

Modified Information Ratio Reveals Network Effects Behind Long-Term ICO Success

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/EINPresswire.com/ -- New research reveals that Initial Coin Offerings (ICOs) conducted on proprietary blockchains are fundamentally much more likely to succeed in the long term, highlighting the significant impact of network effects on ICO performance.

A quantitative study(doi: <https://doi.org/10.1016/j.jdec.2023.03.003>) published in the Journal of Digital Economy sheds new light on the factors contributing to the long-term success of Initial Coin Offerings (ICOs). The research empirically proves that ICOs on proprietary blockchains experience significantly enhanced performance due to network effects.



Figure

"Network effects are a powerful force in the digital economy," says Tatja Karkkainen, sole author of the study. "The findings show that when ICOs are launched on their own blockchains, they are six times more likely to succeed over the long term. This is a clear indication that the inherent value created by network effects can greatly amplify the chances of success for these digital assets."

The study utilizes a modified information ratio designed by Karkkainen to assess the performance of ICOs relative to established benchmarks like Ethereum and Bitcoin. By analyzing price time series data, the researcher was able to quantify the network effects associated with ICOs on proprietary blockchains, providing a novel metric for evaluating the potential of digital assets.

"More importantly, it has a practical application," added Karkkainen. "We can filter the vast crypto universe into a more manageable shortlist of promising investments, making it a valuable tool

for investors seeking to identify high-potential digital assets.”

One of the key findings is that ICOs which integrate their fundraising into an existing, functioning blockchain not only benefit from higher initial fundraising amounts but also demonstrate greater resilience and performance over time. This is attributed to the network effects that arise when a dedicated user base and proprietary technology combine to create a more robust ecosystem.

Karkkainen's study also reminds digital economy entrepreneurs and investors that, as with any startup too, while successful fundraising is important, it does not ensure the successful delivery of a project.

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