Managing Platform Businesses

Session 10 – Governance & Policy for Platforms

Platforms & Governance

- **Platform** – a business model facilitating exchanges among two or more interdependent groups (e.g., drivers & riders, buyers & sellers)

- **Governance** – the rules and processes shaping who participates, what they can do, how value is shared, and how disputes are resolved.

Platforms act like mini-governments – setting laws (terms of service), building norms (community standards), designing architecture (code), and using markets (incentives).

Platforms vs Pipelines

Pipeline

- Linear value chain
- Produces goods/services
- One-way delivery

Platform

- Facilitates interactions
- Multi-sided ecosystem
- Users create value

Platforms transform value creation by enabling others to transact, unlike pipelines that build and push products to consumers.

Core Principles

Create Value
Encourage positive interactions that attract and retain users. Platforms should provide quality experiences (e.g., reliable rides, valuable content).

Fairness & Trust
Rules must be perceived as fair and consistently enforced. Transparency and accessible dispute resolution foster trust.

Core Principles (cont.)

Transparency
Clear policies help users know what to expect and build trust (e.g., why a seller is banned).

Adaptability
Rules need to evolve as new issues (misinformation, fraud) arise. Governance is never set-and-forget.

Shared Responsibility
Users contribute to governance via reporting, ratings and community moderation. Platforms thrive on collaborative policing.

Governance Tools (1)

Laws
Formal policies written into terms of service or community guidelines. Violations can result in penalties or bans.
Example: YouTube forbids hate speech.

Norms
Informal cultural rules enforced by the community (e.g., Wikipedia's civility). They shape behaviour beyond written policies.
Example: Encouraging constructive edits on Wikipedia.

Governance Tools (2)

Architecture
Technical design (code) that encourages or discourages behaviours.
E.g., Uber hides trip destination pre-accept to prevent discrimination.
Example: Rate-limiting posts to curb spam.

Markets
Incentives and pricing mechanisms that align user behaviour with platform goals. Ratings systems and surge pricing steer actions.
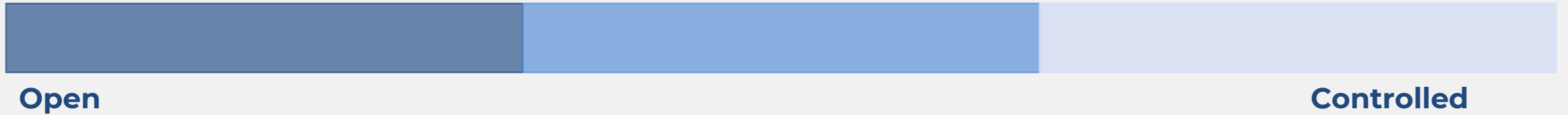*Example: Airbnb hosts with higher ratings get more bookings.*

Openness vs Control

Open   **Controlled**

Open platforms attract innovation but risk chaos and low quality.

Controlled platforms ensure quality and safety but may stifle competition and creativity.

Case Example: Openness

Open Platform
Android allows anyone to build apps and install third-party stores. This openness fuels innovation and variety.
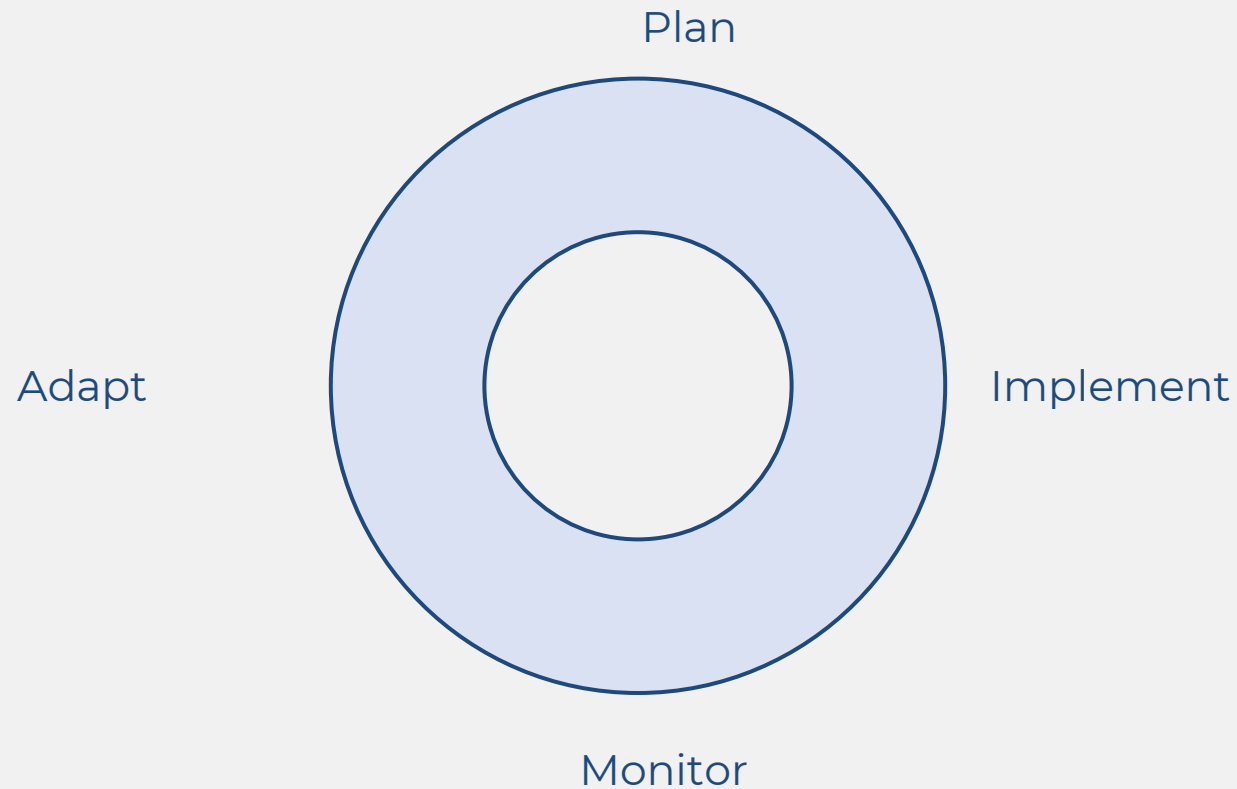
Closed Platform
Apple locked out third-party apps without approval. Customers rebelled against the heavy-handed control.

The right balance maximises value while protecting quality.

Governance is Ongoing

Plan

Implement

Monitor

Adapt

Successful governance requires constant tuning: planning rules, implementing them, monitoring outcomes, and adapting when problems arise.

Exercise - Who Governs Your Experience?

Think about a platform you use regularly (e.g., Instagram, YouTube, Uber). Who has more control over your experience?

Users
Community posts, ratings and reports shape what you see.

Platforms
Algorithms and policies decide what's recommended.

In reality, governance is shared. Algorithmic rules and community norms interact to shape your digital world.

Market Failures & Power Dynamics

- **Not everything is rosy in platform-land.**

- Left unchecked, platform markets can fail or concentrate power in ways that harm society. We will look at classic failures i.e. information asymmetry, externalities, monopoly, and risk – and how power is distributed on platforms.

Information Asymmetry

Definition:

One party holds more information than another, leading to poor decisions.

Example:

On marketplaces like Amazon, sellers know product quality while buyers may not. Ratings and return policies mitigate this gap.

Negative Externalities

Definition:

Harms to third parties not involved in the transaction.

Example:

Social media spreads misinformation affecting society; ride-hailing adds congestion and pollution.
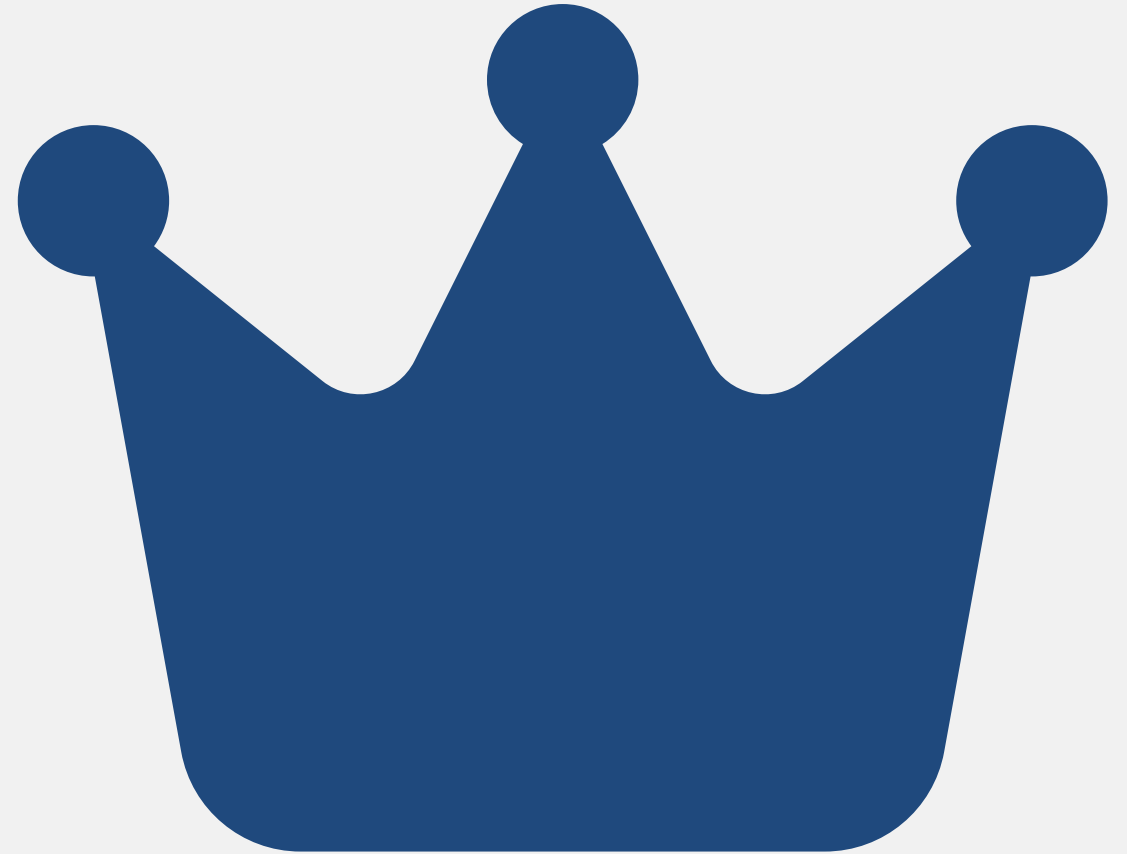
Monopoly Power

Definition:

Network effects create winner-takes-all markets where one platform dominates.

Example:

App stores charge high commissions and control access; dominant social networks lock users in.

Risk & Uncertainty

Definition:

Rapid innovation outpaces regulation, leaving grey areas and shifting liability onto participants.

Example:

Gig workers bear accident liabilities and lack benefits while classification battles rage.

| Failure	Definition	Example
Info Asymmetry	One side knows more	Amazon sellers vs buyers
Externalities	Harm to third parties	Misinformation; congestion
Monopoly	Winner takes all	App store fees
Risk & Uncertainty	Undefined rules	Gig worker classification

Summary of Market Failures

These failures justify the need for governance and regulation.

Power Dynamics

Platforms sit in the middle, controlling policies, fees and algorithms.
They can unilaterally change terms, control data, and harness network effects that lock users in. Power imbalances enable exploitation if unchecked.

Users → Platform ← Partners

Data
Algorithms
Fees
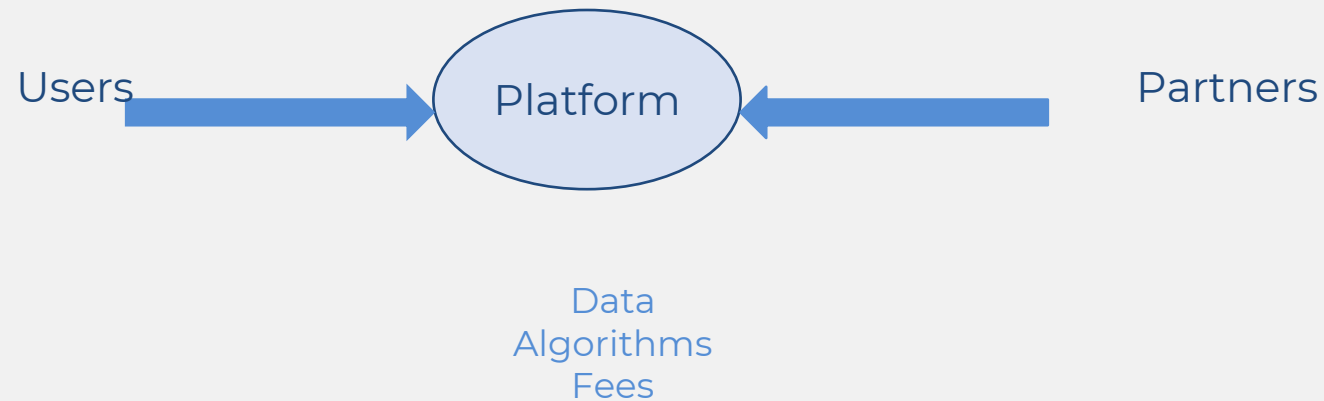
Power Dynamics: Examples I

App Stores
Apple & Google control access to mobile users. Developers pay high commissions and follow strict rules.

Gig Work
Platforms dictate pay, allocate tasks and can deactivate drivers algorithmically. Workers have little bargaining power.

Power Dynamics: Examples II

Social Media Influence
Platforms decide who gets heard by tweaking algorithms and moderation policies, shaping public discourse.

Data Advantage
Platforms see all transactions while partners see only their slice. Amazon was accused of using seller data to launch competing products.

Responses to Failures

Fake News on Social Media
False information spreads widely because platforms had little incentive to remove viral content. Only after outcry did moderation ramp up.

Uber Driver Compensation
Drivers face declining pay and opaque algorithms. Calls for minimum wages and collective bargaining emerged.

Response: Marketplace Fairness

Amazon Marketplace

Amazon's dual role as marketplace operator and competitor raised concerns. The EU investigation led to pledges not to use non-public seller data and to treat sellers fairly in the Buy Box.
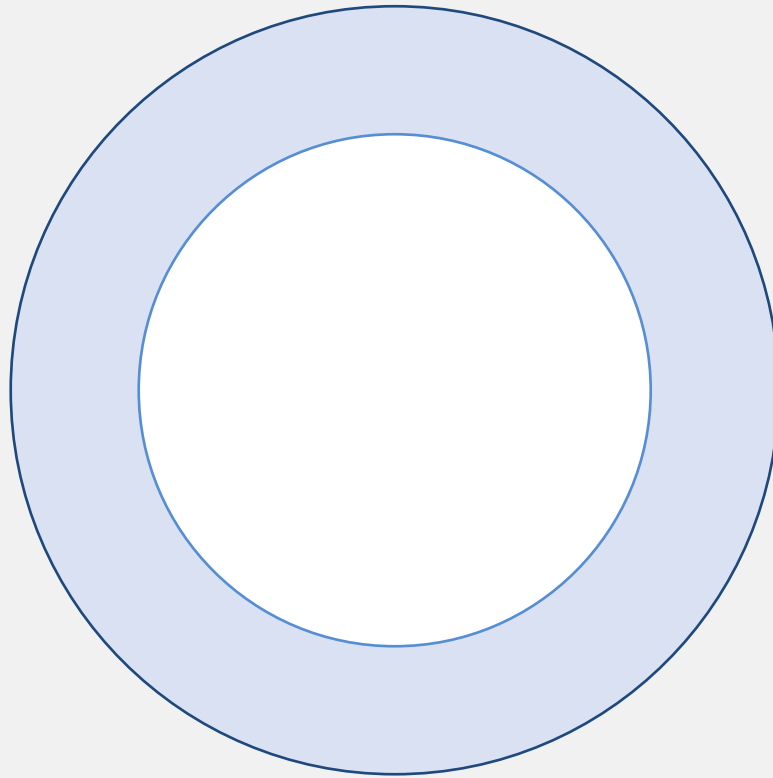
Facebook's Growth & Influence

• Founded in 2004, Facebook grew to over 2.27 billion monthly users by 2018.

• By 2016, 44% of U.S. adults got their news from the platform. Similar trends were seen globally.

• *Facebook's News Feed algorithm prioritised engaging, sensational content – creating echo chambers and filter bubbles.*

Filter Bubbles & Algorithms

Echo chambers form when algorithms show you more of what you already like, reinforcing beliefs and isolating you from differing views.

Echo Chambers & Interference

- News Feed and Like buttons created filter bubbles, reinforcing beliefs.

- Fake news websites generated revenue by posting sensational partisan content that outperformed mainstream news.

- Russian IRA content reached 126M users, orchestrating divisive online movements.

2016: A Turning Point

• Foreign interference: Russian agents reached 126M Americans with divisive propaganda.

• Viral fake news: Fabricated headlines (e.g., 'Pope Endorses...') outperformed real news.

• Data-driven targeting: Cambridge Analytica harvested data without consent to micro-target voters.

Russian Interference

• Fake personas & pages: the Internet Research Agency created U.S. personas and Pages on both sides of issues to sow division.

• Scale: operations reached ~126M Americans; 3,000 ads reached 10M people.

• Exploiting ads: Micro-targeting allowed cheap, highly targeted propaganda.

Viral Fake News

- Completely fabricated stories went viral, often outperforming real news.

- Spammers monetized outrage via ad clicks. Filter bubbles amplified unchallenged stories.

- Fact-checking was minimal pre-2016; misinformation wasn't against Facebook's policies.

Cambridge Analytica Scandal

• A personality quiz app harvested data on up to 87M users by collecting data from friends of quiz-takers.

• Facebook knew in 2015 but trusted the firm to delete data and did not inform users.

• When exposed in 2018, public outrage led to congressional hearings and a $5B fine.

Initial Reaction

• Initially, Facebook downplayed the idea that fake news influenced the election – Zuckerberg called it 'pretty crazy.'

• Internally, warnings about misuse weren't prioritized. Growth metrics took precedence over moderation.

• Small steps were taken (flagging disputed stories) but the News Feed algorithm remained unchanged.

Response & Reforms

Election War Room
Teams monitored malicious content and cooperated with law enforcement.

Fact-Checking & Transparency
Thousands of moderators hired; political ads labelled and archived.

Oversight Board
Independent body to adjudicate content decisions, acknowledging limits of self-rule.

Section 230 & Responsibility

• U.S. law Section 230 gives platforms immunity from liability for third-party content.It encourages hosting and moderation by protecting platforms whether they act or not.

• *Critics argue that social responsibility goes beyond legal immunity – platforms should still police misinformation and hate speech.*

Discussion: What Went Wrong?

- Were there red flags Facebook ignored before 2016?

- Should Facebook have been more proactive in moderating content and verifying advertisers?

- How do you weigh free speech against harm prevention?

- If you advised Zuckerberg, what changes would you recommend?

Lessons from Facebook

- Platform scale magnifies unintended consequences – viral sharing spreads harm quickly.

- Self-governance has limits: reluctance to act erodes trust and invites regulation.

- Data governance matters: lax API policies led to massive privacy breaches.

- Balancing free speech and harm prevention is the central dilemma for platforms.

Why Regulate Platforms?

- Platforms impact public goods: information quality, elections, public safety and labour markets.
- They wield monopoly power requiring antitrust action.
- Their cross-border operations challenge national laws; regulation corrects market failures and protects consumers.

EU General Data Protection Regulation (2018) (GDPR)

• Grants users rights over personal data (access, deletion, portability).

• Requires clear consent and transparent processing.

• Enforces hefty fines for violations; spurred by scandals like Cambridge Analytica.

EU: Digital Services Act (2023)

• Requires very large platforms to assess and mitigate societal risks (disinformation, harm to minors).

• Mandates faster removal of illegal content, algorithmic transparency and user appeal mechanisms.

• Non-compliance can lead to fines up to 6% of global revenue.

EU: Digital Markets Act

• Applies to gatekeeper platforms (Google, Apple, Amazon, Meta, Microsoft).

• Prohibits self-preferencing and tying; requires interoperability (e.g. alternative app stores and payment systems).

• Aims to open digital markets and prevent abuse of dominance.

EU: Labour & Other Rules

- **Platform Work Directive (2024):**
- Presumes gig workers are employees if platforms control pay and conduct.
- Requires transparency in algorithmic management and human oversight of suspensions.
- Other measures: P2B Regulation for fair terms, AV Media Directive for content rules, ongoing AI Act discussions.

EU: Pros & Cons

Pros

- Protects users & society
- Creates global standards adopted beyond Europe
- Encourages transparency & accountability

Cons

- Compliance burdens favour incumbents
- May deter innovation and slow growth
- One-size-fits-all rules may miss context

US: Section 230 & Self-Regulation

• Section 230 (1996) gives broad immunity to platforms for user content.

• Cultural emphasis on free speech and innovation limits ex-ante rules.

• Debates over reform continue; as of 2025 the law remains intact despite controversy.

US: Antitrust & Competition

• The DOJ and FTC have filed lawsuits against Google (search monopoly) and Amazon (marketplace abuses).

• Antitrust enforcement is reactive and case-by-case, taking years to resolve.

• No comprehensive digital competition law exists yet, though proposals have circulated in Congress.

US: Privacy & Labour Patchwork

• No single federal privacy law: instead there is a patchwork of sectoral (health, finance) and state laws (e.g. California CCPA/CPRA).

• Gig worker classification battles play out at state level (e.g. California AB5 vs Prop 22).

• Some states attempt to restrict 'censorship'; such laws may clash with platforms' First Amendment rights.

Global: China & India

- China: Platforms are tightly regulated and censored; state prioritizes control. Recent crackdowns on its own tech giants curb monopoly power and protect minors.

- India: New IT Rules (2021) require platforms to remove flagged content quickly and trace message origins; TikTok was banned in 2020 amid national security concerns.

Global: Australia & Others

• Australia: 2021 News Media Bargaining Code forces platforms to pay publishers. Facebook briefly blocked news but eventually struck deals.

• UK: Online Safety Act (2023) requires platforms to address harmful but legal content.

• Emerging: Many countries experiment with platform rules; international coordination (G7 principles, Christchurch Call) aims to harmonize standards.
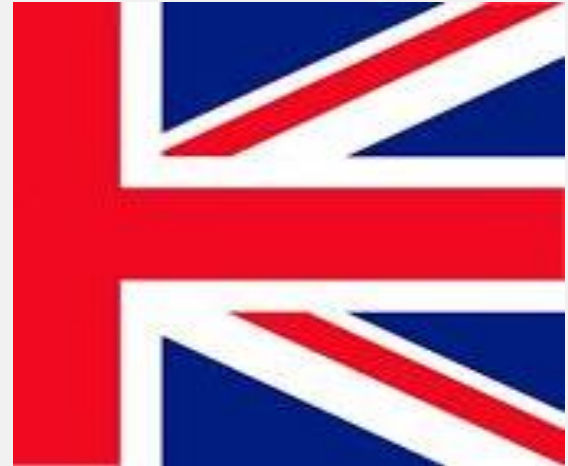
Debate: Should Government Regulate?

Pro Regulation

• Protects public from misinformation and exploitation
• Ensures fair competition and labour rights
• Creates standards that can be adopted globally

Anti Regulation

• Risk of overreach leading to censorship
• Could stifle innovation and entrench incumbents
• Politicians might misuse regulation for partisan ends

Regulation: Key Takeaways

• Regulation addresses market failures and balances power.

• The EU leads with comprehensive rules (GDPR, DSA, DMA); the US remains reactive and fragmented.

• Global approaches vary – from heavy censorship (China) to bargaining codes (Australia).

• Co-regulation and international cooperation may offer balanced solutions.

Recent Developments (2022–25)

TikTok: Security & Ownership

- Owned by ByteDance (China), TikTok raised national security concerns.

- US and EU worry Chinese authorities could access user data or influence algorithms.

- TikTok pledges to store US data on US soil with oversight by an American firm.

- India banned TikTok outright in 2020; US bans it on government devices.

TikTok: Youth & Content

- Governments worry about TikTok's addictive algorithm and harmful challenges impacting mental health.

- In 2023, Ireland fined TikTok €345M for mishandling children's data.

- Under the DSA, TikTok must mitigate risks: screen-time limits, enhanced moderation of self-harm content, etc.

- Regulatory action on TikTok influences competitors like Instagram Reels & YouTube Shorts.

Gig Economy: Worker Status

• UK Supreme Court (2021): Uber drivers are 'workers' entitled to minimum wage and paid holidays.

• EU Platform Work Directive (2024) presumes employment if platforms control pay and conduct; requires algorithmic transparency.

• Courts in France and Spain have ruled delivery riders are employees; similar cases globally.

Gig Economy: California Proposition 22 (Prop 22) & 'Third Way'

• California AB5 (2019) aimed to make rideshare drivers' employees; firms funded Prop 22 (2020) to create a new gig worker category.

• Prop 22 passed but has faced court challenges. Companies offer some benefits voluntarily to avoid stricter laws.

• Platforms now advocate a 'third way': flexibility plus certain benefits (e.g. accident insurance).

Big Tech: Antitrust & App Stores

• Amazon (2023): FTC alleges punishment of sellers for offering lower prices elsewhere and tying logistics services.

• Apple & Google: App store lawsuits challenge 30% commissions and exclusive payment systems; EU DMA forces alternate stores by 2024 in Europe.

• Google: DOJ case targets default search deals (e.g. paying Apple billions). Outcome may open doors for competitors.

Big Tech: New Frontiers & Coordination

• Meta: Complies with DSA and GDPR; faces fines and debates over content moderation (e.g. reinstating suspended leaders).

• Emerging markets: Generative AI platforms may face new rules (EU's AI Act). Under new product safety laws, e-commerce sites must remove unsafe products.

• Cross-border coordination: US and EU regulators share cases and collaborate on antitrust and privacy enforcement.

Twitter/X & Content Policy

- After Elon Musk's acquisition (2022) and rebrand to X (2023), content moderation was rolled back.

- Reports show spikes in misinformation and hate speech; advertisers and users expressed concern.

- The EU warned X must comply with the DSA or face penalties; an audit is underway.

Society & Sector Expansions

- Platforms are expected to act responsibly – during COVID-19 they removed harmful misinformation and collaborated with health authorities.

- Financial and e-commerce platforms face more regulation to ensure stability and consumer protection; digital taxes aim to capture revenues.

- Environmental concerns: cities push for electrification of ride-shares; platforms must consider their carbon footprints.

Conclusion

Governance matters: thoughtful rules and adaptive design ensure fairness, trust and value creation.

Market failures and power dynamics mean self-regulation alone isn't enough – balanced regulation is essential.

The Facebook case underscores the perils of inaction.

Global regulators are experimenting; there is no one-size-fits-all solution. Stay informed and be part of the conversation.