The Gig Economy: Threats and Opportunities for Workers and Employers

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Outline

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- The Gig Economy: Some Facts

- Segmenting the Gig Economy

- Why has the Gig Economy grown?

- Earnings at Uber

- Managerial Implications: Should You Hire Gig Workers?

The Gig Economy: Some Facts

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- Estimated size of Gig Economy varies dramatically based on definitions
  - About 10% of American workers' "Primary Job" is as an independent contractor ("1099 Employee", "Freelancer", etc.)
    - About 0.5% of "Primary" jobs are on internet "Gig" platforms
  - About 30% of US workers do some independent/non-traditional work
- ALL of the growth in the US labor force's "primary job" from 2005-2015 was workers in these groups:
  - Independent Contractors
  - "On-Call Workers"
  - Workers at Contract Firms (janitors, security, food service)

Who Are the Independent Workforce?

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TABLE 1: SUMMARY OF IW AND TRADITIONAL EMPLOYEES

	IW	OTHER EMPLOYEES
% Female	41.4%	49.5%
% Urban	35.5%	31.1%
% Suburban	44.5%	48.2%
% Married	38.8%[15]	35.1%
% African-American	11.4%	10.6%
% Hispanic	16.2%	13.6%
Age	41.4 (14.7)	43.5 (14.1)
Years of Education	14.0 (2.5)	13.9 (2.3)
Hours of Work/Week	31.2 (16.8)	34.7 (13.9)
Annual Earnings	$50,017	$51,982
Hourly Earnings	$37.28	$34.52
Hold a Traditional Job or Own a Business	55.7%	100%
Freelancing Hours/Week	17.6 (15.9)	N/A
% Freelance "By Choice"	56.4%	N/A

Gig Worker Pay

(5)

- Independent (compared to traditional) workers
  - Make 6% *less* per year
  - Make 15% *more* per hour
    - But the premium is much smaller for those who work independently "by necessity" (rather than "by choice")

Gig Workers

(6)

- "Word Cloud" of responses to "Why do you work in the Gig Economy?"

Flexibility

Gig Workers

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- "Word Cloud" of responses to "What are the downsides of working in the Gig Economy?"

Instability

Inequality and The Gig Economy

(8)

TABLE 4: UPWORK WEBSITE STATISTICS

	TOTAL	WEB/MOBILE, & S/W DEV
Hourly Rate (Upwork Average = 1)	1.000	1.543
American Seller	1.809	2.753
Foreign Seller	0.927	1.494
GSV (Upwork Total = 100)	100%	48.02%
American Buyer	64.38%	62.12%
American Seller	16.63%	7.18%
Transactions with American Buyers and American Sellers		
Average Distance	1,091	1,142
Relative Income of Buyer Area	1.359	1.339
Relative Income of Seller Area	1.149	1.213
Relative Education of Buyer Area	1.722	1.694
Relative Education of Seller Area	1.360	1.449
Relative Urbanicity of Buyer Area	1.180	1.177
Relative Urbanicity of Seller Area	1.085	1.112
Relative Minorities in Buyer Area	0.809	0.802
Relative Minorities in Seller Area	0.840	0.810

NOTES: Distances, income, education, urbanicity, minorities weighted by GSV

Separation of Employers

Source: Song, et al (2016)

Independent Worker Market Segments

Employing Gig Workers

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- Advantages

  o "Labor Arbitrage"

  o Choice

  o Faster onboarding

  o Easy to downsize

  o Partial workers

- Disadvantages

  o Stability

  o Knowledge

BIG growth opportunity for Gig Economy: Current startups as they scale

The Gig Economy & Market Thickness

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Gig Economy: The Great Equalizer?

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- *"The converging roles of men and women are among the grandest advances in society and the economy in the last century. But what must the last chapter contain for there to be equality in the labor market? It must involve changes in the labor market, especially how jobs are structured and remunerated to enhance temporal flexibility. The gender gap in pay would be considerably reduced and might vanish altogether if firms did not have an incentive to disproportionately reward individuals who labored long hours and worked particular hours."*
  - Harvard Economist Claudia Goldin (2014)

Not So Fast!

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Why Do Male Uber Drivers Make More?

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Distribution of average speed

Average speed (mph) of a given driver-week

MONDAY 12pm TUESDAY 12pm WEDNESDAY 12pm THURSDAY 12pm FRIDAY 12pm SATURDAY 12pm SUNDAY 12pm

Women at Uber

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- Uber and Gig Economy provide Flexibility

- That comes at a financial cost

- But presents new options that can be valuable

Strategic Employment of Gig Workers

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- What are the key components of labor costs?
  - Compensation
  - Benefits
  - Hiring Costs
  - Training and Development
  - Vacancy/Opportunity Cost
  - Idle Time

- Potential savings from Gig Economy
  - "Labor Arbitrage" for compensation and benefits
  - Lower hiring costs, shorter vacancies
  - Less idle time – pay for what you use
  - BUT, much less stable

Where should you use Independent Workers?

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- What kinds of jobs have you…

  - Had success with independent workers?

  - Had problems with independent workers?

- IW Success Stories
  - Technical but not path-breaking
  - Skills that many companies need
  - Not a differentiator

Role of Competitive Advantage

(19)

- "Competitive Advantage"
  - Unusual and hard to imitate capability, resource, or position

- Walmart
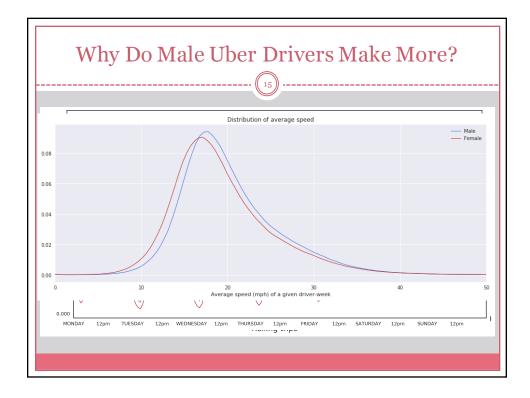 - Original competitive advantage
  - Current competitive advantage
  - Challenge to competitive advantage

- Can "people" be a competitive advantage?
  - VERY difficult – requires a *differentiated* HR model

Role of Competitive Advantage

(20)

- Competitive Advantage = Differentiation
- Independent Workers = UNDifferentiated
  - Should NOT be workers that create/maintain Competitive Advantage

- Should be one or more of…
  - Labor arbitrage
  - Skill needed temporarily
  - To scale up a commodity skill quickly
  - Partial jobs

- Gig platforms are enabling your *small* competition
  - Lower fixed costs
  - Minimized idle time

Strategic Principles

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- Before hiring a non-traditional employee, ask:
  - Can I get the same skill cheaper and far away?

  - Is it ok if the person is not here very long?

  - Is there a good chance I will want to get rid of this person soon?

  - Does this person have a specialized skill that I need to be better/different from others?

  - Do I just want a part of a person?

  - Am I looking for a scarce skill?

Highlights

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- So far, the impact of the Gig Economy is small
- But, it is a growing force with momentum
  - Makes the economy run more efficiently
  - Fits many workers' preferences
- There are potential downsides for workers
  - Risk/Volatility
  - Second-class status
  - Inequality exacerbated by non-wage factors
- Gig Economy creates strategic employment options
  - Benefits of that biased towards small and growing firms

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