Final Report for the Rees Jeffreys Road Fund

The Governance of Transitions in Urban Mobility: The Case of Uber in London

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This Report provides, firstly, a brief Executive Summary, followed by responses to each of the questions addressed in the original proposal. Each response includes references to outputs from the project (sent as attachments to this Final Report), where fuller details can be found for each of the relevant subjects. The third section gives brief details for each output, with its reference, together with information on the project interviews.

1. Executive Summary

The Uber business model, based on relentless worldwide growth, has underpinned its actions in London where, over time, the local application of the model has demonstrated both its strengths and weaknesses. The chief strength of the model is that it has allowed Uber to grow rapidly, with little effective interference, so that it has become by far the largest taxi operator in London in terms of numbers of drivers and customers. The chief weaknesses are that the narratives that comprise the model depend on the acceptance of its norms and values, and do not take sufficient account of either internal opposition or external resistance and reaction. Consequently, over time the model can appear inflexible and lacking in an understanding of local conditions. This was particularly evident in 2017, when the regulator Transport for London (TfL) made the decision to revoke Uber's operating licence.

For its part, TfL has generally been placed in a reactive position in regulating Uber, relying on existing regulations, and not equipped to deal with a modern disruptive innovator. Similarly, the chief opposition to Uber, in the form of the black cab drivers, have accused TfL of being too passive in its regulation of Uber, but have been out manoeuvred by Uber in terms of winning popular support, and also appearing outdated in their operational practices.

However, Uber itself has suffered a series of setbacks. In addition to the revoking of its licence, these include perceptions that it is contributing to congestion problems, and a successful Employment Tribunal case by two Uber drivers that they should be treated as employees rather than self-employed 'registered partners.' These setbacks appear to have caused Uber to re-evaluate its model, and construct a new narrative based on a more conciliatory approach. This change was brought about particularly by the resignation of Uber's co-founder and chief executive, Travis Kalanick, who was chiefly responsible for shaping the company's distinctive business model, and his replacement by Dara Khosrowshahi. From the London perspective, a further notable departure during this period was Jo Bertram, the head of Northern European markets. Through the new narratives, Uber portrays itself as an urban problem solver in terms of integration with other public transport operations. In turn, if Uber is successful in

regaining its licence, this offers an opportunity for TfL to assert greater regulatory control, and bind Uber more closely to its wider transport policy objectives. However, these issues may take years to resolve. Meanwhile, Uber is appealing against the loss of its licence, and will continue in operation while this takes place.

2. Responses to the Original Study Research Questions

a. What is the role played by Uber itself in carrying forward the transitional idea of the 'sharing economy'? For example, how significant is the character and structure of an actor such as Uber in the diffusion of a disruptive innovation, and how does this relate to a socio-technical regime?

It is the business model of Uber, of which a key element is the 'sharing economy,' that gives it its momentum and distinctive character. In themselves, none of the elements that comprise the business model is unique, but it is the way they are combined and applied that underpins the principal aim of relentless worldwide growth. For example, from a technological perspective, Uber as a ride-hailing app faces significant regional competition, including Grab in South East Asia, Gett in Israel, Lyft in the United States, and Ola in India. In China, having poured billions of dollars into its investment there, Uber was compelled to withdraw in 2016 in the face of fierce competition from China's Didi Chuxing. In London, Uber has not hitherto faced similar competition, which has assisted it in its growth to rise from its inception in 2012, to become by 2017 by far the largest operator, with 40,000 drivers and 3.5 million customers who use the app at least once every 30 days. Even here, however, other operators have adopted similar app technology to that used by Uber, including its chief competition the black cabs. It is also significant that Taxify, backed by Didi Chuxing, applied for a licence in London in April 2017 to operate as a taxi-hailing app. This application is still being considered, and a decision is expected in 2018.

Similarly, the 'sharing economy,' in terms of making use of unused capacity, is evident in other sectors, most notably in the case of Airbnb and other room hire apps. What sets Uber apart is the scale of its ambitions, and its commitment to expand as quickly and as widely as possible, regardless of the competition and attempts to impose regulatory control.

The speed of this growth has been aided by the large scale of investment in Uber, amounting to around $16 billion. One of the largest investors has been the Saudi Arabian government, with $3.5 billion. This has enabled Uber to subsidise fares and so undercut competitors, although the 'sharing economy' element of the business model, evident in the number of drivers in London, allows it a rapid response to customer requests that also places it ahead of the competition. Nevertheless, Uber continues to make extremely heavy losses ($1.5 billion globally in the third quarter of 2017), so that, given the subsidies, the worldwide growth itself fuels the losses in the form of loss-making rides. Notwithstanding its large-scale investment, these losses are likely to be unsustainable over time. However, in London, where its standard UberX service was licensed from the outset, Uber was generally able, until recently, to continue its expansion largely unaffected by regulatory control or competition (see response to question b).

Basically, in terms of the relationship with the established system of governance in the form of the regulator Transport for London (TfL), or competition of the type offered by the black cabs, Uber, through its business model and its ability to apply it over a period of time, is able to operate in a distinctive manner. This business model is separated from the established regulatory order not only technologically, but also through its culture in the form of operational norms and values, that create gaps in understanding between Uber and TfL. Politically, these gaps in understanding are vital because they allow a disruptive innovator such as Uber to be protected as it grows, provided it retains its separate identity. From the perspective of an established regulatory order, an innovator operating a distinctive business model such as Uber can prove to be an elusive target, unless the regulator can find ways to assert its authority through steering the innovator towards the regulator's own policy objectives. **(see Uber a, b, and c)**

As we will see below in the responses to questions b and c, the principal weakness of the Uber business model is that, in its very distinctiveness as a means of expansion, it can become rather rigid, and also itself unable to bridge the gaps in understanding that separate it from the regulator. In the case of London, therefore, Uber made little attempt to find accommodations with either TfL as regulator, or the black cabs, and in this respect left itself open to eventual retaliatory action that occurred in September 2017 when TfL revoked Uber's operating licence on the grounds that it was not a fit and proper operator. It could be said therefore that the Uber business model enabled it to expand on its own terms, but that its disruptive character restricted its ability to significantly influence the established order **(see Uber c).**

b. What are the dynamics of the processes that involve shifts in the power balances of the principal actors, e.g. do key policy entrepreneurs play a significant role here?

The distinctive Uber business model, as applied in London, was highly dependent on the leadership given it from the centre. In this respect, local events cannot be separated analytically from the development of Uber as a whole. Its controversial expansionary strategy placed it in persistent conflict with regulators and competitors worldwide, including bans in Denmark, Hungary and Taiwan. The chief architect of the Uber business model is the co-founder and former chief executive, Travis Kalanick. In this respect, Kalanick emerges as the key policy entrepreneur in the rapid and relentless expansion of Uber. It is the business model he shaped, therefore, that was applied successfully in London, and the city has proved to be one of the strongholds of Uber, and is one of the relatively few cities where it makes a profit (£3 million returned in 2016/17).

However, in 2017 Uber suffered a series of crises that severely damaged its company culture. These included claims of sexual harassment by former employees, an embarrassing recorded altercation between Kalanick and an Uber driver over employment conditions, and a number of high profile resignations. In this context, it is significant to note that, in Uber's London office, thirteen of the sixteen listed directors have resigned. These crises led to the resignation of Kalanick in June 2017, and his replacement in August 2017 as chief executive by Dara Khosrowshahi, who pledged to learn from the mistakes made by the company and adopt a less confrontational approach. Nevertheless, Uber was hit by a further scandal in

November 2017 when it was revealed that in 2016 the company had failed to disclose a data breach affecting 50 million passengers and 7 million drivers, and had paid $100,000 to the hackers to destroy the stolen information. Such internal disruptions weakened the power base of Uber, and accentuated its vulnerabilities in making a case to win back its London licence. In particular, the resignation of Kalanick placed doubt on the extent to which the company would continue to pursue its distinctive business model **(see Uber b and c).**

For its part, from the outset of granting Uber a licence in 2012, TfL has generally been placed in a reactive position in seeking to place controls on the company's development (see response to question c). In essence, TfL has found itself in a dilemma in that, politically, it has been reluctant to place restrictions on a company with wide public support in terms of customer appeal. At the same time, it has also been sensitive to charges that the Uber business model depends on over-capacity in terms of supplying the number of vehicles to respond rapidly to customers, and that these vehicles have contributed to congestion problems. However, control over the number of vehicles rests with central government, further weakening TfL's powers to act proactively. It was only when TfL made the decision to revoke Uber's licence that it asserted its power as a regulator. Even here, Uber will continue in operation pending an appeal, and the company also launched a petition protesting about the TfL decision that was signed by 800,000 people. The political power of Uber, through its popular appeal, therefore means that there will be great pressure on both parties to achieve a compromise **(see Uber c).**

The competitors to Uber, in particular the black cab drivers, have also been placed in a generally reactive position (the black cab drivers are in the category known as plying for hire, which enables them to be hailed and to stand in cab ranks. In contrast, private hire vehicles, the category to which Uber belongs, must be pre-booked). The black cab drivers have blamed TfL for being too passive in its regulation of Uber, although TfL argues that it can only act within the statutory powers given it. It could be said that the chief power base of the black cab drivers lies in the iconic status of their vehicles on the streets of London. From their former position of strength, as Uber has grown, they have appeared more vulnerable (the number of black cabs is around 23,000, a similar number to when Uber arrived in 2012), to the extent that the perception has developed that their very existence is threatened. In recent times, therefore, TfL has appeared more sympathetic to their cause, and in 2017 a type of quantity licensing was introduced in the form of written English tests for all private hire drivers (Uber fought this proposal in the High Court, but lost its case). Nevertheless, the black cab drivers are in a dilemma in that, the more they might seek to match Uber on cost, the more vulnerable this makes them in terms of long-term viability. On the other hand, by maintaining their identity and character, they risk continuing competitive disadvantages. Their power base therefore continues to look vulnerable, particularly if Uber successfully regains its licence **(see Uber a and b).**

Nevertheless, the degree of opposition that Uber itself faces from the established regime is illustrated in that the Licensed Private Hire Car Association, the body that represents the category of operator that includes Uber, has twice rejected Uber's applications for membership.

c. What are the key narratives constructed, and how do they facilitate or resist an absorption into the mainstream?

The construction of narratives has been crucial in the development of Uber, and in framing its business model. In this context, as we noted above, Uber's chief aim has been its relentless worldwide expansionary strategy. It could be said that this market dominance goes beyond taxi operations, and includes both the private car and other modes of public transport. This business model is encapsulated in three complementary and intersecting narratives propounded by the former chief executive and policy entrepreneur, Travis Kalanick. These are, firstly, 'it is easier to ask for forgiveness than permission'; secondly, that Uber should 'provide transport as reliable as running water, available everywhere to everyone'; and thirdly that Uber should promote the virtues of the 'sharing economy.'

The strength of these narratives is that they underpin a clear and purposeful business strategy that gives Uber its highly distinctive character and has enabled it to expand at a fast rate. At the same time, the narratives are also enclosed in character in that they basically define Uber on its own terms, and generally fail to allow for either internal or external resistance. The weakness of the narratives is therefore that, in being translated to the local level, they can be undermined over time by those who either refuse to accept their principles, or are resistant to their impacts.

In London, where Uber was granted a licence by TfL in 2012, the narratives have allowed the company to expand its services rapidly, but it could be said that, over time, resistance to their development has increased to the extent that the power of each has diminished. If we take the narratives in turn, therefore, we can perceive both their strengths and their weaknesses.

(i) 'It is easier to ask for forgiveness than permission'

As we have seen, Uber was able to develop rapidly, and this rise gave it a powerful political presence that neither TfL as regulator, nor competitors, could ignore. In this way it could skilfully employ its character as a disruptive innovator to both accentuate its distinctive qualities, and place the regulator and incumbent operators on the back foot. For example, in 2015, in response to pressure from the black cab drivers, TfL brought a High Court case that claimed Uber contravened the rule that no private hire vehicle should be equipped with a taximeter, and that the Uber app constituted a taximeter, which gives a running price for the ride, based on time and distance. However, the High Court ruled that the app was legal, and could not be classed as a taximeter.

Subsequently, TfL again challenged the Uber app when it proposed a requirement that private hire vehicles would have to wait five minutes after a booking before picking up a customer. Uber's response was to launch a public lobbying campaign against the proposal that included a petition signed by 200,000 people, and TfL decided to withdraw its proposal.

However, when TfL made the decision to revoke Uber's licence in 2017, chiefly on safety and security grounds, the new Uber chief executive, Dara Khosrowshahi, visited London and met TfL Commissioner Mike Brown. Khosrowshahi was now

anxious to apply the 'forgiveness' element of the narrative, and apologised for mistakes made, while promising to 'make things right in this great city.' The decision to revoke the licence therefore placed Uber in a more vulnerable position, and caused it to seek a more conciliatory approach **(see Uber a, b, c, and d).**

(ii) 'Transportation as reliable as running water, available everywhere to everyone.'

This narrative also builds on Uber's expansionary strategy, but in transport planning terms implies an ambition that goes beyond its own sector, with implications for other modes of transport, and also the culture of vehicle ownership. For example, after many years of rising demand, the number of London bus passengers reduced by 2.3 per cent between 2015/16 and 2016/17. Some critics attributed at least part of this fall to Uber, although there were no official statistics on the extent to which the decrease could be attributed to Uber and other private hire vehicles (road works and the construction of bicycle lanes were also blamed for the decrease). Politically, it was important that Uber was perceived to be a factor in the decline, as this contributed to a critique that the increase in private hire cars generally was contributing to congestion problems.

The pressure has therefore grown to cap the number of private hire vehicles (which increased from 50,000 in 2013/14 to 87,000 in 2016/17), while there has also been pressure for private hire vehicles to lose their exemption from paying the central London congestion charge. The number of vehicles it has on the road has enabled Uber to provide a rapid response to customer requests, but the scale of this growth has undermined the narrative in terms of perceptions that it has contributed to a decline in public transport demand, and an increase in congestion problems. These congestion problems have been exacerbated by the Uber business model that encourages drivers to congregate in the centre of the city where demand is greatest, with the result that those areas with less intense demand are not so well served **(see Uber c and e).**

(iii) 'The sharing economy'

Uber has been able to apply the 'sharing economy' narrative to the extent that the word 'uberisation' has entered the language as a shorthand expression for a disruptive mix of operational and working practices. Uber promotes the virtues of the flexibility and independence of their drivers, who use their own vehicles, and claims that they are not employees, but self-employed contractors. Thus a 2016 survey suggested that more than half of Uber's London drivers made money through other jobs, and that Uber was not the biggest source of pay for one in five drivers. This type of multiple employment has become known as the 'gig economy,' with increasing numbers of people less reliant on a single job and employer. However, although the 'gig economy' might open up new employment opportunities, there is increasing political concern about its consequences in terms of pay and conditions.

The Uber 'sharing economy' narrative was severely undermined when in 2016 two Uber drivers took their case to the Central London Employment Tribunal, claiming that they should be treated as employees of Uber, and given associated benefits such as sickness and holiday pay. The Tribunal ruled in favour of the drivers, who won a subsequent appeal in 2017, and although Uber is appealing this decision, the case

demonstrated that the narrative could be undermined internally by those who refuse to accept its principles.

More recently, Uber has expressed its intentions to rebuild its relationship with TfL, and to construct a fresh narrative for itself in which it can become a provider of urban transport solutions on such matters as congestion, service integration, and air quality. For its part, TfL has hitherto been unable to construct narratives that have enabled it to act proactively in dealing with a disruptive innovator such as Uber, but if Uber is successful in regaining its licence, and continues to promote a more inclusive and conciliatory narrative, then this could enable TfL to construct its own narrative in which the regulator promotes the public good, and recruits operators such as Uber to assist it. There could of course continue to be power struggles between regulator and operator, but within a more inclusive narrative **(see Uber a, c, and e).**

d. What are the chief implications of the London case study for other UK cities where services of the type provided by Uber are introduced?

Uber has spread its services widely across the UK, and currently operates in around forty cities. However, none of these operations is of a comparable size and intensity to London, with the total number of drivers being around 10,000, compared to the 40,000 working in London. This means that Uber has not offered similar challenges to regulation and competition that have been found in London, although in December 2017 Sheffield City Council suspended Uber's licence to operate in the city after it claimed the company had failed to respond to requests made about its management.

Outside London, concern has grown about the effects of cross-border working. In this context, the 2015 Deregulation Act increased the flexibility of private hire drivers to operate outside the specific licensing authority area in which they are licensed, but without giving licensing authorities the powers to take enforcement action against out of area drivers. This has led to complaints that so-called cross-border activity has increased, with Uber drivers being identified as amongst those indulging in this practice. Consequently, there have been calls, backed by the Local Government Association, for a reform and modernisation of taxi and private hire legislation, with the Member of Parliament Daniel Zeichner introducing a Private Member's Bill that proposes a prevention of cross-border hiring by taxis.

It could be said that, as with Uber and TfL in London, the concern with cross-border working elsewhere in the UK reflects an inability of regulators, or the regulatory framework, to come to terms with technological and operational practices employed by disruptive innovators such as Uber. Reform of licensing can help, but the dilemma for regulators generally is whether in the long-term to adopt an adversarial approach to Uber, or to seek a closer and more integrated relationship. Significantly, in the United States Uber has established partnerships with a range of municipalities to offer privately run services to replace former public transport operations. As part of these partnerships, local authorities offer discounts to citizens who use Uber. In taking on these partnerships, companies such as Uber can blur the distinctions between the public and private sectors, while making themselves indispensable to local authorities and communities. These types of partnerships are examples of Uber promoting a narrative as an urban transport problem solver. From the local authority standpoint, there are clearly risks in becoming over-dependent on Uber, but it could also be said

that, in integrating Uber more closely into local transport operations, it offers potential to exert greater control over Uber in terms of promoting wider policy objectives.

It could also be said that both regulators and operators need to be open to the impacts that further technological developments are likely to present in the coming years. For example, the introduction of autonomous vehicles is likely to have profound impacts (Uber itself has an autonomous vehicles development programme and some industry commentators believe that the company's long-term financial sustainability is dependent on its ability to deploy autonomous vehicles for its services). It is difficult to foresee the implications of these radical changes in the long-term, but regulation will need to allow for innovation in both technologies and the types of services offered. In particular, it is important to link these developments to wider policy aims of both enhancing consumer choice and promoting the public good **(see Uber c and f).**

3. Project Outputs

(i) The paper 'The Rise of Uber and Regulating the Disruptive Innovator' was published in 2017 in the major journal *The Political Quarterly*. This paper examined the development of Uber as a disruptive innovator, and employed the case study of London to enhance our understanding of these processes. This paper is at **Uber a.**

(ii) The paper 'Uber and the Disruption of the Disruptive Innovator' was published on *The Political Quarterly Blog* web site in December 2017. This paper updated events on Uber, particularly from the perspective of how Uber itself had been undermined and disrupted by a series of crises during the year. This paper is at **Uber b.**

(iii) The paper 'The Governance of Transitions in New Urban Mobility; The Case of Uber' will be submitted to the major journal *Transport Policy*. This paper examines the evolution of Uber, with the case study of London, particularly from the perspective of how it may be possible to integrate Uber more closely into integrated information and ticketing innovations such as Mobility as a Service. This paper is at **Uber c.**

(iv) The book review 'Creative Destruction and the Sharing Economy. Uber as Disruptive Innovation' was published in 2017 in the major journal *Transport Reviews*. This review, of the book by Henrique Schneider, examined the extent to which Uber could be seen as a disruptive innovator, and the implications for its future development and how it is regulated. This review is at **Uber d.**

(v) The article 'Challenging the Uber Business Model in London' was published in 2017 in the major practitioner journal *Local Transport Today*. This article consisted principally of an interview with James Farrar, who was one of two Uber drivers who successfully brought an Employment Tribunal case against Uber that they should be treated as company employees. The article also placed the case in the wider context of the Uber business model. This article is at **Uber e.**

(vi) The article 'The Politics and Power Games in Implementing Mobility as a Service' has been submitted to the practitioner journal *Local Transport Today*. This

article includes an analysis of the difficulties and potentialities of integrating Uber into Mobility as a Service systems. This article is at **Uber f.**

(vii) Eleven interviews have been conducted for the project. We believe that we have spoken to a wide range of key figures, although in some cases it has not always been easy to gain access to decision-makers. Uber is undoubtedly a highly salient and politically sensitive subject, and it is perhaps inevitable that some people are reluctant to speak openly on such a current topic. Nevertheless, the material contained in the interviews is an invaluable resource, not only for the work already undertaken, but will also provide an extensive foundation for future work on Uber. The list of those interviewed is below:

Ben Bell, Uber Public Policy Manager, UK and Ireland.

Peter Bell, Technology and Innovation Director for transport software provider Trapeze.

Keith Buchan, Director, Metropolitan Transport Research Unit.

James Farrar, Uber driver and Chair of the Independent Workers' Union of Great Britain's United Private Hire Drivers Branch.

Ben Foulser, Head of Transport and Infrastructure Technology, KPMG.

Steve Garelick, Branch Secretary, Professional Drivers, GMB Union.

Rebecca Johnson, Regulation Adviser, Taxi and Private Hire Licensing, Local Government Association.

Daniel Moylan, former Deputy Chair, Transport for London, and former Member of the London Assembly.

Caroline Pidgeon, London Assembly Member and Deputy Chair, Transport Committee.

Wes Streeting, Member of Parliament and Chair of the All Party Parliamentary Group for Taxis.

Steve Wright, Chair, Licensed Private Hire Car Association.