Latest Misclassification Settlement Fails To Lyft Sharing Economy Companies

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Late last week, a federal court judge in California approved a settlement agreement whereby ride-sharing company Lyft agreed to pay $27 million to approximately 95,000 California drivers who alleged they were misclassified as independent contractors. Unfortunately, the March 16, 2017 settlement fails to advance the cause of gig economy companies. Many had been hoping the settlement agreement would provide a structure to help prevent future misclassification claims in the industry, or at least develop some tangible guidelines to help companies navigate the complex and dangerous legal minefield surrounding the employee v. independent contractor debate. Instead, the agreement resolves the existing litigation but keeps the bigger question over misclassification alive.

We've written about the misclassification question exhaustively in the past; no need to rehash it here. The bottom line is that many gig workers believe they are being misclassified as independent contractors and have brought legal actions hoping to be awarded the monetary benefits that come with employment status. When faced with such claims, sharing economy platforms have a few basic options:

- radically change their business model;
- fight the allegations and prove them wrong;
- settle the case through a payout; or
- get creative.

Last year, ride-sharing competitor Uber tried option #4 when it announced a provisional $100 million settlement in its own misclassification battle. What made the proposed settlement so unique was the terms of the deal would have required Uber to alter some of its business practices in such a way that would have resulted in workers being treated more like employees, but would expressly ensure workers remain classified as independent contractors. Specifically, the deal assured drivers they can only be removed from service if Uber can show "sufficient cause," and drivers would have an appeals process and arbitration available if they disagreed. Also, drivers would have been able to elect local leaders to meet with management to dialogue about issues impacting the workforce.

Quite simply, the deal would have been a game-changer. It would provide a blueprint for a possible path towards peaceful coexistence with workers without the specter of a class action lawsuit hanging over the heads of sharing economy companies at all times. From a bigger picture perspective, this deal could have presaged the possible emergence of a new third classification of worker that reflects the reality of working in the gig economy in the 21st century. Modern businesses have long bemoaned the fact that the current legal standard is based on a 20th century legal test and calls for sorting workers in one of only two categories: either employees or independent contractors. As some legal scholars have pointed out, when it comes to sharing economy business models, this is sometimes like trying to jam a square peg into one of two round holes.

But the celebrations were short-lived, as the court rejected the proposed settlement as "not fair, adequate, and reasonable." Gig companies saw their dreams go up in smoke – at least, temporarily. While Uber and its workers went back to the drawing board, many pinned their hopes on the companion Lyft litigation as the stage where new guidelines would be developed.

Those hopes disappeared with last week's settlement. As Judge Chhabria stated, "the agreement is not perfect…the status of Lyft drivers under California law remains uncertain going forward." The deal does not iron out any sort of agreement about a structural framework between the company and its drivers like the Uber agreement attempted. Instead, it simply prevents current Lyft drivers from continuing with their existing legal claims or bringing new ones through a resolution payment. While Lyft can breathe a sigh of relief knowing it can put this legal headache in its rearview mirror, sharing economy companies everywhere will need to continue to be vigilant when handling misclassification issues with the understanding that there is no holistic resolution on the horizon that would provide a blueprint for avoiding such claims.

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