

New business models and Platform-economy. More Sharing Economy? Less inequality?¹

Frans van der Reep, July 2016

"What if the promise of the Web 2.0 – grassroots democracy – is pure ideology? What if the content we generate also generates massive inequality: power for the very few over the many of us? What if this were equally annoying and, simultaneously, unavoidable?"²

Are the so-called "new" business models focused on "sharing" actually promoting new behaviour or are they simply using old behaviour of the provider/consumer in a new technological environment? Are the new tech companies in the sharing economy with their "new" business models grabbing too much power, unnoticeably?

1. Introduction

The term "new business model" can be found in the discourse on sustainable, corporate social responsible entrepreneurship and the sharing economy. This discourse contains numerous references to social and collective frames such as "bottom-up", "grassroots", "crowds" and "communities". The discourse about new business models suggests new thinking, more connectedness, and more sustainability. There is a general consensus that the Internet improves democracy, connects people and provides a better social life, as suggested in publications by a range of Internet experts amongst others Shirky, Anderson and Jenkins.³ Hierarchy as an organisational tool becomes less important and is replaced by self-organisation, self-driven network-based organisation and co-operation in both the business and political domains.

This "bigger picture" of new business models and self-organisation, however, does not necessarily serve the common good. New business models still continue to be focused on profit maximisation. Should we be surprised? The transition is still rather new and there is sufficient space for the old business logic. Therefore we see not less, but more of the piranha economy and less compassionate capitalism. The transition towards a piranha economy was already a topic in scientific publications 20

¹ This article was earlier published in Dutch Tijdschrift voor Sociale Vraagstukken [Brenge nieuwe business modellen ons meer verbondenheid en duurzaamheid? Tijdschrift voor Sociale Vraagstukken, zomer 2015, nr 2, p.14-17](#)

² Martin Warnke (2013), "Databases as Citadels in the Web 2.0", (in) Geert Lovink and Miriam Rasch (eds.), *Unlike us Reader*, #8, Amsterdam (Institute of Network Cultures), p. 76.
<http://books.networkcultures.org/unlikeusreader/chapter/databases-as-citadels-in-the-web-2-0/>

³ Clay Shirky (2010), *Cognitive Surplus*, New York (Penguin Press); Sam Ford & Joshua Green (2013), *Spreadable Media. Creating Value and Meaning in a Networked Culture*, New York (New York University Press); Chris Anderson (2010), *The Long Tail. How Endless Choice is Creating Unlimited Demand*, New York (Random House)

years ago, but it seems tech companies blurred this insight by using violent marketing campaigns⁴ to convince us otherwise.

2. What is actually happening?

According to the transaction cost theory, an enterprise needs to be able to offer more competitive rates than the market in order to organise co-operation and make a concrete offer. After all, an enterprise exists as it is faster, better and produces at lower cost than its competitors. Co-operation within the enterprise needs to be realised at a lower cost than the “external” market can charge to provide the service. Failing to do so, means losing the advantage.

The Internet continues to lower the costs of “external” co-operation, thereby forcing companies to reduce internal cost of cooperation to stay competitive. External transaction costs go down, fostering the network economy. This was well understood 20 years ago.⁵ The formation of communities and groups has become simpler and has a substantially lower price tag. This way, the internet has surpassed the hierarchy as a tool to create co-operation. Many new business models, like Easyjet, AirBNB, Crowdfunding platforms, FindZebra, and even the long tail, just reflect the reduction of transaction costs.

From the perspective of transaction cost theory, it seems obvious that co-operation within an enterprise will need to become cheaper as well. How does achieving digital efficiency compare with personnel costs savings and the introduction of forms of self-management within enterprises?⁶

The pursuit of lowering the “internal” transaction costs of an enterprise is in its early stages. For the time being, the principle of self-management by employees is still incidental. Research by Seidman

⁴ Theodore Roszak (1986), *The cult of information : the folklore of computers and the true art of thinking*, New York (Pantheon Books);

⁵ In 1991 Ronald Coase got the Nobel prize for his discovery and clarification of the significance of transaction costs and property rights for the institutional structure and functioning of the economy.

http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1991/press.html The transaction cost theory became known through the work of the Nobel Prize winner in Economics 2009 Oliver E. Williamson, see for example his book *The Economic Institutions of Capitalism: Firms, Markets Relational Contracting*, New York 1985 (Free Press). See also J.R. Galbraith (1973), *Designing Complex Organisations*, Boston Ma (Addison-Wesley Longman).

Peter.G.W. Keen (1999), *Competing in Chapter 2 of Internet Business, navigating in a new world*, Delft (Eburon Publishers), p. 12, 22.

Don Tapscott (1999), *Creating Value in the Network Economy* (Harvard Business Press); Don Tapscott (1996), *The Digital Economy. Promise and Peril in the Age of Networked Intelligence*, New York (McGraw-Hill); Don Tapscott & Anthony D.

Williams (2006), *Wikinomics: How Mass Collaboration Changes Everything* (Portfolio).

Carl Shapiro en Hal R. Varian (1999), *Information Rules – A Strategic Guide to the Network Economy* (Harvard Business School Press); Philip Evans & Thomas Wurster (2000), *Blown to Bits: how the economics of information transforms strategy* (Boston Consulting Group / Harvard University Business School Press).

⁶ F vd Reep (2005), From Schedule Push to Reality Pull, European Retail Digest Issue 48, winter 2005, p 33-37.

shows that: "Only 3% of the 36,280 employees ... observe high levels of self-governing behavior within their organizations — the extremely low rate of SelfGovernance is consistent across every demographic category, including country, industry, economic environment, language, and ethnic culture".⁷

3. Who owns the future?⁸

Is self-governance the pathway to a durable and connected future? Is this the whole story from the perspective of grass roots? Who owns the future? In 1986, Theodore Roszak analysed the stimulation of those developments as part of a consciously followed strategy by enterprises and public institutions: adoption of the new information ideology meets the requirement for control by both public and private organisations.⁹ And what about connectivity? According to Jaron Lanier, "*the rise of digital networks ... [has] not only forced our economy into recession but also puts strains on the middle class.*"¹⁰ The Dutch Social and Cultural Planning Office (SCP) also notes increasing inequality within The Netherlands.¹¹ Larger social-economic and cultural differences are unmistakably leading to exclusion, the internet is fostering societal inequality rather than inclusion. Where digital media and Smartphones promised a connected future, the trend of exclusion is also visible¹².

Who owns the future? Right now, there is an ongoing battle involving approximately 1000 companies that have access to sufficient computer power and talented mathematicians. They are earning their revenues by predicting our behaviour based on the data we leave behind on the internet: social physics via big data and robotising. The question is whether we are really aware of the societal consequences of this development: people responding more to 'data profiles' than to facts.

An example: based on Peter Olsthoorn's calculations, regular customers "pay" Google approximate US\$ 280 per year.¹³ Not cash – the web browser and apps are free – but by leaving a trail of personal data accessed through cookies and clicks, highly valued by Google's e-tail clients. The customers

⁷ Dov Seidman, *The How Report, New Metrics New Metrics for a New Reality: Rethinking the Source of Resiliency, Innovation, and Growth, New Metrics for a New Reality*, LRN.com/howmetrics, p. 7. See also: <http://howmetrics.lrn.com/howmetrics/> "Blind Obedience" is reported in 43% of the tested subjects.

⁸ "*Who owns the future*" is the title of the book by Jaron Lanier who claims that digital networks lead to a recession and cause the decimation of the middle class. See: Jaron Lanier (2015), *Who owns the future*. New York (Simon & Schuster).

⁹ Theodore Roszak (1986), *The cult of information: the folklore of computers and the true art of thinking*, New York (Pantheon Books).

¹⁰ See podcast Jaron Lanier, *Who owns the future?* <http://www.commonwealthclub.org/events/archive/podcast/jaron-lanier-who-owns-future-51413>

¹¹ Cok Vrooman & Mérove Gijsberts (red. 2014), *Vershil in Nederland, Sociaal en Cultureel Rapport 2014*. The Hague; (Sociaal Cultureel Planbureau). http://www.scp.nl/Publicaties/Alle_publicaties/Publicaties_2014/Vershil_in_Nederland

¹² F. vd Reep, *It may go either way. Exclusion as the new societal trend?* (in) *SecondSight, the Desert Issue nr 38, Summer 2014, page 82-86*

¹³ A. de Vos (2014), "Online heeft iedereen een prijskaartje", see: http://fd.nl/Print/Bijlage/FD_Personal___Finance/32967/online-heeft-iedereen-een-prijskaartje

“disown” valuable personal information every time they use Google. Google wants all our data and wants to be connected to our information streams, your digital wallet, your thermostat, your e-mail and your satnav. Google seems to care less whether the background is or isn’t sustainable, economic or social.

4. Reflection

Is there a level playing field with the Googles and Facebooks, with health care insurers, banks and Government? Is there a balance of the powers of the people, enterprises and government? Companies such as Google, Facebook and Uber know how to benefit from the current climate of growth and prosperity but only their owners and investors are dramatically enriched. The middle class seems to be left empty handed. Under the facade of self-governance, power re-distribution and more individual autonomy there is a genuine and dramatic power concentration taking place.¹⁴ Will Michael Dertouzos be proven right with his assertion that the internet is developing into a market place, and as the consequence the gap between the “haves” and the “have nots” is growing further, both globally and locally?¹⁵

The digital world is indeed an important enabler and driver of new business models and network based self-management. Many have confidence in the “bright” future that has been sketched for them. However, the dark side is remarkably underrepresented both in the popular media as well as academia. Only the surfaces of potential problems are scratched and there seems to be a reluctance to look deeper.

Social consequences, such as social physics, autonomous cars or information ownership are unclear¹⁶. The smartphone’s impact on social inclusion/exclusion processes, the shaping of our personal identities, education, safety and safety perception, still needs substantial clarification.

Clearly, there are social and socially responsibly initiatives, especially at the local level. Cleaning the park on Saturday morning though a neighbourhood initiative is a very caring and noble act. However, this kind of local examples seem to be the minority. The majority of the changes in the digital world seem strongly commercially focused, with lower transaction costs between the participants as key driver. Recently, Multiscope published a study on the familiarity and motives of sharing, car, room,

¹⁴ China implements the so-called social credit: how many stars do you have as civilian? In this way some say we enter the ‘algorithm society’. https://en.wikipedia.org/wiki/Social_Credit_System

¹⁵ M. Dertouzos, What will be: how the new world of information will change our lives, Harper Collins, New York 1997

¹⁶ Example *framing* taken from: <http://uk.businessinsider.com/connected-car-forecasts-top-manufacturers-2015-2>

and tools and concluded that sharing at this stage predominantly equates to earning cash with a spare item. According to this research, people 'share' what they don't need¹⁷.

So, people share as long as it reduces the cost of living. Apart from small initiatives, sharing turns out to be a money issue, not a moral or cultural issue/Egoism, not altruism. The rest is marketing and framing.

The digital world improves (HR) flexibility, temporary communities and stimulates the sharing economy. At the same time, tribes are emerging, closed communities where one takes care of another, enhancing each other's reputation and share with one another – but share less with the ones outside the community and strategically ignore the rest of the world, thus increasing the levels of inequality between the groups whilst decreasing the inequality within the tribe. Even more than before you can be either in or out. If you are on the inside you will be one of the "lucky few", but the ones on the outside will be very far away.

All of this results in an increasing uncertainty through a fragmentation in the lower regions of our society, concentration at the top and a weakening of the middle. There is clear evidence of a growing power concentration by a limited number of tech companies who increasingly affect the social order and the political debate and globally increase the gap between the rich and poor¹⁸. These tech companies have created new and easy ways to organise ourselves; blinding citizens and consumers by offering free and easy sharing for the "end-game". This "end game" appears to be one where substantial, potentially too much, power rests with a very small tech elite.¹⁹ Sustainability and connectivity might, after all, turn out to be a very glossy layer.

Fortunately, it seems that this grim side of the digital world starts to be noticed as well. For the equilibrium in the discussion I find it a healthy development. It is about time this issue is put on the political agenda. Will we, the crowd, be able to control the silent power and stop the process, if needed?

In order to make social choices it is key to remain open-minded to what is happening and keep the conversation going. This debate requires much more time for us to observe the new possibilities.

¹⁷ Multiscope, Nederlandse deeleconomie stroef op gang, multiscope.nl, 23 april 2015.

¹⁸ E. Morozov, 'The State has lost control. Tech firms now run western politics', the Guardian, March 27, 2016 <http://www.theguardian.com/commentisfree/2016/mar/27/tech-firms-run-western-politics-evgeny-morozov>

¹⁹ Martin Warnke, Databases as Citadels in the Web 2.0 in Geert Lovink and Miriam Rasch (eds. 2013) , *Unlike us Reader*, #8, Amsterdam (Institute of Network Cultures), p. 99; Clay Shirky (2008), *Here Comes Everybody. The power of Organizing without Organizations*, New York (Penguin Press), p. 126. See forexample: F vd Reep (2014), Singularity, in Erik de Vries, Maes, Rik, Wouter Bronsgeest a.o., *De informatieprofessional 3.0, Vaardigheden om als strategisch Business partner op te treden*, Managementboek , 2014, p. 85 ff.

Only once we understand what is happening and what the possible implications of the new technology might be, we can organise ourselves and make a balanced decision. As Lao Tze mentioned: "New beginnings are often disguised as painful endings". We will know in 25 years.