

FINANCIAL MANAGEMENT AND PROFITABILITY IN THE GIG ECONOMY

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Abstract:

The ever changing economic world has seen many developments in the recent past that have shaped the world economy and its organizations. It has led to people deviating from their tried and tested working policies towards newer and creative methods of managing their business and finances.

One such new addition to the world of economics is the Gig Economy. The Gig Economy is a new way of employment where people, instead of taking up the traditional full time, long term jobs; take up short term jobs, short term projects or 'Gig' as it is famously called.

As the nature of employment in the Gig economy deviates from the traditional job security and stable earning policies, a need to rejig the financial management for profitability of people has been felt the world over.

This research paper attempts to study the concept of financial management and profitability of a person or firm working in a Gig Economy.

Keywords : *Gig Economy, Gig workers, Financial Management, Freelancers, Profitability.*

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Introduction:

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management for profitability of people has been felt the world over.

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Review of Literature:

1. A report by World Economic Forum (November, 2024), states that the Gig economy will triple itself in turnover from 2024 to 2032. this shows the growth of the economy.
2. Kiara Taylor (2024), in her article elaborated on the financial challenges faced by Gig workers worldwide.
3. Isaac Heller, (June, 2023) explains how Artificial Intelligence can influence and be helpful in financial management and accounting.

4. The CFI team (2024) explains the working of the Gig economy and its advantages and disadvantages.

Definition of Gig Economy:

As defined by the Government of United Kingdom, “gig economy involves the exchange of labour for money between individuals or companies via digital platforms that actively facilitate matching between

providers and customers, on a short-term and payment-by-task basis.”

The gig economy makes use of the various available digital platforms that enable the customers to connect with freelancers that are able to provide them the service they require.

Various examples of Gig Economy jobs include the following:

Type of Work	Examples of companies involved
1. Food Delivery	UberEats, DoorDash
2. Graphic Design	Upwork, Fiverr, 99designs
3. Writing and Editing	Content creators, bloggers, copywriters like ProBlogger
4. Ride-Sharing	Drivers working for companies such as Lyft, Uber.
5. Digital Marketing	Flexjobs, Peopleperhour, Guru which specialise in search engine optimisation, online advertising
6. Web Development	Turing, Upstack, Lemon.io, Toptotal
7. Audio-Video and Photography	Contra, Shutterstock, Scoopshot
8. Task based Services	TaskRabbit, Urbanpro provide services such a domestic help, repairs, etc.
9. Short Term Renting of properties	Vrbo, Airbnb
10. Education	Chegg India, Britannica, Edmentum

Gig economy is a fast growing one, bringing economic benefits of productivity and employment. In 2024, the size of gig economy market was \$556.7 billion. By 2032, it is expected to be at \$1,847 billion, almost more than triple of its current size.

Objectives of the Study:

1. To understand the working of the Gig Economy.
2. To understand how people working in a Gig economy can manage their finances for profitability.
3. To understand how this financial management differs from the traditional methods of managing finance.

Research Methodology:

The research is conducted by referring several scholarly articles on Gig economy and financial management, going through the statistical analysis

available on the subject; based on the which observation and interpretations have been made by the researchers.

Advantages of a Gig Economy for workers:

Following are some of the advantages of working in a gig economy:

1. Working independently leads to more job satisfaction:

When a person is working independently, he or she feels more control over their work and choices. This leads to increase in job satisfaction.

2. Diversified Work portfolio:

A gig worker can take up different kinds of projects from various industries, thus creating a much diversified work portfolio for the gig worker.

3. **Higher work-life balance and flexibility:** As the gig workers are able to choose their work and

projects, they are able to have better work-life balance and hence can dedicate time towards personal life, further education, etc.

4. Ability to earn more:

If they possess the required skill and qualifications, the gig workers are in a position to earn much higher working freelance than they would if they had a regular job as they can have multiple projects at the same time.

5. Enhanced development of skills:

As the gig workers have a diversified work portfolio, they are able to improve their skills much faster and easily as compared to regular workers. This in turn leads to even more varied work opportunities.

6. Global reach:

The online platforms through which the freelancers ply their trade enables them to reach out to customers across the world, thus expanding their outreach by working on national as well as international projects.

7. Experience of being an entrepreneur:

As the gig workers work as a freelancer, they manage their own services, business contacts, have to manage their own finances and build their own clientele; they get the complete entrepreneurial experience.

8. Level travel hassles:

Most freelance jobs are of remote nature, where the need to travel daily to an office is not there. Hence, they have less travel hassles as compared to a regular employee and also save money on the same.

Disadvantages of Gig Economy for the workers:

Following are some of the disadvantages of working in a gig economy:

1. No Fixed Income:

As opposed to a regular job, the income of gig workers is not fixed. Sometimes, they may earn really high income due to multiple well paid

projects. On the other hand, lesser jobs or lack of any may lead to drying up of their income. Hence, there may be lack of financial stability.

2. No Employee benefits:

As they are not working regularly for a single organisation, the gig workers do not receive various employee benefits such as incentives, medical insurance, accident compensations, earned leaves, incentives or yearly bonus.

3. Uncertainty of work:

It is a part and parcel of the gig economy. Sometimes, a gig workers would have his or her hands full with multiple projects at the same time keeping them busy. Then on other days, they would have to sit without any work for a long time. Thus, there is uncertainty and lack of security in work.

4. Lesser protection related to laws and regulations:

The gig workers do not get the same legal protection as that of a regular worker may have. This includes guarantee of a certain minimum wages, pays related to performance and time, compensations, and protection from unfair dismissals.

5. Difference in payment of taxes:

As most gig workers are considered to be entrepreneurs running their own independent business, the rate and incidence of taxes for them is different and in most cases higher than that for an employee working for a company.

6. Stagnation of Career:

As there are no chances of promotion, training and development as they are autonomous workers, the gig workers' careers may get stagnated after some years as they feel that they cannot go up from where they are in terms of what they do.

7. Have lesser credibility when they seek loans:

The lack of stable income and employment, absence of regular monthly salary slips makes it more difficult for a gig worker to obtain loans from banks

for buying a house, vehicle or workplace etc.

8. Higher chances of being burned out and over worked:

To keep up with their needs, the gig workers need to constantly find new and new jobs and projects and accept whatever comes their way. Sometimes, this may mean working on multiple projects simultaneously. This can cause burn out of the workers from being overworked.

How does the gig economy affect the employers worldwide?

1. The growth of the gig economy has changed the way employers manage their workforce and productivity.
2. Companies now make use of freelance workers for the creation of a workforce that is far more diverse in skills and ability.
3. Employers can make use of the gig workers for specific types of work without any long time employment commitment, thus saving time and money and having expertise at work at the same time.
4. The employers need to keep a smaller full time workforce by using the freelancers as the need arises.
5. However, this also affects their work dynamics, team spirit within an organisation.
6. A lot of organizations feel that using gig workers allows them to become more competitive and be much more in tune with the market demands.

Financial Challenges Freelancers Are Likely to Face:

One of the challenges of working in a gig economy for workers is that they now have to manage their own finances and taxes, which normally are taken care of by the organisation they work for on regular basis. Following are some of the challenges that a gig worker is likely to face:

1. Keeping track of business transactions and invoices:

As the gig workers manage their own work, keeping track of the multiple clients that they work with, the record of transactions that they do with them, the record of invoices to be maintained becomes a challenge as the gig workers may not have expertise in these areas. This would be a challenging task for them.

2. Keeping proper record and control of business expenses:

Just like keeping records of transactions and invoices, keeping proper record of the expenses that the gig workers incur in due course of their business is also a challenging task. As the number and nature of clients that they work with grows and diversifies, so does the amount and nature of expenses change. Failure to keep proper track of expenses may result in higher taxes, lower profitability and other financial issues. It may also result in friction with the client base.

3. Calculation, management and payment of taxes:

The gig workers may find difficulty in classifying expenses as personal or business expenses at the time of calculation of taxes as there are no clear parameters for them as opposed to working for an organisation. Hence, tax determination and timely payment may become an issue. Hiring a financial expert for the same will lead to increased costs.

4. Work Benefits and healthcare benefits:

Normally, the HR department of the organisation for which an employee works for does the work of determining the amount to be set aside for healthcare benefits as well as other work benefits such as incentives, perks etc. For an independent gig worker, this has to be done by them on their own. The HR department also lays out leave plans and vacations for the employee. Now this also needs to be taken care of by the gig worker on his own.

Strategies for sound financial management and profitability of a gig worker:

1. Understand the extent of business: The gig worker or freelancer need to first define the extent of his or her business. This means understanding one's merits as well as limitations in terms of finances. Trying to have the financial plan of a big organisation when your gig is of a smaller nature can have adverse affect on the financial profitability.

2. Investing for a better post retirement life: As seen from the advantages and disadvantages of working in gig economy, a gig worker does not have the back up of any retirement benefits that a regular employee might receive once he or she retires from the company they work. Hence, the gig worker should invest a good part of the money earned from current projects in such a way that after retirement, the life is financially secure for them. Investment in various retirement funds is a good option.

3. Create varied sources of income

As a gig worker chooses his or her work and what they want to work on, they have more free time available with them. This free time can be utilised by them to do some diversified work to generate income from other sources that add up to their normal income. This will increase their profitability and savings as well as make provisions for a downturn in the economy. For examples, a freelance teacher can also work as a writer or editor for freelance gigs online in the free time to earn more money.

4. Proper Investment of income earned

As in the case of any earning person, it is important for the gig workers to investment their hard earned income wisely and in profitable ventures. This is more important for the gig workers as they would have to struggle financially once they retire as they would not get any retirement benefits that a regular employee would get post retirement. Hence, to save

for a rainy day, its is imperative for the gig workers to invest money that they currently earn in schemes and ventures that would give them good returns at a lesser risk. They need to regularly invest and keep track of their investments, slowly building a diversified and strong investment portfolio to enable them to enjoy its benefits at later stages of their life.

5. Customizing individual freelance contracts

The freelance workers can draw up contracts with the companies and clients that they work in such a way that they are customised on the basis of costs, expenses and revenue so as to ensure as high a rate of profitability as possible from the contracts. This can be managed by using various softwares available for drawing up contracts that cater to the needs of the gig workers.

6. Use of softwares for financial management and accounting

Invoice processing is a tedious and labour intensive task. A suitable accounting software introduces automation in this process by reading invoices, extracting the necessary details, and verifying them against purchase orders and contracts using software that performs scanning of invoices using OCR and NLP technologies. This automation gives out the relevant data, then verifies the data against existing company records and shows deviations or approval requirements for human intervention and correction.

It is very helpful in efficient management of expenses of an organisation by automation of the following important processes:

1. Tracking of expenses
2. Classification of expenses
3. Approval of expenses

Thus, choosing the right accounting and financial management software goes a long way in ensuring that expenditure aligns with the budget. Software

technology will analyse uploaded receipts and invoices, automatically classifying the expenses into predetermined cost units such as travel, office supplies, or entertainment. It also verifies compliance with budgetary policies by displaying expenses that go beyond limits or don't match the expected categories.

7. Proper Budgeting and adherence to the same

The gig workers should make financial budgets of their business on monthly, semi-yearly as well as yearly basis. This is a very important step in financial management and planning for increase in profitability. Having a budget gives a clear idea about the financial resources the companies act and how can these resources be effectively used over the course of business to increase profitability at lower costs. Strict adherence to budget is essential to ensure the business never sees red in its financial bottom-line and stays profitable. The freelancers can make use of various online softwares that use Artificial Intelligence to chalk out an accurate budget plan for the business. AI tools monitor daily transactions and help businesses forecast future revenue and expenditures by analysis of revenue, expenses and transaction patterns. They can predict future cash flow shortfalls and recommend budget adjustments, allowing businesses to stay on track financially.

Conclusion:

1. The Gig economy is an ever growing part of the modern business worldwide.
2. The Gig workers or Freelancers face certain challenges in terms of their financial management

and profitability in comparison to the regular economy.

3. There are various steps that the gig workers can take to ensure sound financial management and profitability in their work.

Suggestions:

1. The Gig workers or freelancers need to be judicious with the way they handle their finances as they have no post retirement support which the normal regular employees have.
2. These freelancers need to be proactive about their investment choices as well as the management of their finances.
3. They need to track and manage their finances in a way that ensures that the remain financially viable and sound to face the market competition.

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