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Reining in the global freelance labor force: how global digital labor platforms change from facilitators into arbitrators

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Introduction

Global digital labor platforms – digital venues via which electronically transmittable service work is traded – are rapidly coming of age. Platforms like Freelancer and Upwork now boast several dozens of millions registered users and facilitate millions of job transactions per year, the result of roughly a decade of exponential growth. Equally telling, perhaps even more so, is that over time, work via such platforms has gradually become more regulated. In their early years, global digital labor platforms offered buyers and sellers of freelance labor a place to deal with each other, but they largely refrained from specifying or enforcing any rules of engagement. As such, they provided not only microcosms of a truly *global* labor market (Beerepoot & Lambregts, 2015; Lambregts et al., 2016), but also of an essentially *unregulated* labor market, where outcomes, including remunerations, were almost exclusively defined by the rule of supply and demand. With the supply of labor on such platforms is generally (much) larger than the demand, leading to this quickly and frequently-exploitative remuneration deals and discriminatory hiring practices that, thanks in particular to the protracted struggle for labor rights, have more or less vanished from ‘real world’ labor markets in developed nations. In response to these and also driven by the desire to further reduce transaction frictions, online platforms in recent years have

started to interfere more manifestly in the market they originally only enabled, both by providing new services and by introducing a certain degree of regulation. Their role, in result, is changing; no longer are they mere facilitators in the global market for freelance labor; rather, they are becoming increasingly versatile arbitrators (Kaganer et al., 2013; Govil and Patnaik, 2014), adopting an ever more palpable intermediary role in managing the ‘human cloud’ of freelance labor, and, in the process, capturing a larger share of the value they help to create. The changing strategy of platforms has major implications for how the benefits of digital work are spread and for the opportunities it provides for freelancers around the world. In this brief essay, we highlight this process by describing how on one such platform – Upwork – the trade in freelance labor over time has become more regulated, paying attention to both motives and consequences. We conclude by sharing our reflections about what these transformations may mean for the future of the online freelance labor force, which once operated in a regulatory vacuum, but is now increasingly subject to the disciplining measures by the platform. The insights presented are the result of the ongoing monitoring of the workings of online platforms since 2012. Initially we assessed if global digital labor platforms, per the example of oDesk (one of Upwork’s predecessors), foster global wage convergence (see Beerepoot and Lambregts, 2015). A currently (mid 2017) ongoing study investigates how freelancers operating on Upwork build competitiveness.

Trading labor in a regulatory vacuum: online platforms' early days

In 2012, seven years after its launch, oDesk was still a relatively modest affair. It had less than half a million of registered users (compared to nearly 15 million half-way 2017), and had yet to merge with Elance (another online platform) and be rebranded as the Upwork we know today (which happened in 2015). The platform's then architecture served two main aims: to ensure ease of access and to create a 'work' or 'trade' environment as free from friction as possible. Signing up was easy and free, both for clients (i.e. those seeking labor) and for contractors (those with labor on offer). This means that effectively anyone literate with a computer and internet access could join the platform. In practice, most of the contractors came (and come) from countries in the Global South (e.g. India, Pakistan, Philippines) while most clients are based in the Global North. Once registered, the platform allowed contractors to build a 'profile'. Contractors could detail their expertise and indicate the types of jobs and the level of remuneration they were seeking. oDesk also enabled contractors to take a variety of cognitive and technical skills tests, the results of which could be added to one's profile too. A third and critically important component is the contractor's work history on the platform. This would typically include the number of jobs carried out and hours worked, the financial compensation received per job, client reviews, and samples of work performed. All this information was freely visible to clients and to anyone visiting the site.

Payments (made via Paypal or credit card) were overseen by oDesk, with oDesk retaining 10% of the agreed remuneration as its fee. No other formal rules applied otherwise: neither regarding hiring practices, nor concerning remuneration or working conditions. Absent as well was any regard for taxation and social security provisions (e.g. compensation for work-induced illnesses or disability, pension provisions). Any impacts of national labor laws were thus duly neutralized, resulting in a labor market operating in a near perfect regulatory vacuum.

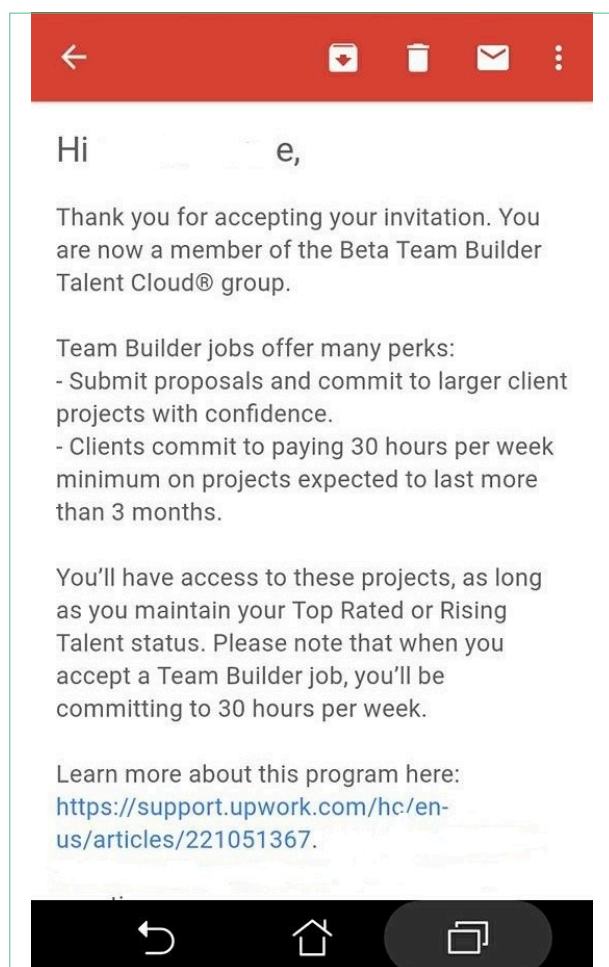
The largely deregulated global playing field so created by oDesk, however, did not transfigure into a *level* or a *fair* playing field. Four factors contributed to this: the imbalance between supply and demand for labor on the platform, the fact that the platform's scope is global and labor arbitrage an important motive for many of the clients using it, the reverse auction bidding system used by the platform, and the lack of regulation itself.

From the beginning, contractors have vastly outnumbered clients and the number of jobs posted. This meant that as a rule much of the bargaining power was concentrated in the hands of clients and competition for jobs among contractors consequently fierce. Different from job platforms maintaining a local or national focus, oDesk's global scope allowed clients to seek to benefit from labor arbitrage, or to achieve cost savings by hiring labor in a location where it is cheaper than domestically. oDesk, to put it simply, enables for instance an American client to seek for a job from, for example, a Filipino contractor who is happy to work for a dollar per hour, instead of hiring a fellow American who would expect to be paid at least 15 dollars per hour. As also argued by Hollinshead et al. (2011), when labor arbitrage is the main driving force behind offshore (out)sourcing, the relationship between clients and contractors is inherently asymmetric and the ethical premise binding these parties open to question. Such effects were reinforced by oDesk's reverse auction system used to let clients and contractors come to an agreement. Under this system, contractors interested in applying for a job see the number of bids and the associated prices so far offered by other contractors. This system is prone to produce downward pressure on price formation as it encourages contractors in general and especially those desperate for jobs to undercut the prices previously offered for a job. In 2012, it was quite common to find jobs advertised on oDesk with a total compensation of for instance only \$4 or an hourly rate of just \$0.50. Discussions on the user forum revealed how new contractors sometimes willingly accepted such exploitative rates for no other reason than to be able to build a working history and (hopefully) obtain a good performance rating. For contractors, the latter was critically important as it strongly affects their visibility on the website and thus the chance of getting hired again. Lack of regulations, finally, gave unscrupulous clients a free hand to take advantage of the asymmetric power balance resulting from the previous three factors. Some were seen to exploit these mechanics by offering jobs specifically to new contractors while offering (very) limited compensation, and outright discriminatory hiring practices, based on for instance gender and nationality, were no exception (see for some examples Beerepoot and Lambregts, 2015).

The above illustrates how asymmetrical the power relations were between clients and contractors on oDesk in 2012. These relations and the (self-)exploitative transactions evolving from them could emerge and persist because of the then newness of the phenomenon and the virtual absence of oversight. Work carried out via global online platforms fully occurred beyond the reach of national and international labor regulations and had yet to attract the attention of international organizations or NGOs pursuing decent work. Interestingly, it was not so much the latter but rather the platform managers themselves, in part inspired by the communities they catered to, who would set in motion change.

Reining in the freelancer: the transition from facilitator to arbitrator

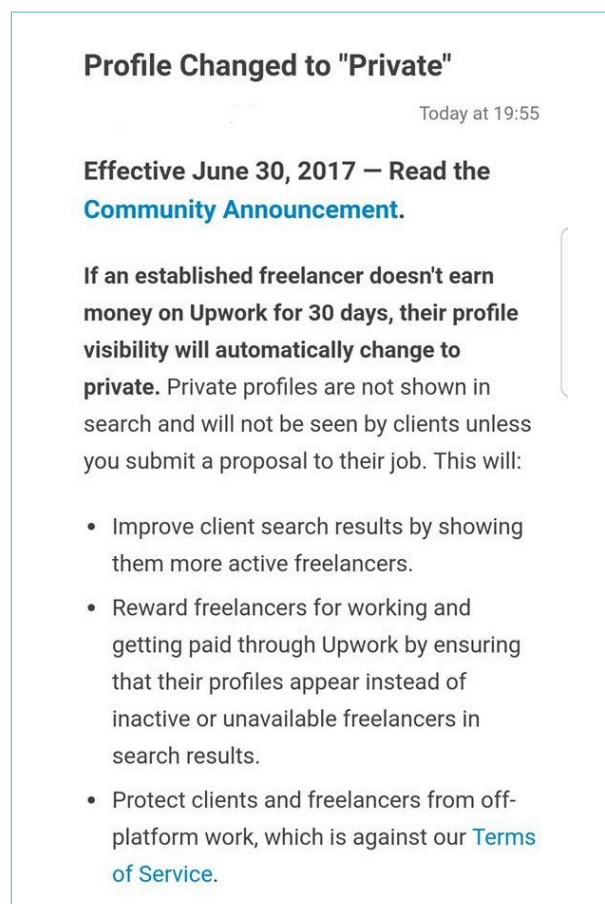
Figure 1: Join the Upwork Talent Cloud



The lack of regulation as described above has been subject to extensive criticism by researchers and labor activists (e.g. Graham et al., 2017; Fabo et al., 2017). However, in the past few years a number of measures have been taken by the platform as the result of which it now no longer functions as a true ‘labor auction’, but increasingly as a venue that benefits and favors a small number of successful, high-earning freelancers. In an interview given in 2016, the Upwork CEO claimed that the platform was losing money on smaller projects (see Pofeldt, 2016). The ease of entry for freelancers had created a situation in which even for jobs with limited remuneration dozens or even hundreds of freelancers would apply. With the platform still retaining a fixed percentage of the agreed remuneration as its fee, the downward pressure on price formation also ate into Upwork’s revenues. Obviously, from a business fi-

nance perspective, it is not in Upwork’s interest to have too many freelancers competing on the platform and causing the gains from the work performed to spread too thinly. The introduction of a \$3 per hour minimum wage in 2014 had been a first step attempt at ‘price support’ and additional value capture by Upwork. However, in practice it led to more projects being offered for a (low) fixed amount instead of for an hourly compensation. Therefore, Upwork needed a more drastic shake-up of its business model to generate more revenues for its investors.

Figure 2: Visibility of contractors



Upwork’s transformation of recent years is best summarized as a change from labor facilitator to labor arbitrator (see Govil and Patnaik, 2014). The platform now no longer only provides a meeting place for the supply and demand of online labor but is directly involved in the recruitment of freelancers for clients and handles pay-rolling (through *Upwork Payroll*). In 2016, it introduced *Upwork Pro* and *Upwork Enterprise*. In *Upwork Pro* clients receive help with drafting the project requirements and Upwork selects and shortlists premium freelancers for the job. *Upwork Enterprise* is aimed at larger organizations and involves the full-scale management of freelancers by Upwork. Upwork’s commission is no longer a flat 10%, but varies with the size of the project to incentivize higher-value, longer-term projects. The main change for contractors is that they can ‘buy’ their visibility in the search machine by taking a paid

membership of \$10 per month, which obviously benefits the financially stronger freelancers. An additional measure is the ‘job success rate’ of freelancers, an algorithmic score that apart from the ‘old’ job performance rating also includes such factors as whether the contractor has won repeat and larger contracts, and experienced disputes with clients. It clearly favors contractors who have managed to land longer term collaborations with single clients over those who tend to earn from multiple small gigs.

Successful contractors are now invited to join a talent pool which connects them to larger client projects (see Figure 1). A catch is that those who accept, are required to be available for Upwork only. On the other side of the spectrum, Upwork has started to suspend accounts of freelancers who lack distinctive skills or who are not generating enough revenues (see Figures 2 and 3). This means that Upwork now more actively intervenes in the pool of labor it offers to clients, making freelancers vulnerable to sudden policy changes by the platform (as illustrated in Figure 2). Once freelancers work via the platform, Upwork expects their loyalty and exclusive, full-time availability. It even and somewhat obscurely claims this all is necessary to protect clients and freelancers from off-platform work (Figure 2). However, Upwork does not offer any kind of social protection in return. Cases have been known where contractors who were temporarily unavailable due to giving birth or providing care to a sick family member saw their account terminated. Upwork tries to control (and discipline) its labor pool by wielding the stick (e.g. by installing fear for profile termination) rather than dangling carrots. It makes one wonder how aware Upwork is of the everyday lives and responsibilities of their freelancers in the Global South.

Figure 3: Termination of contract

Hello,

We are contacting you to let you know we have suspended your access to Upwork indefinitely.

Our decision is based on a careful review and the fact that you have submitted a high number of proposals for jobs on our site without many contracts or earnings. Unfortunately, this means the jobs posted by clients are not a good match for your skills.

I know this news is likely disappointing to you. But our goal at Upwork is to enable freelancers to successfully connect and collaborate with clients who need their skills and expertise. Unfortunately, this means we must part ways with freelancers whose skills are not in demand in our marketplace.

If you want to appeal this decision, you can email us at appeals@upwork.com. Please note each case will be manually reviewed by our Trust & Safety team to decide if your account can be reinstated.

Please know we don't make decisions like these lightly and wish you the best of luck in your future endeavors.

Regards,
Upwork Trust & Safety

Source of figures: online forum of Upwork freelancers

Conclusion

Upwork's recent efforts to transform itself mean that we need to amend the idea that global digital labor platforms offer workers, SMEs and small entrepreneurs a way to bypass ‘traditional’ intermediaries in the outsourcing and offshoring of work. Indeed, global digital labor platforms still allow mid- and small-sized economic agents to engage in outsourcing and offshoring and to benefit from labor arbitrage without having to either buy into the services of or seek employment with ‘traditional’ outsourcing firms. However, the same platforms increasingly take on the role of intermediaries themselves, targeting larger clients and volumes of work. By providing more services and introducing more rules aimed both at further lowering transactional frictions and banning unpalatable behavior, platforms like Upwork increase their influence on how freelance labor is globally traded and, in the process, try capturing a larger share of the value that they help to create. Upwork's evolution from a discrete facilitator towards an ever more manifest, some may say obtrusive arbitrator shows that in fact a new intermediary, equipped with new measures for disciplining labor, has been born. Time will tell if and to what degree global online freelancers are willing to reconcile themselves to this emerging new reality.

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