Expert group for the EU Observatory on the online platform economy

Work stream 4: Platform Governance

Concept note

1. Policy context

At the European level and national levels, several regulations try to provide a framework for the platforms that have emerged with the digital age.

Thus, the EU Regulation 2019/1150 of the European Parliament and of the Council of 20 June 2019 on promoting fairness and transparency for business users of online intermediation services. More recently, the Digital Market Act and the Digital Services Act under discussion aim to ensure fair, safe and contestable digital markets. Specifically, Digital Markets Act aims to ensure that behaviour by large online platforms that have gatekeeper powers is not limiting the contestability of these markets. Moreover, some platforms are recognized as important beyond their economic action and the regulation then seeks to impose specific obligations on them to guarantee a secure online discussion space and preserve democratic debate principles.

All these regulations aim to correct negative side effects considered economically or socially harmful. While some of these regulations regulate platform decision-making mechanisms, none really considers the specific characteristics of platform governance mechanisms. However, platforms are organizations that differ from companies in that they co-produce value with an ecosystem of partners and users that they orchestrate through a technological infrastructure.

While there are principles of corporate governance, to our knowledge, there are no general principles that are binding on platforms as to the organization of their governance. This can partly be explained by the fact that platforms have varied activities such as product exchanges, services, software, content, social exchanges, involving extremely different users and ecosystems. In addition, end users are rarely considered as co-producers, particularly from a contractual point of view, including when they provide their personal data and their platform usage data. These rules vary greatly from one platform to another and evolve according to the decisions of the platforms without users being able to oppose any right to its evolutions.

2. Research/Policy questions and methodology

In a digital world, platforms become predominant organizations in economic exchanges and value creation mechanisms. While the issue of corporate governance has dominated the debate over the last thirty years, the subject of platform governance is still an emerging issue that is not specifically addressed by policy makers, who tend to focus on the effects of platforms on users and competition rather than on the governance mechanisms themselves.

Traditionally, corporate governance has emphasized the 'primacy' of shareholders—i.e., the economic, legal owners of a company. Over time, policymakers have imposed measures on firms designed to compel the other actors within a company—mainly directors, executives, and managers—to act in the best interests of the shareholder-owners. This governance approach worked best when large corporations were the primary engines of economic growth, but it makes much less sense in an age of flatter, innovation-driven platforms.

Platforms need to attract and coordinate an ecosystem in two or more different target groups also referred to as sides (Gawer, 2009) – in most cases complementors and customers (Tiwana, 2014). The right design and a suitable governance concept are therefore key to orchestrating a successful platform with all stakeholders (Smedlund & Faghankhani, 2015).

Effective platform governance principles should include both principles that govern decision rights of users and decision rights of platform owners. Generally, user's rights are limited and formalized into 'Terms & conditions' documents which are not always understandable for end-users, thus weakening their rights.

The scope of the platform governance includes the definition of roles, decision rights, organizational openness and control, boundary resources and documentation, value distribution, data rights, property rights (Schreieck &alii, 2016). In all these dimensions, the design of the governance of platform defines the rights and obligations of each stakeholder.

Most of the regulations address one or the other of the dimensions of platform governance without ever approaching the subject as a complete and coherent whole, often leading to fragmented regulation and whose effectiveness can be questioned until today. This fragmentation could be analyzed as a conflict of law as users are often only considered as non-contributive resources of those organizations (creators on YouTube have very limited rights to discuss the rules of removal of content, not to mention remuneration rules). Whenever they might be recognized as contributors, they often face a very limited, if not nonexistent, rights to discuss rules that govern their on-platform activities and the monetization of their contribution.

Part of these issues lead to a new generation of platforms trying to provide alternative governance framework. In this perspective, platform cooperativism is seen as a governance framework that rebalance platform users' rights. As for today, they are little empiric evidence that user's owned platform could be an effective alternative to heavy centralized platform. Other alternatives, more technology oriented, such as Decentralized Autonomous Organization (DAO) try to rely on a new set of technologies (smart contracts on blockchain) to design governance mechanisms embedded in the technology itself and offer new types of user-oriented platforms. Those emerging alternatives platform's governance need further understanding to be set as credible alternatives at a large scale to the actual centralized platform's governance. In DAO platforms characterized by computerized rules and contracts governance mechanisms are automated, embedded in code. Thus, design principles are key as their execution are mediated through specific digital networks (blockchain and smart contracts) which make almost impossible to change them.

The work group will then provide an extensive review of the actual frameworks of platform governance mechanisms: centralized platform, cooperativism platform, digital autonomous platform. This extensive and comparative analysis can be complemented by a legal analysis that will provide leads for principles of balanced governance of online platforms. Conclusions for policy makers will be drawn from these analyses.

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