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## Research Article

# Sharing Economy Practices in Changing Business Environment: Transaction Cost, Resource-Linking, and Hypercompetition Perspectives

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Digital business is a phenomenon that is closely related to sharing economy business in pursuit of new entrepreneurial opportunities in Indonesia. This article aims to analyze the changing business environment because of the disruption from sharing economy practices, as well as analyze the competitive dynamics between the disruptors. The results show that sharing economy practices can change the business environment through differences in transaction costs within the cost structure and by capturing opportunities beyond the existing market through resource-linking strategies. The comparison study of Go-Jek, Grab, and Uber shows that the growth trajectory of sharing economy startups can be triggered by hypercompetition among them as the market leader.

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## 1. Introduction

In the end of 2016, the competitive landscape in Indonesia, one of the highest Internet-user countries in the world, has been shifting significantly. The incumbents from various sectors have suffered disruptions from new players that have changed the entire game. Thanks to the high adoption rate of the Internet, social media, and smartphones, these changes have been driven by platform disruptions. For example, trade malls such as Mangga Dua Square and Thamrin City have seen a decline due to cost-efficient marketplace e-commerce disruptions like Tokopedia and Bukalapak. The circulation of newspapers has also rapidly declined with the emergence of online news platforms like detik.com and merdeka.com. One of the most significant revenue streams in the newspaper

industry, listing ads, has been seriously disrupted by online listing ads platforms like OLX, which receives around 200,000 new ads in a day (Techinasia, 2015). Moreover, telecommunications companies such as Telkomsel, Indosat, and XL have been disrupted by smartphone applications like LINE and WhatsApp. In the past, telecommunication companies generated steady revenue and margins from voice and SMS services. However, nowadays people use chat and voice calls through smartphone applications that only require a very small data connection. These companies face a dilemma as they cannot generate significant revenue from these smartphone applications that disrupt their cash cow services, yet they still need these applications to retain their customers.

As the scholars have stated in previous research, digital business not only makes the business process more efficient, but it also has direct effects on transaction costs, searching costs, business models, and other strategic management areas (Bharadwaj et al., 2013). As

a result, incumbents may face disruptions from very different types of companies, disrupted by an invisible approach. The changes happen so quickly that incumbents may not realize the potential disruption and fail to prepare preventive strategies. On the other hand, disruptors are able to disrupt various sectors simultaneously, especially in the sharing economy platform. Sharing economy refers to peer-to-peer activities that can be performed by communities or commercial sharing platforms (Hamari et al., 2015). Unlike previous digital platform generations that extended the reach of conventional businesses with similar micro-entrepreneurs, sharing economy platforms utilize the excess capacity from the crowd to provide services to customers (Sundararajan, 2016). As a result, non-professional micro-entrepreneurs from various backgrounds join the platform based on their idle resources such as vehicles, skills, time, rooms, etc. Most of the peer-to-peer online transportation drivers are not licensed or professional drivers; instead, they are students or anyone who owns a motorcycle. This situation enables sharing economy firms to innovate even in non-innovative sectors such as transportation by providing cheaper and good enough solutions.

The sharing economy firms do not need to provide huge initial capital and maintenance costs for operations. Instead, they charge a transaction fee for every completed activity. By adopting this approach, Go-Jek, a sharing economy startup that began with peer-to-peer online taxi bikes, has managed to acquire over 200,000 drivers in just 5 years. This is an impressive number compared to the 20,000 drivers of Blue Bird Taxi, which has been in operation for 36 years. This massive pool of crowd-based resources appears to be driving the disruption of the platform. The platform disruption caused by sharing economy firms like Uber, GrabCar, and Go-Car has led to a decrease in net profit for Blue Bird, from IDR 625.42 billion in the 3rd quarter of 2015 to IDR 360.87 billion in the 3rd quarter of 2016 (Bluebird, 2016). Another taxi operator company, Express, suffered a loss of IDR 81 billion in the 3rd quarter of 2016 (Kasali, 2016).

The disruption of platforms arises from the wide range and size of external resources. Once a firm operating a sharing economy platform possesses the ability to reconfigure and combine crowd resources, they can expand the platform's service portfolio into other sectors based on their core competencies. This phenomenon has occurred with highly discussed sharing economy platforms like Uber, Go-Jek, and Grab. Starting with online transportation services in different ways, they have continued to expand by creating

platforms for various types of services. Each of these services has the potential to disrupt established players. Furthermore, these sharing economy firms, as game changers, are supported by significant capital from venture capitalists. This capital allows them to challenge incumbents that have been operating for much longer, accelerate their encroachment, and penetrate the market by converting non-consumers into consumers. Those situations make the fierce competition in the industry where sharing economy firms exist become inevitable. The competition not only exists between incumbents and disruptors but also between the disruptors themselves. The competition ranges from acquiring the crowd as external resources to acquiring customers from various points, such as potential customers who have not yet used the services, customers of competitors, and customers of substitute products or services. The competitive landscape raises some research questions within the business environment: how can sharing economy practices disrupt incumbents? How can disruptors manage the competition with other disruptors? Thus, this article aims to analyze the changing business environment because of the disruption from sharing economy practices, as well as analyze the competitive dynamics between the disruptors with the case of the most popular sharing economy platform in Indonesia in the early stage between 2014-2016: Go-Jek, Grab, and Uber. Go-Jek was the local player of sharing economy startups and the first mover in the Indonesian market, while Grab and Uber were multinational sharing economy startups from overseas that penetrated the Indonesian market. These three startups started their businesses in Indonesia with different types of services. Go-Jek started with peer-to-peer taxi-bike services, Grab started with taxi booking services, and Uber started with peer-to-peer car sharing services. However, over time, all of them have offered quite similar services.

In order to answer the research questions, we employ several theoretical perspectives. To analyze the changing business environment due to sharing economy practices, we begin with the transaction cost theory, which provides the foundational reason why firms exist (Coase, 1937). This theory also explains why the sharing economy has an advantage in the marketplace. In this context, capitalism is shifting from institution-based to crowd-based. Then, to enhance our understanding of the competitive edge for sharing economy firms, we delve into the resource-based theory, which is well-known in the strategic management area for this topic. Interestingly, sharing economy firms rely on the crowd as their external

resources. Thus, we also examine the business environment change from a resource-linking perspective. In academic literature, the research stream in the strategic entrepreneurship area has begun to explore the recombination of internal and external resources (Capron and Mitchell, 2009; Bingham and Eisenhardt, 2008; Karim and Mitchell, 2000). Lastly, to analyze the competitive dynamics among sharing economy disruptors, we examine the competitive advantages of these startups. The competitive advantage of sharing economy startups as disruptors in a similar area leads to intense competition among them. In this context, sustainable competitive advantage is challenging to achieve. Instead, the hypercompetition theory explains the role of temporary advantage in such intense situations (D'Aveni, 2009). Hypercompetition theory also clarifies the competitive responses of these three disruptors when each conducts an innovative movement.

## 2. Transaction Costs in the Context of Crowd-Based Capitalism

In the classic literature "The Nature of the Firm," Coase (1937) raises the question about the reason for the existence of firms. He points out that there are transaction costs on top of the production costs, including information costs, trade secret protection, bargaining costs, and policing and enforcement costs. Therefore, internalizing the process through contractual relationships can be a solution to avoid these costs. In this case, the size of the firm will be larger when there is an optimal balance between internal contractual relationships within the firm and external contractual relationships. Later, Williamson (1979) specifies which assets should be internalized based on their frequency and investment characteristics. In this perspective, the assets are assumed to be owned by other institutions in the market. When the assets have non-specific investment characteristics, such as generic products, market governance that includes sales contracts with short-term agreements is suitable. In other cases, when the

assets have mixed or even highly idiosyncratic characteristics, such as more specific and complex products, but are only needed for one-time or occasional use, trilateral governance through longer-term agreements is needed. Bilateral governance, such as strategic alliances and joint ventures, is needed for recurrent frequent assets with mixed specific investment characteristics. Lastly, when the assets are highly idiosyncratic and the firm needs those assets recurrently, a merger & acquisition or other full internalization process is needed.

Based on this transaction cost perspective, sharing economy platforms such as Uber, Go-Jek, and Grab use non-specific external resources from the crowd for recurrent needs. They acquire what people can do with their resources that are common in non-digital environments (Chase, 2012). Therefore, the pay-per-use model that is quite relevant to the market governance concept is suitable for those platforms. The Williamson (1979) model can be used to determine the contractual relationship in the sharing economy because each crowd is considered as another institution, a micro-entrepreneur. That is why the micro-entrepreneurs are called Uber partners, Go-Jek partners, and Grab partners. Interestingly, from the workforce perspective, those sharing economy platforms even shift external resources such as drivers to become their employee-like workforce and control them through their policy in the digital platform. Basically, from a customer's point of view, they work like a Blue Bird taxi driver. In other words, they only engage in simple and cheap market governance contracts with the crowd, but they receive effective transaction cost benefits just like full-time employees.

In Williamson's (1981) economic organization theory with a transaction cost approach, the adoption of external resources in a sharing economy platform falls closest to the spot market category for internal organizational governance. This is where human assets are non-specific and work can be easily measured through the aforementioned digital platform. The governance matrix for internal organization, as proposed by Williamson, is depicted in Figure 1.

		Human Assets	
		Nonspecific	Highly Specific
Metering	Easy	Spot Market	Obligational Market
	Difficult	Primitive Team	Relational Team

**Figure 1.** The Governance of Internal Organization (Williamson, 1981)

In his theory, Williamson (1981) mentions that effective transaction costs for workers can be achieved when those workers are internalized within the organization. However, sharing economy platforms keep workers outside the organization as external resources. They can even work for competitors simultaneously, as is the case with many Uber and GrabCar drivers. The advancement of digital platforms that are able to control numerous external resources as their own employees challenges Williamson's (1981) theory in explaining this phenomenon. Therefore, there is a theoretical gap in explaining how digital transformation can govern external resources in a manner similar to internal organizations.

Sharing economy firms integrate micro-entrepreneurs with their resources, such as cars or motorbikes, as suppliers. In contrast, the conventional taxi industry separates drivers and vehicles. To keep transaction costs low, they establish bilateral governance with car-maker companies like Toyota, Honda, and Nissan to provide vehicles. They hire drivers as employees with a monthly salary plus commission. This approach is effective for institution-based capitalism. However, there are other significant cost structures, such as operational costs, ownership costs, and maintenance

costs. Sharing economy firms shift from institution-based capitalism to crowd-based capitalism (Sundararajan, 2016). From the firm's perspective, some cost structure components, such as operational costs, ownership costs, and maintenance costs, are transferred to the micro-entrepreneurs and their own resources. Instead, the firms only need to manage the small transaction costs for each transaction and crowd acquisition. The amount of transaction costs is much smaller, especially when compared to the cost of purchasing a vehicle.

The comparison analysis based on the transaction costs and cost structure above shows that, compared to the conventional taxi industry, the sharing economy platform has an advantage in terms of acquiring resources in the beginning and also scaling for firm growth. Following the Schumpeterian theory of creative destruction (Schumpeter, 1934), sharing economy entrepreneurs create rent by exploiting opportunities in a complex and dynamic environment. It creates rent from a disequilibrium condition in the market, which, according to the Austrian School of Thought, arises from new resources in the production process (Lewin & Phelan, 2000). However, having small, effective, and efficient transaction costs itself is not enough to

achieve a competitive advantage. Due to the attractiveness of the business model, many firms try to adopt it. There are differences among them that explain why their performance differs. One of the most significant differences is the internal-external resource configuration, which will be analyzed in the next section.

### 3. Resource-Linking Perspective: Internal-External Resource Configuration

Resource-Based theory explains why firms perform differently by emphasizing the heterogeneity of resources (Barney, 1991; Wernerfelt, 1984). The entrepreneurship literature has examined the resource-linking logic that mentions the source of survival and growth for new firms coming from their partner resources (Baum et al., 2000; Schoonhoven, 1996). This is consistent with the growth of resource-dependence theory, which emphasizes the opportunity from having complementary resources (Pfeffer and Salancik, 1978). External resources and internal resources play different roles in firm performance (Capron and Mitchell, 2009). Internal resources contribute to capability development and value capture (Helfat, 1994), while external resources contribute to exploration and capability extension (Karim and Mitchell, 2000).

Previous study connected the relationship between these two resources that affect firm strategy by comparing Yahoo and Google partnering portfolios (Rindova et al., 2012). The study mentions several findings. First, various external resources come from a large and diverse partnering portfolio, while specialized resources come from a focused portfolio. Second, value creation with aggregation comes from diverse external resources that have less interaction with internal resources. On the other hand, value creation with integration comes from specialized external resources that have a high interaction with internal resources. Third, sourcing a wide range of external resources with loose integration with internal resources supports opportunity capture. Conversely, sourcing specialized external resources with high integration with internal resources will leverage the resources. Fourth, value creation through aggregation with diverse external resources will enter a large number of markets, while value creation through integration with specialized internal resources will enter the small and related market. Fifth, as a result, the aggregation approach will trigger diversified growth, while the integration approach will trigger focused growth.

Unlike other sharing economy firms that put the quality of services under the crowd, Go-Jek, Grab, and Uber standardized the services based on their standards. Therefore, the interaction between internal and external resources has a significant influence on the platform's capabilities. From the resource-linking logic above, Go-Jek started its venture by localizing peer-to-peer online transportation from Uber and adjusted the service from using cars to motorcycles as the transportation vehicle. It chose the aggregation mode with diverse partnering of external resources and managed to enter 14 diverse markets by the end of 2016. These ranged from peer-to-peer taxi motorbike transportation, food order service, home moving service, package delivery service, shopping service, to home cleaning and car repair services. The aggregation strategy enabled Go-Jek to capture opportunities beyond peer-to-peer online transportation. Go-Jek utilized and adjusted the backbone system from peer-to-peer online transportation to exploit opportunities from other services that can be implemented with sharing economy practices.

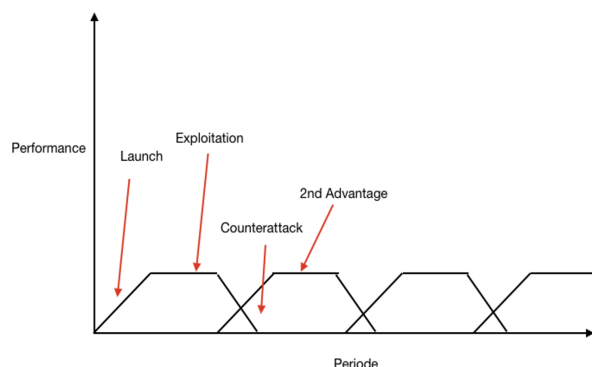
The multinational sharing economy startup, Grab, also conducts the same aggregation strategy as Go-Jek. However, they limit their portfolio to services that have been successfully proven by Go-Jek. For example, Grab has implemented food delivery and package delivery services that work very well in Go-Jek. On the other hand, Grab has not adopted the car repair service that has not yet been proven on the Go-Jek platform. In contrast, Uber uses an integration strategy by staying focused on their core competence in peer-to-peer car sharing service and integrating their service with specialized resources with local context, such as UberTRIP in Bali, which provides daily car rental for tourists. As a result, Uber is still the number one in the peer-to-peer car sharing services market at the end of 2016, far above Go-Car from Go-Jek and GrabCar from Grab (Techinasia, 2016).

The cases about sharing economy startups show that, by using a resource-linking perspective and an aggregation and integration strategy, sharing economy practices can offer advantages over incumbents with conventional business models in terms of capturing opportunities from crowd resources. This advantage leads to platform envelopment, which disrupts the incumbents through multiple complementary services. The concept of platform envelopment, coined by Eisenmann (2011), can also be seen as a disruptor for existing platforms. The attackers' platform aims to achieve critical mass by acquiring the user base of the target platform. The multi-bundled services offered by

the attackers' platform make the industry more integrated and harder to define specifically (for example, Go-Jek focuses not only on transportation but also on several other services). Although platform envelopment activities are similar to head-to-head competition with better offerings, from a disruptive trajectory perspective, platform envelopment follows the trajectory path of new market disruption. For instance, Go-Jek acquires Blue-Bird taxi users who also need food delivery services through Go-Food. Thus, platform envelopment can be categorized as disruptive innovation since it implements new-market disruption (Christensen et al., 2015).

## 4. Hypercompetition Between the Disruptors

Hypercompetition is the term for rapid and dynamic competition based on price-quality positioning and deep pockets (D'Aveni, 1994). The leader in this kind of competition does not have a sustainable competitive advantage; instead, they have a series of temporary advantages (D'Aveni, Dagnino, Smith, 2009). The series of temporary advantages is depicted in Figure 2 below.



**Figure 2.** Series of Temporary Advantage (D'Aveni et al., 2009)

Go-Jek, Grab, and Uber are sharing economy firms that operate in Indonesia with the deepest pockets. The portfolio growth of these companies is an example of the series of temporary advantages that cannot be excluded from the competitive response based on the actions of other players. The competitive dynamics of these three companies will be presented in the next paragraph, with the influence of path dependence. First, as a local player with the highest local knowledge, Go-Jek is able to adopt the business model developed by Uber in the United States in the local environment.

They keep expanding their business portfolio for growth in order to achieve a series of temporary advantages against Grab and Uber by maximizing their local knowledge. Second, as a multinational company performing strongly in emerging Southeast Asian countries, Grab follows and adopts the best practices of the most successful business portfolio performed by the local company, Go-Jek. Third, as the most established peer-to-peer online transportation firm operating worldwide, Uber stays focused on their core competence as a technology company with little adoption to adjust to local needs, such as adjusting the basic solution of using cars to a new local solution that uses motorbikes.

As a local player, Go-Jek received enormous funding from venture capital in early 2015 and localized the Uber business model with Indonesian motorcycle taxis (ojek). Not long after, Grab also copied the model with a similar jacket and application for drivers. Realizing that Grab was reducing their competitive advantage, Go-Jek extended their services by integrating their application and current business model with other external resources such as Go-Mart, Go-Food, and Go-Send. As a result, Go-Food became the second most profitable service for Go-Jek (Techinasia, 2016). However, at this point, Grab also successfully entered the Jakarta market with Grab Bike. As a result, these two companies engaged in a price war with e-voucher codes that provided enormous discounts on each transaction. During this time, the competition also extended to acquiring drivers, with Go-Jek launching advertising campaigns to acquire Grab drivers.

Both Go-Jek and Grab secured another enormous funding from several venture capitalists in mid-2015. At this moment, with their local knowledge, Go-Jek is trying to create another series of temporary advantages by expanding their services with Go-Life, which includes Fo-Box, Go-Massage, Go-Clean, and Go-Glam. In response, Grab followed the success story of Go-Food by introducing GrabFood. Uber finally joined the competition between these two sharing economy companies by introducing UberMotor in early 2016. With the competence of the best and most mature peer-to-peer online transportation, Uber did not need to wait long to grab the market from Go-Jek and Grab. Apparently, customer loyalty is not very high in this market. As a response again, Go-Jek implemented a defensive strategy by introducing an e-payment service, Go-Pay, that provides huge economic benefits for users who make payments through Go-Pay. They also introduced Go-Car to challenge Uber's most prominent services. As usual, Grab also followed Go-

Jek's strategy by introducing GrabPay and GrabCar. However, at this moment, Grab is innovating their services by introducing GrabChat, which provides a chatting service for users and drivers. Meanwhile, Uber is still experiencing steady growth from their peer-to-peer carsharing, with the additional service of motorbike-sharing, UberMOTOR. Go-Jek is trying to keep increasing their temporary advantage by acquiring another technology startup to support other portfolio services, such as GO-MED to provide online medicine services and also GO-TIX.

In the high-growth markets, there is a consensus that being the first in the market with innovative products or services is critical for creating successful startups. In this context, the first movers have several advantages, ranging from economical and pre-emptive to technological and behavioral (Nakata & Sivakumar, 1997). Furthermore, classic literature on first mover advantages mentions that pioneers tend to outperform late entrants (Lambkin, 1988). In order to produce innovative and breakthrough products or services in a relatively shorter time, some digital startups benchmark successful foreign startups from more developed countries. They then try to create clones of their products or services (e.g. Grab cloning Go-Jek's taxi bike and food delivery services through Grab Bike and Grab Food). Others try to localize the application by adjusting it to the local context (e.g. Go-Jek localizing the Uber business model). The adjustments can vary from the business model to the payment system and platform resources, among others.

These kinds of startups usually receive a lot of public attention if they can successfully enter the market, especially among the millennial generation (Lingelbach, 2012). This popularity often leads to significant early-stage growth, which in turn attracts more users to join the platform and increases its overall value through network effects (Parker and Alstyne, 2005). Moreover, significant growth can also attract investors to provide series funding investments (Chang, 2004). In fact, the significant growth of a startup usually does not come from retained earnings, but rather from resource injections such as capital or human resources from investors (Chang, 2004). The nature of internet ventures is such that they require a high growth rate until a certain point in order to survive, scale, and sustain themselves (Guo et al., 2016). Therefore, the main objective in this stage is more focused on seeking growth rather than profitability.

Beside the advantages, the first mover startups also have some challenges such as an uneducated market, changes in consumer tastes, changes in technologies,

free-rider effects (consumer education, information spillover, skipping trials and errors), incumbent inertia (lock-in of assets or resources, organizational inertia), as well as an enhanced level of information (resourcefulness, shared assets or experience) (Cho et al., 1998). These challenges often make the Internet ventures run out of cash. Their survival rate is pretty low even though the startups are considered as first movers within the industry with support from the investors (Chang, 2004). By having the advantages and challenges, the remaining question for first movers is whether the first-mover advantage really matters for performance. Interestingly, the recent phenomenon in the Internet ventures area shows that the first mover does not always achieve sustainable performances. For instance, Food Panda is the first mover for social media and food order applications, respectively, in Indonesia. However, they have difficulties in growing further because of the fierce competition from the late entrants with more complete and complementary functionality; Go-Food from Go-Jek as well as Grab Food from Grab for food order applications bundled with various sharing economy services.

The cases and discussions above demonstrate that in the competitive business landscape, hypercompetition is closely tied to the timing of market entry. However, neither being the first mover nor a late mover can ensure the survival of startups in such a competitive environment. In 2018, Go-Jek and Grab continued to experience growth and emerged as the most valuable startups in Indonesia and Southeast Asia. Conversely, Uber had a slower growth rate and ultimately chose to be acquired by Grab. Uber's strategy, which heavily relied on their headquarters, hindered their ability to capitalize on local opportunities. In contrast, Grab, by following Go-Jek's lead as a local first mover, was able to leverage local resources and effectively compete with Go-Jek in the Indonesian market.

## 5. Conclusion

The cases illustrated in this article show that sharing economy practices can change the business environment due to differences in transaction costs within the cost structure, which provides advantages in terms of resource acquisition and scaling for firm growth. Furthermore, the resource-linking perspective can also completely change the business environment, as sharing economy practices enable firms to capture opportunities from external resources. Exploiting these opportunities allows sharing economy platforms to implement a diversification strategy that may lead to



platform envelopment of incumbents with conventional business models.

Lastly, this article also presents the competitive dynamics between sharing economy startups as disruptors, through a hypercompetition perspective. These platforms have evolved to offer similar services, creating a series of temporary advantages, although there are differences in market entry time for certain services. As a result of the competitive response from each firm, their growth trajectories differ. As a local player and the first mover, Go-Jek chooses highly diversified growth. On the other hand, Grab chooses an early mover strategy with diversified growth, while Uber, as the largest multinational company in peer-to-peer transportation services, chooses focused growth.

The comparison study of Go-Jek, Grab, and Uber shows that the growth trajectory of sharing economy firms can be triggered by hypercompetition among them as the market leader. Local firms, with better knowledge about the local market, tend to choose diversified growth by aggregating external resources and responding competitively to their competitors by creating a series of temporary advantages. Foreign players may adopt a wait-and-see approach and then respond competitively by adopting the most successful approach from the local first mover and innovating from there. Another foreign player with strong competence tends to use a focused growth strategy, tightly integrating external resources with a high local context with their internal resources. The pattern of these strategic actions can serve as a guide for predicting the competitive response from each competitor in the dynamic environment. Ultimately, foreign players need to incorporate local knowledge into their strategies to maintain their competitive advantage.

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