

GUEST OPINION

Hire employees, not contractors — simple as that

The Bay Area is ground zero for the “on-demand economy,” businesses that promise to provide consumers with goods or services in a very short time span. There are companies for any possible service you could imagine — from transportation (Uber), food delivery (Seamless), grocery delivery (Instacart), dry cleaning (Washio), to virtual assistants (Zirtual). The industry is valued anywhere between \$60 to \$500 billion, and the rise of companies employing independent contractors (also known



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as 1099 employees) to provide on-demand services has subsequently skyrocketed.

The issue of companies hiring independent contractors instead of employees took center stage recently when the California Labor Commission ruled that a driver for Uber is an employee, not a contractor.

This raised concern among on-demand companies, as reclassifying existing contractors to employees could mean considerably higher costs for these companies, including forking out dollars for overtime pay, workers' compensation, unemployment insurance and other

work benefits.

While the on-demand economy concept is relatively new, it's really no different from companies hiring seasonal workers during peak times. Retailers, for example, have long brought in additional staff for the holiday shopping season. The difference is that in the on-demand world the timing is significantly compressed: Peak times that businesses used to plan for weeks or months in advance can now arise in minutes or even seconds.

Technology has caught up with faster consumer demand, but labor regulations have not.

Until now, the discourse has focused

heavily on how on-demand companies could face higher costs following the California Labor Commission decision, and how that could hurt their valuations. That's not the conversation we should be having.

The spike in businesses employing a significant on-demand workforce has illuminated how easy it is for these employers to dodge ethical employment practices, ignoring the obligations to their workforces because labor laws have not been clear and consistent.

For years, these businesses have been pushing the legal limits, taking advantage of employees and adopting a very mechanical approach to managing

them. In the past 12 months or so, a spate of on-demand companies — including Lyft, Homejoy, and in the last week Shyp, Washio and Postmates — have faced lawsuits by workers arguing that they should be compensated as employees.

Steps are being made in the right direction, with Instacart and Zirtual taking a firm stance on how their workforces should be classified, and proactively shifting to a more employee-focused model.

This about-face shows that treating workers as employees, rather than contractors, is ultimately a win-win for businesses, workers and customers alike. But it'll take more time to shift the mindset of the entire industry to one where independence

and protection do not represent an either/or tradeoff.

As awareness grows on the issue, and as more companies explore ways to get products and services out quickly to customers, employers and labor regulators must take the onus in establishing the right codes of conduct.

While employee compensation may seem more expensive than paying independent contractors, the benefits of hiring and retaining the best talent will win out every time.

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