Employees or Independent Contractors?
Effects of Employee Models on Digital Platforms

by

Dr. Zhuoxin (Allen) LI
University of Wisconsin-Madison

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ABSTRACT

On-demand platforms (e.g., Uber and DoorDash) provide services to consumers through independent contractors, employees, or a hybrid of the two types of workers. Although there have been debates on whether regulators should force digital platforms to treat independent contractors as employees, there is scare empirical evidence how relying on independent contractors versus employees affect service provision on digital platforms. This empirical research investigates the effects of these two types of labor forces on an online food delivery platform in the United States, which had previously relied on both independent drivers and employees in different cities but later switched to only using independent drivers to deliver restaurant orders. Our empirical analysis shows that service quality declined after the platform's replacement of employee drivers by independent drivers. However, switching to independent drivers enables the platform to enter and serve more markets. These effects are moderated by the labor market conditions of the localities. Specifically, the negative effect of using independent contractors is stronger in a market with more competitive gig worker supply. These findings shed lights on the platforms' labor choices and regulators' policy evaluations

BIOGRAPHY

Dr. Zhuoxin (Allen) Li is the Michael and Mary Sue Shannon Professor and an Associate Professor at Wisconsin School of Business in the University of Wisconsin-Madison. He investigates digital platforms and value chains, with a focus on the coordination problem when participants' interests are not fully aligned. Dr. Li has received several prestigious awards, including the National Science Foundation's CAREER Award, Poets & Quants Top 50 Undergraduate Business Professors, Sandra A. Slaughter Early Career Award, Gordon B. Davis Young Scholar Award, and the Nunamaker-Chen Dissertation Award.