

# **An Institutional Logics Perspective on the Gig Economy**

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## **1. Introduction**

Digital platforms are rapidly changing the economy and their expected impact has been compared to the industrial revolution. Platforms here are best understood in a generic sense, that is, as mediating social and economic interactions online (Kenney & Zysman, 2016). Most strikingly, platforms have enabled individuals to connect and trade directly, by-passing traditional corporations. Such platforms are generally called “peer-to-peer” platforms. The first wave of such platforms concerned the sharing of digital content such as music and movies (e.g. Napster), the second wave the selling of second-hand goods (e.g. eBay) and the third with social media (e.g. Facebook). Recently, we witnessed the rise of sharing-economy platforms enabling individuals to rent out consumer items and homes (e.g., Drivy, Peerby, Airbnb) and gig-economy platforms where individuals provide personal services ranging from taxi rides, cleaning jobs and tutoring (e.g., Uber, Helpling, Taskrabbit). Considering the rapid growth and impact of platforms, the phenomenon remains surprisingly undertheorized.

The pressure to better understand the platforms has recently increased due to rising tensions between gig-economy platforms, tax agencies, regulators and labor unions (Kenney & Zysman, 2016). These tensions have emerged as platforms have been able to partly neutralize the role of unions and state regulations due to unclear legal jurisdictions regarding labor rights and platform

responsibilities. At the same time, transactions remain hidden for tax agencies as platforms are unwilling to share personal data for privacy reasons. While governments try to respond with new regulations to the rise of platforms and their intended, but often also unintended, consequences, these solutions have mostly remained ad-hoc and sectors-specific. As gig-economy platforms are expanding into many sectors including education, care and delivery, a comprehensive approach to platforms may be desirable without denying sectoral and national specificities.

In order to make sense of the changes brought about by the gig-economy platforms, we will draw on the concept of institutional logics as laid out by Thornton, Ocasio and Lounsbury (2012). As platforms are corporations that organize markets, they reconfigure the institutional logics of both the market and the corporation in a new way. An institutional-logics perspective, then, allows us to conceptualize an eventual new platform-based rationale of economic exchange and enable us to trace how it breaks with many of the established ways built up in the past.

We start by outlining the essence of the institutional logics approach, focusing in particular on the traditionally dominant rationale of economic exchange centered on institutions such as the market, the corporation and the state. We then go on to show how gig-economy platforms disrupt these institutional settings and, as a consequence, are perceived as illegitimate. We shortly compare the specific sources of illegitimacy of gig-economy platform with sharing-economy and social-media platforms. Finally, we lay out four scenarios of how the platforms could gain legitimacy, either as a result of the platforms aligning with existing institutional configurations or by societal institutional arrangements changing in such a way as to accommodate the platforms.

## **2. Institutional logics**

Institutional logics are defined as *"the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality."* (Thornton & Ocasio, 1999, p. 804). It is one of the many concepts found in organizational institutionalism to describe and make sense of an organization's environment. It depicts the institutional setting that shapes actors' behavior and the diffusion of practices. One of the seminal arguments in organizational institutionalism is that organizations need to adhere to the expectations of their immediate surroundings and of modern society as a whole if they are to

survive (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Legitimacy, and not merely efficiency, becomes the explanatory variable for organizational survival. Organizations must be legitimate to key stakeholders both socio-politically and cognitively (Aldrich & Fiol, 1994). Socio-political legitimacy refers to an organization being perceived as appropriate and proper with regards to laws and norms in its environment. Cognitive legitimacy refers to the outputs or the form of the organization being understood and well-known. If the key stakeholders do not understand the organization, the latter might fail even though its operations would be socio-politically proper and efficient.

In order to determine the relevant content of this socially constructed system, institutional scholars have brought forward the concept of 'organizational field' (e.g. DiMaggio and Powell, 1983). Over the years, fields have been defined in various ways, but in general they represent "a recognized area of institutional life" (DiMaggio & Powell, 1983, p. 148) for a certain set of actors that interact on a regular basis with each other and, in doing so, contribute to a common meaning system. Fields could, for instance, form around specific industries (e.g. automotive industry or the energy sector), professions (e.g. engineers or doctors), social movements (e.g. labor rights) or thematic areas (e.g. sustainability or equality) (Wooten & Hoffman, 2008). Fields represent the relevant, socially constructed institutional environment that guides actors' behavior and sense-making in those areas.

Earlier scholarly contributions mainly focused on studying the effects of organizational fields on actors, pointing towards isomorphism among actors caused by various coercive, normative and mimetic institutional pressures (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). However, the institutional content per se and its origins were often left aside. The question of why fields are dominated by some institutions and not others was largely ignored or, how Friedland and Alford (1991, p. 244) put it: "*... they do not have the theoretical tools by which to understand the institutional content whose diffusion they do analyze...*". The idea of institutional logics was thus developed with the purpose of specifying the institutional content of an organization's environment – not by referring to some form of technical functionality or organizational interests and power struggles as previously done, but rather by acknowledging overarching, societal institutions that affect all fields to different degrees.

Friedland and Alford (1991) argued that also interests, power structures or notions of uncertainty and functionality are institutionally embedded: individual and organizational perception, sense-making and agency is always shaped by macro-level, societal institutions. The authors argued that the most important institutions of contemporary Western societies come with a distinct "*central logic – a set of material practices and symbolic constructions – which constitutes its organizing principles and which is available to organizations and individuals to elaborate*" (ibid, p. 248). These overarching institutional orders included the capitalist market, bureaucratic state, democracy, nuclear family, and Christian religion<sup>i</sup>. This list was later complemented and modified by Thornton (2004) and Thornton, Ocasio and Lounsbury (2012) by adding the professions, the corporation as well as the community as institutions with a distinct logic, resulting in seven institutional logics: family, religion, state, market, profession, corporation and community.

All of the institutional logics brought forward by Thornton et al. (2012) are so called ideal types (Doty & Glick, 1994). They are simplified theoretical constructions with clear boundaries and categories that sharpen the interpretation of cultural content. This also means that the ideal types do not represent a single unified logic present in the society, nor should a logic be understood as static. For example, nouvelle cuisine arose to challenge classical cuisine as the dominant professional institutional logic in the French gastronomy market (Rao et al., 2003), and new public management has affected classical bureaucratic principles but without substituting the dominant state logic as such (Meyer & Hammerschmid, 2006).

Each of the main institutions come with a distinct logic, i.e. a specific institutional order containing different sources of legitimacy and identity, different basis of norms and strategy and unique control mechanisms (Table 1). For example, the basis of strategy in family logic is increasing family honor, in state logic it is increasing community good and in market logic it is increasing profits (Thornton et al., 2012). The assumption then is that actors can draw from these societal level institutional orders, which get reconfigured and materialized in different organizational fields. Fields thus differ regarding the dominance of different institutional logics and the degree to which different logics co-exist and intertwine (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011), but the institutional repertoire they have to make sense of reality and adjust their behavior is principally the same.

In order to achieve legitimacy, organizations are thus expected to conform to their institutional setting, i.e. the institutional logics present in the fields they are embedded in. For example, the CEO of a company replacing jobs by robots in the workplace would probably get very different reactions depending on whether he or she worked in a private company (market logic), state owned company (state logic) or family owned company (family logic). A CEO of a private company would most likely be applauded by the shareholders because downsizing is usually linked to increased profits (Greenwood, Díaz, Li, & Lorente, 2010). However, the CEO of a family owned company that believes in traditions and long-term employment might have difficulties with the same move because it might stain the family honor (Greenwood et al., 2010). In a state owned company, a mere profit motive might not be an adequate reason for layoffs because the company would be expected to contribute to community good by employing people within its home country (Greenwood et al., 2010; Greve & Zhang, 2017).

**Table 1. Institutional logic ideal types. Adapted from Thornton et al. (2012).**

Logic	Family	Community	Religion	State	Market	Profession	Corporation
<b>Source of legitimacy</b>	Loyalty	Reciprocity	Faith	Democracy	Share price	Expertise	Market power
<b>Source of Authority</b>	Parent	Ideology	Charisma	Bureaucracy	Shareholder	Professional association	Board of director
<b>Basis of Strategy</b>	Honor	Status	Symbolism	Community good	Profit	Reputation	Size

The effect of change and complexity in institutional logics and their reconfiguration process are well-studied phenomena (e.g., Lounsbury, 2002, 2007; Reay & Hinings, 2005). Most often, however, these studies focus on field-level changes of institutional logics, i.e. in specific markets or industries, and do not investigate the reconfiguration of the actual societal-level institutional orders. In the coming sections, we argue that the advent of platforms holds the potential to cause a *macro*-level change by reconfiguring the essence of the institutions of the market, the corporation and the state, and their interrelation.

### **3. The historical configuration of corporation, market and state logics**

The capitalist market is one of the five seminal institutions brought forth by Friedland and Alford (1991) in their first essay presenting the institutional logics. Companies are embedded in market logics through their outputs. The products and services are given a monetary price and the customers do their purchasing decisions based on whether they perceive that they get enough value for the price. A well-working market will then pick the winning companies, who produce most value for the money. These companies consequently grow in size as the customer spending accrues to them.

Besides market logic, all growth aspiring companies are also embedded in the corporation logic. Indeed, an important addendum by Thornton (2004) and Thornton, Ocasio and Lounsbury (2012) to the original institutional logics framework of Friedland and Alford (1991) has been to separate the corporation logic from the market logic. The top management embedded in the corporation logic usually bases their strategy on the pursuit of growth due to the fact that the legitimacy is based on the market position of the firm: the legitimacy of the players is measured by revenue and market share (Thornton, 2004). Even though the word corporation refers to a type of organization, Thornton et al. (2012) argue that it is an institutional innovation as well: limited liability, assimilation of capital and ability to engage in contracts make it a separate institutional order that is governed by its own rules and norms. Employees of a modern corporation, then, do not only derive their identity from the professional logics that they represent, but also from their role and status in the corporate bureaucracy (Thornton et al., 2012). Also note that the routines and practices of the corporations do not stem only from the employees' professions, but are saved in the collective memory of the corporation, both in tacit and in codified (and increasingly algorithmic) forms (Nelson & Winter, 1982).

Because of the significance of publicly traded companies in organizing the society, the institutions of the corporation and the market, even if analytically separate, are tightly intertwined. Yet, the corporation and market logics are not inherently aligned. In this context, it is helpful to distinguish between the product market logic and the capital market logic. Many companies are embedded

both in product markets where they sell their goods and services and in capital markets where they raise capital for investment. Investors do not value companies primarily by the goods or service they produce, but perceive them as profit-maximizing entities that produce cash flows for their shareholders. As extensively theorized in various disciplines, the key contradiction between the capital market logic and the corporation logic can be conceived as a principal-agent problem that is managed through corporate governance (Greve & Zhang, 2017). In the context of corporations this refers to shareholders (principals) hiring the managers (agents) to manage the companies they own. The principal-agent problems stem from information asymmetry between the shareholders and the managers: the shareholders have large stakes in how the company is operated, but not the knowledge of the day-to-day operations. The management, on the other hand, possesses this knowledge, but without governance mechanisms (e.g. stock options) it does not necessarily have as high stakes in the success of the company. This may lead to managers following primarily the corporation logic of growing the company, for example by new business development, geographical market expansion, and mergers & acquisitions. This growth orientation, however, may well conflict with maximization of profit *casu quo* shareholder value characterizing the market logic. For example, a well-researched finding holds that most mergers seem to have detrimental effect on the performance of the two companies (Dickerson, Gibson, & Tsakalotos, 1997; Tuch & O'Sullivan, 2007).

Over time, the capital market logic has been gaining dominance over the corporation logic. The locus of power within corporations has slowly moved from outputs to customers to cash flows to shareholders: the first power shift moved from engineering to sales and later from sales to the finance departments (Fligstein, 1993). For most of the 20<sup>th</sup> century the shareholders worked mainly as passive observers of the corporations: if they were dissatisfied with the management of a corporation they reacted by selling its shares from the portfolio (Green et al., 2008; Ocasio & Radoynovska, 2016). However, this changed during 1970s and 1980s. The shareholders took a more active role and changed boards with hostile takeovers when they were dissatisfied with the management of the company (Green et al., 2008). In addition, by rewarding managers not only by wages but also by shares, interests of managers and shareholders could be further aligned.

The strong alignment between the market and the corporation logic should also be understood with reference to the institution of the state. States stabilize markets to enhance market exchange by enforcing property rights and establishing governance structures and rules for exchange

(Fligstein, 1996). In a similar vein, also the institution of the corporation is strongly aligned with the state. As a nexus of the interest of various stakeholders (consumers, shareholders, labor, environmentalists), the modern corporation is institutionalized by laws to protect the rights of consumers, shareholders, labor and nature, respectively. Such laws pertaining to markets and corporations are mostly defined at the national level, and differences among countries can aptly be described as “varieties of capitalism” (Hall & Soskice, 2001). At the same time, national governments have harmonized national legislations in multi-lateral arrangement as well, especially regarding trade and, to a lesser extent, labor and environmental policies.

Generally, the institutional logics approach assumes that states are interested in the well-being of their citizens (Thornton et al., 2012). The states enforce this through command-and-control frameworks that are based on the implemented laws (Lee & Lounsbury, 2015). In terms of the relationship between the state, the corporation and the market, two legal frameworks are especially important when it comes to platforms: labor laws and anti-trust laws. Labor laws are there to protect workers from exploitation from the corporations, who are usually more powerful in the negotiations than individual employees. For example, laws regarding minimum wages and statutory pauses ensure that corporations do not exploit the workers, and laws regarding health insurances guarantee that the employees do not fall outside the safety nets of the society. The latter also make sure that corporations foster the well-being of citizens, a cornerstone of the state logic. Anti-trust laws are needed, to guarantee that competition in the product and service markets is based on independent price-setting without collusion. Crucially, a historical exemption was granted to labor, which is allowed to unionize for collective bargaining of wages, labor conditions and social security benefits.

#### **4. Institutional misalignments in the platform economy**

Using the framework of institutional logics as outlined above and focusing on the institutional alignment between market, corporate and state logics as they have become dominant over the past 50 years in the West, we can now assess the rise of online platforms through an institutional lens. It can first be noted that, in an important sense, online platforms epitomize the marketization trend. Few exceptions aside (e.g., Wikipedia and PLoS), platforms are generally run as



corporations that compete on intermediation markets as well as on markets for (venture) capital and maximizing shareholder value. Compared to most corporations, one may also argue that platforms suffer relatively little from the tension between the profit interest of shareholders and the growth interest of managers. For one, managers often have a significant share in the company. Second, in the platform economy, the growth objective pursued by managers is fully compatible with the profit objective of shareholders, because the value of platforms in terms of expected future profits is primarily driven by the size of the network of users. The more users are active on a particular platform, the more they profit from network externalities stemming from the size of the user group, the higher the commission that users are willing to pay (Rysman, 2009).

While being a corporation, platforms organize markets. That is, platforms do not produce any particular good or service, but rather provide a digital infrastructure that allows peers to trade goods and services. Three main types of peer-to-peer platforms can then be distinguished (Frenken & Schor, 2017): platforms where peers sell second-hand items such as eBay, platforms where peers rent out items ("sharing economy") and platforms where peers offer a one-off personal service ("gig economy"). It should be emphasized that such online, peer-to-peer marketplaces are not "free markets". Platforms to a great extent moderate transactions by categorizing items, matching supply and demand, and recommending or setting prices. What is more, a platform can determine who is allowed to transact on the platform in the first place (Kirchner & Schübler, 2017; McKee, 2017). In an economic sense, the intermediation service provided by the platform is best understood as a club good as their service is non-rival but nevertheless excludable. The platform acts as a self-regulatory body excluding participants who do not qualify according to the platform operators. Often, a quality assessment is made based on negative reviews or ratings. Thus, platforms do not necessarily apply *ex ante* state or professional regulations regarding licenses, quality standards or diplomas, but rely primarily on participants' mutual assessments in the form of reviews and ratings *ex post*. From an institutional logics perspective, then, a platform unites functions previously distributed among the institutional logics of the corporation, the market, the profession and the state in a single organizational form.

#### **4.1 Parallel market logics**

Having said this, we put forward the thesis that online platforms have created new and fundamental contradictions between the corporation logic and the market logic. The root of this

conflict lays in the nature of services that platforms offer. Instead of employing capital and labor to produce goods and services, platform organize digital marketplaces to enable two or more sides to exchange goods and services among themselves ("peer-to-peer"). This implies that the platform economy is characterized by two *parallel market logics*. First, there exists competition by platforms on the market for intermediation services (e.g., eBay vs. Amazon, Uber vs. Lyft, Airbnb vs. Booking.com). Here, platforms compete for dominance by aggressive growth strategies funded by venture capital. Hence, this market is primarily driven by the capital market logic even if their growth in turn depends on the satisfaction of both suppliers and consumers making use of a platform. Second, platforms organize a digital marketplace where providers (sellers on eBay, home owners on Airbnb, drivers on Uber) compete on platforms to reach out to end consumers. Clearly, this market operates according to the product market logic, with providers being paid and reviewed by consumers according to their perceived quality.

Although the two parallel markets are different and distinct, they are intrinsically tied to one another by governance. The market for intermediation services can be considered as "a market for producing a market". Platforms produce a market primarily by algorithmic matching, (dynamic) price-setting and actively monitoring of providers by tracking technology and customer reviews. In this way, platforms lower transaction costs in peer-to-peer markets between strangers (Frenken & Schor, 2017). We can characterize peer-to-peer platforms by using the five governance principles that apply to markets as proposed by Ahrne et al (2015): deciding on membership, governing rules, monitoring rule compliance, sanctioning non-compliance and establishing hierarchy. Whereas historically the control of these governance principles was delegated to different organizations, digital platforms control all of them (Kirchner & Schüßler, 2017). For example, with ride-hailing platforms such as Uber or Lyft, all of these roles are performed by the platform: they decide who can join, they decide the rules that should be followed and they can dismiss drivers that do not follow the rules. It is also important to note here that as platforms assume such a strong self-regulatory role, they diminish the need for state regulations or professional organizations.

Arguably, even if self-employed individuals are subject to more competition among themselves than platforms are among themselves, the market *logic* applies more to platforms in their race to dominate the market in order to create shareholder value than to the self-employed who operate in a highly surveilled, regulated and constrained online environment. This is why many

commentators have argued that, by exercising control over paid self-employed, a platform should be classified as an employer under current labor law (Sachs, 2015). Despite platform indeed exercise control by algorithmically allocating assignments, monitoring quality and banning malfunctioning gig workers from the platform, gig work can still be considered a freelance job with gig workers deciding when to work, what assignment to accept and how to carry out the gig “on the ground”. This ambiguity is also reflected in the reluctance of judges to take a clear stance on the issue. Instead, judges call for governments to adapt the labor law as to provide them with clearer guidance in specific cases.

#### **4.2 Parallel corporation logics**

At the same time, the platform economy also involves two parallel corporation logics. Legally, both the platform and the peer providers are classified as corporations. The nature of the two types of corporations, however, could not be more different with platforms’ value being mainly based on intangible assets (know-how, IPR, brand value, software), while self-employed suppliers are fully dependent on their own labor alone. The platform’s business is fully compatible with the corporation logic as being oriented towards growth. Online platforms are easily scalable as the marginal costs of serving an additional supplier (or consumer) are close to zero. In effect, the growth of a platform can even be self-reinforcing. The value of a platform increases with the number of participants on the two sides of the market since more participants implies higher chances of a good match (Rysman, 2009), a phenomenon known as network externalities (Arthur, 1989).

The self-employed supplier operating on the platform, however, is dependent on its labor and thus physically constrained in the number of hours (s)he can be active. Despite self-employed suppliers are allowed to re-sell any assignment outside the platform as a means to grow their business, their membership on the platform is technologically tight to a single account and profile, limiting the opportunities to grow their business beyond their own labor efforts. In this regard, though both being corporations in a legal sense, the corporation logic applies much more to platforms than to the self-employed workers on the platform.

As self-employed individuals are suppliers to the platform, the resulting market structure is one of monopsony: the self-employed have little choice than to offer their service through one or two platforms. As a result, the surplus can be almost fully appropriated by the platform, as evidenced

by their commission fees that range between 15 and 30 percent. Different from employees in corporations, the anti-trust regulations prohibit self-employed individuals to collectively bargain a minimum price (as well as labor conditions, right to privacy, social security, etc.). Here, it is the role of the state to enforce competition law (using anti-trust agency) and, accordingly, views considers the self-employed as running a business. That is, from a state's perspective, both the platform and the self-employed are categorized as a corporation.

The "precarity" of self-employed individuals working via platforms, then, does not only lie in traditional roots of precarity including low pay, informality and discrimination, but also in their asymmetric dependency relations with the online platforms. While the latter operates under full support of the institutional logics of the corporation and the market, the self-employed cannot rely on such support in the same way employees do in the corporation logic and entrepreneurs do in the market logic. Regarding the corporation logic, self-employed individuals do not fit in even if they are legally classified as a corporation, as the nature of work and their digital identity provide little opportunities to grow their business in size beyond their individual efforts due to physical limits on one's working hours. Regarding the market logic, self-employed individuals nevertheless compete for income on markets, but they do so with little entrepreneurial freedom as platforms largely pre-design technologically how to offer and price one's labor services and how supply and demand are matched algorithmically.

The questions of surplus and control are intertwined when viewed from the pre-existing configuration of institutional logics. Following the corporation logic, the corporation employs labor, which collectively negotiates the surplus (wages, bonus, allowances, promotion criteria, benefits, etc.). In return, the corporation is allowed to exercise control by means of work instructions. Refusal to follow such instructions is a valid ground to fire an employee. By contrast, a self-employed individual is autonomous in deciding what work to accept and how to carry out the task at hand. This renders such freelancers self-employed and, hence, subject to competition law. Surplus can no longer be collectively negotiated, but it is established by market prices resulting from competition. To ensure the freelance status of their providers, platforms thus navigate the fine line of exercising control of freelancers without explicitly instructing them. This is feasible as long as the end-consumer is the one that specifies the assignment (e.g., by sending an order through the app) and reviews the work *ex post* (e.g., by rating and writing reviews in the app). At the same time, by not acting as an employer, the platform also avoids responsibility for how the

self-employed carry out their job (e.g., regarding permits, health and safety regulations, sexual harassment) and also can remain agnostic about their tax duties.

#### **4.4 Weakening state logics**

Most governments value the innovative nature of platform's services and the lower prices that benefit consumers (Frenken et al., 2017). However, as explained, governments struggle with how to apply their labor laws, which are meant to protect dependent workers. Arguably, with platforms exercising so much control over self-employed individuals, they can, indeed, be regarded as dependent rather than independent contractors. As platforms do not take up the responsibility for the protection and well-being of the self-employed, the state logic has become misaligned. While government delegated principles including decent work conditions, anti-discrimination, employment protection and income security to a large extent to modern corporation vis-à-vis its employees represented by the unions, such principles need not be adhered to by a platform vis-à-vis its self-employed.

While the platform is empowered by the corporation and market logics it is subject to, the role of governments has thus become more limited. Where governments traditionally controlled membership by handing out permits, and professions by handing out diplomas, platforms decide on their own who to include as member on their platform. Formal state criteria based on regulations are being substituted by ratings and other surveillance mechanisms applied by the platform itself. It should be noted here that not all platforms have been successful in claiming this autonomy. Throughout Europe, for example, the UberPop service allowing anyone to act as taxi chauffeurs has been halted by governments, and has given way to a formal service allowing licensed chauffeurs only.

#### **4.4 Where gig and sharing platforms differ**

While the tensions between platforms and users have been most visible in gig economy platforms where people sell their labor to make an income (e.g., Uber, Taskrabbit) our analysis also applies to sharing economy platforms. In the case of Airbnb, for example, the main service consists of facilitating home owners to rent out their home. That is, sharing economy entails renting out an (under-utilized) asset, while gig economy entails renting out one's own labor (Frenken and Schor, 2017). Yet, even in the case of renting out a home, some form of labor is implied, e.g. answering questions by prospective guests and cleaning the house (irrespective of whether these tasks are,

in turn, outsourced by the home owner to others). Thus, as on gig-economy platforms, individuals carry out work on sharing-economy platforms to generate an income and, just like gig-economy platforms, sharing-economy platforms actively surveil such activities and sanction misconduct.<sup>ii</sup>

Nevertheless, the institutional nature of the tensions caused by gig-economy platforms are quite different from the tensions caused by the rise of sharing-economy platforms. In both cases, individuals are constrained in growing their business. However, while the constraint in gig-economy platforms stems from the physical limitations in terms of the number of hours a single individual can offer his/her services, the business constraints on sharing-economy platforms are purposefully imposed and enforced by the government (Frenken et al., 2017). First, government regulations prohibit excessive trade. For example, many cities limit the number of days that a house can be rented out through Airbnb. Similarly, most governments do not tax income from renting out one's goods, but only up to a maximum amount after which an individual is regarded as a professional business; in some cases, a platform itself may actively police excessive use by suppliers to maintain legitimacy by avoiding allegations of facilitating unfair competition with professional rental agencies. For example, peer-to-peer car sharing platforms actively monitor if a particular car is rented out on a permanent basis and, if so, remove the offering from the platform. In terms of institutional logics, then, the constraints on individuals to expand their sharing-economy business is due to a particular configuration between the state and corporation logics, where the state regulates the boundary between peer-to-peer sharing and professional businesses by imposing caps on the activities that individuals can undertake before they will be classified as a regular professional business, including all the professional regulations and tax duties attached to it. By contrast, gig-economy activities are considered a (freelance) business activity by default.

In sum, platforms themselves are well embedded in traditional market and corporation logics. They are very capable of attracting large sum of capital to grow their company in size and, since the shareholder value of a platform primarily stems from its size in terms of user numbers, the objectives of managers and shareholders are well aligned. Moreover, platforms profit from extant state logics welcoming them as "disruptors" bringing innovations, empowering consumers and lowering prices. At the same time, the advent of online platforms has rendered self-employed suppliers an institutional anomaly. They are caught in the middle between corporation, market and state logics. Despite being legally classified as a corporation, they cannot grow their business as other corporations do. Though being active on markets, they cannot operate in an independent

entrepreneurial manner as platforms strongly mediate market exchanges. Although being citizens of a state, they are ill-protected by territorial social laws and state regulations.

## **5. Resolving institutional misalignments**

The misalignment of market, corporate and state logics has become evident from the growing tensions and controversies surrounding online platforms. Platforms, in their current form, are perceived as illegitimate especially in the eyes of unions trying to protect precarious workers, that is the self-employed who work via platforms. Governments also struggle with platforms that facilitate peer-to-peer transactions without enforcing government regulations and tax obligations (Frenken et al., 2017). Yet, while governments and unions are critical, the public at large seems to consider platforms as legitimate, as witnessed by their growing popularity among consumers. This also explains why governments agencies may differ considerably in their assessment of platforms. For example, while inspection agencies and employment ministries raise questions, innovation agencies and competition authorities seem to emphasize the apparent consumer welfare benefits.

One can then try to understand the current attempts to resolve some of the institutional misalignments using the lens of institutional logics. The resulting institutional complexity is often dealt with differently in different sectors and different countries. We can observe two trends taking place alongside each other. On the one hand, we observe a number of more pragmatic solutions that go into the direction of containing the institutional tensions through sector-specific an ad-hoc 'band aid solutions'. In particular, platforms have given rise to new institutional categories that lie "in between" markets and corporations. Band aid solutions can be understood as field-level responses to platforms, which result into highly sector-specific institutional changes. By doing so, governments are able to regulate platforms in different organizational fields, while maintaining the institutional logics that govern the rest of the economy as built up in the past. On the other hand, we see more fundamental attempts to take platforms out of the problematic market/corporation nexus and to institutionalize them into either the corporation or the market logic, or even in an alternative way following a community logic.

### **5.1 Band aid solutions**

With some platforms growing fast and raising controversies, governments understandably turn to pragmatic solutions. More fundamental resolutions would, from a government point of view, require a lengthy and (politically) uncertain process, for example, regarding a redesign of the fundamental laws regarding competition and labor (and, possibly, regarding privacy and anti-discrimination as well). Instead, the most pressing problems are addressed by ad-hoc regulations targeted at specific platforms in specific organizational fields.

Two field-level examples may help to exemplify this trend. First, in the taxi field, new regulations legalized the ride-hailing practices started by Lyft and Uber where ordinary people with permits would provide taxi services through the platform's app. This has been made possible by the introduction of a new category of "Network Transportation Companies" as distinct from traditional taxi companies. By doing so, a "third" category was created between taxi companies and e-commerce companies. Interestingly, while this solution has been accepted in most U.S. states, European countries resisted the platforms' proposal to copy this U.S. solution and institutionalized ride-hailing apps within traditional taxi law instead accepting license drivers only. Second, in the hotel sector, home sharing has become legalized in many cities around the world by adopting specific regulations. In most cases, home sharing is allowed but only for a limited number of days and to a limited number of people. Again, this can be understood as a third-way solution striking a balance between state logic of zoning where residential houses would be meant for permanent residents only and home sharing should be forbidden, and the market logic of hotels and bed-and-breakfasts which are allowed to rent out rooms the whole year long (Frenken and Schor, 2017).<sup>iii</sup>

The mentioned examples can be understood as typical organizational field-level responses. Regulatory responses concern single organizational fields in single geographical environments (e.g. the taxi sector in California). By and large, these solutions are quite favorable to the existing platforms. Even though they might create some boundaries for how the platforms conduct business, they leave the overall business model of platforms intact. Therefore, the problem of the workers being misaligned with both corporation and market logics also remains unchanged. However, with increasing regulator pressure, some platforms have also taken steps to align more closely with existing macro-level institutional logics. In the following chapters, we discuss alignment attempts with the corporation logic, the market logic and the community logic.

## **5.2 Corporation logic**



Regarding the most pressing issue of the legal status of self-employed individuals, many advocate a simple way out by classifying platforms an employer and the self-employed as employees. In that case, platforms are being re-institutionalized in the old regime and all three tensions are resolved: wages can be negotiated collectively and platform can exercise control over labor. It would also solve the problem of regulatory compliance as regulatory responsibilities are then re-allocated from the self-employed to the platform. This scenario means that the corporation logic fully applies to platform work, thereby undoing the tensions caused by the parallel realities of competition by platforms and competition on platforms. Obviously, platforms are likely to oppose such an institutionalization pathway because their profit margins would deteriorate as labor would get a larger share of the surplus, while at the same time the total surplus is likely to decline as well as the total costs go up. Nevertheless, some platforms do take minor steps in this direction by voicing a willingness to provide insurance, training and social security for self-employed individuals similar to services provided by employers to employees (Rosemail, Barzic, Pitas, & Smith, 2018). This may indeed be possible without platforms being automatically classified platforms as employers, because such classification issues depend much more on the issue of control than on the services and benefits that a platform would provide. Though this institutional pathway does not take away the (legal) issue of control of a platform over the self-employed, it nevertheless provides self-employed individuals with many of the benefits that employees currently enjoy. This would, at least, meet some of the normative critiques of unions and other commentators alike regarding the precarious position of platform labor.

## **5.2 Market logic**

A second pathway would go into the opposite direction and institutionalize platforms more fully as markets, that is, as technologies that facilitate exchange and transactions but otherwise do not exercise control over labor. This would entail a change in some of the business model characteristics of many platforms that now often set prices and match supply and demand algorithmically and may even preferentially select workers with good ratings. If platforms were to comply more faithfully to the market logic, they would have to decentralize decision-making to workers that are free to decide with whom to work and for what price. Indeed, this is visible in, for example, the domestic cleaning platform Helpling, which abandoned setting prices practices and now leaves it up to the cleaners to do so. Similarly, in response to imminent legal action, Uber decided to change its system for the allocation of rides, which is no longer based on the past ride-

acceptance behavior by drivers. Though such business model adaptations would make platforms less vulnerable against the threat of being classified as an employer, for now a key governance mechanism remains: platforms retain the right to close off access to workers who, in their eyes, underperform.

### **5.3 Community logic**

A third pathway, which has been much more debated than empirically observed (Scholz & Schneider, 2016), is to overcome the corporation logic altogether by founding platforms as cooperatives with workers owning and controlling the platform. These kind of “platform co-ops” would likely be embedded in a community logic. The rule setting, on the other hand, would probably be based on the community logic as the members of the community would decide on the rules, how they are monitored and how the offenders are sanctioned. Cooperatives then, would most likely emerge from local communities that use a platform to serve local consumers, as in most gig economy and sharing economy markets. In such context, an online community of providers can easily interact offline as well (Reischauer & Mair, 2018; Vaskelainen & Piscicelli 2018), thus leveraging the physical proximity of providers operating in local markets. In particular cases, the membership of a platform co-op may be tight formally to a membership of a (national) professional organization as well, or otherwise informally to professional values and identities. It should be noted that the government would probably not deem these platforms as illegitimate as some of the privately-owned platforms because the members would themselves be able to influence the platform and, thus, they would not need state protection. The unions would also be likely to accept these kinds of platforms at least in a scenario where they would be active in creating them. However, regarding platform co-ops, it remains unclear in what ways such initiatives are allowed under current competition law and whether any constraints will be lifted by governments as to facilitate such initiatives.

## **6. Research agenda**

The framework of institutional logics provides a useful analytical lens and scheme to understand the fundamental institutional challenges prompted by the advent of online platforms. Platforms are corporations that organize markets. In doing so, they span two parallel markets: the market for platforms competing to provide intermediation services and the market for the self-employed (and

unpaid labor) competing on platforms to provide peer-to-peer services. While the corporation and market logics empower the platform, they weaken self-employed suppliers as platforms constrain them to grow into a fully-fledged business and limit their entrepreneurial freedom by their platform design.

Our institutional logics analysis made it clear that, apart from ad-hoc field-level responses, many proposed institutional changes are calls to privilege one logic over another. There are calls to re-classify self-employed individuals as employees of the platform, which would resolve the conflicts of surplus and control in the traditional way and bring platform workers into the corporation logic. At the same time, there are also signs that platforms adapt their business model to avoid such future re-classification, for example by reducing the level of control they exercise over the self-employed, thus adhering closer to the market logic. Finally, we witness some attempts to found platforms as cooperatives to enable self-employed individuals to take control over the platform and its algorithm and business model, which can be subsumed under the community logic.

From this analysis, a number of research questions can be derived for future institutional research on the platform economy:

- What institutional logic can be expected to prevail depending on the business model characteristics of a platform? A useful distinction here is between advertisement-based, subscription-based and commission-based business models.
- What logic can be expected to prevail depending on sectoral characteristics? A first distinction here is between social media (unpaid labor), gig work and sharing assets. Furthermore, whether or not people rely on a platform for their main income can be a further important distinction.
- What logic can be expected to prevail depending on the variety of capitalism? Operating in a global institutional void, platforms have entered many countries with, initially, very similar business model. Over time, one may expect such business models to adapt to local and national institutional demands, which themselves are co-evolving with platform technologies as well.

In addition to platform-specific questions, we call for more research on the change of the macro-level institutional logics. Even though Friedland and Alford (1991) presented the institutional logics

perspective to raise the analysis from the organizational level to societal level, most of the work on institutional logics has focused on analyzing the interplay of different institutional logics in particular institutional fields (Dunn & Jones, 2010; Lounsbury, 2007; Pache & Santos, 2013; Reay & Hinings, 2009; Thornton, 2004). As stated by Thornton and Lounsbury (2012), the corporation emerged as an organizational innovation, but later became established as a macro level societal institutional logic of its own. In the light of our essay, we argue that platforms hold the same potential. They can create a macro-level institutional logic of their own and even if they do not, they can influence the logics of state, corporation and market.

Further research could also focus on examining how disruptive organizational innovations, such as platforms, mold the macro-level institutional orders. For example, is there a tipping point when many organizational field level change leads to change in the institutional order or is the change gradual, resulting from the alignment efforts of the new kinds of actors with the existing logics? In the case of platforms, the question is if the degree of transformation of the institution of the corporation or the market increases with the diffusion of platforms in various fields, e.g. in tourism, transport and cleaning, or whether such a transformation in overarching institutions is needed first before the platforms can diffuse to various industries.

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<sup>i</sup> The fact that only Christian religion is mentioned probably stems from the fact that the authors concentrated on the major institutional logics of the western world.

<sup>ii</sup> Whether or not the same analysis may extend to social media platforms is less clear (Srnicek, 2017). Social media apply a different business model than sharing and gig platforms, in that they connect advertisers to consumers through micro-targeted marketing algorithms. Hence, the market logic in social media pertains primarily to the two sides of advertisers and consumers. At the same time, social media platforms are also peer-to-peer media platforms where users upload the content for others to read and watch, but without remuneration. This has been considered a form of free labor (Terranova, 2000), where platforms enable people to express themselves and share knowledge, while at the same time appropriate such cultural expressions as data for commercial purposes. The surplus is taken by the platform altogether, recently prompting proposals for data property rights and data unions. Whereas the control over the content to produce is obviously much less in social media compared to paid work, there is nevertheless a form of control as platform retains the right to remove content and user accounts.

<sup>iii</sup> Social media platforms serve as a third example. Here, the dichotomy between host and editor has dominated; platforms self-identify as mere host of content that is produced "peer-to-peer", thereby escaping the status of an editor and the roles and expectations attached to it. Though, legally, it would be hard to classify social media platforms as editors, they assume editorial roles by removing content themselves. More recently, however, we see true attempts by governments to institutionalize this role of platforms in the face of fake news. In particular, European governments are exploring new regulations that could compel such platforms to rapidly remove misinformation (Helberger et al. 2017). Again, we can consider this attempt as a third way solution by introducing regulation that would assign the role of editors to platforms that remain, legally, classified as hosts.