

Is the gig up? The impact of worker-status reclassification regulation on shareholder value

Gig economy

The gig economy consists of a fast-growing pool of short-term independent contractors and freelancers (Oppong, 2018). The World Bank (2023) estimates that there are between 154 million and 435 million workers on online gig economy platforms, representing between 4.4 and 12.5 percent of the global labor force.

Worker-status controversy

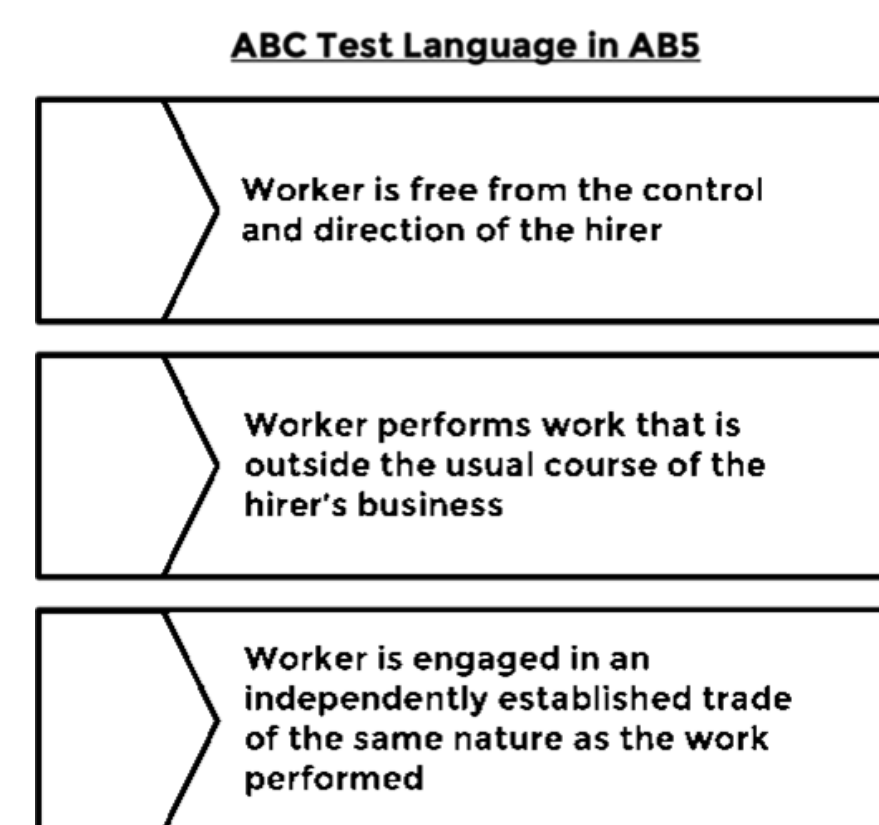
In theory, gig economy workers can make independent decisions about their workload and schedules. In practice, gig economy companies control the fares, wages, tasks assignments, continuation or termination of contracts, and other terms of service for the workers.

An often-heard argument is that gig economy workers should be classified as regular employees.

Worker-status reclassification regulations

Worker-status reclassification regulations (WSRR) require companies to classify their gig economy workers as regular employees to solve the issue of employee misclassification, unless their employment meets specific conditions.

- **California Assembly Bill 5 (AB5)**
- **European Commission Gig Economy Directive**



Hypotheses

Drawing on the resource-based theory, we argue that WSRR erode gig economy companies' capability to efficiently source and allocate the labor of independent contractors, erode their competitive advantages, and lead to negative stock price reactions. Specifically, WSRR result in:

- *Higher labor and administrative costs*
- *Lower strategic agility*
- *Higher reputational costs*

H1: WSRR events result in negative stock price reactions for gig economy companies.

We next propose two boundary mechanisms affecting the relation between WSRR and shareholder value.

H2: Stock price reactions to WSRR events are positively affected by the gig economy company's ante financial flexibility.

H3: Stock price reactions to WSRR events are positively affected by the gig economy company's ante labor conditions.

WSRR events

We use 'bag of words' keyword searches in Factiva to identify news associated with an increased likelihood of WSRR adoption in the US or EU. We identify 2,388 WSRR-related news items between 2018, the year of the first WSRR event, and December 2022. Our in-depth readings of these items generate 16 unique WSRR events.

Sample construction

We develop a comprehensive gig economy-related keyword list and use Factiva to identify companies that have a strong association with these words. Specifically, we identify:

- *113 gig economy companies*
- *60 gig economy facilitating companies (facilitators)*

Shareholder value impact of WSRR events

• Event study (H1)

We use a standard policy event study methodology. We calculate cumulative abnormal stock returns (CAR) around the 16 WSRR events. We adopt a market model, using the dominant country-level stock market index as a proxy for the stock market return. We find negative stock price reactions for gig economy companies and facilitators.

Window	Mean	Median	t	Adj-Patell	Std-CrossSec	Gen-Sign	Wilcoxon
Panel A: Gig economy ecosystem (N = 2,483)							
[-1,1]	-0.38%	-0.01%	-2.34**	-1.19	-2.32**	-0.25	-0.65
[-2,2]	-0.66%	-0.20%	-3.28***	-2.94***	-4.89***	-2.15**	-3.20***
[-5,5]	-0.87%	-0.33%	-2.90***	-2.78***	-3.06***	-2.25**	-2.72***
Panel B: Gig economy companies (N = 1,612)							
[-1,1]	-0.39%	0.03%	-1.92*	-1.16	-1.84*	0.26	-0.36
[-2,2]	-0.65%	-0.12%	-2.57**	-2.73***	-3.72***	-1.39	-2.10**
[-5,5]	-0.93%	-0.27%	-2.46**	-3.33***	-2.77***	-1.74*	-1.75*
Panel C: Gig economy facilitators (N = 871)							
[-1,1]	-0.36%	-0.08%	-1.34	-0.84	-1.41	-0.76	-0.58
[-2,2]	-0.68%	-0.35%	-2.05**	-2.24**	-3.19***	-1.74*	-2.54**
[-5,5]	-0.76%	-0.46%	-1.54	-1.14	-1.32	-1.44	-2.22**

• Cross-sectional analysis (H2 & H3)

We use CAR(-2, +2) for each firm-event observation as the dependent variable. The independent variables are measured as of 2018. We find companies with a lower financial flexibility and worse labor conditions are more adversely affected. Our results are robust to a battery of robustness tests.

	Predicted impact	(1)	(2)	(3)	(4)
ROA	(+)	0.040*** (3.26)		0.037*** (4.50)	-0.008 (-1.14)
Current Assets	(-)	0.014** (2.36)		0.021*** (3.40)	0.017*** (16.79)
Credit Rating	(+)	0.039*** (3.39)		0.046*** (13.44)	0.056*** (5.05)
Interest Coverage	(+)	0.005 (1.22)		0.004 (1.30)	0.007*** (7.62)
Dividend Payout	(+)	0.011** (3.12)		0.009*** (4.60)	0.010*** (7.21)
COGS	(+/-)	-0.673*** (-17.68)		-0.691*** (-26.17)	-0.399*** (-4.73)
Labor Expenses	(-)	-1.890*** (-9.36)		-1.161*** (-6.73)	-2.721*** (-25.05)
Employee-Related Controversies	(-)		-0.010*** (-5.58)		-0.066*** (-1.73)
Workforce Score	(-)		0.005*** (4.45)		0.006*** (15.75)
Employee Satisfaction Score	(+)		0.008** (1.87)		0.019*** (7.10)
Trade Union Representation	(+)		0.002 (0.79)		0.002 (1.45)
Labor Intensity	(+/-)	-0.233*** (-6.49)		-0.368*** (-25.40)	-0.113*** (-34.89)
Firm Size		-0.066 (-0.72)		0.023 (1.45)	-0.113 (-1.72)
Market/Book		-0.003*** (-4.11)		-0.003*** (-8.19)	-0.001** (-3.33)
Debt/Equity		0.212*** (24.86)		0.121*** (7.53)	0.178*** (37.01)
N		1,084	1,243	1,084	1,084
Year FE		YES	YES	YES	YES
Industry FE		YES	YES	YES	YES
Country FE		YES	YES	YES	YES
Clustered SE - Country level		YES	YES	YES	YES
Missing value dummy variables		NO	NO	NO	YES
R-squared		0.058	0.054	0.059	0.062

Data source

Stock price and market index data: [Compustat](#) and [Bloomberg](#)

Firm characteristic data: [Refinitiv Eikon](#)

Ex-post effects of WSRR

We use propensity-score-matching (PSM) followed by diff-in-diff (DID) estimations to examine the financial health and labor condition outcomes of WSRR for gig economy companies.

We find gig economy companies have an increased financial leverage, worse credit ratings, higher labor-related and other costs, and improved labor conditions following WSRR. Our findings can pass the parallel pre-treatment trend tests.

Variables	(1)	(2)	(3)	(4)
ROA	(-)			
Current Assets	(-)			
Credit Rating	(-)			
Debt/Equity	(+)			
Predicted change				
Treated-Post	0.892 (0.89)	0.010 (0.90)	-0.758* (-1.75)	0.436** (2.53)
N	1,008	1,008	1,008	1,008
Controls	YES	YES	YES	YES
Year-Country FE	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES
Clustered SE - Firm level	YES	YES	YES	YES
R-squared	0.730	0.839	0.910	0.831

Variables	(5)	(6)	(7)	(8)	(9)
Labor Expenses					
Number of Employees					
R&D Expenses					
CAPEX					
COGS					
Predicted change					
Treated-Post	0.009** (2.22)	0.204*** (3.32)	-0.002 (-0.68)	0.005 (1.41)	0.052* (1.83)
N	1,008	983	1,008	1,008	1,008
Controls	YES	YES	YES	YES	YES
Year-Country FE	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES
Clustered SE - Firm level	YES	YES	YES	YES	YES
R-squared	0.975	0.978	0.889	0.828	0.961

Variables	(10)	(11)	(12)	(13)
Employee-Related Controversies				
Workforce Score				
Employee Satisfaction Score				
Trade Union Representation				
Predicted change				
Treated-Post	-3.842** (-2.48)	-0.340 (-0.12)	4.424* (1.89)	-0.883 (-0.40)
N	1,008	1,008	1,008	1,008
Controls	YES	YES	YES	YES
Year-Country FE	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES
Clustered SE - Firm level	YES	YES	YES	YES
R-squared	0.740	0.841	0.589	0.856

Conclusion

We examine the shareholder value effects of WSRR. We find negative average stock price reactions to news associated with an increase in the adoption of WSRR, both for gig economy companies and their facilitators. Gig economy companies with a lower financial flexibility and worse labor conditions are more adversely affected by WSRR. Corroborating the shareholder expectations reflected in the event study results, difference-in-differences estimations indicate gig economy companies have higher costs, a higher leverage, worse credit ratings, and improved labor conditions following WSRR. Our study informs the ongoing policy debate on worker-status legislation.