New Governance and Digital Platform Companies: The Case of Uber

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ABSTRACT

Based on a new governance theory as regulatory governance, this article analyzes how a new economy creates new transaction costs at the local level due to the lack of legal coordination based on diversity and competition. The literature focuses on how new platform technologies have decreased existing transaction costs (i.e., online platforms). Surrounded by uncertainties in today’s diverse, complex, competitive, and a fast market environment, the lack of legal coordination has created new transaction costs for digital platform companies. There is limited research on new digital platform company experiences with high transaction costs. There is also limited information on how to overcome these costs, especially due to the lack of legal coordination. This article documents ways to understand how transaction costs are revealed through new technologies. It compares diverse regulatory impacts of the new economy on different localities, including San Francisco and Istanbul. Analyzing Uber as the case company, as well as its relationship with other stakeholders, this article adopts the governance model of regulation to identify the constitutive dynamics of the regulatory challenges. It reveals that local and global e-hail firms in the same country acquired different acceptance and responses in the local market. Thus, the level of transaction costs varied. Local communication based on diversity and competition was derived from the vested interests of lobbying powers, which led to the rising transaction costs. Comparing the local governance in two cities reveals the extent to which transaction costs affect the raison d’etre of companies to perform activities.

KEYWORDS

Digital Platform, E-Hail Company, Online Platform, Transaction Cost, Uber

INTRODUCTION

By analyzing the new economy, which has not yet been integrated into local laws (Barnes & Mattsson, 2016), this article examines transaction costs derived from competition and diverse impacts in different localities. This article points to the dilemma between regulating innovation and preserving Uber’s contribution to society (Posen, 2015; Ranchordás, 2015). In addition, it studies the legal coordination between governments and organizations in two localities. How do transaction costs vary in relation
to diversity and competition, as well as to legal coordination in different localities? To what extent can the local governance of new economy be identified as collaborative?

Nurvala (2015) identified new digital technologies (i.e., internet sites and smart phones) as platforms to reduce transaction costs (for example, information, bargaining, and enforcement costs). However, based on the assumption that the lack of legal coordination creates transaction costs, this article documents ways to understand the transaction costs revealed by new technology and a new economy. By adopting the new governance model of regulation described by Lobel (2012), this article identifies the constitutive dynamics of the regulatory challenges of the new economy. Using this model, the following factors are identified (Lobel, 2012):

1. Increased participation of non-state actors
2. Public and private collaboration
3. Diversity and competition within the market
4. Decentralization
5. Negotiation and revision
6. Soft law (flexible legal requirements)
7. Adaptability and constant learning
8. Legal coordination

This article analyzes two factors. The first is diversity and competition within the market. Lobel (2012, p. 5) stated, “… diversity and competition refers to the notion that a sustainable legal regime must encompass a multitude of values, account for conflict and compromise, acknowledge the diversity and changing interests of many participants, and recognize the legitimacy of private economic interests while appealing to public values.” The second, legal coordination, aims “to provide meaning to all other dimensions of new governance by facilitating the communication of local knowledge and the structured interactions of separate groups. A well-orchestrated government can promote and standardize innovations that began locally and privately” (Lobel, 2012, p. 6). Using this framework, the author examines problems faced by Uber in order to depict ways to facilitate communication of local knowledge and interactions among local governance actors. Examining Uber’s regulatory and market failures enabled the author to understand the extent to which transaction costs are related to the lack of legal coordination and effective communication of local knowledge.

The article compares the adoption of Uber in the cities of San Francisco and Istanbul. Uber’s operations were more mature in San Francisco. Therefore, Uber has different operations and levels of communication on the ground. The diverse spectrum between the cities allowed the author to evaluate various regulatory responses by governments. Analyzing the cities’ Uber operations from a comparative approach depicted diverse local settings in relation to communication and the configuration of local governance. In San Francisco, for instance, Uber must follow the rules of local bureaucracy and adopt the regulations of the California Public Utilities Commission (CPUC).1 Following this obligation, despite ongoing discussions at the institutional level, Uber confirmed that the company was responsible for following appropriate local requirements (Lien, 2016; Pierson, 2016). In Istanbul, Uber faced strong regulatory obstacles on the ground when working in those parts of the country whose local governance actors disagreed with the company’s communication and new business model. From a comparative perspective, these cities represent different product cycle stages. For example, Uber has seven products in San Francisco and two products in Istanbul.2

This article, as a reference to system thinking initiated by Vargo, Koskela-Huotari, Baron, Edvardsson, Reynoso, and Colurcio (2017), aims to identify relationships and processes to better understand complex systems. Considering local insight, it identifies and compares:
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