Do Digital Platforms Empower or Exploit Workers?

A five-factor checklist may provide answers on a case-by-case basis.

Just a few days before Christmas, Uber was told by the European Union's top **court** that it was, in effect, a cab company and ought to be regulated as such. This opened up the possibility that the ride-sharing company would no longer be able to consider its drivers as mere partners, but be forced instead to provide them with employee benefits.

Aside from legal questions, some have raised concerns about the moral aspects of these new ecosystems in which humans can be called for work at the press of a button. One former believer in the virtues of the sharing economy, Elaine Ou, a California blockchain engineer, **recounted** how she had signed up as a provider on TaskRabbit, Lyft and Airbnb. Mired in demanding customers and callous house guests, her "career never felt as empowering as advertised". Referring to a popular service on TaskRabbit, Ou noted that "nothing underscores wealth inequality like paying someone to hold your place in line".

I would argue that, to answer the question of empowerment or exploitation, it would be best to use a checklist based on platform mechanics, without reference to law or morality. How do these platforms actually work? Is the actual business model giving providers a real shot at long-term success?

The three functions of digital platforms

The sharing economy is comprised of a variety of platforms that mediate interactions between service providers and customers. They perform three specific functions:

1. Match workers with demand.

2. Provide a common set of tools and services that enable the delivery of work in exchange for money or other compensation.

3. Set governance rules based on which good actors are rewarded and poor behaviour is discouraged.

These platforms may be viewed as benevolent enablers of an ecosystem of workers. After all, they enable entrepreneurship and growth of their ecosystem by providing workers – some of whom were formerly living on the margins of the economy – with a common infrastructure and efficient market access. They may also provide feedback and education that allows workers to improve their service delivery.

Moreover, these platforms scale much faster than traditional labour-intensive organisations by virtue of the fact that the fixed costs associated with managing labour are not borne by them. This also allows them to benefit from network effects – a virtuous cycle where access to a larger labour pool attracts more customers and more customers attract more workers. Hence, these platforms may often be viewed as having a much greater impact on job creation than traditional firms.

The potential commodification of workers

However, this broad picture of platform-mediated work isn't nuanced enough. Not all platform-mediated work is the same.

As gatekeepers of demand, platforms may commodify workers to varying degrees. As labour is commodified, the platform ceases to be the benevolent enabler of entrepreneurship and free agency. Instead, gig economy platforms may tend towards exploiting the workers in their ecosystems.

To understand the sharing economy and its challenges, we need a checklist to monitor the degree to which work is differentiated and free agency is enabled on a platform. To this end, I propose five factors that may determine whether a platform commodifies labour or allows workers to differentiate and grow.

A five-factor checklist

***Nature of work*:** Platforms that enable the exchange of highly substitutable and/or highly standardised work are more likely to commodify workers. In the absence of differentiation, price may be the dominant factor driving consumer decisions, which often sends workers on a race to the bottom or removes pricing power away from them. We observe these contrasting dynamics on a platform like Uber (highly substitutable and standardised) vs. a platform like Toptal (highly differentiated).

Price setting: Platforms that allow the exchange of highly standardised work also often set the price for the work. The more the work can be standardised, the more the platform benefits from standardising pricing as a way to ease consumer decision making. However, from the perspective of the worker, this leads to a loss of free agency and can even lead to exploitative scenarios. We observe this dynamic on platforms like Fiverr and Uber.

Ability to encourage repeated exchange: Platforms that encourage repeated exchange between the same worker and customer may grant greater power to the worker over time than those that repeatedly match customers with new workers. Often, this is determined by the nature of the work. When the service delivered is commoditised, customers do not care about repeated exchange. For skilled and highly specialised services, customers may prefer repeated exchange once a worker demonstrates her ability to perform. This lends greater power to the worker and moves power away from the platform. We see this dynamic on freelancer platforms like Upwork, which improves pricing for workers involved in repeated exchanges with the same customer.

Network structure: Platforms can also empower workers if they are allowed to build network loyalty. Though they do not technically enable the delivery of work in exchange for compensation, platforms like Twitter and Quora do allow knowledge workers to build a following. Workers can then create unique and differentiated brands and gain greater influence. Again, these dynamics are often observed for knowledge work and specialised craftsmanship.

Structure of the reputation system: Platforms rely on reputation systems to govern their ecosystems. Reputation systems reward workers with high reputation and punish the others. However, not all reputation systems are equal. On certain platforms like Airbnb, reputation systems prioritise highly rated hosts in search results: The greater market exposure then allows these hosts to increase their pricing and earning potential. On other platforms like Uber, reputation systems are primarily employed to remove the poor performers from the ecosystem.

Systemic effect

When the overall efficiency of the market is at odds with the ability of workers to exercise agency, differentiate themselves or improve their earning potential, the platform may exploit workers instead of empowering them.

When more than one of these factors is observed on a particular platform, they end up reinforcing each other and have a larger systemic effect.

This checklist helps to evaluate sharing economy platforms and whether they truly enable free agency and business growth or drive commoditisation of their ecosystem workers. In general, digital platforms empower workers with differentiated skills that can be signalled, demonstrated and branded, while often exploiting workers with highly substitutable and standardised skills.

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