

Operational Mechanisms and Challenges of the Gig Economy on Upwork

Yantong Lv^{1,a,*}

¹*Nanjing Foreign Language School, Nanjing, 210000, China*

a. lyingru_yuan@163.com

**corresponding author*

Abstract: This study explores the operational mechanisms and dual impacts of the gig economy on the labor market through a case study of the Upwork platform. The gig economy offers unprecedented flexibility and global opportunities, particularly evident in professional fields such as software development, design, writing, and translation. However, this economic model also brings employment instability and high competitive pressure, especially for newcomers who may struggle to find suitable work due to platform algorithm biases, leading to talent loss and jeopardizing platform sustainability. Moreover, the subjective evaluation of work quality and inadequate dispute resolution mechanisms often lead to conflicts between users and workers. Despite data from the United States Bureau of Labor Statistics in 2017 showing that 34% of American workers participated in the gig economy, indicating its positive contribution to society, platforms and regulators need to further refine evaluation and compensation mechanisms to ensure fairness and efficiency. This paper suggests that by optimizing algorithms and assessment systems, and in conjunction with protective government policies, the fairness and sustainability of the gig economy can be effectively enhanced, creating positive outcomes for all participants.

Keywords: Gig economy, Upwork, employment instability, algorithm bias, labor market

1. Introduction

In the contemporary labor market, the rise of the gig economy has transformed traditional work patterns and employment relationships. With the rapid advancement of technology and the proliferation of digital platforms, gig work offers unprecedented opportunities and challenges. This flexible form of employment is increasingly adopted by workers and employers, especially in today's globalized and networked world. This paper explores the operational mechanisms, challenges, and societal and economic impacts of the gig economy through a case study of Upwork—an international online freelancing platform. The core characteristic of the gig economy is its flexibility, allowing workers to operate on their own schedules and transcend traditional geographical and industrial boundaries. However, this flexibility comes at a cost. As observed in the operation of platforms like Upwork, gig workers often encounter employment instability, income volatility, and a noticeable lack of long-term career development and social security benefits. The algorithms employed by these platforms play a critical role in matching jobs with workers and assessing job quality, which in turn significantly influences the workers' career progression and income stability.

Despite these challenges, the gig economy provides significant career opportunities, especially for those seeking flexible work hours to better balance work and life demands. According to data from the United States Bureau of Labor Statistics, by 2017, 34% of the U.S. workforce was engaged in the gig economy. The ongoing growth of this trend indicates that the gig economy has become an undeniable force in the modern labor market. Therefore, understanding the mechanisms of the gig economy and its impact on the labor market is essential for developing targeted policies, protecting workers' rights, and promoting economic health. This paper aims to reveal the opportunities and challenges within the gig economy through an in-depth analysis of the Upwork platform and discusses how to optimize this emerging economic model for sustainable development through policy and platform reforms.

2. How Does Gig Economy Works

To explain how gig economy works, we should firstly focus on who needs gig economy and why. The key actors of gig economy are gig workers and consumers. The gig workers can be divided into 4 different groups, which are *free agents*, *casual earners*, *reluctants* and *the financially strapped persons* [1]. The *free agents* are people who prefer part-time jobs and see it as their main source of income; The *casual earners* are people who have already got a full-time job, but still want to earn more wages through gig jobs to improve their living quality; The *reluctants* are the people prefer traditional full-time jobs but have to be giggers because of other reasons like the lack of working experience; the *financially strapped persons* are not able to face the rise of their cost of living, if they have enough money, they will not do this [1]. Also, the consumers need the help from the workers, as they are more professional in specific fields than the consumers themselves [2]. When a company has a short-term shortage of talent in a specific area, they can hire the most suitable freelancers to complete the task [3]. In this way, both sides have their own needs for gig economy and have to start looking for a way to realize it.

Unlike traditional jobs, due to the temporary and project-based nature of gig jobs, workers and bosses cannot complete transactions offline, because it is inconvenient for a gigger who wants more than one tasks, and for a employer who only need a gigger to complete a single task [4]. Thus we need online platforms to make it faster for gig workers to find some tasks they are familiar with, and bosses are free to post tasks whenever they need. Online gig platform becomes a bridge between giggers and consumers, consumers post tasks on the platform, workers look for tasks that suit them, and then bid through the platform as an intermediary, and the two complete the transaction [5]. With the power of big data and computer science, workers and tasks are categorized so that workers can quickly find out whether they are suited for professional services, clerical and data entry, creative and multimedia, sales and marketing support, coding, or writing and translation [6].

Moreover, because of the bilateral uncertainty of the employment relationship in the context of gig work, in order to prevent workers from meeting unscrupulous employers and to ensure that the employers hire responsible workers, the platforms have a rating system based on a computer algorithm that allows workers and employers to rate each other and leave a mark on their accounts so that others can recognize good workers/employers [7][8].

After the work is done, the worker and the employer settle the payment through the platform, and the method of settlement is determined by the two before the work is done and is usually calculated as a fixed remuneration, piece rate or hourly wage, and the platform charges a percentage of commission [9].

The above is how the gig economy, from the generation of demand to the realization by the platform, operates today. It is not enough to focus only on the theory, so let us dig deeper into the pros and cons of the gig economy with an example of a gig platform.

3. Pros And Cons of Gig Economy-A Case Study of Upwork

Upwork is an international online freelancing platform that acts as a bridge between employers and freelancers. The platform provides a marketplace for professionals in a variety of skill areas, including software development, design, writing, translation, sales and marketing [4]. As the largest freelancing platform that posts 3 million jobs every year, the Upwork platform is well suited to analyzing the gig economy [10].

As a large online platform, workers can manage their time flexibly because they don't need to negotiate with the company's managers, and have a larger and even global customer base [11]. Upwork allows workers to do remote job searches so they can choose to do extra work online without interfering with their other commitments.

For example, writing code is one of the main few areas Upwork is involved in. Coders may have a job doing software development for an offline company, but they also want to earn more money for their needs by working part-time themselves. They can sign up for an account, drop their resume on upwork, and choose a few jobs that they want to complete. Note that even if the coder lives in Southeast Asia, he can always take on tasks posted in the US or Europe [12].

In addition, while browsing the upwork website, I noticed that each worker's information included their job success rate, and some were labeled as "top rated", proving that their work was great [12]. Others say that upwork offers an exam system that includes tests on language skills, JavaScript and financial literacy, etc, which workers can complete to show users their skills [4].

This precisely means that workers boost the image of their self-brand through the platform's rating system [13]. They request positive reviews from users by actively completing tasks in order to make their profiles look better and get more customers to choose them and raise their wages [13]. Such an idea leads to a healthy competition among workers, which makes their work skills improve and the quality of service that users can receive in the platform increase.

Despite the fact that the more specialized workers on upwork and upwork's excellent algorithms can greatly improve the user experience and save them the cost of hiring a full-time employee, there are still some imperfections in upwork. For workers, the precariousness of gig jobs on upwork stems from the unpredictability of this form of platform [4]. In the last part, I mentioned two categories of casual workers who have to earn their wages through odd jobs, which are reluctants and the financially strapped persons. Upwork is a huge platform, not everyone can find the right job all the time, then life will become difficult for the above two categories of people.

Moreover, although the evaluation system has brought about healthy competition, it has also created frustration for some people. People who do not score or rate high enough on the platform often do not get paid well, and such people are usually newcomers, because of the algorithm. Jasmine, an industrial designer who works as an upworker in her spare time, said that too-low fees devalue their art and design [4]. Such frustration may lead to a reduction in the number of workers, and new talented people may be lost as a result.

As the work on the platform covers a wide variety of fields, the platform does not act as a third party to quantify the work of the workers to determine for the user how well the work was done. This leaves it up to the user to review the work, which can be very subjective. The user may become dissatisfied with the worker, which can trigger a conflict between the two. For example, if a worker finishes the job and the user thinks he did not, the payment process will be problematic, then upwork will check if the worker has finished the job, confirm it and then make the payment automatically [4]. But what if the platform's staff cannot make the right choices? Imagine a simple example, if this task is about making a beautiful company poster, but the user says it is not beautiful, how should the staff judge. The situation in real life may be much more complicated than this.

And also, the platform will not give the money back to the consumer after he paid it [14]. Someone in the upwork community said that he hired a person to do API synthesis work, and this person's job was wrong. The user asked him to make changes, but he said he would only do so if the remuneration was increased to the amount he originally requested. The user refused, and later asked others to do the work, but was eventually sent an email by the platform asking for repayment [14]. Such thing will make users unhappy with the platform and further deepen conflicts with workers.

4. Conclusion

Though the gig economy offers freedom and opportunity in many ways, there can be challenges associated with its use. Upwork employees face uncertain employment conditions as well as intense competitive pressure. Novice workers may struggle finding suitable job opportunities due to algorithms; this may result in losing talented workers from its ranks altogether and jeopardize its sustainability.

Furthermore, the gig economy presents challenges related to work quality and dispute resolution. Due to its subjective nature, disagreements may occur between users and workers and lead to conflicts or disputes; platform adjudication in such matters may not always be efficient, leading to negative effects for relationships between both groups of workers.

Once we examine the trend of gig economy, however, we can see its positive influence on society and economy. According to United States Bureau of Labor Statistics figures from 2017, 55 million Americans (or 34% of U.S. workers) participated in it by 2017 - this should increase as more workers join it today [15]. It provides employment opportunities as well as skill diversity and global talent mobility - for many it also offers flexible work options which enable them to better balance work/life demands.

Platforms and government regulators play an essential role in upholding the sustainability and fairness of the gig economy. Platforms may continue to enhance their algorithms and assessment systems to offer more objective assessment mechanisms and remuneration mechanisms for workers; whilst regulators should formulate policies designed to safeguard workers rights and facilitate compliant operation by platforms [16].

Workers and users should both understand how the gig economy functions actively by participating in it themselves and understanding its inner workings. Workers can upgrade their skills continually in order to stand out in a highly competitive market; users should select reliable platforms where they can build good communication channels and cultivate cooperative relationships [16].

All things considered, gig Economy employment models present both opportunities and obstacles for workers and users alike. By understanding and acting accordingly on any concerns that may arise within them, we can maximize its potential and create positive experiences and outcomes for everyone involved in its use.

References

- [1] Manyika, J. et al.: *Independent work: choice, necessity, and the gig economy*. McKinsey Global Institute, San Francisco, 2016,
- [2] Burke, A&Cowling, M. *The Use and Value of Freelancers: The Perspective of Managers*. *International Review of Entrepreneurship*, 13(1), 2015.
- [3] Twago. *10 Advantages of Hiring Freelancers over Full Time Employees*. <https://www.twago.com/blog/advantages-hiring-freelancers/>, 2015.
- [4] Jarrahi, M. H., Sutherland, W., Nelson, S.B., & Sawyer, S. *Platformic management, boundary resources for gig work, and worker autonomy*. *Computer supported cooperative work (CSCW)*, 29(1), 153-189., 2020.
- [5] Corporaal, G. F., & Lehdonvirta, V. *Platform sourcing: How Fortune 500 firms are adopting online freelancing platforms*. *Oxford Internet Institute: Oxford*. https://www.oii.ox_ac.uk/publications/platform-sourcing.pdf, 2017

- [6] I. HUĐEK, K. ŠIREC: *The terminology and the concept of the gig economy* EKONOMSKI PREGLED, 74 (1) 34-58, 2023.
- [7] Benson, A., Sojourner, A., & Umyarov, A. *Can reputation discipline the gig economy? Experimental evidence from an online labor market*, *Management Science*, 66(5), 1802-1825, 2020.
- [8] Turkopticon. <https://turkopticon.ucsd.edu/>. Accessed 19 November 2023.
- [9] Hauben (ed.), H., Lenaerts, K. and Waeyaert, W. (2020). *The platform economy and precarious work*, Publication for the committee on Employment and Social Affairs, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Luxembourg
- [10] World Economic Forum (2016). *Hosting the world's largest on demand freelance talent marketplace for companies to source talent*. <http://reports.weforum.org/digital-transformation/upwork/>. Accessed 19 November 2023.
- [11] Spreitzer, Gretchen M.; Lindsey Cameron; and Lyndon Garrett (2017). *Alternative Work Arrangements: Two Images of the New World of Work*. *Annual Review of Organizational Psychology and Organizational Behavior*, vol. 4, no. 1, pp. 473–499.
- [12] Upwork. (2023). *Upwork | Hire Freelancers. Make things happen*. Upwork. <https://www.upwork.com/>
- [13] Blyth, D. L., Jarrahi, M. H., Lutz, C., & Newlands, G. (2022). *Self-branding strategies of online freelancers on Upwork*. *New Media & Society*, 0(0). <https://doi.org/10.1177/14614448221108960>
- [14] Upwork Community (2016). *Addressing accounts that don't show work activity*. <https://community.upwork.com/t5/Announcements/Addressing-accounts-that-don-t-show-work-activity/td-p/274042>. Accessed 19 November 2023.
- [15] International Labour Organization (2019). *Helping the gig economy work better for gig workers*. https://www.ilo.org/washington/WCMS_642303/lang--en/index.html
- [16] Burtch, G., Carnahan, S., & Greenwood, B. N. (2018). *Can you gig it? An empirical examination of the gig economy and entrepreneurial activity*. *Management Science*, 65(5), 2182-2202.