Chapter 8

Platform Governance
Platform Revolution: Policies That Increase Value and Enhance Growth

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Platform Revolution:  
Chapter 8 – Platform Governance

1. Introduction: Welcome to Platform World  
2. Network Effects: The Power of the Platform  
3. Architecture: Basic Principles for Designing Successful Platforms  
4. Disruption: How Platforms Conquer & Transform Traditional Industries  
5. Launch: Chicken or Egg? 8 Ways To Launch Successful Platforms  
6. Monetization: Capturing the Value Created by Network Effects  
7. Openness: Defining What Platform Users/Partners Can & Cannot Do  
8. Governance: Policies That Increase Value and Enhance Growth  
10. Strategy: How Platforms Change Competition  
11. Policy: How Platforms Should (and Should Not) Be Regulated  
12. Future: Industries Facing Imminent Change
WHY GOVERN PLATFORMS?
EXAMPLES OF REGULATORY INTERVENTION
8 PEOPLE BOUGHT IT
HEINRICHS MADE $5,600
APPLE MADE $2,400

WHY DID APPLE TAKE IT DOWN?
PRIVATE REGULATION CAN TRUMP PUBLIC REGULATION

- JC Penney artificially inflated its product rank using link farms.
- Vitaly Borker sold faulty eyewear, submitted fake charges, threatened death & rape to boost search rank.

- eBay limits bidding on different versions of same item and only paying for lowest win.
- Excludes people who don’t pay and people who don’t ship.
- Allsopp vs Allsop Ale, $304 vs. $78,100
PRIVATE REGULATION CAN TRUMP PUBLIC REGULATION

• Viddy lost API access after spamming friend links about its video service.
• Fake profiles immediately deleted.
• Facebook must *balance* needs of users, advertisers and developers.

• Apple exercises “bouncer’s rights” to exclude apps of low quality, pornography, hate speech or viruses.
PRIVATE REGULATION CAN TRUMP PUBLIC REGULATION

- "Front Running" lets high speed traders arbitrage incoming purchase
- IEX precisely times orders to eliminate advantages of Goldman Sachs

- Market so large, reverse fraud occurs. Buyers threaten poor ratings of honest sellers
- Seller shows up on foot, buyer on motorcycle and snatches good! AliPay invented.
PRIVATE REGULATION CAN TRUMP PUBLIC REGULATION

In contrast to standard practice, Airbnb embraces risk and insures travelers and hosts against loss.
WHAT DO WE MEAN BY “GOVERNANCE?”
GOVERNANCE – SETTING UP THE RULES

1. Who may participate
2. How you create/divide value
3. How you fairly resolve conflict
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.

PLATFORM AS POLICY MAKER

Brad Burnham (Union Square Ventures) asks

• What is Apple’s Foreign Policy in promoting a private standard or in acting multilaterally to embrace one that is international?

• What does the introduction of credit systems at Facebook say about its monetary policy?

• 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? - (P&VA)

PLATFORMS ABSORB STATE FUNCTIONS
GOVERNANCE CORRECTS CAUSES OF “MARKET FAILURES”

- INFORMATION ASYMMETRY
  Lemons, Insider Trading
  Fake Goods, Drugs, Viagra

- EXTERNALITIES
  - Spam, 3rd Party privacy
  + Recommendations

- RISK
  Airbnb hosts / guests
  Co-investment, hold-up; Visa Story

- MONOPOLY POWER
  On Platform: EA on Xbox, ADP on SAP
  Of Platform: Regulation

- PUBLIC GOODS
  iStockphoto
SUPPOSE THE GOAL IS TO CURB SMOKING:

- Laws could ban it or limit to 18+
- Markets could raise price or cost
- Architecture could filter carcinogens
- Norms could stigmatize behavior

YOU NEED A FULL RANGE OF OPTIONS
PLATFOR M REGULATORY TOOLS

LAWS, RULES, TERMS OF SERVICE
- Protocol for returns on Alibaba or eBay
- Sharing content 5x on iTunes
- Points needed to vote down on Stack Overflow

TRANSPARENT FAST FEEDBACK IN CASE OF GOOD BEHAVIOR
- Reviews, Timely Shipping

OPAQUE AND DISCONNECTED FEEDBACK IN CASE OF BAD BEHAVIOR
- Trolls, Stalkers
PLATFOR M REGULATORY TOOLS

CODE, ALGORITHMS OR OTHER CONSTRAINTS
• IEX timing to prevent “front running” of stock trading
• eBay algorithms auto-correct misspellings, to reduce arbitrage
• Zopa lending algorithms calculate probability of loan repayment
• Blockchain enables autonomous contracts

CAN CREATE AN ARMS RACE OF CODE
• Opportunists look for next best opportunity

RESOLVE FOR HEALTH OF ECOSYSTEM, NOT SPECIALIZED PARTIES
• OKCupid ignores whiners (unless it’s a bug), instead does A/B test on complaint
CULTURE
• iStockPhoto norms from Bruce Livingstone spending 14-16 hour days giving supportive feedback
• Reddit has permissive culture requiring “thick skin”
• Emotional support on PatientsLikeMe

USE OSTROM’S GUIDELINES OF
• Participatory input, graduated sanctions, tiered governance

RESOLVE FOR HEALTH OF ECOSYSTEM, NOT SPECIALIZED PARTIES
• eBay fixed price option loved by buyers but not sellers. Buyers won.
PLATFORM REGULATORY TOOLS

ECONOMICS OF INCENTIVES
- In-game currency; SAP developer points
- Points needed to vote down on Stack Overflow
- Followers on Twitter

CAN BE $, €, ¥, OR POINTS BUT REALLY FUN, FAME OR FORTUNE

CAN IMPLEMENT FISCAL & MONETARY POLICIES
- SAP expansion for new CRM product

CAN IMPLEMENT IP INCENTIVES
- SAP offers 18-24 month non-compete
PLATFORf REGULATORY RULES

1. Give customers a voice in key decisions. Use an ombudsman to handle conflicting agendas.

2. For trusting relationships, open standards must remain open

3. Treat IP fairly, yours and theirs

4. Communicate a clear roadmap and stick to it. Commitments to act or not act must be credible.

5. Reserve the right to enter strategically important markets with notice. Don’t surprise people and don’t play favorites with news.
6. In case of big investments, share risk and bet your own $ 

7. Do not promise to not change the platform. Do promise early notice. Have skin in the game so change has bite. 

8. It’s ok to offer differential benefits to partners with differentiated assets. Just make sure everyone understands how to qualify. 

9. Promote the long term financial health of partners especially smaller ones 

10. As business matures, decisions increasingly favor outward progression from core platform, to complements, to new business that cannibalize the platform
## TAKEAWAYS FROM CHAPTER EIGHT

Platform Governance: (1) Who may participate (2) How to create/divide value? (3) How to resolve conflict?

Use it to address problems of “market failure” in order to boost good interactions and suppress bad ones.

Market failures are caused by information asymmetry, monopoly power, externalities, and uninsurable risks. Network effects are externalities

Governance tools involve laws, norms, markets, and architecture.

Promote the long term financial health of partners.

Give them a voice in decisions that affect them and treat them fairly.
Platform Revolution:
Chapter 9 – How Platform Managers Can Measure What Really Matters

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