



Initiative on the Digital Economy

Platform Governance and Regulation

MIT Platform Summit *Geoffrey Parker*

July 10, 2015



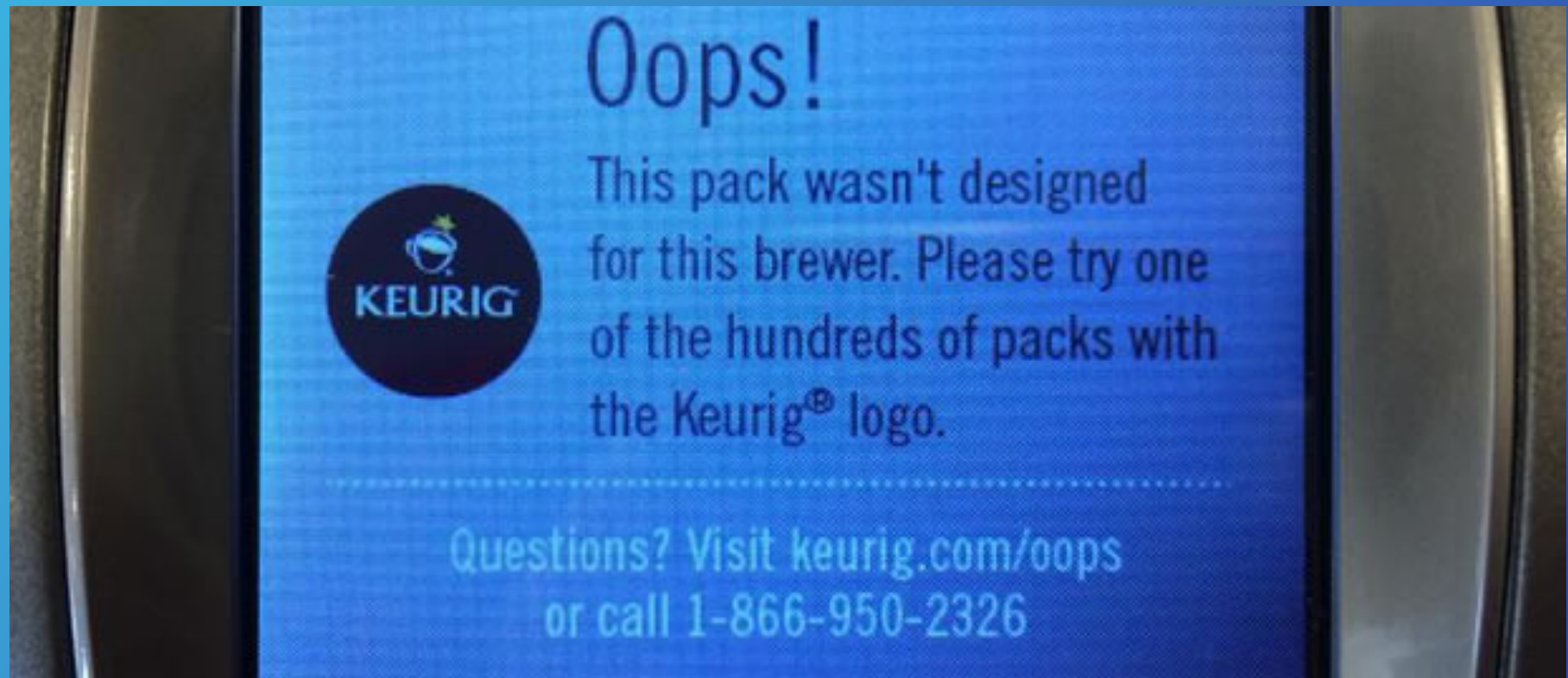
Challenges on the way to platform Nirvana: Kuerig 2.0



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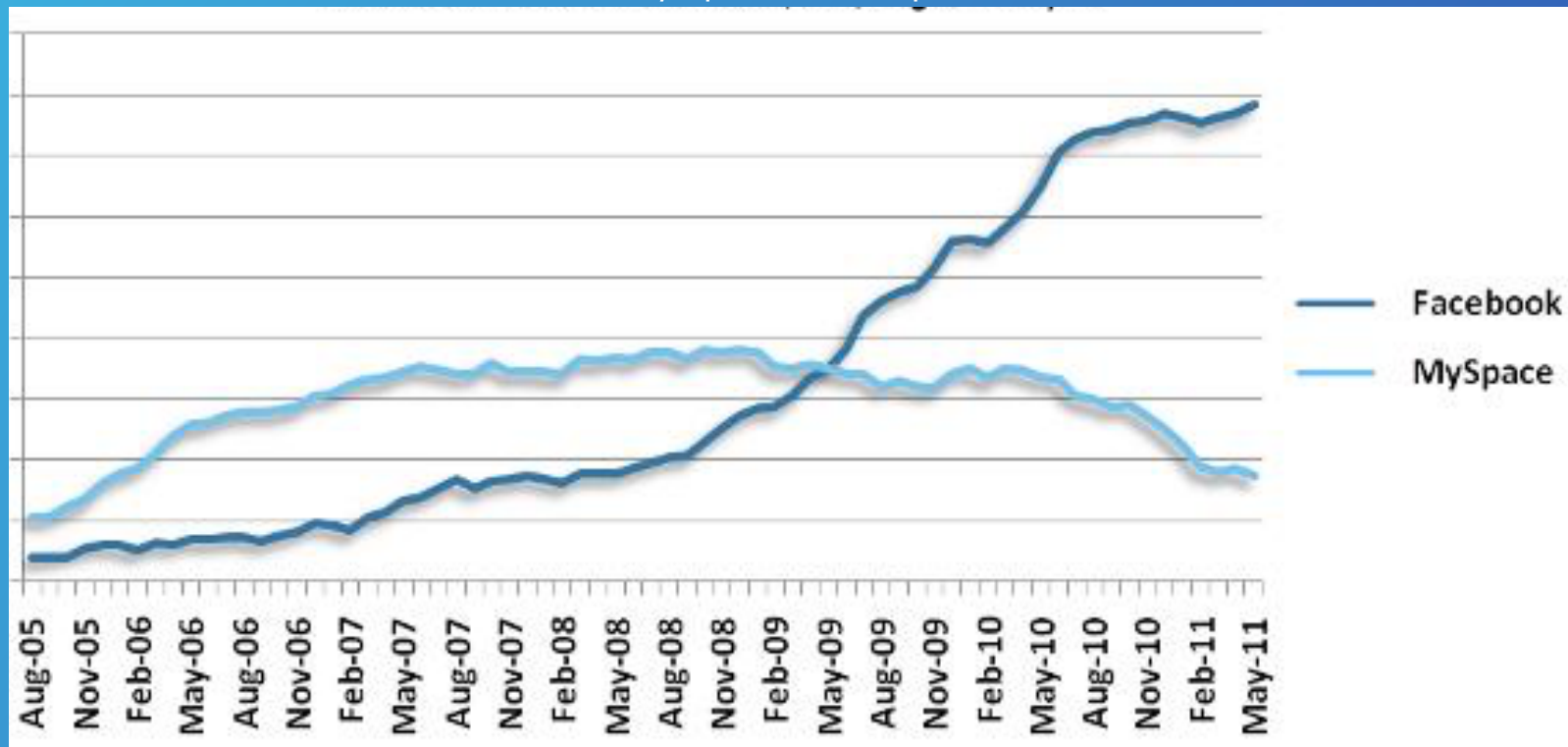


Kuerig violated at least three rules of good governance

- Always create consumer value.
- Don't use your power to change the rules in your favor.
- And don't take more than a fair share of the wealth.

MySpace

Facebook vs. Myspace Unique Visitors



The Telegraph

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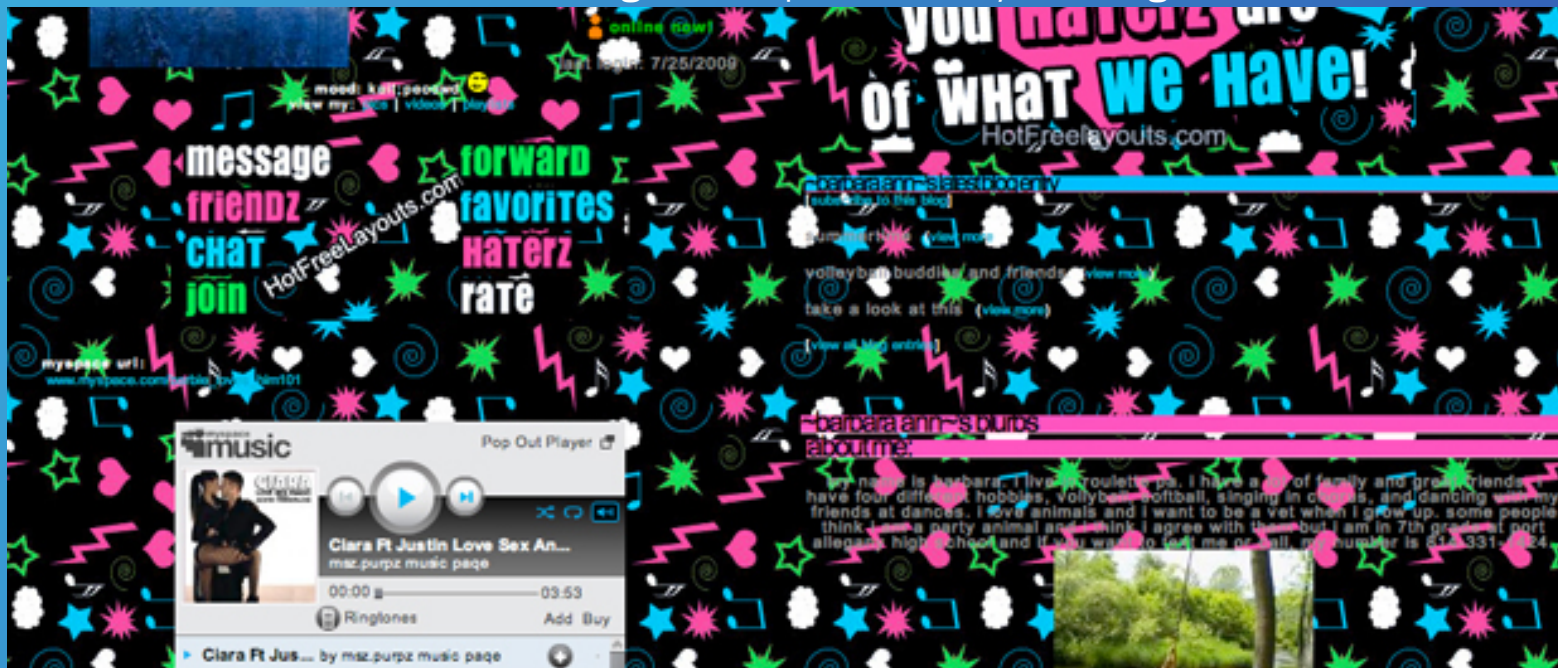
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Murdoch: we screwed up MySpace 'in every way possible'

Rupert Murdoch, the chairman and chief executive of News Corporation, has tweeted about how his company “screwed up MySpace in every way possible”.

MySpace

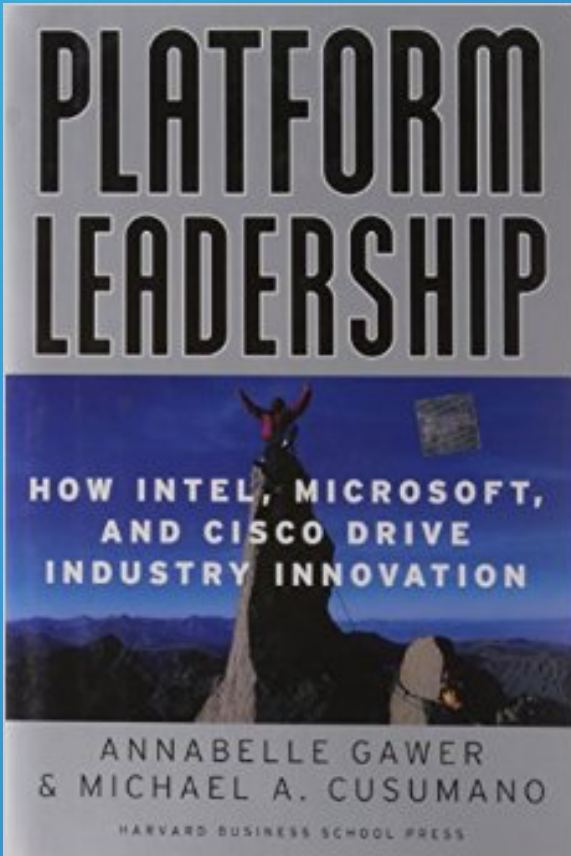
Clutter and excess advertising made possible by loose governance



MySpace was both too open and too closed

- Too closed to external innovation
 - Integral Architecture and company policy did not support innovation
- Too open to ads and objectionable content

Platform Leadership Rules ... Platform Governance



Some Excerpts:

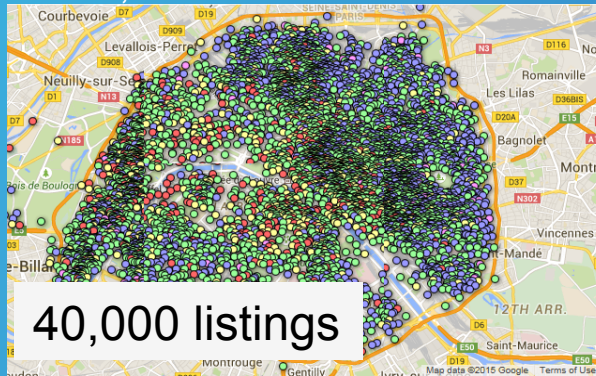
- Give customers voice in key decisions.
- Maintain open standards
- Treat IP fairly, yours and theirs
- Communicate clear roadmap. Give notice; no surprises.
- Ok to offer differential benefits to partners with differentiated assets. But explain how and why.
- Promote the long term financial health of partners especially smaller ones

Getting governance right is hard enough in one country...

Accommodation platforms... global scale

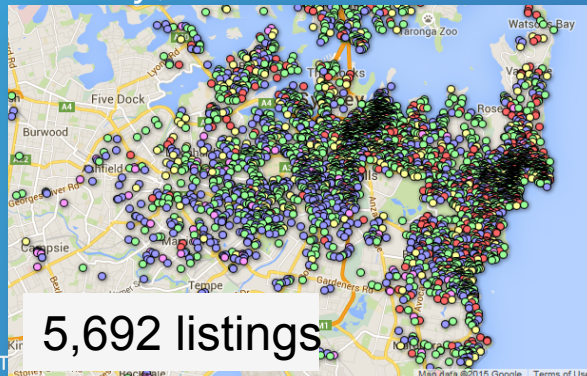
Paris, France

Founded in 2008, Airbnb now operates across the world

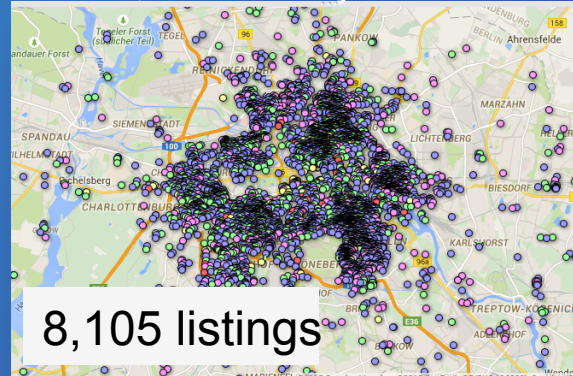


The Airbnb platform now has 640,000 hosts with over 1 million listings in over 180 countries and 34,000 cities

Sidney, Australia



Berlin, Germany

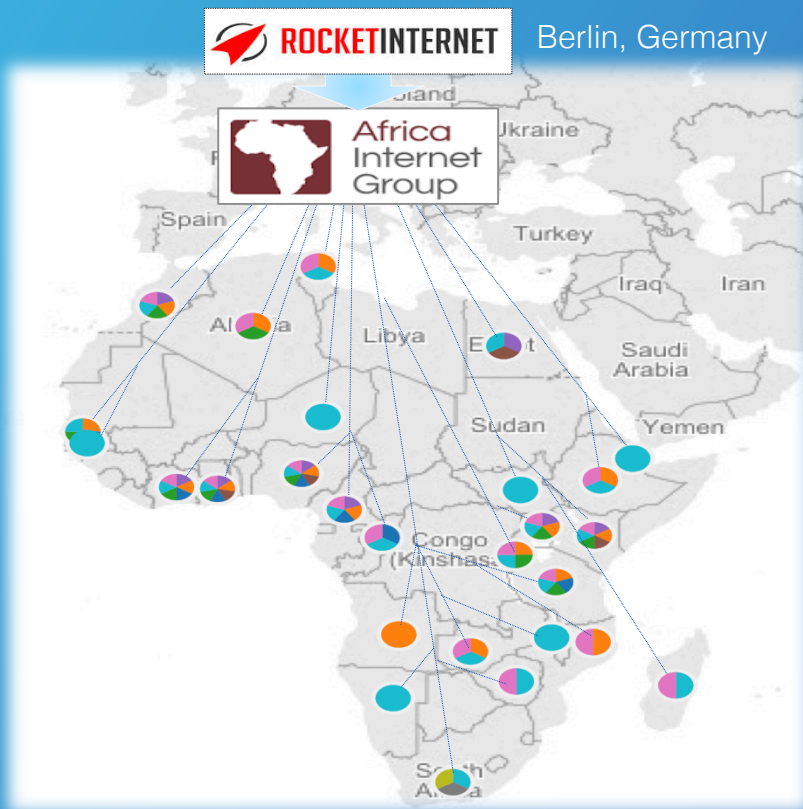


Slide courtesy of Peter Evans © 2015

Source: <http://tomslee.net/airbnb-data>, 2015

Parker, Van Alstyne & Choudary 12

Platform investment in Africa



| | | |
|--|------------------|--------------|
| | JUMIA | 8 countries |
| | zando | 1 countries |
| | hellofood | 10 countries |
| | EASY TAXI | 4 countries |
| | OVAGO.com | 25 countries |
| | carmudi | 7 countries |
| | kaymu | 16 countries |
| | Lamudi | 18 countries |
| | Lendico | 1 country |

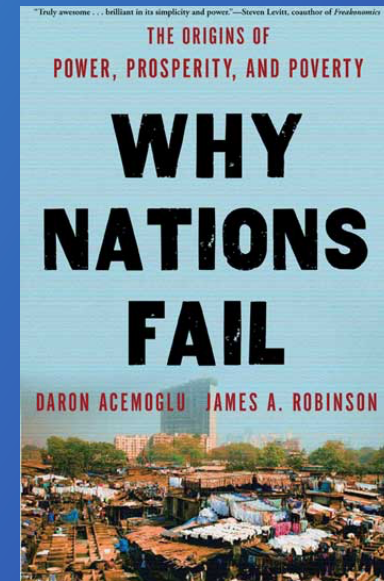
Source: P. Evans, CGE, with data from Africa Internet Group website, 2015

Natural Resources vs. Governance

- Resource poor countries with governance (e.g. Singapore)
- Resource rich countries

... Governance matters

Daron Acemoglu, James A. Robinson, and Dan Woren. *Why Nations Fail*, 2012.



Three Platform Governance Questions

- Who Participates?
- How does Value get Divided?
- How does Conflict get Resolved?

Governance Resolves at least Four Issues that can harm users

- Information asymmetry
- Externalities
- Monopoly power
- Risk

Platform as Regulator

Four Non price instruments can be used:

- The platform as a competition authority.
- The platform as a price regulator.
- The platform as a licensing authority.
- The platform as enforcer.

Source: Jean Tirole, A Few Remarks on the Role of Intermediaries in the Digital Economy. July 9 2015 lecture.

Additional reference: Boudreau & Hagiu 2009

Platform as Policy Maker

Brad Burnham (2010) asks

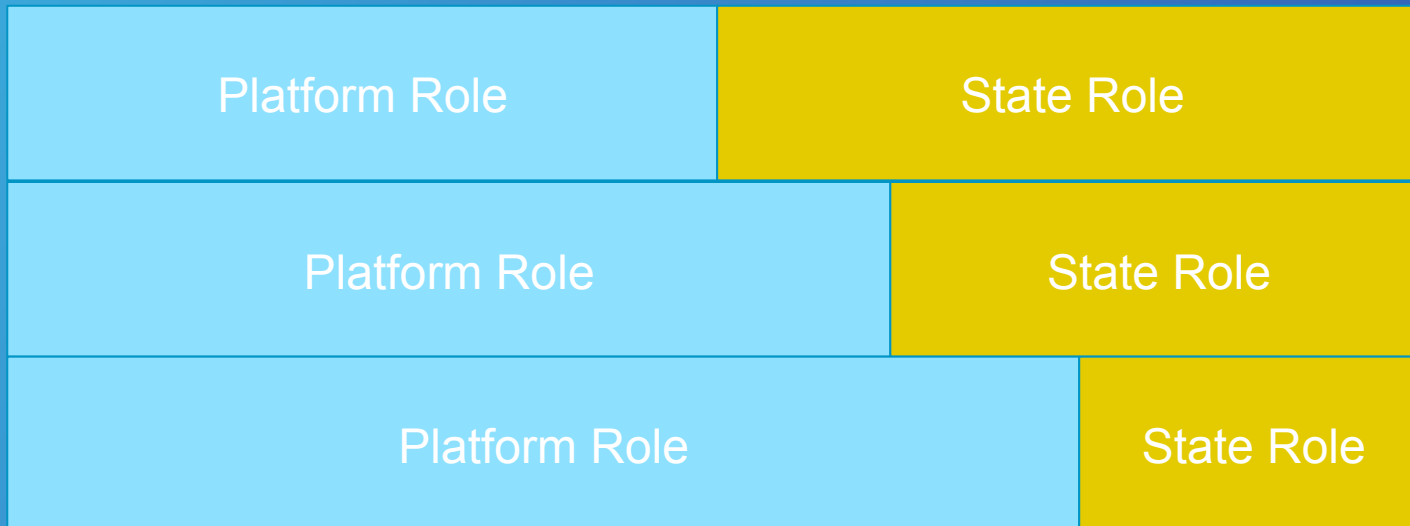
- What does the introduction of credit systems at Facebook say about its monetary policy?
- What is Apple's Foreign Policy in promoting a private standard or in acting multilaterally to embrace one that is international?
- What is Twitter's industrial policy? Does it invest in state owned services or does it promote decentralized development by others in its economy?
- What is SAP's Intellectual Property Policy? How long do follow-on innovators have to profit from their creations? - (Parker & Van Alstyne, 2014)

Platform as Policy Maker

Brad Burnham (2010) observes that

“A lot of people have begun using the term ecosystem to describe these big platforms. That captures their decentralized, emergent character, but ecosystems do not have a central point of control. Apple decided to eliminate third party analytics between one release and the next. That doesn't happen in an ecosystem. **The right analogy is a government.**”

Platform Absorbing State Functions



Platform Absorbing State Functions

Alibaba has explicit state functions of power separation (Weiru Chen)

- Executive branch
- Legislative branch
- Judicial branch (jury system)

With 99% of e-commerce in China, Alibaba/Taobao is now providing accurate CPI metrics to the central government

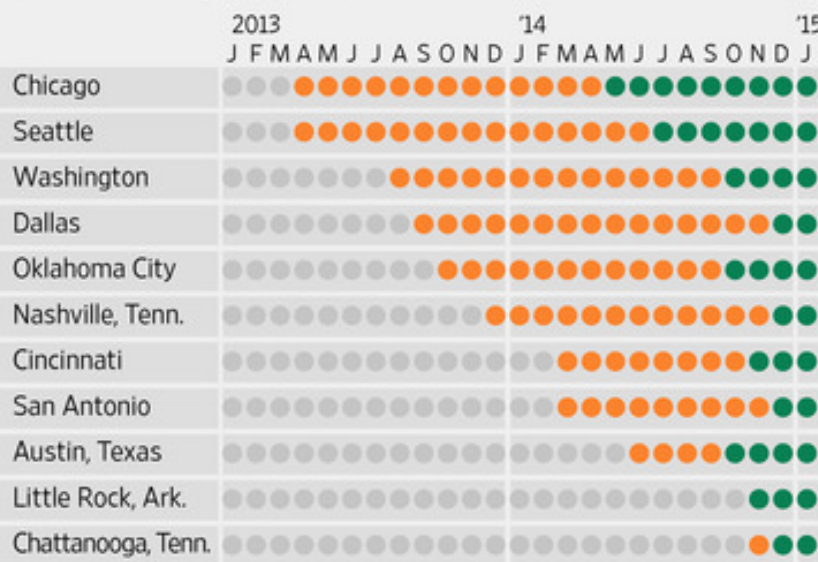
But Regulation is not going away

Legality of Where Uber operates

Kinder, Gentler, Faster

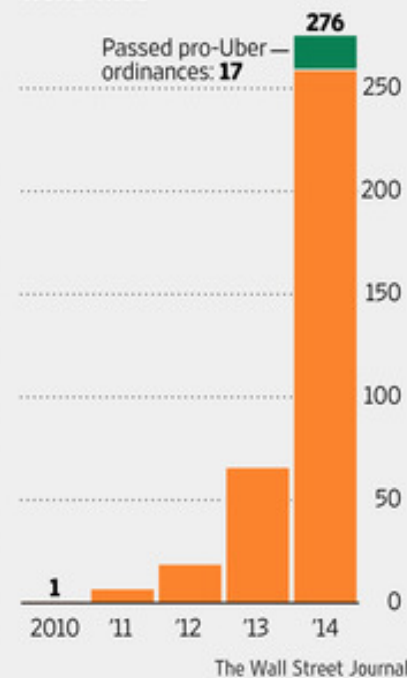
As Uber tries harder to work with regulators, it is taking less time for some U.S. cities to pass ordinances that make the app-based car service legal.

- Uber operates in legal gray area
- Uber operates legally after city passes an ordinance



As of Dec.31 Source: the company

Cities where Uber operates world-wide*



Uber Backlash



Some Regulatory Concerns

- Privacy
- 1099 Economy
- Abuse of dominance

Additional Benefits from Regulation

- Coordination in Complex Industries

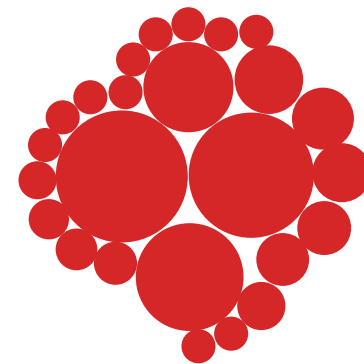
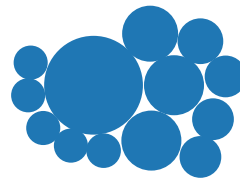
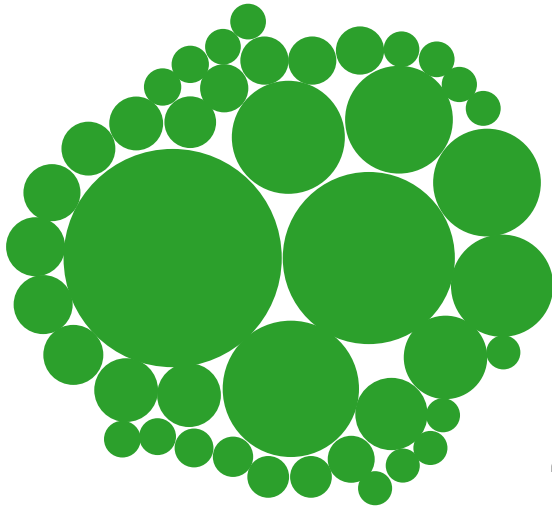
Cautionary Tale for Regulators

Global Unicorn Platform Startups

N. America

Europe

Asia



“European Platform Anxiety”

42 / \$191B

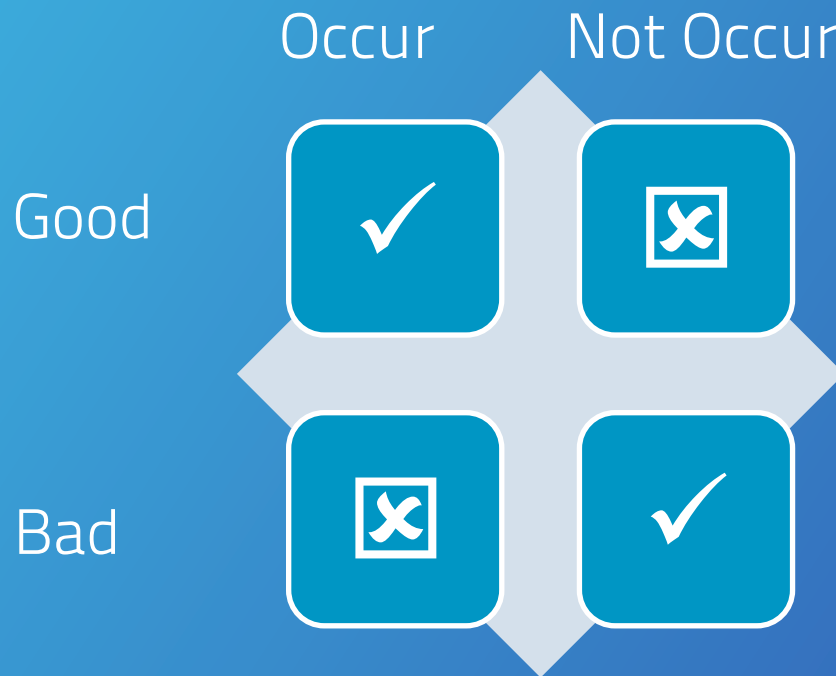
13 / \$28.6B

25 / \$79.5B

Advice for Regulators

- Does platform have a functioning governance system in place?
- If so, is it being used to reduce negative externalities that would harm the platform (such as criminal behavior by users)
- Or is it being used to reduce competition or take advantage of a dominant market position?

Goal is to facilitate the right interactions



If the platform has better information, parties are on-platform, and matched incentives, it can self regulate.

If parties are off-platform, incentives are mis-matched, or harm greater than good, platform may require state regulation.

Last Word: Jean Tirole (2014 Nobel Prize)

If markets dominated by a small number of companies are left unregulated, society often suffers negative consequences. Prices can become unjustifiably high and new companies can be prevented from entering the market... Jean Tirole has worked to develop a coherent theory, for example showing that **regulation should be adapted to suit specific conditions in each industry.**



Source: http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2014/tirole-facts.html

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