



The rise of the platform economy

The platform economy poses significant questions, challenges and opportunities for society, the labour market and organisations

The world is going through a new economic revolution, disrupting the economy, businesses, labour markets and our daily lives in a way not seen since the industrial revolution. Driven by technological innovations and increased online connectivity, the role of digital labour market matching is rising. At the heart of this change is the rise of the platform economy¹. Workers are finding work through online outsourcing platforms and apps in this so called platform economy. While the gig economy has been talked about for years, the rise of the economy through digital platforms is relatively new. As the platform economy evolves, there are both new opportunities as well as new challenges that arise with heightened complexity. This article explores some of the challenges and future questions related to the rise of the platform economy for both society and organisations tapping into the platform economy.

¹ Kenney & Zysman, 2016: 64

What is the platform economy?

An increasing number of businesses are starting to adopt the platform business model and its digital strategies in order to remain competitive. Companies such as Airbnb, Uber, Amazon, Google, Salesforce and Facebook are creating online networks that facilitate digital interactions between people. There is a large variation between the function and type of digital platforms available in today's marketplace, ranging from platforms providing services (e.g., Uber and Airbnb), to products (e.g. Amazon and eBay), to payments (e.g., Square, PayPal), to software development (e.g., Apple, Salesforce) and many more.

This digitally based new economy, utilizing these online frameworks, has been given a variety of names, that are often interchangeably used. To name a few examples, it is frequently labelled as 'the creative economy', the 'sharing economy', the 'gig economy', or the 'peer economy'. In this article we will stick to the commonly used term 'platform economy'.

How is the platform economy different compared to the conventional way of working?

The platform economy is a complex phenomenon that is significantly disrupting the general concept of 'normal jobs'. It is any type of digital platform that uses the internet to connect dispersed networks of individuals to facilitate digital interactions between people. Within the platform economy there is a triangular relationship between three parties (1) the platform (2) the worker and (3) the customer. It is the job of the platform to connect people with demand (the customer) to people that provide supply (the worker).

Traditional linear business models create value through creating products and services that are sold to a customer. Platform based business models on the other hand, create their value by connecting users (both consumers and producers) on an online network.² The platform does not own the means of production, but rather creates the means of connection. The strength of the platform economy lies in its ability to eliminate trade barriers by using increased information sharing between different players and circulation of data to its advantage. This creates a much more open economic system, with much greater participation of its users³.

Varying views have emerged on the platform economy

While supporters may argue that it opens the world to new options and prospects, critics and opponents emphasize the challenges and controversy related to the platform economy. In the following paragraphs we will point out 3 topics that are the subject of discussion in today's debate about the platform economy and that are of significance in better understanding the phenomenon:

² Deloitte, 2015: Business ecosystems come of age

³ Deloitte, 2017: The new governance of the platform economy

1. Regulation the disruption:

As with many other technological change and disruption, it forces us to reevaluate laws and regulations. Many critics argue that the current law was not designed to deal with platform based companies that are only facilitating the work. There needs to be some sort of regulatory catch-up in terms of laws and regulations, acknowledging that the platform economy is here to stay and will continue to exist. A reason for the growing pressure for regulation is the concern about elements such as safety and hygiene standards, taxes, compliance, crime, protection of rights and interests, and fair competition⁴.

Some legal experts argue that many of the legal questions can use the set-up of existing legal and tax frameworks, whereas others argue that the platform economy is very different and requires a revaluation of laws and regulations. The question remains whether the platform economy should be regulated in the same way as the 'regular economy'.

Supporters of the platform economy claim that platforms are in some way self-regulated by customers who rate them. The idea is that reviews are generating the needed level of trust and safety, allowing people to give instant feedback to the platform.

2. The power structure between platforms and platform workers:

As presented by Juliet Schor (professor of Sociology at the Boston College) during this year's Reshaping Work Conference, we often talk about platform workers as one big bucket. In reality there is huge diversity in the type of platform workers. The different archetypes of workers are:

- *Primarily dependent*: The worker fully relies on the earnings of the platform
- *Partially dependent*: The worker uses the platform as a part-time job
- *Supplemental*: The worker uses the platform to create supplemental earnings

Key dimensions of this high range in diversity are 'platform income dependency' and 'time commitment' that also play a role in the increased skepticism and criticism surrounding the platform economy. The level of platform income dependency has a great impact on the (negative) experience of platform workers related to elements such as autonomy, safety, satisfaction and income.⁵

Critical questions in the debate about the power structure of platforms revolve around:

- Are workers (especially 'primarily dependent' workers) empowered or exploited by platforms?
- How do we change the power structure, the distribution of power and value creation between platforms and workers?
- Does the platform economy create any redistribution of wealth or is it just accelerating inequality and does it lead to reproduction of social inequality?
- Are platform workers independent contractors or employees?
How do we classify the range of people that fall in the grey area in the middle?

⁴ Deloitte, 2015: The Sharing Economy – How does Switzerland compare?

⁵ Schor, Attwood-Charles, Cansoy, Ladegaard & Wengronowitz, 2017

A general conception of critics is that the platform economy could lead to marketization of jobs and diminished protection of workers: platforms increase competition and reduce barriers to entry, leading to greater pressure on pay and working conditions. This also implies that fulltime employees could lose their jobs if gig workers are more cost effective for employers.

3. Managing the workforce ecosystem beyond the enterprise

Companies such as Airbnb and Uber are not the only organizations profiting from the platform economy. An increasing number of companies in all industries and sectors are tapping into the so-called 'Open Talent Economy', in which crowds, gig workers, freelancers, and new opportunities for automation have shifted the work landscape towards an ecosystem of open talent.

This year's Global Human Capital Trends survey⁶ by Deloitte shows that most companies are not fully ready to engage with and manage this new workforce ecosystem of open talent. Most companies have not yet established policies and practices to manage potential legal, security, and privacy risks. Companies are concerned about the risk of losing confidential data or that non-traditional workers could negatively affect the company's reputation and brand.

In addition to this, the question remains - *How can HR effectively manage and motivate all types of workers in the Open Talent Economy?* The shift towards an open talent economy is accompanied with the rise of the individual⁷. With the individual becoming paramount, organizations will have to consider the needs of this workforce, and offer them a challenging and supportive environment with growth opportunities and personalized rewards programs. It might be difficult to build a company culture or to facilitate personal development for non-traditional workers. Recent research by Bersin⁸ shows that the flexible workforce expects a common sense of purpose and a culture in which every aspect of the enterprise is aimed at increasing agility and flexibility.

⁶ Deloitte Human Capital Global Trends Report 2018

⁷ Bersin by Deloitte, 2018: Rise of the Individual

⁸ Bersin by Deloitte, 2018: Cultivating Culture Beyond the Enterprise with Freelancers and Gig Workers

Working towards a sustainable future in the platform economy

For some organizations, embracing the open talent economy will be a long struggle. Others already find themselves more closely aligned with the new way of managing talent. In this year's Human Capital Trends report, we cite the need for HR teams to work closely with the legal and IT functions to give all workers clear performance goals, secure communication systems, and the right training to enable them to be productive.

In addition, managing non-traditional workers should involve building a company culture and organizational purpose that includes them, as well as providing well-supported processes to offer them a customized employee experience. HR and business leaders should proactively form new leadership alliances to develop integrated workforce strategies and programs that can help an organization take advantage of the breadth of workforce options available today.

Interested?

Organizations that embrace the concept of an Open Talent Economy can leverage and more effectively access the entire global talent market. Deloitte is a leader in the market in advising organisations on their Talent Strategy to enable business-aligned and employee-centric people investments that are future-proof and take into account Future of Work trends such as the Open Talent Economy. Today's talent is open and ready for business. Are you?

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