

Flexible Work Contracts in the Gig Economy: An Institutional Analysis

Anisa Fitria Utami^{1*}, Ary Fauziah Amini², Nadofah³

Universitas Pembangunan Nasional Veteran Jawa Timur, Surabaya, Indonesia

*anisa.fitria.ep@upnjatim.ac.id

Abstract. The rise of the gig economy has fundamentally reshaped traditional employment relations, particularly in Indonesia. This article analyzes flexible work contracts in digital labor platforms through the lens of Institutional Economics and New Institutional Economics. The study adopts a literature review approach, drawing on academic publications, labor law and policy documents, as well as empirical reports concerning ride-hailing and food delivery workers. Findings reveal that while flexible contracts offer scheduling autonomy and additional income opportunities, they also transfer significant economic risks to workers, including operational costs, income volatility, and limited access to social protection. Indonesia's legal framework, which continues to rely on a binary classification of employees versus independent contractors, leaves gig workers outside the scope of minimum wage, severance pay, and social security coverage. In response, informal institutions such as driver associations and online communities have emerged to provide solidarity and advocacy, yet remain fragmented without formal recognition. The article proposes a hybrid co-regulation framework that combines basic protections guaranteed by formal regulations, formalized representation of worker associations, and algorithmic transparency at the platform level. Such an approach is expected to balance operational flexibility with worker protection, enhance long-term efficiency, and foster a more equitable distribution of benefits within Indonesia's gig economy.

Keywords: Gig Economy; Flexible Work Contracts; Institutional Economics; Informal Institutions; Co-Regulation

I. Introduction

The nature of work has undergone a significant transformation in recent decades, with the emergence of the gig economy representing one of the most profound shifts in global labor markets (Kalleberg & Dunn, 2016). This transformation has fundamentally altered traditional employment relationships, creating new dynamics between workers, platforms, and regulatory frameworks. Ideally, employment relationships are expected to provide a balance between workers' rights and employers' flexibility, ensuring mutual benefits while maintaining social protection standards (Berg et al., 2018).

Institutions, both formal and informal, serve as critical mechanisms designed to reduce uncertainty and establish rules that guide economic interactions (North, 1990). In this institutional framework, workers should enjoy decent wages, comprehensive social protection, job security, and legal certainty, while firms benefit from access to a more adaptable workforce and improved operational efficiency (Katz & Krueger, 2019). However, the digital platform economy has disrupted these traditional institutional arrangements, creating new challenges for labor market governance.

In practice, the rise of gig economy platforms such as Gojek, Grab, and Uber illustrates a significant departure from these conventional expectations (Chen et al., 2021). These platforms fundamentally rely on flexible contractual arrangements where workers are classified as independent contractors rather than formal employees, a practice that has become increasingly controversial worldwide (De Stefano, 2016). While this arrangement ostensibly provides workers with flexibility in choosing working hours and determining their income potential, it simultaneously transfers most economic risks—including vehicle maintenance costs, fuel expenses, health insurance, safety equipment, and income volatility—directly onto workers themselves (Wood et al., 2019). This risk transfer model raises substantial concerns about fairness, economic efficiency, and adequate worker protection in contemporary labor markets.

Formal institutions, including comprehensive labor regulations and national employment laws, have struggled to adapt effectively to the multifaceted challenges posed by platform-mediated gig work (Prassl, 2018). In Indonesia, for example, the Employment Law (Law No. 13/2003) and the more recent Job Creation Law (Undang-Undang Cipta Kerja No. 11/2020) attempt to regulate labor relations comprehensively, but they inadequately address the inherently ambiguous employment status of platform workers (Tjandrawati & Rizki, 2021). As a direct result, gig workers frequently remain outside the protective scope of minimum wage guarantees, severance pay entitlements, health insurance coverage, and social security schemes that are typically afforded to workers in formal employment relationships (Ford & Honan, 2019).

Several comprehensive studies have systematically highlighted this critical institutional gap in labor market governance. Research conducted by Wood et al. (2019) and Kurniawati & Wibowo (2021) emphasizes the fundamentally unequal bargaining power between digital platforms and individual workers, where sophisticated algorithmic management systems and unilateral control mechanisms exercised by platforms create substantial structural imbalances in the employment relationship. This situation clearly illustrates a principal-agent problem, where platforms (functioning as principals) maintain dominant control over working conditions, compensation structures, and performance metrics, while workers (operating as agents) bear disproportionate economic and social risks without corresponding decision-making authority (Rosenblat & Stark, 2016).

Consequently, the absence of adequate formal institutional protection has encouraged the emergence

of innovative alternative mechanisms for worker organization and advocacy (Gandini, 2019). Informal institutions have developed organically as a direct response to these regulatory and protective shortcomings. Driver associations, digital unions, online worker communities, and mutual support networks function as collective actors that effectively reduce transaction costs, facilitate information sharing, provide peer support, and advocate systematically for improved working conditions and fair compensation (Johnston & Land-Kazlauskas, 2019).

While these informal organizational structures have demonstrably strengthened workers' collective bargaining power and provided essential social support mechanisms, their overall effectiveness remains characteristically uneven and geographically fragmented without meaningful integration into the broader formal institutional framework (Tassinari & Maccarrone, 2020). This dynamic underscores the critical importance of developing a comprehensive understanding of the complex interactions between formal and informal institutions in shaping contemporary gig economy labor relations and worker outcomes.

Given this complex institutional background, conducting a thorough analysis of flexible work contracts in the gig economy from a comprehensive institutional economics perspective becomes not only academically valuable but practically crucial for policy development (Thelen, 2018). Such an analytical approach not only provides detailed explanations of the structural dynamics underlying current labor market practices but also generates actionable insights into potential policy reforms that could effectively balance platform operational flexibility with essential worker protection and social security (Stewart & Stanford, 2017).

This article therefore aims to systematically explore the multifaceted role of both formal and informal institutions in managing and regulating flexible work contracts within the gig economy, with particular analytical reference to Indonesia's evolving regulatory framework and distinctive socio-economic context. Through this institutional lens, we seek to contribute to both theoretical understanding and practical policy solutions for one of the most pressing labor market challenges of the digital age.

II. Literature Review

The gig economy, driven by digital labor platforms such as Uber and Fiverr, has significantly transformed employment relationships by offering flexibility and autonomy but often at the cost of job security and benefits (Low et al., 2024; Mamadiyarov et al., 2025; Tariq, 2025). This transformation is characterized by a shift from traditional full-time employment to more flexible, short-term contracts facilitated by digital platforms (Banik & Padalkar, 2021; Li et al., 2022; Verma & Mehta, 2025). Gig workers enjoy greater flexibility in choosing their work hours and tasks, which can lead to improved work-life balance and job satisfaction (Low et al., 2024; Penner et al., 2025; Tariq, 2025).

This flexibility is particularly beneficial for individuals seeking alternative employment arrangements, such as those with disabilities, who can leverage their unique skills and work at their own pace (Penner et al., 2025). Despite the flexibility, gig workers often face significant job insecurity and income instability due to the temporary nature of their contracts and the competitive pricing on many platforms. The lack of stable income and benefits such as healthcare and retirement plans poses a challenge to the long-term sustainability of gig work (Mamadiyarov et al., 2025; Mugambwa et al., 2024; Patil & Priya, 2024).

The gig economy has the potential to address some structural economic issues by providing employment opportunities and promoting economic growth (Fuentes & González, 2025; Jafar et al., 2024). However, it also raises ethical concerns, particularly regarding the fair treatment of workers and the need for inclusive practices that support marginalized communities, such as women, migrants, and people with disabilities (Jafar et al., 2024; Penner et al., 2025; Tariq, 2025). There is a pressing need for updated regulatory frameworks that balance the flexibility of gig work with adequate worker protections. Policies should aim to provide gig workers with access to benefits such as healthcare, retirement plans, and fair compensation (Mugambwa et al., 2024; Patil & Priya, 2024).

Institutional Economics emphasizes the importance of formal and informal institutions in governing economic activities and relationships, often referred to as the "rules of the game". This perspective is crucial in the gig economy, where new institutional arrangements are constantly evolving (Nygaard, 2024). New Institutional Economics focuses on transaction costs and property rights, which are critical in the gig economy where transactions are frequent and often involve significant coordination and enforcement costs (Brousseau & Glachant, 2008; Nygaard, 2024).

Both Institutional Economics and New Institutional Economics provide frameworks for understanding and addressing labor insecurity in the gig economy. For example, formalizing governance mechanisms on gig platforms can help reduce job insecurity and support workers in managing their work more effectively. The rise of algorithmic management in gig work highlights the need for tailored regulatory frameworks that integrate data protection with labor law, a concern that aligns with NIE's focus on governance and institutional design (Duggan et al., 2020; Wood et al., 2019).

International literature has highlighted the gig economy in developed countries, while studies in

Indonesia are still relatively limited. Most studies focus on wage and working conditions issues, but few have analyzed them systematically from an institutional economics perspective. This article fills that gap by emphasizing the interaction between formal institutions (laws, regulations) and informal institutions (worker communities, social solidarity) in shaping the dynamics of flexible employment contracts. Thus, this research not only enriches the theory but also provides practical contributions to policy formulation in Indonesia.

Conceptual Framework

Based on the literature review described above, this study develops a conceptual framework for understanding the dynamics of flexible employment contracts in the gig economy through the perspective of Institutional Economics. This framework emphasizes that the imbalance in labor relations on digital platforms stems not only from algorithmic control mechanisms, but is also influenced by interactions between formal institutions (labor regulations, laws, policies) and informal institutions (worker associations, driver communities, social solidarity).

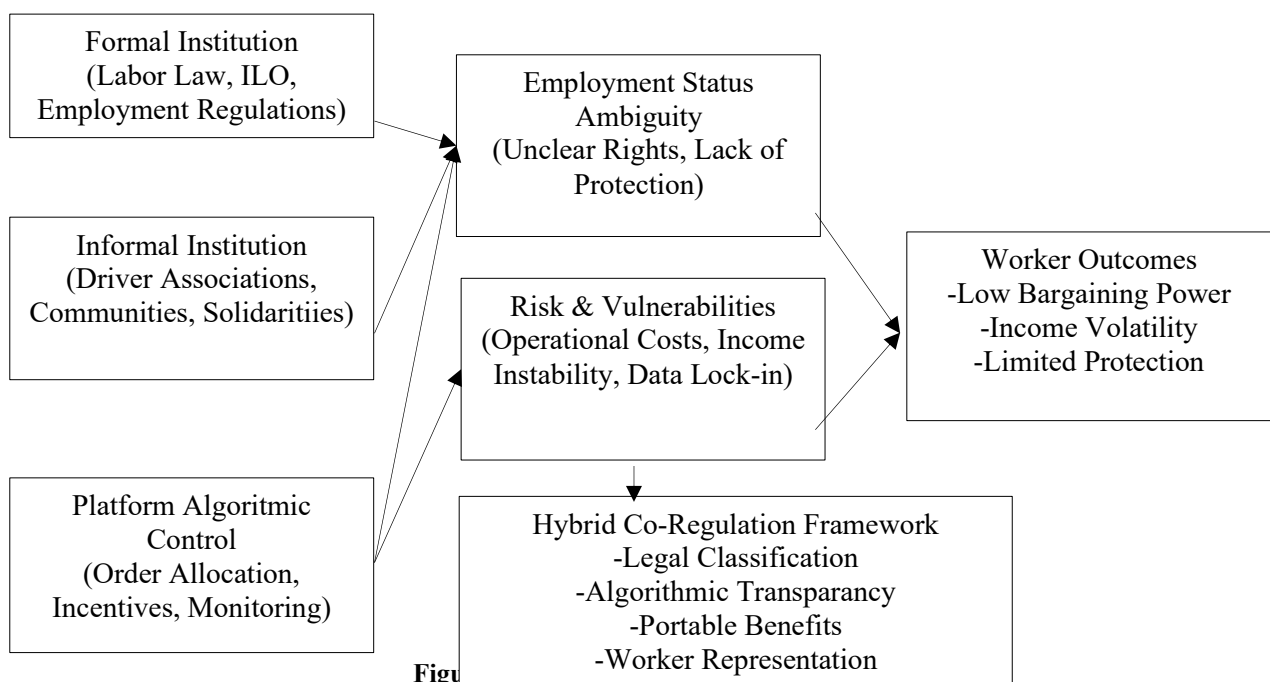


Figure 1

The conceptual framework of this study maps the relationships between these factors and presents the “Hybrid Co-Regulation Framework” as an alternative solution that integrates formal protection, recognition of informal institutions, and algorithmic transparency to achieve a balance between platform operational flexibility and worker rights protection.

This framework illustrates how the interaction between formal institutions (labor regulations, laws, and policies), informal institutions (worker associations, driver communities, and social solidarity), and platform algorithmic control generates employment status ambiguity and risks borne by gig workers. These dynamics contribute to low bargaining power, income instability, and limited access to social protection. In response, the study proposes a *Hybrid Co-Regulation Framework* that integrates formal protections, the strengthening of informal institutions, and algorithmic transparency to achieve a balance between platform flexibility and worker rights protection.

III. Research Method

This study uses the literature review method in a qualitative research design. The research methodically analyses and synthesises existing academic literature, policy papers, and legal frameworks pertinent to gig work and labour institutions in Indonesia, instead of gathering original field data.

The analysis utilises three primary sources of secondary data:

1. Scholarly publications: peer-reviewed journal papers and books concerning the gig economy, institutional economics, and labour relations (indexed in Scopus and Sinta).
2. Legal and policy documents: Indonesian labour legislation, including Law No. 13/2003 on Manpower, Law No. 11/2020 on Job Creation, pertinent ministerial regulations, and international labour standards issued by the ILO.
3. Empirical papers include research reports, statistical data from Statistics Indonesia (BPS), and case studies concerning ride-hailing and food delivery workers in Indonesia.

The research process comprised three steps. Initially, pertinent material was located through the use of specific keywords such as gig economy, flexible work contracts, institutional economics, transaction cost economics, principal-agent dilemma, and Indonesia. Secondly, chosen works underwent critical analysis to discern repeating patterns, theoretical insights, and regulatory obstacles. The findings were synthesised using the framework of Institutional Economics (North) and New Institutional Economics (Coase, Williamson), emphasising the interaction of formal and informal institutions in determining employment interactions within Indonesia's gig economy.

This methodology facilitates an extensive conceptual examination of the institutional governance of flexible work contracts, the degree to which regulatory deficiencies render gig workers susceptible, and the potential policy reforms that could improve equity and efficiency in digital labour markets.

IV. Results and Discussion

Institutional Economics Analysis of Platform Work: Pricing Dynamics and Risk Transfer in Indonesia's Ride-Hailing and Food Delivery Economy

Pricing Uncertainty and Information Asymmetries

The dynamics of tariff establishment and incentive frameworks on ride-hailing and food delivery platforms in Indonesia marked by frequent unilateral modifications and geo-specific discrepancies create substantial regulatory ambiguity for drivers (partners). According to Institutional Economics (North, 1990), frequent alterations in rules, information asymmetries, and inadequate enforcement mechanisms are indicative of underdeveloped institutional frameworks that exacerbate uncertainty costs for agents (drivers) (Williamson, 1985; Granovetter, 1985). The swift advancement of machine-learning algorithms, which form the foundation of modern artificial intelligence systems, has generated new prospects for automating management practices; however, this technological progress frequently intensifies information asymmetries between platforms and workers (Jarrahi et al., 2021).

As a result, driver behaviour becomes protective, shown in multi-apping techniques, pursuit of surge pricing, and selective acceptance of short-distance orders. Although these behavioural patterns are economically sensible at the microeconomic level, they signify institutional failure at the organisational level in stabilising expectations and coordinating economic activity (Ostrom, 2005). Research conducted by Sutherland et al. (2020) illustrates that algorithmic management systems establish novel forms of control that obscure conventional organisational boundaries, resulting in what may be termed "governance gaps" in platform-mediated work relationships.

Currently, informal institutions (WhatsApp/Telegram groups, driver community hubs, and fare information channels) serve as "substitutes" for formal institutions, minimising information search costs and facilitating daily work methods (Mahoney & Thelen, 2010). These informal coordinating mechanisms exemplify what Putnam (1993) refers to as "social capital," which arises to address deficiencies in formal regulatory structures.

Principal-Agent Problems and Asset Specificity

The total allocation of operational risk expenses (fuel, maintenance, vehicle depreciation, installment/rental payments) to workers highlights the principal-agent dilemma central to New Institutional Economics: platforms function as principals overseeing task distribution and surveillance via algorithms, while agents assume risks without commensurate bargaining leverage (Jensen & Meckling, 1976). Asset specificity requirements (yellow-plated vehicles adhering to particular standards, thermal delivery bags, account ratings) generate significant switching costs, situating the platform-driver relationship within Transaction Cost Economics (Williamson, 1985) as a hybrid governance structure: neither a pure market (due to algorithmic control) nor a hierarchy (lacking employment contracts), but rather a relational arrangement susceptible to opportunistic risks from the dominant party.

Research on the institutional environment and transaction cost solutions for gig platforms indicates that platform governance structures must consider both transaction costs and institutional restrictions in the design of worker-platform connections (Williamson & Ghani, 2024). Field observations indicate income instability and elevated churn rates (partner turnover), ultimately diminishing allocative efficiency as experience and reputation do not accrue effectively. This behaviour corresponds with what Dosi et al. (2000) characterise as "learning-by-doing" inefficiencies in volatile institutional contexts.

The issue of asset specificity is exacerbated by what Klein et al. (1978) refer to as "hold-up" potential, wherein investments in platform-specific assets (such as vehicle modifications, rating accumulation, and area expertise) generate dependencies that platforms may exploit via unilateral contract alterations. This process exemplifies what Williamson (1985) refers to as "fundamental transformation," when initially competitive market interactions develop into bilateral dependency.

Formal Regulatory Inadequacy and Property Rights

Indonesia's legal framework (Employment Law and Job Creation Law) offers general provisions yet does not clarify the "status" uncertainty associated with platform job. In North's (1990) paradigm, ambiguous property rights regarding work-related data (such as order history, ratings, and online hours) and algorithmic processes (including order distribution rules and incentive formulas) diminish agents' bargaining power. The rights to data properties are essential since they constitute reputational capital; in their absence, transitioning between platforms obliterates reputational capital, hence exacerbating lock-in effects (Shapiro, 1983). In an August ruling, the court annulled the transport ministry's regulations on ride-hailing services, which included pricing ceilings, vehicle quotas, and license requirements, highlighting the persistent legal ambiguity in Indonesia's platform economy (Nikkei Asia, 2017).

Empirically, when drivers encounter deactivation, the transaction costs associated with account recovery are excessively expensive due to the appeal duration, necessary evidence, and uncertainty of the outcome. The lack of clear appeal mechanisms hinders the rectification of misaligned incentives and diminishes platform accountability concerning fairness principles.

Recent studies by Prassl (2018) and Cherry & Aloisi (2017) highlight that conventional binary employment categories (employee versus independent contractor) fail to accurately reflect the complexities of platform work dynamics. This regulatory deficiency exemplifies what Streeck & Thelen (2005) refer to as "institutional drift," when established institutions inadequately adjust to technical and economic transformations, hence allowing new economic organisational forms to arise without sufficient governance structures.

Collective Action and Informal Institution Emergence

The collective action of ride-hailing drivers, impromptu conversations with management, and intercity fare agreements illustrate the role of informal institutions as supplements to official structures. From the perspective of New Institutional Economics (NIE), these associations and communities diminish collective transaction costs by: harmonising preferences, generating public information (such as "equitable tariffs/cost basis per kilometre" derived from fuel expenses and depreciation), and establishing social sanction mechanisms (local boycotts, solidarity strikes) that mitigate opportunistic behaviour (Olson, 1965).

Tassinari and Maccarrone's (2020) research on platform worker organisation indicates that ride-hailing platforms in Southeast Asia have fostered novel forms of worker solidarity and collective action, but these efforts are fragmented and lack institutional legitimacy. Nonetheless, in the absence of basic formal acknowledgment—such as obligatory consultation mechanisms, stipulated notice durations for policy alterations, or norms for algorithmic governance—informal institutional capacity remains disjointed, leading to inconsistent efficacy (Collier et al., 2017).

The creation of these informal institutions exemplifies what Scott (2014) defines as "institutional entrepreneurship," wherein individuals establish new organisational structures to fill institutional voids. Mahoney & Thelen (2010) note that the durability and efficacy of informal arrangements are fundamentally contingent upon their eventual incorporation into or acknowledgement by formal institutional frameworks.

Social Protection Design and Incentive Alignment

Voluntary social protection programs, like access to BPJS Ketenagakerjaan for individual contributors, enhance coverage but encounter transaction costs associated with registration and compliance, particularly due to the misalignment of contribution schedules with daily income fluctuations. From a microeconomic perspective, drivers judiciously postpone contributions during periods of revenue decline—prudent behaviour yet fraught with danger. Institutionally, contract designs that align with daily or weekly cash flow patterns (such as pay-as-you-earn and automatic deductions during driver wallet cash-outs) may decrease enforcement costs and enhance participation—an explicit application of incentive alignment principles in principal-agent and high-frequency relational contracts (Williamson: frequency and uncertainty) (Williamson, 1985).

Berg et al. (2018) highlight the necessity of developing social protection systems that address the irregular revenue patterns inherent in digital labour platforms. The notion of "portable benefits" introduced by Katz & Krueger (2016) signifies an institutional innovation that may rectify the disparity between conventional social insurance frameworks and the actualities of platform employment.

External Shocks and Institutional Coordination

External shocks, such as gasoline price escalations, modifications in ride-hailing restrictions by transportation authorities, and alterations in minimum wage, illustrate the impact of cross-institutional cooperation on outcomes. In Northian dynamics, alterations to formal parameters without corresponding updates to implementation rules at the platform level, such as tariff adjustment formulas based on operational cost indices, result in path dependence that disadvantaged agents due to delayed adjustments (North, 1990). Communities often report empirical findings indicating a decline in real income per trip following a shock, until drivers alter their work strategies (such as working night hours or focussing on specific areas). These

adaptations may be privately efficient but result in social inefficiencies, including traffic congestion in profitable areas, safety hazards, and negative externalities.

Tariff bands ranging from IDR 3,500 to 6,000 per kilometre differ by province, constricting operational margins beyond Java and highlighting the local dispersion of regulatory approaches to platform activity (Mordor Intelligence, 2025). This legislative diversity generates "institutional arbitrage" opportunities for platforms, as described by Fligstein (2001), while putting coordination costs on labour functioning across different jurisdictions.

The coordination issue is exacerbated by what Pierson (2000) describes as "temporal mismatch" between rapidly evolving technological and market dynamics and the sluggish adaptation of institutional solutions. This temporal misalignment generates opportunities for platform firms to set advantageous precedents that are challenging to reverse due to path dependence effects.

Static versus Dynamic Efficiency Trade-offs

From the standpoint of static versus dynamic efficiency, flexible contracts facilitate static efficiency through capacity scaling, minimal latency, and expedited matching. Nonetheless, in the absence of guarantees for regulatory certainty (such as notice periods, minimal algorithmic transparency, and appeals processes), drivers' long-term investments (including vehicle renewal, upgrading to commercial licenses/yellow plates, and commercial insurance) become suboptimal, exemplifying a coordination failure in investment characteristic of New Institutional Economics (Williamson, 1985). The outcome is systemic entrapment in a low-road equilibrium characterised by inconsistent service quality, escalating accidents, and a tenuous sector reputation, which ultimately increases macro-transaction costs due to diminishing public trust and cyclical reactive regulatory interventions.

Taxi-hailing applications that expedite the matching of taxis and customers have gained significant popularity in recent years; however, the sustainability of these platforms hinges on addressing the dynamic efficiency challenges embedded within their governance frameworks (Chen & Sheldon, 2016). Parker & Van Alstyne's (2018) research on platform ecosystems highlights that enduring platform success necessitates a balance between immediate efficiency improvements and investments in institutional infrastructure that foster durable participant interactions.

This efficiency trade-off illustrates the tension between "exit" and "voice" mechanisms in organisational interactions, as characterised by Hirschman (1970). The restricted voice options for platform workers, stemming from inadequate formal recognition, coupled with elevated exit costs owing to asset specificity, foster an environment that promotes what Hirschman describes as "loyalty by default" rather than authentic institutional commitment.

Institutional Synthesis: Hybrid Co-Regulation Architecture

The institutional synthesis advocates for a "hybrid co-regulation" framework that includes: (i) fundamental rights upheld by formal institutions (notification and consultation prerequisites prior to tariff or incentive modifications; transparent appeal processes; portability of work history data as worker property rights; minimum safety and insurance standards), (ii) established negotiation venues for worker associations (city or cluster forums with obligatory consultation responsibilities regarding tariff-cost basis matters), and (iii) relational contract mechanisms at the platform level (algorithms adhering to minimum explainability criteria, regular third-party audits, and cost index commitments for automatic tariff adjustments in response to fluctuations in input costs).

This architecture, from the NIE perspective, diminishes transaction costs, mitigates opportunistic risks, and stabilises expectations, thus promoting asset-specific investments by both parties (platforms and drivers), achieving dynamic efficiency while enhancing fairness outcomes (North, 1990; Williamson, 1985). Algorithmic management systems necessitate thorough examination of their advantages and disadvantages, particularly regarding their practical effects on employee wellbeing and organisational efficiency (Bader & Kaiser, 2022).

This institutional architecture exemplifies what Powell (1990) describes as "neither market nor hierarchy," but instead a "network" organisational form that integrates aspects of both market dynamics and hierarchical coordination. The efficacy of hybrid arrangements, as evidenced by Uzzi (1997) in his study of industrial networks, is fundamentally contingent upon the cultivation of trust and recurrent contacts that diminish transaction costs over time.

The suggested co-regulation framework corresponds with Ostrom's (1990) concept of "polycentric governance," which refers to institutional structures functioning at several levels and engaging different stakeholders in the processes of rule-making and enforcement. Polycentric techniques have demonstrated efficacy in managing common pool resources and may provide valuable insights for administering the digital commons established by platform economies.

V. Conclusion

The investigation indicates that flexible labour contracts within Indonesia's gig economy present both potential and constraints. Although these arrangements offer scheduling flexibility and additional earning opportunities, they also subject workers to considerable dangers stemming from regulatory gaps in current labour legislation. Formal regulations, including Law No. 13/2003 on Manpower and Law No. 11/2020 on Job Creation, adhere to a binary classification of employees and contractors, thereby excluding gig workers from minimum wage, severance compensation, and social security entitlements. From an Institutional Economics viewpoint, the absence of explicit regulations engenders uncertainty and erodes confidence, whereas New Institutional Economics emphasises that hybrid governance frameworks in platform work promote opportunism, principal-agent disparities, and elevated transaction costs.

To tackle these difficulties, policy improvements must enhance the collaboration between official and informal institutions. Five priorities are evident: (i) establishing a legal classification for gig work to ensure fundamental protections, (ii) enforcing algorithmic transparency and accountability, (iii) providing workers with portable data rights regarding their employment histories, (iv) developing adaptable social protection systems in accordance with fluctuating incomes, and (v) formalising worker representation via recognised associations and co-regulatory forums. Through the implementation of these measures, Indonesia can diminish regulatory ambiguity, improve equity, and promote both static efficiency in operational adaptability and dynamic efficiency in long-term employee investment and welfare. This cooperation would guarantee a more equitable distribution of the economic advantages of the gig economy among workers, platforms, consumers, and society as a whole.

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