live mint

Wed, Oct 07 2015. 12 51 AM IST

Redefining jobs in the Uber age

For millions of workers, service-marketplace companies offer attractive opportunities

People of all ages are finding new options for earning a living and new ways for balancing commitments to career, family and community. Photo: AFP

Are Uber drivers and HourlyNerd consultants independent contractors or employees? Interesting question, but the wrong one. Better to ask: Are we stifling innovation across the digital economy by forcing a simplistic choice, contractor vs employee? The short answer is yes. Worse, we're also undercutting an era of new opportunity for American workers that I call Work 3.0.

Work 1.0 existed through roughly the first half of the 20th century. Almost any worker who wasn't self-employed was a company's employee. Work 2.0, our present stage, emerged as state and federal tax laws created a new category of worker, the independent contractor. While rules vary by state, the key factor distinguishing employees from independent contractors is the company's level of control over where, when and how workers labour.

Although most workers today are still employees, the contractor option gives a company flexibility in building its workforce. At the same time, the legal distinctions between the categories protect against a company having extensive control over its workforce without paying for employee benefits and social security taxes. Until recently, Work 2.0 worked.

Now the Work 3.0 era has dawned, prompted by the rapid rise of marketplaces-for-services. These firms—Uber and HourlyNerd as well as Lyft, Postmates, Upwork, TaskRabbit, and scores of others like them—connect large numbers of independent contractors providing services with customers seeking those services.

The companies profit by taking a cut of the revenue for playing matchmaker and facilitating the ongoing worker/customer relationship. With operations primarily online, their major expenses are technology and advertising. Labour costs are miniscule, because the workers who create revenue are independent contractors.

In contrast, traditionally structured service companies like Infosys, McKinsey, or UPS have employees. This affords them greater control over service quality and customer experience, in return for which they accept the added costs of being employers.

The decision by some marketplaces-for-services to treat their workers as independent contractors has stirred a hornet's nest of public debate and lawsuits—the cases against Uber being just the most visible. As the law stands, state officials deciding these cases face a purely binary choice: workers are either employees or independent contractors, with no in-between. That's a big problem for our economy, because the in-between is where innovation lives.

The legal distinction between the two categories is based on which party has more control over the work relationship. But how is control measured? There are at least five kinds of control that could belong to either company or worker, depending on the business model: price charged to the customer, equipment used by the worker, method of service delivery, ways of advertising the service and the worker's schedule. Each marketplace-for-services company develops its own combination of these dimensions of control, with many possible permutations. While the right combination—the model creating the most value for company and worker—may sit at one of the extremes of the full-control-to-no-control spectrum, it's more likely to fall in the ill-defined middle, where company and worker could split control factors many different ways.

Trouble is, our legal system can't be expected to pass judgement on each intermediate combination. But having only two categories forces creators of service-marketplaces to guess where their new models fall. Faced with this uncertainty, most entrepreneurs will settle for clarity, and innovation will suffer accordingly as novel middle-ground models are abandoned.

For millions of workers, service-marketplace companies offer attractive opportunities. People of all ages are finding new options for earning a living and new ways for balancing commitments to career, family and community. At this point in time, when many Americans remain underemployed and most workers feel time crunched, the last thing we want to do is squander labour market opportunity and flexibility. Yet, that's what could happen if new companies are forced to build workforces based on assumptions about employees and independent contractors.

We need a new, flexible approach. Work 3.0 must retain the principles underlying the employee/contractor dichotomy, guaranteeing employer flexibility and worker protections while permitting a spectrum of options: “employee” at one end, “independent contractor” at the other and lots of novel ideas in the middle. We are on the cusp of a sea change in how we view employment. If we manage this shift well, we’ll be creating an engine for economic growth. Mess it up and we’ll stifle a major driver of innovation, business creation and jobs.

Andrei Hagiu is associate professor of business administration at Harvard Business School.