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## Shaping the Gig Economy

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# Shaping the Gig Economy

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## **ABSTRACT**

This paper will examine the business model and discuss recommendations of best practices for integrating the gig economy as a solution to workforce issues, improving global economic policies, entrepreneurial growth and society. Technology, demand, and location are environmental factors that we analyzed. The positive and negative contributions that entrepreneurs have on this economy are outlined, as well. Throughout the research, the achievement of understanding what the gig economy is and how it is shaping the future is a key focus. The conclusion is made of whether the gig economy is something that is aiding in progression or if it is hindering the development of businesses already established. Past and present economic factors will be analyzed to determine how it is influential on the success or failure of the modern economy. Companies such as Etsy, AirBnB, and Uber are thoroughly analyzed to determine if the businesses are making the best return on investment. The solutions companies are providing for helping the unemployed find work are determined to be long term solutions or a temporary fix used to aid in decreasing the unemployment rate. The research conducted is supported by a series of surveys to help determine if the initiatives taken are harmful for the economy and if economic policies are required for the protection of stakeholders. In this paper, our recommendations can serve as a springboard to create work based discussions to foster alternative workforce options for the changing global economy and for the millennial workforce.

**Keywords:** Gig economy, on-demand economy, share economy, access economy, social opportunity recognition, income inequality

## **I INTRODUCTION**

The gig economy is a macroeconomic structure highly dependent upon the environmental factors emerging over the past few decades; such as, technological changes, demand, location, globalization, industrial changes and shifts in the economic landscape. These factors have facilitated the evolution and growth of the gig economy business model plus the breakdown of traditional employment and business models.

The gig economy includes industries such as Uber, Lyft, Airbnb, and Etsy. Due to the short nature of the expected time frame for the projects, workers do not receive a contract or benefits and are considered self-employed; therefore, they do not receive ample support from the company, itself. The motivation for these workers include factors, such as, higher wages and flexible work schedules. However, major impediments exist, for example, the lack of stability, medical benefits and information gaps.

Despite the barriers that exist and its sustainability, the gig workforce is progressively consuming a larger portion of our economy than industry leaders would have ever expected. While, it is a new phenomenon, the impact of this labor market strategy has disrupted traditional business practices using autonomous mechanisms, globally. According to a report published by Northern Trust, in the United States alone, there are over 2.5 million people working in the shared labor economy.

With the effects being both beneficial and detrimental to the current labor force, governmental regulations and labor policies may need to be created or modified so that continuous improvements can be made to protect companies and workers. While the most popularly known “gigs” include services, such as, transportation, babysitting, or grocery shopping, the market is targeting all types of employees including data analysts, coders and professional positions, so that they can share their talents without committing to a position that is demanding or doesn’t meet their personal goals.

## **2 ENVIRONMENTAL FACTORS THAT INFLUENCE THE GIG ECONOMY**

### **2.1 Technological Changes**

The rapid growth of digital technologies in the past twenty years has driven the development of the gig economy. This business approach is centered on easy access to high demand consumer services and connecting “gigs” to people that are seeking to supplement their income or that are simply looking for employment. Innovation and network bandwidth directly influences the success of the gig economy and companies engaging in the gig economy heavily rely on innovative technological advances. Rachel Botsman points out in her recent Ted Talk, *The Currency of*

*the New Economy is Trust* that, “Technology increases efficiency, which makes this type of sharing easier.” Therefore, the lack of technology would be a barrier to entry in this marketplace. Employers, employees and users will need to remain positioned on integrating the latest technologies to improve the services provided in an on-demand environment.

Airbnb, for example, provides a peer to peer marketplace in which individuals seeking accommodations can engage in business transactions with ease through the company’s website or app. The service can also provide a perspective of what it is like living in that city. Yet, without the app or website, there would be no way of connecting a host and a prospective renter.

Additionally, cash is never exchanged in hand, instead transactions are digitally processed and tracked. This payment system also provides safety for the consumer and the service provider because they do not have to worry about carrying cash on hand.

In areas of high urbanization, gig companies have experienced rapid growth in the past few years because of the ease of access to technology, word of mouth branding and the higher population leading to a higher demand for the service.

Alternatively, advances in technology will shape the future of the gig economy and create untapped discoveries along with access to cheaper resources. Self-driving cars will eliminate human capital for ride-sharing companies. In addition, artificial intelligence will impact task oriented jobs, such as, writers, coders, financial analysts and auditors.

## **2.2 Demand**

Additionally, the nature of the gig economy, would be unsuccessful without a great demand for the services provided or consumer expectations. The Congressional Research Service released a statement saying, “The gig economy is the collection of markets that match providers to consumers on a gig (or job) basis in support of on-demand commerce. In the basic model, gig workers enter formal agreements with on-demand companies to provide services to their clients. Prospective clients request services through an internet-based technological platform or smartphone application that allows them to search for providers or to specify jobs”.

The specification of jobs mentioned in the statement creates a need for a targeted demand. If an Uber driver cannot find a consumer who needs transportation, then the driver will not work. Likewise, an Airbnb host who has no clients interested in their rental will suffer. Therefore, if the demand isn’t present, the company and the on-demand employee will not succeed.

On-demand employee saturation, commodification or in situations where skill set becomes obsolete or replaced by

technology can also sway demand. Additionally, negative feedback influences demand. This can affect consumers, companies and the workers. For example, Uber provides ratings for both the user and the drivers. Also, when companies receive negative media coverage it can affect the demand on its products or services.

Our research revealed how negative experiences has an impact on demand. In a survey of sixty-eight people from around the world, it was discovered that 33% of these consumers had a negative experience with a gig economy company. Of those who had negative experiences, 12% said that they would use the company again and 57% would utilize a competitor. Negative experiences can also provide a gateway for the competition to poach the consumer market. From the responses received, most of the negative experiences described inconvenient circumstances, such as, a driver that did not arrive on time or at all and renting an Airbnb and the provider did not come to open the rental. There is a direct correlation between the consumers’ experience using the service and the impact on demand.

Also, it can be inferred that urbanization and population have an impact on the prosperity of a ‘gig’ worker because they both affect the demand for a provided service. The more urban and populated the area is, the more likely that someone within the area will need a specific service. These factors can also influence the demand for perfect competition. That is, new companies can easily enter the market to generate additional competition.

As the demand for ride sharing has increased, rival companies have emerged to replicate Uber policies, which can cause problems for some workers that seek this type of alternative employment model. Some contingent workers report that their job stability has decreased; however, for some working for multiple competitors provides additional opportunities.

## **2.3 Localization and Globalization**

Location significantly contributes to the success of companies; such as, Uber and Airbnb which offer services often used by travelers. There is more demand for these services in areas that are popular travel destinations, or more urbanized cities. These companies relied heavily on researching to find the right locations that had a high demand that could not be properly supported to maximize their success.

Location can also influence the gig economy because of public, and legal opinion. In the United States, ride-sharing is an acceptable. However, problems with Uber exist and location can have a huge impact on the way the company operates. For example, in some major cities a limit on the number of vehicles the company operates may be imposed.

Globally, location has directly impacted Uber drivers, unequivocally, in some cities the drivers have incurred physical abuse from traditional taxi drivers competing for passengers. The perception that Uber is the more

economical choice and unfair competition contributes to these types of issues. In order to increase business success, have a continuum of absolute trade advantage and improve business practices, it is important to understand cultural business aspects and the competition including what is considered fair competition in the location that business is conducted. In addition, countries and workers must learn to adapt to modern views of labor & business practices that can enhance or drive constant economic growth.

On a global scale, the gig economy has penetrated markets all over the world, including developing nations. Developing nations seem to be the most promising because it provides full-time income generating employment for its underrepresented population. However, investment in digital infrastructures and language barriers might create employment challenges. Consequently, companies and governments are investing in the gig economy to create employment growth. For example, the Malaysian Digital Economy Corporation, a governmental entity created a platform for Malaysians to gain income opportunities by performing task online. Companies like Uber and Etsy operate on a smaller, more intimate scale in slum cities throughout the world to increase income equality and employment growth.

Throughout the world, sharing economies are helping people come together to provide services and goods needed. This business model is changing lives and impacting the economy; however, it is too soon to determine if it is truly beneficial or detrimental to our world's economy.

#### **2.4 Industrial Changes and Shifts in the Economic Landscape**

The business ecosystem continues to evolve with the emergence of the gig economy. In a study conducted by Intuit, it is predicted that by the year 2020 exactly 40 percent of American workers will be working in the gig economy labor movement. This can be in part because the traditional work environment does not always offer the economic security that existed in past decades. In addition, consider the lack of access to certain benefits catapults job seekers to contemplate alternative work environments or ways to supplement their income.

The rise of the shared economy business models are changing the industry, in a 2016 study conducted by the McKinsey Global Institute, 15 percent of independent workers in the United States and the European Union participated in online informal work activities, these job opportunities are reshaping the workforce. Rachel Botsman points out that, "70% of this new labor force provided by Taskrabbit were previously unemployed or underemployed". These new jobs are powered by human capital and has directly changed traditional employment outcomes. Additionally, this employment model continues to influence new employment laws, governmental policies and employment practices.

Of the consumers we surveyed, 57% reported that they would consider working in the gig economy. The popularity of these jobs help fill a gap in the economy by providing jobs to previously unemployed individuals and those looking to supplement their income. Data collected from the United States Bureau of Labor Statistics has shown, "...that the post-Great Recession long-term unemployed rate remains high. The long-term unemployed looking to get back to work have had a notoriously harder time finding jobs due to a variety of possible factors like the difficulty of finding jobs, a lack of skills, or discrimination based on their jobless spell". Thus, these employment models help solve problems caused by employment gaps that were created almost ten years ago. Many workers who have struggled to find jobs after the downturn in the American economy have found income opportunities and improved their skill set through employment in these gig companies.

While the model is evolving and unexplored, it is unknown how stable these jobs are and this model may exploit the contingent worker and traditionally employed individuals. Additionally, contingent workers are not yet fully protected under federal and labor laws. Organizations to protect these types of workers are mounting; for example, the Freelance Union based in Brooklyn, NY and SherpaShare offers resources to empower self-employment individuals. Some of the benefits include health insurance, discounts on certain services including tax help. However, because this type of employment is driven by an app it may be difficult to organize on-demand employees that may be experiencing challenges working within this business environment.

As much as the shared economic landscapes are disrupting employment practices, these models are also taking advantage of economic shifts. For example, in some countries, Airbnb operates without paying income tax in, additional fees are often paid by the renter. This impacts the local economy because investors purchase buildings to rent them out through Airbnb, causing a rise in the rental prices and a disruption of the housing market.

### **3 CONCLUSION**

These business models are creating more dynamism into job markets by connecting talent with opportunity in the digital age. Also, its reducing unemployment, increasing productivity, and providing on-demand products and services creating a better match between the public and the entrepreneur (employee), because there is more information out there. These platforms help create more output in the economy, and therefore potentially increases incomes.

Unfortunately, this business model currently operates in such a manner that the "contractors" are left with multiple risks and obligations, while these companies reliant on apps and platforms, are not required to accommodate or offer certain benefits to the stakeholders who make their profits possible. One of the major challenges will be to create systems for delivering benefits for workers. Both firms and employees in the gig economy model are exposed to the

legal climate and economic shifts that influence their existence.

Currently, the gig economy is penetrating the marketplace's "grey zone" area, it's an industry based on creating an on-demand economy. Improvements to ensure that the global economy is supported are necessary, economic sustainability requires payment of taxes to create infrastructure and other socio-economic needs for each country.

In the years ahead, the technology and the economy will continue changing, which means that the individual mind-set will have to change with it. There will always be a greater need for people to connect with work opportunity more efficiently, which means that the culture of innovation has to continue.

Also, unclear roles can make the distinction between professionals and amateurs, employees and freelancers more blurred. This can cause unsafe working conditions, uncertainty about consumer rights, privacy issues and confusion about supervisory regulations. Although our recommendations for quality improvement would support the notion that these companies need to work with the government and other stakeholders to make improvements for continual success of the company, amongst the individuals we surveyed 66% of them felt that government regulation is not necessary. The survey results can be startling but also asserts that there is a growing shift towards more modernistic employment approaches and that individuals working or looking for work are starting to change the way they value workplace rewards and benefits. If this assumption holds some truth, then the government and other organizations should represent all individuals impacted by the changing economy. The approach would align to 21st century economic views.

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