

Hierarchies without firms?

*Vertical disintegration, personal outsourcing
and the nature of the platform*

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1 / Is the **existing concept of *hierarchy*** appropriate to face transformational new realities enabled by tech?

2 / Does the recent phenomenon of ***platformization* redefine the theory** of firm/market/networks?

Today's agenda

1 Behind the scenes of digital transformation



a summary of the implications of digital transformation and its impact on labour regulation: the “platformization” of work and its consequences

2 A new approach to orthodox taxonomies



tracing the socio-economic foundations and organizational justifications of labour institutions: the development of the vertically integrated firm


3 Theorizing the platform business model

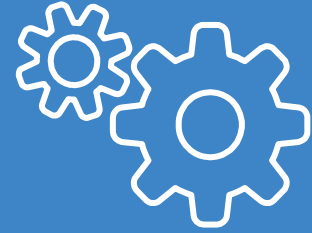


new tech infrastructure lower transaction costs and reduce frictions, making it more easy and convenient for firms to externalise

100%



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- deindustrialisation + tertiarisation of the economy
 - demographic dynamics + environmental/health issues
 - globalisation + digitalisation
 - user-friendly & ubiquitous devices + porous workplaces
 - shifts in lifestyle and customer preferences
- Labour law as the “**frontier area**” in which transformational new realities have revealed their **impact**
 - New forms of work / new forms of firms call into question the **suitability and effectiveness of current legislation**
 - Digital transformation is adding new impetus to the discussion on “what firms are and what they do”, thus **questioning the basic “make-or-buy” divide**

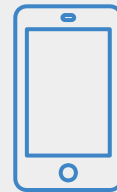


1. Behind the scenes of digital transformation

Platform work, at the tap of an app

- Online labour platforms use technology to connect “**providers**” with “**clients**” for **one-off tasks** (jobs completed either virtually or in person by an on-demand workforce)

- ICT applications minimize the **transaction costs associated** with contracting out jobs (**obtaining information, setting a price, negotiating and enforcing a contract**) and thus make the **intermediation** of work more rapid and **convenient**



- These formats blatantly exclude workers from the **labour protections and social security benefits** granted to employees and from **fundamental rights** at work, such as freedom of association, collective bargaining or protection against discrimination



Critical features and legal determinants

- **Main (legal) features of platform work:**
 - paid work organised through online platforms
 - three parties: online platform, client, worker
 - form of “on-demand” outsourcing
 - “jobs” broken down into “tasks”
- Two principal **models**:
 - **Crowdwork & Work on demand via platform**
- **Dimensions shared** with non-standard forms of employment:
 - temporary and casual work
 - marginal part-time work
 - temporary agency work & arrangements involving multiple parties
 - disguised employment & dependent self-employment



A double-edged sword



opportunities

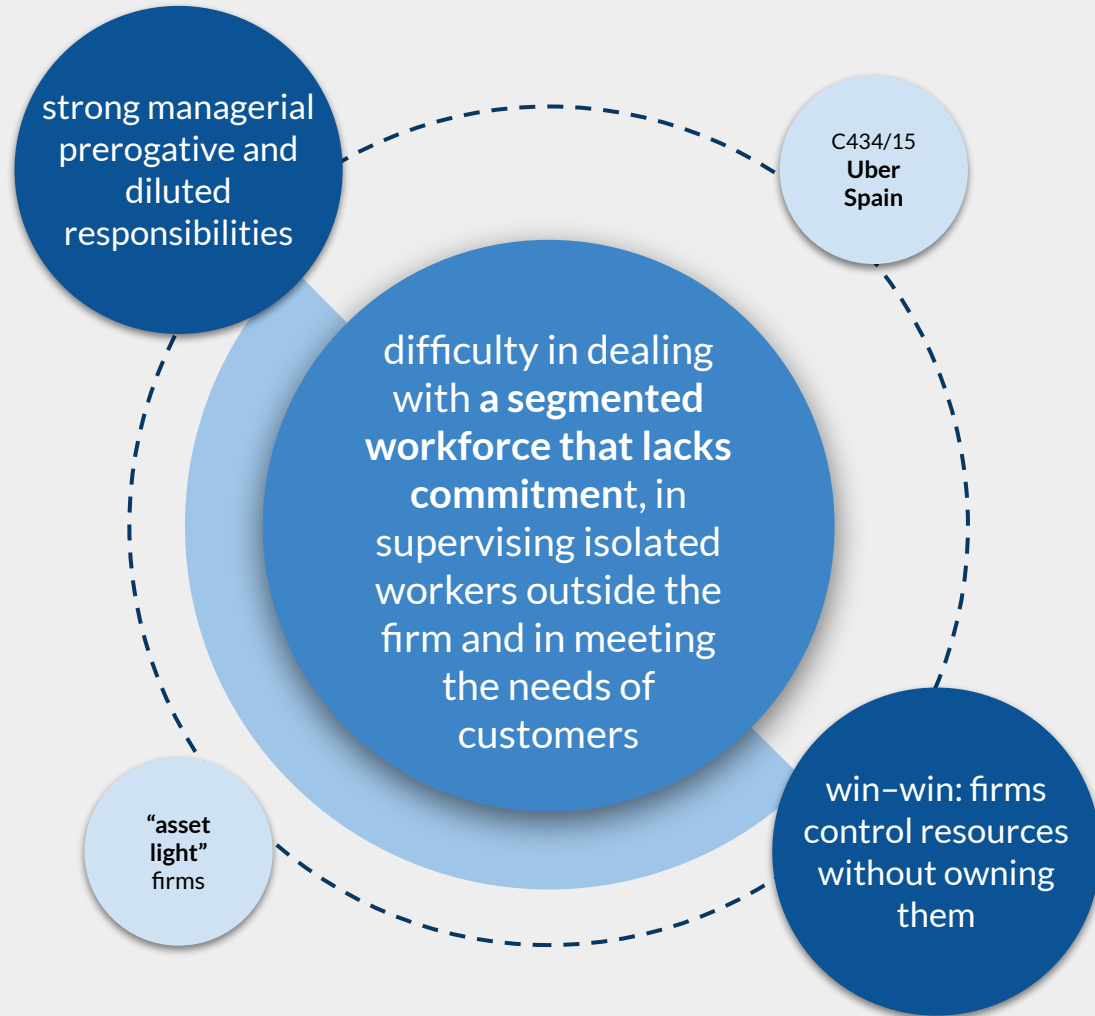
- Efficient matching of supply and demand (thanks to tech)
- Reduced transactions costs and market frictions
- Increased **flexibility** (a trope)
- Access to new pools of **ideas**
- **Customer-oriented**
- **New job opportunities**
- Topping-up income, “pay-as-you-go” workforce

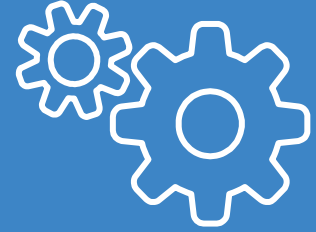


risks

- **Casualisation** and **de-standardisation**
- **Global competition**
- Risk of **precariousness**, **discontinuity** of careers
- **Fissuring** of the workplace
- Dispersing **data, know-how**
- Legal **uncertainties** in relationship
- **Poor pay levels**, no training

A distorted picture of flexible innovation





2. A new approach to orthodox taxonomies

The motivation of the research

- **Dissolution of the firm and disorganization of labour law**
 - Explaining why firms could still derive full benefit from **vertical integration** in the “second machine age”
- Uber, Deliveroo or AMT depicted as **unprecedented organisations situated between hierarchies and markets** or, even better, transcending these two orthodox options
- These **blurred** confines are often used to **avoid the obligations and costs associated with employment status**
 - “Disruptive” companies act as “middlemen” by **lowering information asymmetries and agents’ opportunism** and engaging a pool of self-employed workers through commercial transactions with an authoritative attitude

Coase and effects (back to basics)

- Transaction costs are **minimised within the firm thanks to bureaucratic power** replacing time-consuming negotiation and price-mechanisms governance in the market
 - obtaining reliable information (**resourcing**),
 - bargaining terms and conditions (**transacting**),
 - monitoring and enforcing the agreement (**contracting**).
- Businesses grow by **bringing transactions and activities *within the firm*** (focus on the efficient boundaries)
 - If transaction costs are prohibitive, firms decide to **internalise production**, bypassing the markets thanks to an integrational logic → internal and functional flexibility are potent vehicles for **integration and success**

Orthodox taxonomies and labour law

- Explaining how activities are completed:
 - (i) internally (thanks to authority)
 - (ii) via market transactions
 - (iii) via hybrid models (networks)
- Coase (1937) highlighted a correlation between the notion of the firm (a “**command hierarchy**”) and the employment relationship, on the one hand, and the notion of market and self-employment, on the other
- The contract of employment normally gives the **employer the right to control and direct an agent’s performance, in exchange for a promise of continuity and job security**
 - An employee “agree[s] to accede to the authority” of the employer without **resistance/consent**

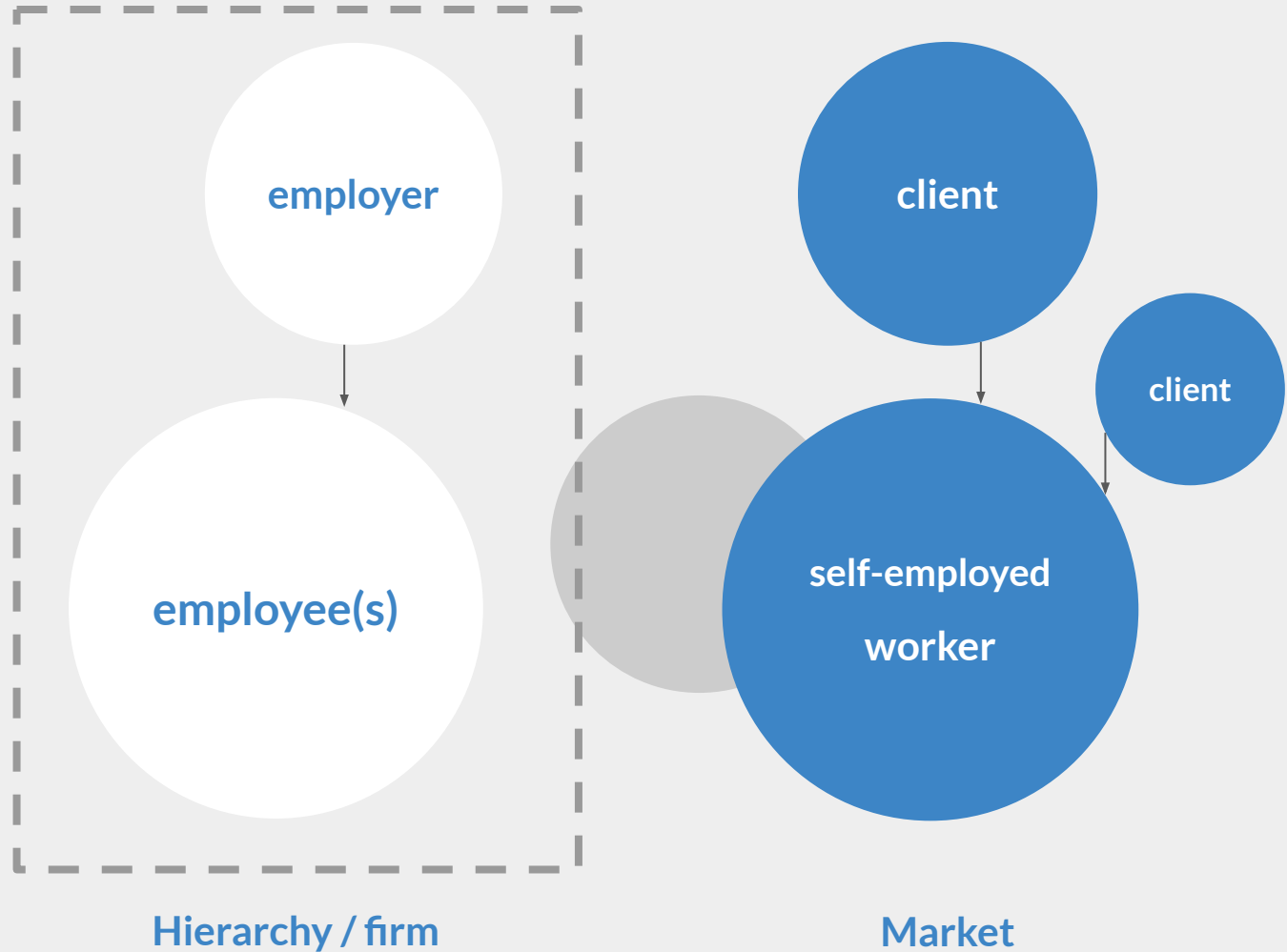
Networks and other modes of governance

- Unorthodox responses to the binary divide between “make” and “buy”: **networks** are peculiar forms of coordinating economic activities in a very elastic way
 - According to Powell (1990), “the familiar market-hierarchy continuum **does not do justice to the notion of network forms of organization**”
 - inter-dependency in co-evolving ecosystems
 - Holmström and Roberts (1998) noted that many firms decide in favour of **cooperation**, rather than integration
 - These relationships “**imitate**” the organization of the centralised firm, or at least some of its defining characteristics, thus achieving the objective of building a **hierarchy** based on external resources rather than on internal ones

Socio-economic foundations of labour law

- The vertically integrated firm recurred **instrumentally** to contracts of **employment** rather than to contracts of service
 - The increase in organizational costs associated with employment is compensated by the possibility of exercising **fully-fledged managerial authority and command-and-control**
 - An organization based on multiple hierarchical relationships makes **labour resources a “quasi-fixed cost in production”**
 - What makes the employment relationship **unique** is its essential flexibility, enjoyed by the parties and associated with the intrinsic nature of “contractual incompleteness”, aimed at achieving **cooperation through gradual adjustments**
 - Relational contracts

Employment vs self-employment



A unitary tool for complex flexibility

- Labour regulation is **much more than workers' protection**
 - The employment relationship grants management essential **organizational** and **coordination** prerogatives:



The power to assign tasks and give **unilateral orders** and instructions to workers (employees);

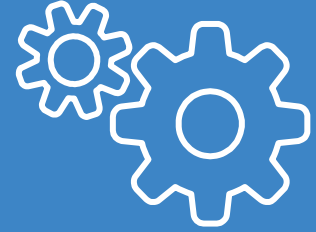


The power to **monitor** both the **execution** of such tasks and compliance with orders;



The **power** to discipline disloyal or **recalcitrant** workers (and other restructuring prerogatives)

- The **additional aim of rationalizing managerial powers**



3. Theorizing the platform business model

Transaction costs in the digital age

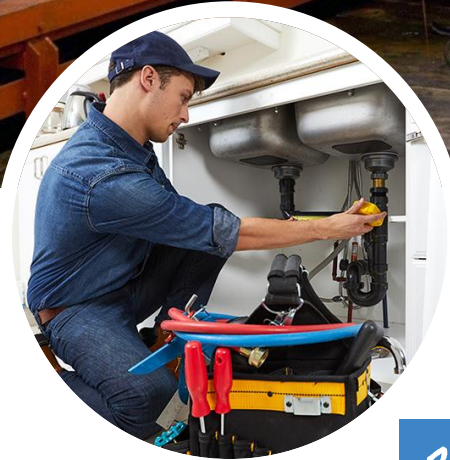
- Technology can **decrease the unit costs of coordination**, by extending technical control and making it more **penetrating**
- **Transaction costs** can be reduced to zero by using tech tools in sophisticated way
 - a. information can be obtained through **people analytics** and thanks to the **reviews** defining the provider's reputation
 - b. fares and terms & conditions are stipulated “**algorithmically**” on a **case-by-case basis** by apps taking into account all factors
 - c. the failure to observe guidelines, recommendations and instructions may constitute an **automatic breach of the participation agreement**, leading to expulsion (or simply log-out)

An unusual combination of different models

- Platforms as **hybrid aggregations** of plural entities with **complementary interests**, resulting in a situation of “organized irresponsibility”



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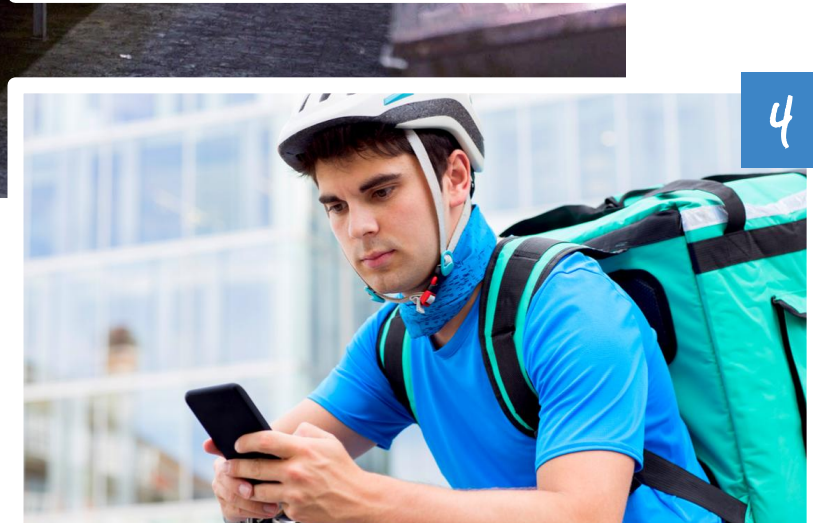


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Non-standard forms of firms

1

Like **firms**, platforms rely on labour to extract value and exercise their **control power**;

2

Like **markets**, they dispatch and connect several nominally **independent** providers;

3

Like **networks**, they match demand and supply, by facilitating **interdependence** and creating value.

- As a result, flexibility and outsourcing, which are antithetical, can be **reconciled** in terms of hierarchical market relationships or vertical contractual integration thanks to this “**hybrid**”
- **Strong authority mechanisms and liquid responsibilities** can go hand in hand in this new combination
 - “Control is radically distributed, while power remains centralized” (Kornberger et al., 2017)



4

the rise of
the *Cerberus* firm

The Cerberus firm

Key features	Market	Hierarchy	Network	Cerberus firm
– normative basis	Contract – property rights	Employment relationship	Complementary strengths	Contract – property rights
– means of communication	Prices	Routines	Relational	Relational
– methods of conflict resolution	Haggling – resort to courts for enforcement	Administrative fiat - supervision	Norm of reciprocity – reputational concerns	Supervision, norm of reciprocity – reputational tie
– degree of flexibility	High	Low	Medium	Nominally high
– amount of commitment among the parties	Low	Medium to high	Medium to high	Medium to low
– tone or climate	Precision and/or suspicion	Formal, bureaucratic	Open-ended, mutual benefits	Open-ended, Command-and-control and bureaucratic
– actor preferences or choices	Independent	Dependent	Interdependent	Interdependent

What do platforms do?

- “Uberisation” does not redefine the notion of the firm
- On the contrary, the trend hides the shift from a bureaucratic control to a technocratic and invasive one
 - The result is astonishing, as this organizational arrangement **decouples managerial power from protective obligations**



Massive use of tech,
in order to **facilitate transactions** and
keep the distribution
lean;



Blatant denial of the
existence of an
employment relationship (source
of competitive edge);



A promising example
of a **multi-sided market** where
participants are
rapidly connected

Final remarks


- There is no significant difference between **the nature of the firm and the nature of the platform**, at least from an organizational and legal viewpoint
 - Instead of advocating a selective or partial enforcement of labour law, it is important to understand the **broader picture** where “innovative firms” are situated
- Platforms do not disrupt the **demarcation between alternative models**, they **reinforce the theory** proposing definitional hybrids which are not a true reflection of reality
 - Despite the linguistic “sophistry”, **controversial results** in terms of **balancing between the powers exercised and the responsibilities shouldered**



Q&A

Thank you!

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