

Research Topic : The Sharing Economy

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I intend to specialize in corporate strategy and in particular “the sharing economy”, i.e. the role of shared knowledge and information - or “the commons” - in basic research, innovation and creativity. In networked society intellectual property is often more valuable when owned by the community or “the commons” instead of by commercial interests. I will also explore the concept that peer-production involving individuals motivated neither by the market nor by managers represents a new form of production and resource allocation that is in many ways more efficient than that of the firm. (Benkler 2002)

I will draw upon my personal experience and business case studies which involve open source and peer-production, and will review historical and current academic work in intellectual property, economics and business. The book I intent to write will include the following areas of study.

Intellectual property law and code

Nobuhiro Nakayama (1995) argues that the present copyright legal structure may no longer be appropriate for creating incentives for production and management of creative works and that something closer to the public domain may make more sense. He also proposes that multimedia will cause a paradigm shift in the concept of copyright because the increased ability for people to produce, copy, remix and

transmit content has made current copyright law too complex to manage (Nakayama 1996).

In *The Future of Ideas*, Lawrence Lessig (2001) describes the impact of the Internet on the ways that intellectual property is created and how commercial interests are trying to pass legislation and create technology to stifle the emerging peer-to-peer flow of ideas.

In *Free Culture*, Lessig (2004) develops this idea further and describes how we might curb the destruction of the public domain through new methods of explicitly granting permission, such as the Creative Commons. Creative Commons allows artists to decide what permissions to grant and produces rigorous legal, human, and machine-readable licenses. This addresses some of the issues raised by Nakayama in the short-term, but the entire notion of copyright will need to be reviewed in the light of increased ability for individuals to create, remix and exchange content. It is likely that new applications and business models will drive this change.

The economics and politics of the public domain

As Lessig describes in *Code, and Other Laws of Cyberspace* (1999), software is like law, and architecture is like politics. Modern debates about copyright law and politics are exceedingly technical. On the one hand, the movie and music industries are being exceedingly conservative about copyright and technology, while the book industry, lead by Amazon.com, is being quite liberal and experimental.

Hollywood is lobbying politicians in the United States to extend the scope and terms of copyright and the recording industry generally blames illegal file sharing for its poor performance (Lieberman 2002). Felix Oberholzer of Harvard Business School and Koleman Strumpf (2004) of UNC Chapel Hill, however, argue that such downloads have no measurable impact on sales on CDs.

On the other hand, Amazon.com launched a service that allows users to search the full text of books. Many publishers feared a negative impact on sales, but Amazon.com boasts a 9 percent increase in sales of searchable books since announcing the service (Banks 2004). Amazon.com, progressive authors such as Lessig and publishers such as Penguin and O'Reilly have begun experimenting with releasing their books simultaneously in print and online for full, free download. There have not yet been enough such cases to provide the empirical data required to show whether increased sales will consistently exceed cannibalization due to the ease of acquisition of the electronic editions.

The music industry has clearly asserted that file sharing damages sales, basing their claims on the results of surveys rather than on empirical data, I believe the question of whether sharing increases or diminishes sales is more likely to be answered by the publishing industry through the aggressive experimentation of strong distributors such as Amazon.com.

Innovation and creativity in the public domain

Free Software such as Linux, open protocols such as the World Wide Web and

many creative works are part of the public domain and not owned by any commercial entity. Such public domain assets are the foundation of many businesses such as Amazon.com and Yahoo, as well as the Internet. This runs counter to the concept that innovation occurs internally within corporations and requires ownership of intellectual property, such as software patents, for proper incentives.

Ronald Coase (1937) described two modes of economic production: individuals in a market or employees in a firm. He argued that the employees in a firm had a lower transaction cost than the market and described the nature and value of the firm. Yochai Benkler (2002) describes a new third mode of production that he calls “commons-based peer-production”, which he argues is superior in many ways to the allocation of resources within a firm. He argues that this mode of production is often better at identifying and assigning human capital and also has a lower transaction cost. Eric Raymond (2000) describes how such commons-based peer-production operates. In software commons-based peer-production, hundreds or thousands of people work together on free software collaborating for a diverse set of social motivations other than managerial or market commands. Eric von Hippel (2002) describes user innovation networks where innovation development, production, consumption and distribution are all conducted by innovative users.

In a number of successful cases, large commercial firms embraced and extended free software. IBM has embraced Linux, Apache, the World Wide

Web and TCP/IP and have integrated this software in their offerings. IBM developed and released into the public domain SQL, which then became the foundation for Oracle's database software. The decision for Microsoft to embrace the Internet was an important turning point for both Microsoft and the Internet. Microsoft could have severely hampered the development of the Internet by behaving as they had traditionally done and focusing on proprietary standards. Instead, they, albeit a bit late, made a company-wide decision to build on top of the open standards of the Internet instead of around it. All of these companies innovate on a foundation of public domain.

Marketing in the Internet age

Chris Locke, Doc Searls and David Weinberger (2000) argue in the Cluetrain Manifesto that marketing is now a conversation. Seth Godin (2004) argues that with more information and the inability to interrupt the attention of consumers, segmentation and differentiation become exceedingly difficult. Segmentation and differentiation require companies to be able to differentiate their products by communicating advertising to customers. Customers with access to the Internet, and thus online conversations, are quickly able to evaluate for themselves the differences of the offerings. In addition, unlike television, users of the Internet can be selective in what they view and advertising cannot be delivered with a monopoly on attention in the way it can in traditional mass media.

Even on the Internet, advertising is becoming more contextual as customers

are becoming more difficult to interrupt. Internet advertising originally began as banner advertising, images on web pages which users could click to jump to the advertisers web page. "Click-through rates" - the percentage of users who clicked on banners viewed - have steadily declined. Google, the search engine, introduced AdWords Select in 2002, which provide contextual advertisements along side Google search results. More recently Google launched AdSense in 2003 which syndicates contextual advertising to target web sites. Amazon.com offers product affiliate links which allows hosts of web pages to receive a referral fee for customers who buy products on Amazon.com when they arrive on Amazon.com's web page from a link, even inside of an article on a web page. Advertising is becoming more contextual and embedded in the "conversation" instead of being interstitial and placed around or outside of the conversation and the context of a reader's activity.

Weblogs and others tools that allow individuals to remix and publish content are becoming key elements in creating as well as discussing content.

Companies focusing on technical copy-protection mechanisms are inhibiting the ability for people to discuss, share and think about their content. As bandwidth and storage become commodities, the issue of how to market content will become a bigger issue than how to deliver it or protect it using technology.

Digital Rights Management (DRM) systems have been developed and deployed with limited success. The critics of DRM argue it can only succeed at the expense of user experience and the ability of people to use technology

creatively (Doctorow 2004). The argument is that the cost of DRM exceeds its value and viral marketing and word-of-mouth, by people citing and referencing available works, exceeds the negative impact of so-called piracy.

My hypothesis

Internet enabled peer-production will increase in importance and firms will need to focus on areas that allow true differentiation, rather than differentiation by means of traditional marketing and communications. All firms will require a method of working with their stakeholders and that many of the stakeholders will be characterized as members of peer-production groups who should be engaged in the production process rather than being viewed merely as consumers. Deep similarities exist in peer-production in the commons in science, software, artistic and other research realms. There is excellent theoretical work being done in the legal, economic and social aspects of peer-production, but a rigorous and practical analysis of transaction costs, business methods and legislation through case studies and empirical analysis will provide insight into how these trends can be built into corporate strategy. Further, these practical issues need to be tied into a generalizable vision for businesses to turn into practice. As Coase's work on the nature of the firm has laid many of the foundations for modern business, I believe that the study of sharing economy and peer-production will lay the groundwork for the future of business in the information age.

Methodology

Numerous companies are either engaging in or work with assets created by peer-production. By interviewing such companies, communication, intellectual property policies and management techniques can be derived and generalized. I believe that interviewing companies and organizations such as Google, Amazon.com, eBay, IBM, Sony, Sun Microsystems, Microsoft, Oracle, The Free Software Foundation, the Motion Picture Association of America and other companies with which I have existing relationships may yield a unique view into how companies can adapt their corporate strategies to changes business practices that I intend to discuss in the book.

In particular, I would like to focus a great deal on The Creative Commons. The Creative Commons, is a non-profit entity providing licenses to artists granting permission for people to share and remix their content, are actively working to lower the legal friction for sharing content and contributing to the public domain. Part of the mission is to have a similar effect that the open source software movement had on software, but to the content industry. The success or failure of such projects in creating business value for participating companies and the public should be measured and interpreted.

Importance of DBA program

I am interested in advice and guidance on my methodologies, the target of the book and the structure of the argument. In order to rigorously describe the economic, legal and business framework, I will study works and methods in a variety of academic fields and need the support of an advisor as well as access to academic resources.

Access to resources from Deloitte and Morgan Stanley will help me greatly in my ability to target and analyse cases.

I believe this topic is one of the single most important areas of understanding necessary for advancing the work of companies, government and individuals and a rigorous approach, defensible in a variety of academic fields, is essential for pushing past many of the barriers to success which exist today.

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