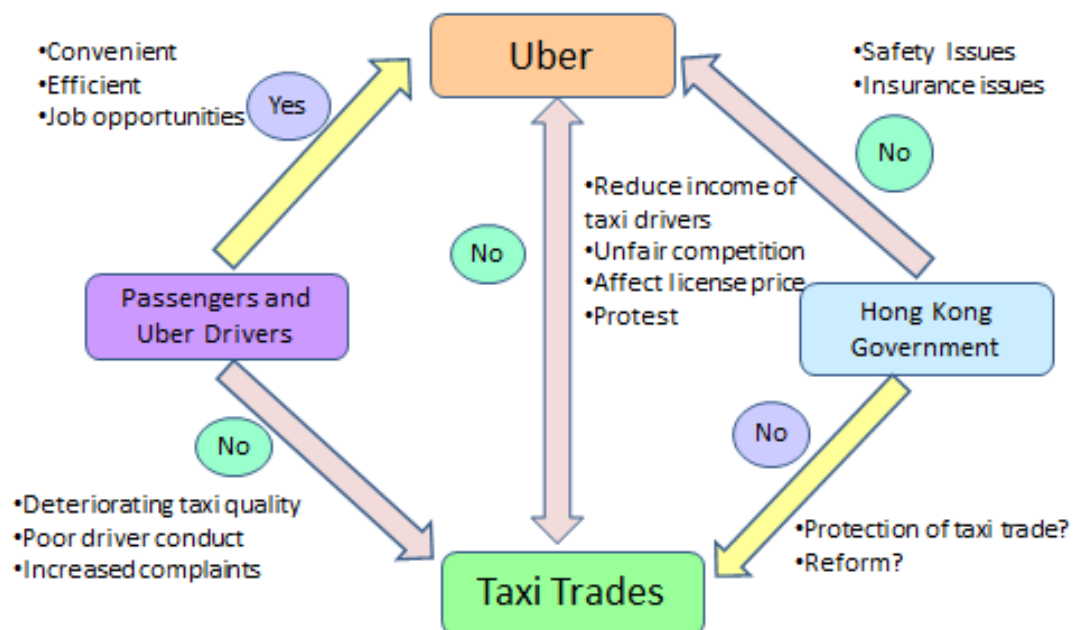
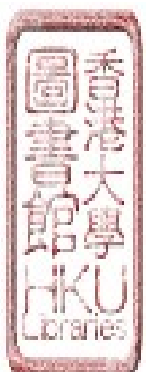


Figure 7.3 Trust Diagram for Taxi-Uber-Government-Passengers

Figure 7.3 shows that the existing trust network among the stakeholders is not strong enough. Passengers and Uber drivers trust Uber. However, there are various distrust among other different stakeholders. First, passengers distrust taxi trades due to the deteriorating service quality. They do not even trust the taxi drivers due to the increasing complaint cases on taxi drivers' misconducts. Also, the taxi trades distrust Uber as it causes unfair competition, reduces taxi drivers' income and affects the taxi licence price. The Government does not trust Uber from legal and safety points of views. The Government is losing trust on taxi trades. Due to its regulatory power, the Government has to protect the taxi trades from other competitors on one hand, while



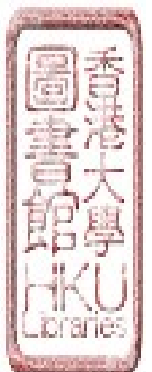
it has to improve the taxi service quality on the other hand. This is a critical move for the Government to strengthen the trust between the passengers and the taxi trades.

The Government is recommended to build up a dialogue with Uber, who has already expressed its openness to discuss with the Government. By taking a proactive approach, the Government can align interests and mutual trust with Uber. This enables the Government to explore the potential values of accommodating Uber in the market and its impact on the economy, transport networks and the legal frameworks.

The option of Uber's co-existence with the proposed premium taxis can also be explored. This allows a greater competition in the car hire service industry so that passengers have more choices and taxi drivers have incentives to improve their service quality.

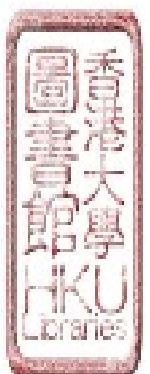
### **Limitations of the Study and Lines for Future Research**

In this study, an analytical lens was used to look into the car hire service policy, types of governance and policy tools in Hong Kong. Inevitably, due to the long history of development, there are certain limitations in this study. The first being the limited research in the existing literatures to justify the assumptions. Especially in the early 1990s and in the Centralized Ownership Era, some relevant information is not available.



The current Government policy of a franchised model on premium taxi is a restoration of centralized licence ownership. However, there are various assumptions made in the Era and had not been fully substantiated due to the extensive research in history required. For example, the people in that Era was not vocal enough in the political stream and a comprehensive stakeholder analysis would become difficult. Further studies can supplement this aspect.

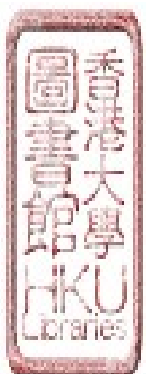
Second, the existing study adopts an analytical framework to study the agenda setting, types of governance and policy tools and how they fit into the evolution of policies in the history of car hire service. However, the study does not focus on the decision making model of the Government. As a line for further studies, more detailed analysis can be carried out on (i) the factors in each era that affect the Government's decision in policy making, such as the political factors after 1997, the voice of political groups and the public's loss of trust towards the Government that made the implementation of policy difficult; (ii) the development of infrastructure and town planning which affect the Government's transport planning and strategies, such as the Mass Transit Railway, the construction of Chek Lap Kok Airport and the Hong Kong Zhuhai Macau Bridge and the Express Railway Link; and, (iii) the various alternative policies available and the cost benefit analysis to compare the net benefits for evaluating different policy



options.

Third, the issue of car hire service is still highly controversial at present, and there are a lot of continuing debates on the possible policy options raised by the Government and other stakeholders under the policy stream. These include the premium taxi proposal, enhancement of taxi service quality, legalization of Uber and reinforcing enforcement actions. This study could only cover discussion of the two most controversial policy options which are premium taxi scheme and Uber legalization. As a line for further study, more policy options can be explored and analysed when the development of the interactions among the stakeholders becomes clearer.

Fourth, when assessing the types of governance, Knill and Tosun (2012) focuses on the degree of cooperation between public and private actors in the policy making process. However, in the real world, there indeed exist other forms of interaction and cooperation, which may be out of the scope of policy making but also embody certain kind of collaboration. This can be covered in further study. Similarly, when evaluating policy options, factors such as human resources and government capacities can be further considered. For instance, when elaborating the use of inducement, ability of the current policy actors and the resources available for launching an attractive



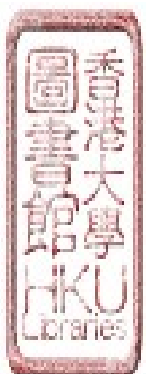
inducement can be further researched because these factors affect the effectiveness of the policy tools. Regarding capacity-building, the study can further research on whether there are good trainers and leaders to build the capacity of the industry. Similar for system-changing, people's acceptability and resources currently available for establishing the new system can be further investigated.

Finally, further studies can assess the potential benefits brought by car ride sharing service. It is a form of sharing economy which attracts public attention. It also relieves traffic congestion in a cost-effective way. Further studies on car ride sharing service are worth for the Government to obtain a more holistic view on the way forward.

### **Concluding Remarks**

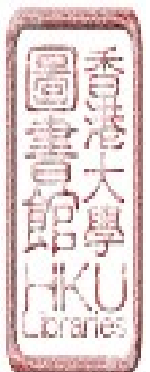
The policy of car hire service has a long history of development and its dynamic is ever changing. This study provides an insight and also a detailed analysis on the changing dynamics of the types of governance and policy tools using the three layers in the analytical framework. The three layers are agenda setting, types of governance and policy tools.

There were always issues in the problem, policy and political streams, nevertheless,



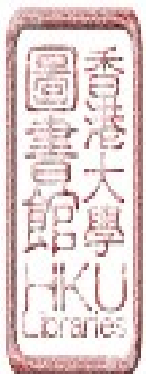
policy windows only opened when issues got serious enough and when the three streams coupled. In the early colonial times, it was believed that citizens were less vocal and they concerned more on survival. The top-down management by the colonial Government was effective to maintain the equilibrium and stable condition. Thus, no policy window opened in the Centralized Ownership Era. As time advances, the power of stakeholders become stronger and their alertness towards the issue will increase. People are getting richer and better-educated, so they will become more political sensitive and exert a higher expectation on the Government. Policy window opened several times in the Dispersed Ownership Era and Service Quality Oriented Era. Although such policy windows had opened, it did not mean that policies could be put forward by the Government. As noted in the Dispersed Ownership Era, the impact from stakeholders could be so significant that some of the Government proposals were withdrawn. Therefore, the types of governance and policy tools embedded in the policy are important.

In examining the types of governance and policy tools evolved in the car hire service development, it can be concluded that there are no ideal types of governance or flawless policy tools. The types of governance and policy tools caused dynamics with each other and swung like a pendulum. Regulated self-governance seems to be the most



appropriate type of governance under the current Hong Kong context as it demonstrated the highest implementation effectiveness. The recent premium taxi proposal put forward by the Government is similar to self-governance by the taxi companies in the Centralised Ownership Era. While the Government still exerts hierarchical control with regulatory framework established for taxi owners' strict compliance, it continues to allow flexibility to the taxi industry on operational matters. This addresses the issue of deteriorating taxi service quality and at the same time avoids over-intervention by the Government because the franchise companies are allowed to regulate and manage their own services.

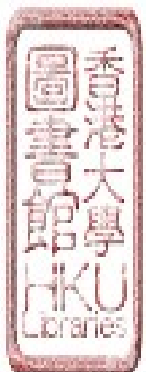
On the contrary, cooperative and private self-governance had not been seen in the Eras, and would be difficult to appear in the foreseeable future. It is because the stakeholder groups are fragmented and the alignment of interests and mutual trust is difficult under the current political context. If consensus could not be reached among stakeholders, shifting of government-led to market-led or even network-led would be risky. Nevertheless, reduction of hierarchical control and decreased intervention might occur if the Government takes steps to adopt an open attitude to all opposing opinions and launches new policy option in an incremental manner through adequate consultation.



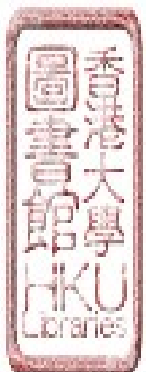


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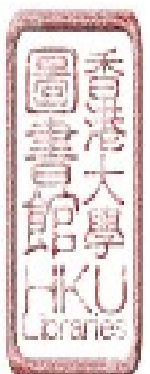
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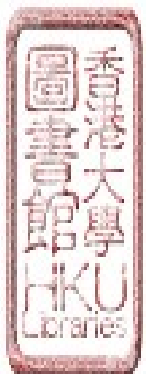
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