The interplay between governance mechanisms and the digital economy

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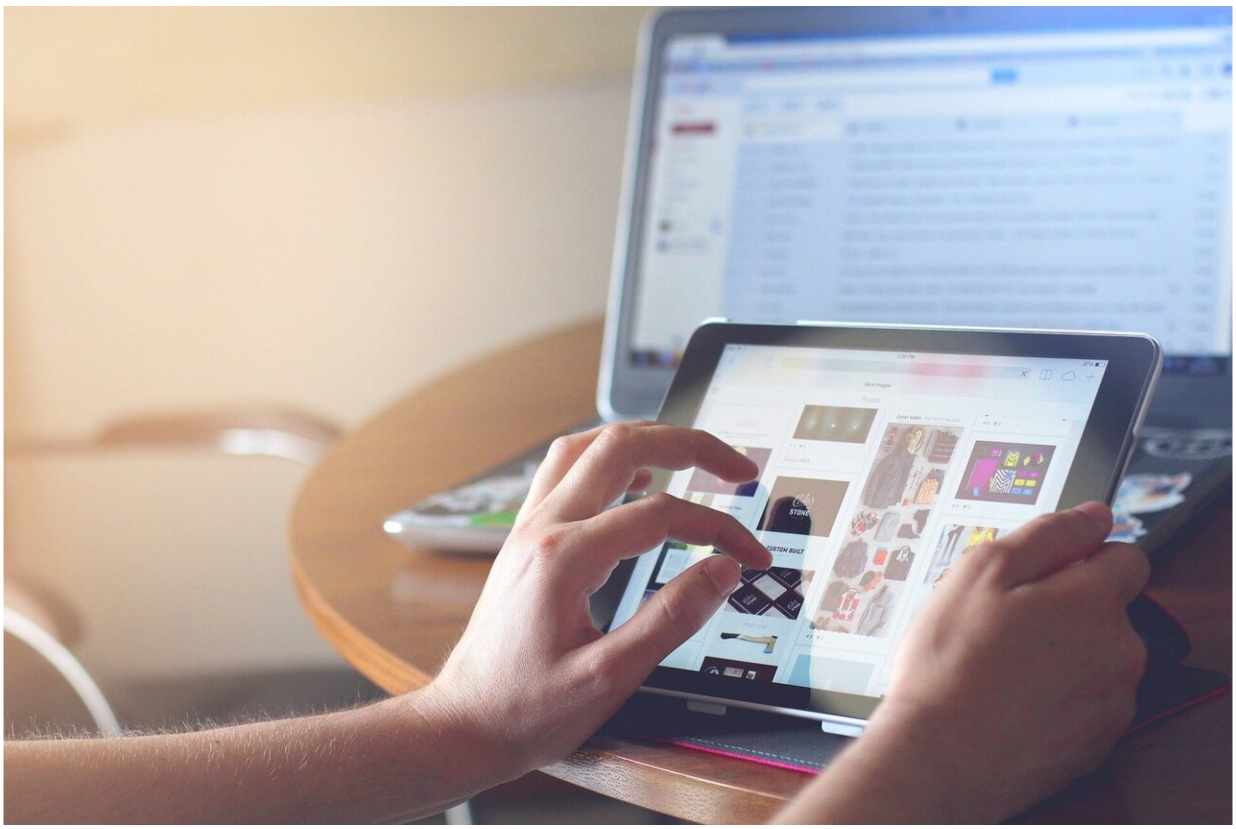

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Digital platforms are powerful catalysts of economic activity, drastically reducing transaction and communication costs. This has sparked an abundance of scholarly research to explore the revolutionary changes they have caused in a variety of industries. It has similarly encouraged "platformania," which essentially entails speedy investment into new areas in order to gain a competitive advantage, capitalize on network effects, and create hurdles for rivals.

Despite this optimistic image, the successes of digital platforms are not set in stone and are not even self-sustaining. This is particularly true for platforms driven by peer-to-peer (P2P) and collaborative sharing, including companies like Airbnb (accommodation), Lyft (transportation), TaskRabbit (labor), and Kickstarter (peer lending). The impact of the COVID-19 crisis has further magnified the relevance of these platforms; yet many suffer from establishing themselves and growing, or simply do not make it at all, with the exceptions of a few "unicorns."

Existing research has identified two explanations for why platforms do not experience growth. One is a lack of network effects, meaning that users do not gain from having more people on the platform. This results in an inability to create and disseminate these advantages and reach the critical point where expansion becomes exponential. The other cause is a deficiency of trust, which is required for connecting peripheral members in social networks, online marketplaces, or inter-organizational exchanges. Without this trust, it is difficult to reach a tipping point. As a result, without creating adequate trust and reaching out to marginal users, platforms can expect difficulty expanding their user base.

The advancement of complementary perspectives has significantly contributed to our knowledge of the factors behind successful sharing platforms. Nevertheless, network effects and trust-building features are not able to account for the development of these platforms on their own; other significant aspects, such as platform-level exchanges and interactions, need to be taken into consideration. This promoted a duo of researchers in Europe to take an analytical approach with a transaction cost economics (TCE) viewpoint.

"We believe how a sharing platform grows is contingent upon the type and characteristics of the transactions it facilitates," shares Yusaf Akbar, co-author of the new study reported in the *Journal of Digital Economy*. "We will begin by determining the costs generated at the platform level due to certain features, before suggesting ways in which those variables can be managed by appropriate governance mechanisms."

To explore this further, the researchers developed an empirical model that examines sharing platform growth in relation to transaction frequency, uncertainty, and dedicated investments.

"Miutcánk is a Hungarian P2P sharing platform that was set up and launched quickly, and yet has to be scaled up. It serves as an ideal example of the type of sharing platforms our study examines," shared Andrea Tracogna, the other co-author of the study. "Our findings show that Miutcánk's growth has been hindered by features of transactions, preventing the adequate production of network effects and trust constructions."

To address such an issue, the duo proposed that platform firms should develop particular governance mechanisms that convert the P2P structure into an integrated one.

More information: Yusaf H. Akbar et al, The digital economy and the growth dynamics of sharing platforms: A transaction cost economics assessment, *Journal of Digital Economy* (2023). DOI: 10.1016/j.jdec.2023.01.002

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