

# The innovation and value pursuit of the compensation system in the gig economy

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**Abstract:** *With the rapid development of network technology, the gig economy has once again set off a new wave, and the public gradually accepts the new employment mode in the gig economy, and the emergence and development of the gig economy have significantly influenced enterprises. It is both an opportunity and a challenge for enterprise compensation management. This paper begins with an analysis of problems of employment compensation in the gig economy and further proposes some innovation strategies and value pursuits for the compensation system of enterprises. This paper will help enterprises and gig workers reshape the balanced employment relationship to promote the healthy and long-term development of the enterprise compensation system in the gig economy.*

**Keywords:** *the gig economy; corporate compensation system; gig workers*

## 1. Introduction

Driven by the Internet and information technology, a new economic model of "instant" based on an online platform has emerged, also known as the "gig economy." Since its emergence, flexible employment forms and modes of employment have met the needs of both labor supply and demand, saved many labor costs, and provided many employment opportunities. Moreover, it significantly revitalized the human resources of the whole society, bringing opportunities and challenges to enterprises, gig workers, and the whole society.

With the emergence of the Internet and the era of the "gig economy," the market environment faced by enterprises is becoming increasingly complex and fierce. In addition, talent competition is becoming the focus of enterprise competition. As an essential part of enterprise human resource management, how to design a reasonable and effective compensation system has received more and more attention. The relationship between firms and gig workers is marketized in the new gig economy. Enterprises no longer promise long-term economic security, predictable job promotion, and even essential labor safety protection to their employees. At the same time, enterprises transfer the decision-making pressure and risk to gig practitioners in the form of "joining" and "authorization." However, they also require gig practitioners to be highly loyal to the enterprise. It can be seen that there is an unbalanced and sub-healthy employment relationship between enterprises and gig practitioners, which will cause adverse effects on gig practitioners and enterprises. In this context, how to innovate the compensation system and solving the pain points of the compensation system in the gig economy is of great significance to the sustainable development of enterprises.

## 2. Literature Review

A glance at the existing research on the gig economy reveals that it focuses on two main aspects. On the one hand, Relevant studies have been conducted on the concept and characteristics of the gig economy. Some scholars consider that gig workers are independent suppliers and that the gig economy is somehow an extension of traditional freelancing.<sup>[1]</sup> Others consider the fractional economy "work done through applications" and new jobs formed by algorithms.<sup>[2]</sup> After exploring the relationship between firms and practitioners, scholars argue that they are trust-based collaborations through third-party platforms and that individuals working in this field are almost universally considered independent contractors rather than employees of their firms.<sup>[3]</sup> Legally, gig workers typically have no rights to training, benefits, overtime pay, or paid leave.<sup>[4]</sup> Moreover, the characteristics of the gig economy can be divided into two points.—first, flexibility. The gig economy is a new area in the labor market that offers many people the freedom and flexibility to work.<sup>[5]</sup> Secondly, instability, in the era of the gig economy, enterprises and platforms face more risks in employment and higher management

costs,<sup>[6]</sup> and workers also face greater risks of labor rights violations.

On the other hand, the research on labor relations, workers' protection, and human resource management in the gig economy. Some scholars believe that the gig economy is essentially an old form of labor under the new appearance of platform capital and digital capital. The essence of exploitation and exploitation of labor by capital has not changed, and labor relations have not changed.<sup>[7]</sup> Some other scholars believe that the labor relations in the gig economy are a "new" type of labor relations. They point out that the main differences between the "new" type of labor relations in the gig economy and the traditional labor relations lie in the mode transformation of "platform and individual," the power imbalance caused by algorithm control, and the qualitative strengthening of the labor process by emotional work.<sup>[8]</sup> Some scholars suggest that a "Booster type regulation" should be adopted for labor issues in the platform economy, and efforts should be made to maintain a balance between promoting the excellent functioning of the labor market and protecting workers' rights and interests.<sup>[9]</sup> Some scholars believe that gig employment groups are in a weak position in the protection of labor rights and interests. They also argue that the government, enterprises, and gig employment groups should put forward relevant measures and suggestions to achieve a substantial breakthrough in the protection of gig labor rights and interests through trilateral cooperation.<sup>[10]</sup> As a critical economic exchange in the gig economy, gig work is an exchange that takes place outside the scope of the standard employment relationship in the traditional economy. Some scholars propose to analyze the changes in the main activities of human resource management in the platform ecosystem under the conditions of the fractional work economy from an ecosystem perspective.<sup>[11]</sup> It is also proposed that the gig economy, with algorithmic management at its core, automates HR-related responsibilities and functions traditionally performed by HR managers and promotes intelligent upgrading of HRM.<sup>[12]</sup>

According to the Annual Report on the Development of China's Sharing Economy released between 2016 and 2022, the number of workers employed by Chinese platform enterprises has been increasing year by year. Furthermore, more and more people have begun to try using platforms to choose tasks that are suitable for them. It is foreseeable that more people will participate in the gig economy in the future. However, there needs to be more specific research on the impact of the gig economy on the compensation management system of enterprises. This paper puts forward the existing problems of enterprise compensation in the gig economy. It proposes innovative strategies and value pursuit for it, which is conducive to the steady development of enterprise compensation systems in the gig economy.

### **3. Problems existing in the compensation system of enterprises in the gig economy**

#### ***3.1. Employment relations are out of whack and gig workers are underpaid***

In the gig economy, gig workers are in a disadvantageous position in the employment relationship. The salary enterprises pay to gig workers is nearly equal to the labor cost. From the background, the jobs provided by platform enterprises to gig workers are low-skilled and with low education requirements. There is an ample surplus labor supply in the domestic labor market to meet platform enterprises' demand for gig work. The imbalance between supply and demand dramatically weakens the bargaining power of gig workers, who can only passively accept the rules set by the platform enterprises. Some gig workers choose gig work as a transitional job, a temporary one, until they find a fresh one. Therefore, to a certain extent, the industry reduces the willingness of gig workers to bargain with platform enterprises for fair treatment and voice, and the salary they get is only the labor cost they pay. The main reason for the confusion between payroll and a company's labor costs is that payroll is normally the most scalable financial variable. It is considerably faster and easier to reduce compensation than to control costs by alternative means, such as changing the corporate culture or developing new products. Hence, companies tend to reduce compensation to save costs. However, the danger of this method should be considered; once there is another platform offering a higher salary than the original one, job hopping will occur. Then the original platform needs extra staff time, resulting in the quality of product and service delivery can not be guaranteed, harming the interests of enterprises.

#### ***3.2. Promote individual performance-based pay system***

Companies believe that personal performance-based pay system is conducive to encouraging healthy competition among employees and can promote organizational performance. Platform companies adopt this model mainly because they believe that gig workers are individuals working alone and do not need to cooperate. Each individual performance-based pay system is based on the

assumptions of the traditional economic model of human behavior. This model assumes that human behavior is rational. Driven by the best information available at the time, and is planned to maximize individual self-interest. Individuals not only pursue self-interest but also employ cunning and opportunism in pursuing self-interest. According to this model, people accept jobs and decide how much effort to put into those jobs based on their expected financial income. For platform companies in the gig economy, the only source of profit is the per-order delivery fee draw, the service fee charged to merchants, the stream draw, and the advertising fee. To some extent, the diversification of profit sources weakens the economic objectives of the platform enterprises and realizes the dependence on the high performance of individual riders. Under this individual performance pay system, there is vicious competition among gig practitioners. Additionally, when practitioners fail to satisfy customers, the reputation and interests of the enterprise will be affected.

### ***3.3. Compensation incentives are not enough***

Since compensation indicates the people and things that the organization values, and compensation reflects the culture of the organization or helps to clarify the culture of the organization, a reasonable compensation system can make employees feel a sense of trust and belonging to the company, stimulate a sense of satisfaction and achievement, and inspire greater enthusiasm for work. However, the marginal incentive effect of money is diminishing. Money may be most valuable when employees are running around to ensure basic living security: when employees are no longer worried about basic living security, money can no longer play the same motivating role. In the "two-factor theory," money and other material incentives can only play a "health care" function, but the more important thing is the fun of work, promotion opportunities, decent working environment, self-transcendence, and other "incentives The function of "motivation" means. In the gig economy, enterprises do not give sufficient incentives in terms of salary, except for monetary incentives, there is no additional incentive, which leads to gig workers having no sense of identity and belonging to the enterprise, then the enterprise can not train these gig workers to become the core workers of the enterprise, then they will face the risk of excellent staff mobility and work cannot be completed on time and in quality.

### ***3.4. Unreasonable evaluation mechanism based on algorithmic decision-making***

Currently, the pay evaluation mechanism of enterprises in the gig economy mainly relies on algorithmic decision-making, which determines the work assignment, performance evaluation, and rewards and punishments of gig workers. This evaluation mechanism is too rigid and impersonal, further aggravating the problematic situation of workers.

Take the takeaway platform as an example, influenced by algorithmic decisions. On the one hand, the delivery time is getting shorter and shorter, and the design of the overtime penalty system is unreasonable. The initial estimated delivery time set by the algorithm system is concise and the overtime penalty is severe, which makes the delivery staff sometimes have to ensure that they finish the order within the agreed time by speeding, driving against the traffic, or other illegal driving, which can easily cause safety accidents and endanger the personal safety of the delivery staff. On the other hand, the delivery platform allows users to evaluate all aspects of the delivery staff's work through a user rating mechanism and a complaint mechanism, and correlates the results with the performance of the delivery staff, reinforcing the extent to which this evaluation mechanism has an impact on the mood of the delivery staff. Neglecting to channel and positively guide employees' negative emotions in this process may lead to employees being emotionally bound, which may easily lead to problems such as emotional breakdown and negativity of workers. At the same time, these problems can also have a negative impact on the company, damaging its social image and the fundamental interests of the company.

## **4. Innovation and value pursuit of enterprise compensation system under gig economy model**

### ***4.1. Balance the employment relationship and set a fair and reasonable compensation system***

A reduction in the level of employee compensation may lead to an even greater reduction in productivity. Therefore, the development of a scientific and sound compensation management system is a guarantee for the performance management system and the healthy operation of corporate management, which is essential for the further development of enterprises. When formulating a compensation system, the value of work should be wholly considered in conjunction with massive data

technology. A balanced employment relationship is the only way to achieve a winning situation and the secret to sustaining the long-term development of the company. The personnel's salary will be paid through factors such as ability, quantitative data of performance indicators. Let the staff cooperate with the company and strive to achieve performance, adhere to the principle of fairness and justice, and improve the evaluation system of huge data indicators of staff results. The indicators set must be scientific, standardized as well as institutionalized, sufficiently reflecting the working conditions and workload. A science-based compensation system is the only way to stimulate employee passion and potential.

#### ***4.2. Realization of regional collective compensation system***

Implement a collective pay system based on the organizational group (small scale) to which the individual belongs. The main reason why most people oppose collective pay systems is that they are prone to "free rider" behavior, which violates the principle of fairness in the design of the payment system and denies incentives to superior-performing employees. However, due to the tiny size of regional collective pay, the extent of "free riding" can be somewhat limited. Moreover, a large body of empirical research has shown that people generally cooperate rather than "piggyback" in situations theoretically described as leading to "piggybacking". As people are influenced by the pressure of their colleagues and the social relationship between them. Implementing the regional small-scale collective salary system will be conducive to the unity of gig workers and the cultivation of a cooperative spirit, which will further improve the service quality and facilitate the development of platform enterprises.

#### ***4.3. Adopt a variety of incentives to improve the motivation of gig jobs***

Unlike traditional employment relationships, the gig economy employment model is characterized by loose collaborative relationships, so focusing on the management of gig workers is a current HR issue that needs to be considered. In contrast to regular business employees, gig workers lack organizational identity, corporate loyalty, and are mostly in short-term partnerships with businesses, making them prone to poor work attitudes and irresponsibility. In order to stimulate enthusiasm of gig workers, you can start from the following aspects: (1) Provide regular and free training for gig workers to improve their skills and make them identify with the corporate culture, and cultivate their sense of organizational identity and corporate loyalty. (2) Improve the employee welfare system, provide social security to those who have been employed for a long time and have done a decent job, and provide them with insurance and housing fund. At the same time, optimizing the work environment of employees, improving labor relations, and enhancing their loyalty to the company can also promote positive brand image building and positive consumer spending choices for the company. (3) Reduce the profit rate of a single gig and improve the motivation of gig workers. In terms of the retention of gig workers, enterprises can consider incorporating "full-time" gig workers into the platform development plan and carry out career planning and management for them, which can attract more gig workers and achieve economies of scale with greater effects, which is conducive to the long-term development of enterprises.greater effects, which is conducive to the long-term development of enterprises.

#### ***4.4. Evaluation mechanism setting focus on "people-oriented"***

Enterprises should establish the value concept of "people-oriented" and implement this concept into the construction of rules and regulations and the design of evaluation mechanisms, and technically integrate the concept of "humanism" into all levels of algorithm design to design ethical algorithms. In addition, enterprises should confront the impact of the algorithm-led rating mechanism on the physical and mental health of gig workers and provide proper guidance for their emotions. In the evaluation mechanism set up by enterprises, enterprises should evaluate the full service of gig workers in terms of emotional investment, work efficiency and completion quality, and those with elevated overall scores can be rewarded with extra rewards on top of the contract salary or increase the priority level of work matching on the platform. This scoring mechanism promotes loyalty among gig workers and positively motivates them to realize their self-worth and improve their self-identity. It not only plays a restraining role in the work behavior of gig workers, but also stimulates their motivation and responsibility, which is conducive to building trust between platform companies and gig workers, effectively improving matching and forming long-term cooperation.

## 5. Conclusions

This paper addresses the problems related to the imbalance of employment relationships, low pay for gig workers, the promotion of individual high-performance systems, the insufficient incentive of the payment system, and an unreasonable evaluation mechanism based on algorithmic decision-making in the gig economy. It is proposed to balance the employment relationship, set up a fair and reasonable salary system, realize the regional collective salary system, adopt various incentive means to improve the enthusiasm of gig workers, and set up the evaluation mechanism to focus on "people-oriented" to promote the development of gig economy. Using the emerging technologies of the Internet to conduct massive data analysis to improve the compensation system in the gig economy, we propose proposals from multiple perspectives to ensure optimal innovation and value pursuit in the compensation system of enterprises in the gig economy. Currently, international studies based on gig economies are mostly macroscopic, and domestic research in this area is still rare. Future studies need to pay more attention to the relationship between enterprises and employees, the creation of value brought by the gig economy to enterprises, and the impact of the gig economy on local and social areas.

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