THE FREELANCE PROJECT AND GIG ECONOMIES OF THE 21ST CENTURY

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ABOUT CRSE

The CRSE is the leading international think tank working to improve the understanding of the self-employment sector and its impact on the economy. It delivers leading-edge, robust and multidisciplinary research in collaboration with academics from around the world who are at the forefront of self-employment studies.

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Across the media and public policy, there has been a huge amount of talk about the so-called “gig economy”, painting an often too-bleak picture of self-employment. Not enough, however, is said about the much bigger skilled freelancer community. This 2.1 million-strong group not only offers true freedom and flexibility to people across the UK; it also generates between £140 and £145bn for the economy every single year.

Through this new report as well as his 2012 research, Andrew Burke is turning a spotlight on this vital and positive side of self-employment. In 2012, Burke and his team showed how valuable skilled freelancers are to the UK’s SMEs and large corporations. Now, they are shedding new and much-needed light on how exactly this growing and dynamic sector works.

This exciting new report shows that not only is there enormous diversity across the self-employed sector; even within the highly skilled freelance sector, you find hugely different ways of working. More than ever, this shows that if the government wants to support one of its most productive and important sectors, it must adopt a segmented and tailored approach.

There can be no more blunt, one-size-fits-all policies. Right now, freelancers and the self-employed need policies that cater to their varied ways of working: be it projects, gigs or a portfolio of different kinds of work. This vital research shows once and for all the need for a segmented, modern tax and employment system – not built for the telegraph era, but ready for the broadband age.
EXECUTIVE SUMMARY
High skilled freelancers, who can be defined as self-employed people in Standard Occupational Classifications (SOCs) 1–3, are by far the most productive part of the self-employed sector, contributing an estimated £140–145bn to the economy every year.

They are the UK’s freelance managers, directors, professionals and associate professionals. This report focuses on this 2.1 million-strong group.

- The freelance economy is divided into three different forms of work: project, gig and portfolio.
  * 73 per cent of freelancers are focused on project-based work.
  * 15 per cent are focused on gig-based work.
  * 12 per cent do mixed or ‘portfolio’ work.
  * 1 per cent do not define their work as project-, gig- or portfolio-based.
- The project-based freelancers account for 73 per cent or £104bn of the £140–145 economic output that SOC1–3 freelancers contribute to the UK economy. The freelance gig economy accounts for just 14 per cent or £20 billion. Portfolio and other freelancers make up the balance.
- Freelancers working in these three different ways add value to businesses by giving them access to flexible expertise beyond their fixed employees.
- Using freelance labour allows firms of all sizes to navigate peaks and troughs in demand and compete with much larger businesses.

This report uses case studies to explore the three different ways of working that can be found in the freelance economy: project work, gig work and portfolio work. These can be defined in the following ways:

**PROJECT WORK:**
Where a freelancer is engaged to play a role in delivering all or a significant part of a particular business project. Their contract ends when this particular project is complete, and contracts of this kind typically last weeks or months or sometimes even years. There are six forms of project work, which are explored in more detail later: corporate ventures, start-ups, R&D innovation, the adoption of new technology, scaling projects and project-based organisations.

**GIG WORK:**
This is work that is based on (often repeatedly) performing a particular task or ‘gig’. Freelancers doing this form of work are paid according to each task or ‘gig’ performed rather than for the completion of one major project. This is more commonly associated with lower skilled self-employed work and other SOC groups, but it is also found among highly skilled freelancers. In fact, some gig-based freelancers, such as freelance senior managers, actually charge higher day rates than those working on projects.

**PORTFOLIO WORK:**
While most project-based freelancers devote all their work time to one particular project, this is not always the case. Some freelancers work simultaneously on one or more projects and various gigs. This is defined as ‘portfolio work’.

Too often, government and industry policy around the freelance sector is based on perceived divisions between different modes of work – between platform or gig work and the rest of the self-employed sector. As these different modes of work seem to be found to varying degrees at all skill levels, government policy should predominantly be based on skill-level, not modes of work.

If modes of work must be considered, however, there is a higher concentration of project-based work at a higher skill level and more gig-based work at lower skill levels. Therefore, policy should generally focus on enabling and supporting higher-skilled project work, while protecting and guarding against vulnerability among lower-skilled gig work.
1. INTRODUCTION
All too often today, when the media and policymakers turn their attention to self-employment, they focus on low-skilled, vulnerable work in the so-called “gig economy”. Little attention is paid to the productive and dynamic highly-skilled freelance sector. This group can be defined as the roughly 2.1 million freelance managers, directors, professionals, associate professionals and others in Standard Occupational Classifications (SOCs) 1-3.

Our 2012 case study report did, however, examine this group and the vital role they play in the economy. It found that they both improve productivity and enable growth in firms of all sizes. It showed that freelancers give firms access to invaluable flexible expertise beyond their fixed employees. They allow them to navigate peaks and troughs in demand and compete with other, often larger, businesses.

The 2012 report found that many freelancers worked on specific projects relating to innovation, entrepreneurship, new venture development and growth. It also found, however, that a significant number of freelancers also work on a gig basis, where they repeatedly perform a particular task.

This report builds on that work by examining the different ways freelancers work in more detail, and showing how exactly they add value. It sheds light on project-based, gig-based and mixed portfolio freelance work, comparing the prevalence and value of each type of working.

To begin with, we lay out the analytical and conceptual framework for this research. Then, as with the previous report, we gather qualitative evidence from case studies. These case studies complement the previous report by exploring a key innovation in the intervening years: digital platforms to enable and promote freelance work. The case studies are ‘Upwork’, a digital online marketplace for freelancers, and ‘Hoxby’, an online-enabled freelancer co-operative.

Next, we add to the case study analysis with statistics and analysis of project-based, gig-based and portfolio freelancers. The report then concludes with a comparison of the relative importance of the different forms of freelance work, as well as recommendations for policymakers based on our findings.
2. ANALYTICAL AND CONCEPTUAL FRAMEWORK
The rapid rise in the solo self-employed among the UK workforce has been one of the striking trends of the 21st century workforce (Kalleberg, 2011, Kitching and Smallbone, Rapelli 2012, Kitching 2016). Most of the research on this development has been based on the supply side by looking at the determinants of people’s choice to become freelancers (Burke and Cowling, 2015). The study of freelancing in the construction industry (Burke, 2011) was one of the first to explore the demand side where the focus is on the firms hiring freelancers and understanding why they hire freelancers instead of employees. Later in Burke (2012) we extended this demand side approach to examine why firms hire freelancers in a broad range of British industry (excluding the construction industry). Both reports showed that most of the net gains generated by using a significant proportion of freelancers in a firm’s workforce was by enabling these firms to adopt project-based forms of organisation and management for a significant proportion of their business activity.

In this prior research, we found that freelancers were able to enhance firm performance by enabling a workforce model which: is lean, agile and flexible; provides access to expertise beyond the confines of core employees; provides a variable cost model that enables risk management, and lowers financial requirements. As these methods also reduce barriers to entry and Minimum Efficient Scale (MES) they also have the additional economic welfare benefit of decreasing monopoly power and making markets more competitive (Figure 1). The report found that the combination of these effects were core to the performance of an innovation-driven economy such as the UK.

**Figure 1:** The means through which a freelance workforce model generates economic value added
We now focus on how freelancers apply these means of adding value to businesses by providing high skilled work through project and gig-based contracts. Since the report is a continuation of the initial work carried out in Burke (2012) we will, as relevant, refer to the case studies carried out in that earlier report. For convenience, we also include cited case studies in the appendix. Later in the next chapter we also carry out two new case studies where we observe that digital platforms, which are already known to have facilitated the gig economy (Lepanjuuri, 2018), have in some prominent cases also played a major role in promoting project-based freelance work as well. The rest of this chapter is structured as follows: we initially explore the project-based and gig freelance economies and then move on to examine portfolio freelancers – who have a portfolio of work comprising both types of contract. We close the chapter by summarising our findings.

**2a | The Freelance Project Economy**

High skilled freelancer projects themselves are uniquely recognisable with finite and identifiable end points. Projects typically last for weeks or months and sometimes years. Typical projects in the associated case studies undertaken by Burke (2012) and which are identified in parentheses on the following page can be classified into six main types of projects as depicted in Figure 2.

![Figure 2: The Project-Based Freelance Economy](image-url)
These entail the launch of ring-fenced freelance-intensive corporate ventures (e.g. Argos Direct, Centrica British Gas, and Npower). In these cases large firms often separate the creation and launch of the corporate venture from the main core business or ‘cash cow’ customer offering. These firms typically want their core employees to stay focused on maximising the profits from a ‘cash cow’ and not to become distracted by blue sky innovation projects. Many of these are firms on public financial markets that don't want either the reputational, financial market or labour relations risks of hiring large numbers of employees for a new venture that subsequently fails leaving them with a very visible failure as well as the associated difficult/expensive task of making these same employees redundant. By hiring freelancers on a project basis to work on these ring-fenced new ventures, these firms can adopt an agile ‘test and fail fast’ approach where unsuccessful ventures can be rapidly disbanded without much notice and with minimal negative publicity, reputational risk or labour and financial market liability. But when these projects are successful then they are gradually integrated into the parent organisation and the freelance jobs are gradually replaced by employees. Given the risk-taking and creative skills of freelancers working on corporate venture projects one would expect them to earn a premium in day rates and potentially quarterly earnings over employees in the same organisation. We will test this proposition later.

Independent start-ups also benefit from using a freelancer intensive model in order to navigate through the high risk, financial capital constraints, limited internal employee resources and talent common at the venture creation stage of development (e.g. LookTouchFeel and Symvan). In Burke (2012) freelancers were found to enable these firms to hire specialist skills on a freelance basis when the same diversity of skills would not be justifiable on an employee basis because the volume of business for these firms was too small. By contrast hiring them to fill a short-term need on a freelance basis was feasible because the firm only had to pay for the days in which the freelancer was active. The same model not only avoids spare worker capacity and downtime but by avoiding paying for idle labour in this manner they also reduce sunk cost barriers to entry and financial constraints on firm start-up. This workforce model was also found to enable the use of specialist labour (hence enhancing productivity) by avoiding downtime. In sum, it was seen to play a major role in not only enabling start-ups to overcome barriers to entry but also to compete on a more level playing field with incumbents after market entry.

Freelancers are also involved in R&D and innovation projects in order to meet the needs of a particular market opportunity (e.g. Medsa Group, ARM Holdings, Vocalink and the NSG Group). While in-house R&D and intrapreneurship are core attributes of innovative organisations, the fast pace required for continuous innovation has inspired many firms to seek additional outside capabilities to be able to keep up with the market. Sometimes this can involve open innovation and co-opetition but it has also involved a major use of highly specialist freelancers to deliver key innovation projects. This approach is used by all sizes of firms and it was notable in the case studies how SMEs, such as those who are part of the Medsa Group, were able to compete with larger firms with far greater numbers of employees engaged in R&D; simply by hiring specialist freelance expertise to address very specific innovation needs.

Projects involving adoption, adaptation and integration of new technologies and operations systems frequently hire freelance intensive teams to complete them (e.g. Global IT Corporation, Forewind, Major International Bank, Panasonic). Here the key is to introduce a new technology in the most efficient manner, which is swift and least disruptive to the parent organisation’s core business. Freelancers with specialist skills to adapt and apply new technologies are best placed to do this. They often work in parallel with employees and test the integration of new technologies at night or weekends when employees are not using the IT system. So when the IT system is finally activated it happens as seamlessly and glitch free as possible; often the freelancers’ work overlaps with employee adoption until the project is declared complete (when there are no remaining snags and when employees have fully mastered the use of the new technology). Hi-tech workers working on this type of freelance basis might be expected to earn more than technology workers hired on employment contracts as they take on more risk and perhaps even more pressure (to complete the integration of the new technology on time) than employees.
Figure 2: 5. Scaling on a freelance project basis

Here freelancers are hired on a project associated with a distinct phase of firm development and growth (e.g. Amadeus, Flexmort, H&K Strategies and PTS Consulting). A main challenge of firm growth and development is the risk that a market opportunity that a firm seeks to exploit may not be realised or that it turns out to be short term. In such cases taking on employees can be more risky than taking on freelancers who are hired on a contingent basis. If and when a market opportunity proves to be sustainable (and so the risk and uncertainty subsides) then it is possible to replace the freelance workforce by employees. Likewise, the risk may reside on the production side too where there is risk and uncertainty about which form of worker talent and its organisation will most efficiently deliver a specific service or product offering. In such cases theinnovate trial, error and innovate again ‘learning by doing’ process can be less risky and more productive by using an agile, flexible and diverse talent of a freelance workforce. Again, once the optimal method and worker skills requirements have been clearly identified then with less uncertainty and risk, the firm is able to replace freelancers with employees. So in both scenarios, which are common amongst fast growing new ventures, this freelance workforce model enables businesses to grow more effectively and with less risk than would otherwise be possible. It is also the case that the employee jobs that are ultimately created in this process would, in many cases, not materialise if it was not for the ability of firms to make prior use of a freelance workforce model. In this regard, there is a long-term complementarity between freelancers and employees where the former help create the latter’s jobs even if in the short-term (e.g. the period when risk and uncertainty is high) they may to some extent compete for the same work.

Figure 2: 6. Project organisation

Firms whose organisational form entails a unique project for each new customer offering typically make use of freelancers (e.g. Magic Light Pictures, Bid Writing, Market Gravity, BSKYB, Enhancing Clarity and TopInterim). This organisational form is inspired by the film industry where the financing and production of each new film is usually done on a project basis. This is enabled by using a freelancer-intensive workforce model which not only allows utilisation of highly specialised diverse talent but a unique and ring-fenced financial funding and risk management model for each new film production. This approach proved so agile, creative and efficient that it led to the breaking of the monopolistic control that the major film studios had on the film industry in the US/Europe and its replacement by a much less concentrated and entrepreneurial industry structure. Other industries have now adopted this model, which is advantageous when a continuous wave of new differentiated consumer demands are required to satisfy consumers and where there is high risk and uncertainty associated with knowing exactly what consumers will actually want before they are offered a final finished version. So a range of firms organise the creation of new services and products for consumers on a project by project basis where they can draw on the diverse specialist freelance talent necessary to deliver unique product/service features. Since the freelance talent is hired specifically for that project with no obligation to be hired on another project, it follows that failing projects can be shut down quickly and with lower risk than would be the case using an employee model. Therefore, this form of organisation not only offers gains to nimble SMEs but also helps larger organisations become more agile and flexible while also being able to avoid negative publicity and labour relations problems when a project fails and the related work is no longer required.

Summary

In the project economy, freelancers can create high value added but must take on the risk of low job security. However, the more they have scarce skills in high demand, the greater their bargaining power with businesses/employers and hence the likelihood that they will be able to share in the high value that they create e.g. rewarded for their risk taking and specialist skills. In nearly all of these examples these freelancers are involved in both prior and complementary roles to employees. Their involvement typically created subsequent jobs for employees (e.g. Argos Direct, Medsa, and PTS Consulting) and/or raised the productivity of employees (e.g. Major UK bank, Amadeus, and BSKYB). The amount of freelancers whose main work is in this sector is indicative of the relative size of the project freelance economy.
While difficult to define, the gig economy is mainly associated with online platform enabled work which is commissioned on a task basis (Lepanjuuri, 2018). The gig economy encompasses both high and low skilled workers. Most of the attention in the media and public policy over the last few years has been on the freelance gig economy and in particular, on low skilled freelancers where there is a concern about the exploitation of gig workers by businesses (e.g. a key motivation behind the Matthew Taylor Review report – Taylor, 2017). In the gig economy, the focus is much less about being part of a team that delivers a project and much more about being hired to do a specific task where completion of the overall project, in which this work is part, is often not a responsibility or consideration for the freelancer. Pure gig work relates to cases where this work is not part of a project in the innovation-driven economy. For example, where it is part of routine and often continuous duties associated with delivery of the core of the main business.

Freelancers in the gig economy are at the extreme end of a ‘pay as you go’ workforce business model as gig economy workers can be hired by the task, on a very short-term minimal basis which can even be less than an hour when that is all it takes to complete task e.g. taxi rides, emails delivered, phones answered, windows cleaned etc. (Lepanjuuri et al., 2018). This basis of hiring is in contrast to project-based freelancers who are at least hired for the weeks/months or more it will take to get a project completed. In these cases freelance gig economy workers are often substitues and hence competitors with employees. So it would logically follow, that unlike project-based freelancers who over time can create and sustain employee jobs, gig economy freelancers will pose a greater competitive threat and hence pressure to reduce the earnings of employees. In this manner they are more akin to the traditional characterisation of freelancers as a shadow workforce (Geary, 1992 and Milward et al., 2000) who are willing to accept pay and contractual terms less favourable than employees (Wial, 1994 and Herzenberg et al., 1998). While they are like project-based freelancers to the extent that they enable a firm to pass off risk and adopt a variable cost model, it is not clear that they actually ought to earn a premium for these activities as their utilisation is part of a general move to increase the intensity of competition in the labour market. So from a firm’s perspective, an added benefit of gig economy workers may be that they are simply cheaper than employees (Lepanjuuri et al., 2018).

This effect is increasingly likely to be the case for lower skilled and/or expertise types of workers who have less bargaining power with firms. By contrast, one might not expect to observe the usual poor income performance among gig economy workers in our empirical analysis in chapter 3 because there we are only analysing the high skilled workforce comprising senior executive, professional, technological and technical workers.

Recognition of the productivity benefits from the specialisation of labour dates back to the work of Adam Smith (1776). These benefits become even more accentuated when workers are higher skilled. However, if the highest levels of productivity are also associated with the utilisation of a great diversity of skills and if not all of these are required for a significant duration of a project, then there are added productivity gains to be derived from using a freelance workforce that enables avoidance of idle downtime (unnecessary spare labour capacity). We showed this effect to be true in the construction industry (Burke, 2011, and Burke & Vigne 2018) and for UK industry more widely (Burke, 2012) in many of the case studies listed in the appendix such as the Medsa group, Symvan, Amadeus, LookTouchFeel, BSkyB and the NG Group. The amount of downtime per skill per project can vary from just short of 100 percent for freelancers who are hired for a day or two to zero for those who are hired from start to finish across the entire project. This distribution of the amount of downtime per client engagement becomes a key distinguishing element between project and gig freelance economy workers.

Freelancers in the project economy usually devote all or significant amount of their time to the completion of the project. Therefore, they will usually have a strong awareness of being part of a project; especially if they spend a significant amount of time on the project. However, freelancers with a significant amount of downtime within any given project may take on some gig economy work. Likewise gig economy freelancers may take on occasional project-based work. These freelancers who mix their work between the gig and project economies are a form of portfolio freelancer. Their economic activity cannot be allocated in full to either the project or gig freelance economies but becomes part of a portfolio project-gig economy. In the empirical analysis of chapter 3, some of the freelancers surveyed fit into this category and so it will be interesting to see how big it is and how well this form of portfolio freelancing pays-off in terms of earnings.
There have been many factors driving the growth of freelance workers in the UK over the last two decades. These are often classified by push and pull factors. Push factors can amount to a lack of employment opportunities (Millán et al., 2015) or a major dislike of employee style of work and the job satisfaction associated with it (Meager, 2015). Pull factors can amount to major opportunities for freelancers (e.g. increased project opportunities in the innovation-driven economy, Burke 2012) or a preference for a more flexible and independent style of working (Binder, 2018).

Since the publication of our earlier report, digital based platforms have been understood as making a much greater and more noticeable influence in enabling and encouraging more workers to become freelancers. This has happened to the extent that these digital platforms are in some places creating new forms of worker organisation and in others creating an entire market place.

The advent of digital platforms such as Upwork, PeoplePerHour and Uber have enabled the growth of online markets for freelancers’ services. Some such as Upwork and PeoplePerHour serve a wide range of business sectors and are mainly geared towards B2B transactions. Others such as Uber are much more focused on a single freelancer service – taxi cabs – and mainly deal with B2C transactions. The types of transactions taking place on these platforms can comprise both gig and project-based freelance work. Gig work is typically short term and aimed to provide a service or fill a gap in the workforce in activities that are part of normal core business. The project-based economy is more mission focused but it too can be short-term and indeed freelancers who are only engaged for very small proportions of a project may, on occasion, not even be clear that they are part of a project. However, for the most part project-based work tends to be self-explanatory with the work presented as, or in the context of, the project. Therefore, in order to gain a deeper insight into the role of digital platforms in creating markets which underpin the gig and project freelance economies, we undertake a case study of Upwork in the next chapter.

Freelance workers have also been organising themselves into collective organisations in order to tackle particular market opportunities more effectively – both in terms of how well a project is delivered as well as being delivered in a manner most conducive for the work-life objectives of freelancers themselves. Examples include the foundation of Perspectivity.org in Holland, which not only harnesses the collective power of freelancers to make an attractive service offering to clients but also seeks to create a community among its participants. Another example is the New Zealand based freelancer collective, Enspiral.com, which operates in a similar manner and places a major emphasis on projects which solve societal and environmental challenges. Other forms of collectives such as the Belgium based Smart (Smart-eu.org) or Dutch based Broodfonds allow workers to pool some of their financial interests in order to provide financial support for freelancer members when/if they become too ill to work and various other welfare based objectives. These freelance organisations have been enabled by digital platforms that allow them to connect geographically dispersed freelancers and communicate with them via digital media. The UK freelance workforce is now starting to develop some of these freelance communities. In the next chapter we will also examine the UK based Hoxby Collective which combines the work, well-being, lifestyle and welfare dimensions of the organisation into a co-operative style arrangement between freelancers and which is enabled and driven by a digital platform.

Summary

The growth in the freelance workforce in the UK’s innovation-driven economy has involved significant engagement of freelancers on project-based engagement. Since these freelancers are usually highly skilled, have bargaining power and generate significant value added for businesses, one might expect them to earn a premium on equivalent employees. In parallel there has been some casualisation of the workforce and a growth of a gig freelance economy. This is less associated with an innovation-driven economy and more associated with a drive for higher labour productivity and lower labour costs mainly through the avoidance of paying for spare capacity when highly skilled workers are idle. So while lower skilled gig economy workers have often found to be worse off than equivalent employees it is not necessarily clear that this result should carry over to their more skilled counterparts. In the next chapter of the report we will examine the role of digital platforms in promoting the project and gig freelance economies. Then in the following chapter we will ascertain the relative importance of each economy in terms of their economic size, share of the freelance workforce and relative earnings. The results will enable us to ascertain the role and economic importance of these very different but rarely differentiated freelance workforces and economies.
In this section we look at the role of two digital based platforms from the perspective of their impact on freelancing generally and in particular in relation to project-based and gig freelance economies. We begin by examining the Upwork platform that creates an online international market connecting freelancers. Upwork is mainly a B2B company comprising a wide range of business sectors. We then explore Hoxby which is online platform-enabled freelancer collective. In both cases we focus on the use of the platform in the context of the UK economy. Each case study is based on a combination of information that is in the public domain plus a semi-structured interview with a senior executive from each organisation (or in the case of Hoxby, two senior executives including a co-founder). Each interview occurred between August and September 2018.
Upwork is an online platform or marketplace for freelancers. It enables businesses to both promote work to freelancers and find freelance expertise/talent. The company began as Elance in 1998 and then, through a merger with O-Desk, was renamed as Upwork in 2014. The site has over 17 million users across the globe and over half a million in the UK. It contains over three and a half thousand specialised skills offered by freelancers but most are in the areas of web development, digital content and information technology. These account for over 50 per cent of contracts made through the platform. This trend appears set to continue with the top five areas of growth on Upwork being (1) Blockchain, (2) Google Cloud, (3) volusion, (4) risk management, and (5) product photography. Most of the freelancers on the platform are highly skilled with over 75 per cent having at least a university undergraduate degree. Globally 50 per cent of the buyers on Upwork are new start-ups who are able to overcome traditional barriers to entry by having access to both a diverse and extensive workforce to rival established incumbent businesses. These new entrants can access this freelance workforce without recourse to huge financial resources by contracting with workers on a per project or per gig basis e.g. using a variable cost ‘pay as you go’ model.

Over 80 per cent of buyers are small businesses and those who are not start-ups are typically using Upwork freelancers in the high growth scaling stage of their entrepreneurial development. So, between start-up and growth, the Upwork platform provides a significant enabling role for the entrepreneurial sector of the innovation-driven economy. In the USA, Upwork’s Director of Public Policy, Michael McGeary observes that “it is hard to find an entrepreneurial company in Silicon Valley that did not use either Elance or O-Desk”. Likewise, Upwork is being increasingly used by large firms and corporations to undertake innovative projects and to be able to react with more agility in the rapidly changing innovation economy.

In terms of the type of work being traded through Upwork, project-based work accounts for a much larger proportion of work than short-term gig economy work. The latter work tends to be on a fixed price basis whereas the former is much more diverse in its pricing model involving input based pricing based on hourly rates or other periods of time. In all cases the type of remuneration model is decided between the buyer and the seller and not by the platform which itself enables different types of input and output based pricing models. The platform takes a percentage of earnings with the percentage declining from a high of 20 per cent for work of a value of £500 to a low of five per cent for work (typically projects) over £10,000. A significant proportion of the work involves international trade with 30-40 per cent of clients of UK based Upwork freelancers being based overseas.

Upwork in the UK also has the market thickening and geographic dispersion effects noted in the study of Upwork USA by Oyer (2016). Thickening occurs by making geography less relevant so that a greater number of buyers and sellers of freelance work engage with one another than would normally occur through other (mainly offline) freelance market places. Geographic dispersion also occurs in the UK where roughly half of the work placed by London-based businesses is delivered by freelancers who are not based in London.

In terms of the worker lifestyle, McGeary describes Upwork’s philosophy of enabling work from home ‘Why go to work when work can come to you’. Upwork enables trade in entrepreneurial project-based freelance work where independent contractors typically ‘work intensively for multiple clients on diverse projects’. McGeary notes that Upwork project-based work tends to involve more control, creativity, uncertainty, risk and pay than gig based work on the platform. The platform itself enables greater amounts of both types of work than would otherwise be contracted on a freelance basis. It also enables greater labour market participation by both younger workers (18-29 year olds) many of whom find it easier to find work when they lack experience than in the formal employment labour market and older workers (55 years and older) who find it easier to gradually scale down the amount of work they do than is possible in the more rigid full-time centric employment labour market.

In sum, the Upwork freelance labour market creates an online global village marketplace for freelance work which enables both a greater volume and variety of both the type of work and work contract arrangements. The case study provides further evidence to support our claim that the availability of freelancing reduces barriers to entry and Minimum Efficient Scale (MES) thereby leading economic welfare gains derived from greater industry deconcentration and greater competition among firms who use freelancers.
Hoxby is a select community of freelance professionals enabled by an online platform that mainly serve the project-based economy. It is a social enterprise encompassing approximately 450 freelancers operating mainly in the UK and the USA but ultimately encompassing 29 countries.

The company has a very distinct sense of purpose and seeks to enable people to choose a working career that matches their own personal circumstances and priorities. The company was co-founded by Lizzie Penny and Alex Hirst who came up with the independent working model of Hoxby in response to their own career experience. For Lizzie, it was a means of getting a better and more sustainable work-life balance after having a son. In the case of Alex, it was the push factor of avoiding burnout at work having already been through that unpleasant experience in a prior job.

The aim of Hoxby was not only to give people more control over their work – particularly, the when, how and what type of work they do – but also to provide them with higher and more secure income than they would otherwise be able to attain working purely on their own account.

To achieve this objective they devised an online platform which enables freelance workers from different regions and time zones to communicate, collaborate and work together. The target market for this collective is the project-based business which requires a team of often diverse workers to collaborate to deliver a specified end result. This often involves freelancers who are mainly paid on an output rather than an input basis. Or as Hoxby put it, “freelancers who are paid for what they produce rather than where, how or the time spent doing it’.

Hoxby build their business in part on reputation, which itself is promoted by the profile of the workers in their online collective. So a rigorous selection process involving tests of diligence, resilience, personal motivation and expertise is used to create a collective that they believe will provide a competitive advantage in the project-based economy. Hoxby also insists that members of their collective must also have an alternative income in various parts because they want a secure, diverse and ultimately a happy collective of portfolio workers which provides a common culture within Hoxby.

Freelancers in the online Hoxby Collective earn through five mechanisms including remuneration for doing work on a project, a fee for bringing a new client to Hoxby, managing a project, doing general work for Hoxby itself and, depending on their own performance and motivation, potentially becoming an equity partner of Hoxby which entitles them to a share of profits.

As the company founders originally worked in marketing it is probably not too surprising that the majority (65%) of projects undertaken by Hoxby have been in the area of marketing. For example, they created a visual identity and integrated marketing campaign for the Midtown Borough of London. They have completed marketing campaigns for clients that include Amazon Web Services, Informa and Moneyfarm.com The second most popular area has been projects relating to financial services; mainly bookkeeping and accountancy services for SMEs that outsource their entire finance team to Hoxby, at a fraction of the cost of employing the requisite people in-house.

As awareness of their model grows, so too does the diversity of their projects which at the time of writing also encompass HR consultancy, operational support and admin delivery. Their work is typically concentrated in the UK but they believe there are imminent opportunities to expand into the US and SE Asia over the next 12 months, servicing the needs of their multinational clients, that represent approx. 20 per cent of the client base, and 80 per cent of revenue.

Many small firms outsource projects to Hoxby when they are too small to make full capacity utilisation of full-time in-house staff doing specific projects or specialised functions, such as with the finance team example. This lends itself well to the Hoxby workforce who balance short-term project work on larger clients (c. 80% of all work) with longer-term, more retained work with SMEs (c. 20% of all work).
The unique value proposition of Hoxby is to enable freelancers access to more and better work that they would not either be able to find or do as well on their own. The objective is to enhance their performance and well-being through five channels:

1. Reducing the impediments to work by using an online platform and collective of collaborating freelancers who combined can offer to complete projects where: location, physical disability, the time when work is done and life demands such as the need for childcare become less constraining on the ability to work on a project.

2. Enhance worker productivity by enabling more workers to choose to work when and how they know they are most productive.

3. Reduce loneliness among remote freelance workers by creating an online community who work together on projects.

4. Securing better work-life balance among workers who have more choice over when, how and what they work on as a result of the extra work that the collective generates compared to operating online/remotely on their own.

5. Less risk of idle downtime because the collective can generate not only a much greater number of projects but also a broader range than otherwise would have been possible by the actions of the same people operating as individual agents.

This is still a relatively young venture that is only four years old, so it will be interesting to observe how an online platform is being used to target the project-based economy enabling both companies and workers to do a greater number and range of projects, which are more in tune with workers’ personal preferences than would otherwise be the case. This vision and ambition is very much a reflection of the new opportunities facing — and personal life ambition/priorities of — freelancers in increasingly project-based and innovation-driven economies.

Summary

The growth in the number and usage of online digital platforms involving freelancers is normally associated with the freelance gig economy. Indeed, in Upwork, gig economy work was evident. However, as we observed there is more to the story than just the gig economy. Digital platforms were shown to enable a significant proportion of freelance project economy work as well. This was clearly evident in the main type of work that is transacted through Upwork, which is mainly B2B. In the case of Hoxby, the digital platform was a key component in enabling project-based work among freelancers located in different geographic regions and also among those who prefer to work at different times to their team members.

Based on Hoxby’s experience, it seems likely that digital platforms are a key driver of the many freelancer collectives and co-operatives that enable mainly project-based freelancers to collaborate in order to have a more effective business proposition for clients as well as spreading risk, building a community and indeed a less lonely work life for freelancers. In both cases we observed the platforms enabling more firms to use freelancers and to benefit from the value added effects they bring these organisations. We also observed that in doing so these platforms provide an added boost to the economic welfare enhancing effects that freelancers also make towards increasing industry de-concentration and competition by reducing barriers to entry and Minimum Efficient Scale. In this regards, the two case studies provide further corroborating evidence to support the model and case study findings of our earlier (Burke, 2012) report on the value of freelancing to the UK economy.

In sum, in contrast to a popular view in media and public policy, digital platforms are not just a driver of low paid gig economy work. We find that in addition, they play an important role in the high paid/skilled freelance market. So, in fact, they drive activity across both the gig and project-based freelance economies. Furthermore, they appear set to continue to have this influence for the foreseeable future.
In Burke (2012) we provided a model that explained the various channels through which freelancers add value to the UK economy. These entail enabling of firm growth and innovation though a workforce model that is lean, agile and flexible, providing access to expertise beyond the confidence of core employees and on a variable cost model which enables risk management and lower financial requirements. As these methods also reduce barriers to entry and Minimum Efficient Scale (MES) they have the additional economic benefit of decreasing monopoly power and making markets more competitive. In fact, it was evident in the earlier report (i.e. Burke, 2012) that most the value added from freelancers was generated by high skilled freelancers; many of whom had scarce or unique skills. In this updated and expanded report we draw out new important lessons from those case studies and note that freelancer work is manifested in six types of projects. In fact, we argue that the case study evidence is mainly about the project–based economy (and by consequence less about the gig economy). Through two further case studies in this report we show that although digital platforms have been identified as enabling the gig economy, the same is also true – if not indeed more usually the case – of the enabling effect they have on project–based work.

We also explore relative importance of project–based and gig economy work among high skilled freelancers in order to get an idea of the relative importance – worker earnings and economic value – of the gig and project–based economies among freelancers. Doing so, gives us a guide on what the main function of freelancers is in the UK economy. Relative earnings also give us an insight into the economic well–being of freelancers working in each of the project and gig–based economies. We also explore the relative earnings of high skilled freelancers working in the gig economy in order to ascertain if gig working is as relatively low in the high skilled freelance sector as it is in unskilled sectors of the economy.

In order address these issues we use data drawn from Quarter 3 of the 2018 IPSE Freelancer Confidence Index Survey. To undertake the analysis we secured permission from IPSE to add an extra question to the survey to assess if freelancers differentiate between project and gig economy work and, if so, how they allocate between these different economic activities. So freelancers were asked to agree or disagree with the statement “My work is about successfully completing well–defined (often unique) projects for clients usually running over weeks/ months rather than completing specific (often routine)
daily gigs/tasks* on a six point scale. This ranged from: (1) strongly agree, (2) agree, (3) neither agree nor disagree, (4) disagree, (5) strongly disagree and (6) don’t know. This allowed freelancers to be coded into the project economy (1 & 2), the gig economy (4 & 5), portfolio or a mix of both forms of work (3) and not to identify/understand the categorisation of work proposed in the question (6).

The IPSE Freelance Confidence Index survey is comprised of self-employed workers in Standard Occupational Codes (SOCs): SOC1 managers, directors and senior officials, SOC2 professional occupations, including IT consultants, and SOC3 associate professional and technical occupations. According to the latest information from the Office of National Statistics (ONS), which at the time of writing related to Quarter 2 of 2018, these three SOCs account for 48 per cent of the self-employed workforce in the UK (or 7.1% of the entire UK workforce). The sample is comprised of 483 freelancers and made up of 11 per cent SOC1, 63 per cent SOC2 and 26 per cent SOC3 type self-employed workers. We explore each group in turn.

Figure 4.1 illustrates the percentage of freelancers in the project and gig economies as well as the average day rates charged by freelancers in SOC1. It is striking that senior freelance executives in the SOC1 group are mainly hired on a project basis, which accounts for 79 per cent of all SOC1 freelancers. By comparison the gig economy is much smaller accounting for 13 per cent of SOC1 freelancers while those who appear to do a mix of both types of work accounts for six per cent of this freelance group. In terms of day rates portfolio freelancers charge the lowest while project-based SOC1 freelancers earn, on average, just over £520 per day. The highest day rates are among SOC1 freelance gig workers who earn close to £600 per day. As SOC1 workers are highly skilled with exceptional business experience we might expect them to have good bargaining power with business clients and hence be able to command a premium for gig type work where they are required for one-off or per activity work.

The corresponding data for SOC2 professional and hi-tech independent contractors is presented in Figure 4.2. Here we again observe that the vast majority of freelancers work in the project-based economy. A total of 82 per cent of freelancers agree that their work is project-based and just 9 per cent of freelancers define their work as gig-based. Ten per cent of SOC2 freelancers appear to undertake both types of work while 3 per cent do not identify their work as being either project or gig work. In terms of day rates, project-based freelancers earn substantially more than gig economy freelancers. However, portfolio freelancers are able to earn comparable rates to project-based freelancers.
Finally, the data for SOC3 associate professional and technical freelancers is presented in Figure 4.3. While project economy freelancers still account for a greater share (58%) of the workforce than gig economy freelancers (22%) it is notable that the gig economy share of the self-employed workforce is significantly higher among SOC3 workers than for either SOC1s or SOC2s. SOC3s also have the highest proportion of portfolio freelancers who do a mix of both project and gig work. In terms of day rates, the gap between project and gig economy rates is far less than it was for SOC2 freelancers with gig economy freelancers earning around £20 less per day. Portfolio freelancers appear to earn the most perhaps indicating the value of flexibility to do both types of work as a means of reducing spare capacity and increasing average daily earnings.
The relative size of the freelance workforce in each of the project, gig and portfolio economies can be calculated by weighting the percentage share above in figures 4.1, 4.2 and 4.3 by the relative size of the self-employed SOC1, SOC2 and SOC3 workforces. The resulting weighted share for this high skilled half of the self-employed workforce is overwhelmingly comprised of project-based freelancers who account for 73 per cent of the total. This is nearly five times larger than the gig economy which accounts for 15 per cent of the total self-employed high skilled workforce. Portfolio freelancers account for 12 per cent and 1 per cent of freelancers do not identify themselves with any of these freelance sub-economies. The results are presented in Figure 4.4.

**Figure 4.4:** Weighted Relative Size of the Highly Skilled Freelance Workforces in Project and Gig Economies (across SOCs 1, 2 & 3)

In Figure 4.5 we present the average quarterly earnings of the three occupational freelance groups across the five different answer categories which separate project, portfolio and gig economy workers. In terms of quarterly earnings, there is no common superiority in earnings performance for either project or gig economy freelancers across all three occupational groups. Among SOC1 freelancers, gig economy workers are the highest earners earning £36,707 per quarter. Bearing in mind that latest Quarter 3 earnings data from the ONS show that employee SOC1 workers earned an average of £12,505 per quarter, the SOC1 gig economy workers are premier earners. Among SOC2 occupational codes, freelance workers in the project-based economy earn more than those in the gig economy and indeed more than portfolio freelancers who mix both types of work. In SOC3 gig workers earned £9,065 which is 8.8 per cent higher than equivalent employees earned in the same quarter the previous year (£8,330). So a great deal of diversity is apparent in terms of quarterly earnings across gig and project-based economies. Given the diversity of earnings apparent across freelancers generally where many segments are shown to earn less than employees (see CRSE 2017) it seems clear that freelancers working in SOC1, SOC2 and SOC3 regardless of being in the project or gig economies are amongst the better off freelancer workers in terms of earnings.

**Figure 4.5:** Relative Quarterly Earnings of High Skilled Freelancers (SOCs1, 2 & 3) in Project and Gig Economies

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1Employee earnings are based on Office for National Statistics (ONS) data on gross weekly earnings by employees from the provisional 2017 Annual Survey of Hours and Earnings, October 2017.
We now move on to examine the relative economic value of the freelance project and gig economies measured by the relative size of the combined earnings of project and gig economy workers in each occupational code. The data for SOC1 freelancers are presented in figure 4.6 where 77 per cent of the SOC1 freelance economic activity is accounted for by the project economy. The gig economy is significant at 16 per cent but is overshadowed by the project economy which is 4.8 times larger. So while SOC1 gig economy freelancers earn more than their project economy counterparts, the level of workforce engagement in the latter is so large as to become the dominant factor in determining relative economic importance.

The dominance of the freelance project economy is overwhelming when it comes to SOC2 workers. In figure 4.7 we observe a total of 84 per cent of the SOC2 freelance economy is accounted for by the project-based work. This is 12 times the size of the freelance gig economy which accounts for just 7 per cent.
The data for SOC3 freelancers is presented in figure 4.8 and we see yet again the dominance of the project-based freelancer economy; albeit slightly less than was the case for SOC1 and SOC2. The project-based economy accounts for 57 per cent of the SOC3 freelancer economy. This is three times the size the SOC3 freelance gig economy (itself accounting for 19% of the SOC3 freelance economy).

We generate a combined SOCs 1, 2 and 3 freelance economy estimates by weighting the above results in proportion to the relative size of the share of SOC 1, SOC2 and SOC3 freelancers in the overall self-employed workforce. The results are presented in Figure 4.9 and as we noted earlier account for roughly half (48%) of the entire self-employed workforce. The project economy accounts for 73 per cent of the entire SOC1-3 freelance economy and is just over five times larger than the gig economy which accounts for 14 per cent of these freelancers’ economy. The portfolio economy where freelancers do a mix of both project and gig work is slightly smaller than the gig economy and accounts for 12 per cent of the SOC1-3 freelance economy.
Summary

SOC1, SOC2 and SOC3 account for roughly half of the self-employed workforce. Amongst this grouping, the size of the project-based freelance workforce is approximately five times larger than the gig-based freelance workforce. Also amongst the same grouping of the high skilled self-employed workforce, the project-based economy is roughly five times the value of the gig economy. So the statistical evidence backs up the finding of the prior case study evidence in Burke (2012) and the additional case studies in this report highlight that extensive economic value added is being created by project-based high skilled freelance workers. Combined, all of our empirical evidence indicates that the project economy is the powerhouse of the freelance economy. Also the extensive focus of prior research, media and government policy on the gig economy effectively means that most attention has missed the most important segment of the freelance economy which is in fact project-based.

The statistical evidence also indicates that for the typical worker, high skilled gig work generates higher quarterly income than equivalent employee work. It seems that skill rather than the nature of the employment contract is the most important determinant of a worker’s income and therefore this, rather than the contract, offers more opportunity to deal with low paid work.
5. CONCLUSION
Our 2012 report, ‘The Role of Freelancers in the 21st Century British Economy’ (Burke, 2012) showed how highly skilled freelancers add immense value to the UK economy by fostering growth, innovation and entrepreneurship among both large firms and SMEs.

It showed how freelancers help firms by allowing them to be lean, agile and flexible. It also showed how they offer flexible expertise and allow a variable cost model. As all these points reduce barriers to entry for smaller firms, they also help to decrease monopoly power and make markets more competitive.

This updated study examines how freelancers add value by working on specific projects. It delineates six forms of project-based work: corporate ventures, new business start-ups, R&D and innovation, adoption of new technology, business growth and the use of project-based organisation design.

Using two new case studies, we saw how digital platforms have facilitated the market (Upwork) and organisation (Hoxby) of freelancers doing project-based work. Then, to examine the importance of the project-based economy to freelancers, we analysed IPSE’s Freelancer Confidence Index in Quarter 3 of 2018. We found that approximately three quarters of this group were project-based freelancers, and that this project work accounted for almost three quarters of the value they created.

By contrast, we found that “gig” freelancers, who are hired not for specific projects, but repeated tasks, account for 15 per cent of the workforce and 14 per cent of the economic value of highly-skilled freelancers.

This report has therefore shown that skilled project-based freelancers are an important driver of UK economic performance. The project-based freelancers account for 73 per cent or £104bn of the £140–145 billion economic output that SOC1–3 freelancers contribute to the UK economy. The freelance gig economy accounts for just 14 per cent or £20 billion. It also showed that there is a need for greater recognition and nurturing of this form of freelancing. This is particularly so because it relies on a regulatory framework to support its use by organisations.

IPSE’s Freelancer Confidence Index surveys show again and again that among skilled freelancers, UK government policy on the taxation and regulation of freelancers is listed as among the top three factors holding back freelancer performance. This implies that the government should adopt a targeted, segmented approach to the freelance sector, tailoring policies both to more vulnerable groups and to more highly skilled freelancers.

This report suggests that assuming project work is more common among highly skilled freelancers and that gig work is more common among less skilled freelancers may be a sensible starting point. When freelance work is low skilled and in the gig economy it is more likely to require worker protection and support. When it is highly skilled and in the project-based freelance economy, it is more likely to have a high economic value, and so should be enabled and supported by government.

One instance where a more universal approach may be acceptable is the imposition of a living day rate of pay for freelancers. If applied, such a rate would only benefit low-skilled freelancers earning less than equivalent employees. It would not affect most highly skilled freelancers.

Beyond this, however, other policies should be differentiated and segmented, not imposed across the board. Applying employee rights to freelancers, for example, would benefit some more vulnerable self-employed people, but it would disable the agility and flexibility of more highly skilled freelancers and eliminate the benefits they bring to firms and the economy.

Another key policy concern at the moment are the changes to freelancer IR35 tax law. These changes are shifting the burden of determining IR35 status from freelancers themselves to their clients. Because of the current flawed classification tools, and thus risk to businesses, this will deter many from hiring freelancers for their projects. As this report has shown, however, the freelance project-based economy is extremely important and therefore this outcome should be avoided at all costs. This will be explored in more detail in the recommendations in the next section.

Overall, what is very clear from the findings of this study is that having a sufficient supply of highly skilled freelancers greatly helps with the performance of the UK’s innovation-based economy. It is essential for this, however, that firms have the freedom to engage highly-skilled freelancers on a project-by-project basis. What is more, given the similarity of the UK economy to other developed countries, these findings are likely to apply to many other states, which could be a fruitful area for further research.

The Business Populations Estimates for the UK and Nigeria (BPE) data source was used to calculate contribution to the economy. Businesses without employees (excluding finance and insurance activities) contributed an estimated £275 billion in sales in 2018. When estimating the economic contribution of freelancers, the figure takes into account that approximately 47 per cent of businesses without employees are freelancer-owned: 2m freelancers, of a wider group of 4.2m (excluding financial intermediation). Freelancer-owned business, however, might be expected to generate greater revenues than other own-account businesses because of their more valuable knowledge and skill, and this would suggest a higher turnover – between £140 and £145bn.
6. RECOMMENDATIONS

This report has identified two distinct groups within freelancing: project-based freelancers and gig-economy freelancers. The recommendations below are tailored to suit each, along with the “portfolio” freelancers who are also described throughout the report.

SUSPEND PLANS TO REFORM IR35 IN THE PRIVATE SECTOR

The report rightly highlights the pressure IR35 will create for firms looking to hire flexible, project-based freelancers. This pressure will result in firms being deprived of vital innovation as illustrated in this report. IR35 is an overly complex and burdensome tax legislation which will force hiring organisations to undertake extremely difficult status determinations on the freelancers they engage. It will deter firms from hiring freelancers as they will now be liable for determining the status of an individual.

HMRC should suspend the rollout of reform in the private sector and look again at how IR35 works in practice.

UNDERTAKE A STRATEGIC REVIEW OF THE TAX SYSTEM

Freelancers spend more time on administration than employees. If the UK economy is to support the millions of self-employed people across the country, this bureaucracy needs to be reduced.

The UK’s tax system is no longer appropriate for the modern economy. The problems around IR35 stem from an out-of-date tax system which was built around employees and employers. The self-employed need a bespoke system which enables them to focus on working whilst protecting revenue for the Exchequer.

The Government, therefore, needs a more strategic approach to considering how modern working practices can be addressed by the tax system. As a first step, the Government should commission a comprehensive review of the tax system chaired by an independent expert.

A FAIR RATE FOR FAIR WORK

As recommended in the report there is scope for a minimum day or hourly rate for freelancers to protect the most vulnerable. The measure would also help to ameliorate freelancers being expected to provide services for free. This is a frequent problem in the creative sector where the lack of payment is often justified by clients as “good for their reputation and portfolio”.

We recognise the introduction of a minimum rate may be difficult to apply to certain gig economy roles where an individual may be ‘logged-in’ to an app, but not actually performing a task. Matthew Taylor’s review suggested introducing a “piece rate” system which would ensure the average person, working averagely hard would earn more than the minimum wage. The Government decided not to take this recommendation forward – we believe the idea should be reconsidered.

REVIEW AND SIMPLIFY EMPLOYMENT STATUS

Employment status is the root of several problems concerning the self-employed and how they should be treated. As the self-employed landscape has grown and changed with technology and the rise of both the project-based and gig economies, to some, the definition of who is and who is not self-employed has become muddled.

To ensure fairness, efficiency and clarity for contractors, HMRC and employers, the Government must modernise the legal framework of employment status. This can build on the work of Mathew Taylor and bring the UK’s employment legislation into line with the 21st Century working practices.

INTRODUCE A STATUTORY DEFINITION OF SELF-EMPLOYMENT

‘Employee’ and ‘worker’ are both defined in law (Section 230 of the Employment Rights Act 1996), but there is no statutory definition of self-employment. As BIS noted in its 2015 Employment Status Review, ‘the lack of a formal definition of self-employment...can result in individuals drifting into a status that neither they, nor their engager wishes, and has the potential to lead to abuse’.

The Government should therefore explore defining self-employment in law. This would help remove the uncertainty that many individuals face, and reduce the potential for exploitation which exists with the current lack of clarity and reliance on the courts to interpret working relationships.
REFERENCES


BIS (Department for Business Innovation & Skills) (2015), Employment Status Review.


CASE STUDIES

Amadeus Capital is one of Europe's leading venture capital firms and focuses on high-technology ventures. It was founded in 1997 by Hermann Hauser, Anne Glover and Peter Wynn and now manages over £500 million of funds and has, since inception, backed over 80 companies. Amadeus has invested in companies in the software, hardware, telecommunications, cyber security, media, life sciences and cleantech areas of business in Europe and Israel.

Amadeus does not use freelancers for general work within the business as it wants a core team committed to the performance of the fund across its entire lifespan. Therefore, it finds that it is more effective to use employment contracts with terms that are positively related to the length of time that a person remains with the fund. However, Amadeus does draw on the use of freelancers for some specific tasks, particularly in the due diligence and post-investment stages of its activities.

Amadeus draws on freelancers to conduct both technology and market due diligence. It uses freelancers when it is capacity constrained and/or when it needs to draw on some specialised expertise that it does not have in-house. Due diligence involving an assessment of market risk and potential can typically involve a freelance industry expert with a deep knowledge of routes to market and industry adoption practices for specific types of new technology. Freelancers hired for technological due diligence are often academics or individuals with a science R&D based background in industry.

These freelance contracts are typically self-contained contingent projects. While the freelancers often justify their fee with reference to the amount of time they will need to spend on a project, they are typically paid on an output/fixed-price basis for the successful completion of the project. There is no commitment to re-hire freelancers beyond the project. Amadeus finds most of the freelancers for its projects through its own contact base and network.

Alex van Someren notes that while it is typical for firms in the venture capital industry to make use of interim managers – particularly those focused on business turnaround – Amadeus makes very little use of interim managers. “Amadeus is mainly focused on high-growth ventures and hence it is important that the management team have a longer-term commitment to the venture”. However, he points out that freelancers are used in other roles in the post-investment stage: “Often a venture will not require a full time Chief Financial Officer and therefore it is better to hire a freelancer with sufficient expertise to do this on an ‘as needed’ basis.” Likewise, freelancers are sometimes used for sales and marketing for the same reasons, while on the technological side, the development of a prototype or a solution to a specific technological need are sometimes contracted out to specialist freelancers.

Usually Amadeus will make appointments to the Board of Directors of the companies in which it invests. As well as appointing its own investment professionals, freelance non-executive directors (NEDs) are sometimes used for this purpose. Usually these NEDs were previously executives and/or entrepreneurs in successful high-technology businesses.

Amadeus Capital also takes on MBA students who work for a limited time period as interns. Although these posts are unpaid and hence technically not freelancer roles, they operate in the same manner as freelancers in every other sphere, particularly their project-based and contingent nature. Alex van Someren points out that as well as giving these students a great opportunity to learn and gain experience, internships also enable Amadeus to reduce the risk associated with job creation through screening. Amadeus have occasionally hired intern MBAs who have proved their high performance capability.
TONY LAHERT, CEO OF STEP SOLUTIONS

Tony Lahert spent 20 years with Argos from 1973 when it launched. In that time his executive roles included Buying Director where he managed a £1 billion budget and a print run of 22 million catalogues. He was also responsible for the creation of Argos Direct. He launched and managed the development of this new corporate venture in three stages. The first stage involved the creative process of developing the idea for Argos to offer large sized goods for direct delivery to customers and to convince the company to support this innovation. Tony Lahert managed this process with a small team. The next stage involved the implementation of the strategy and bringing it to market. This stage required a product development team and Tony Lahert opted to hire freelancers rather than employees. His view was that he “did not want to hire people on a project that might not work and who he might have to sack”. He also wanted to set up a structure to enable the supply of a fully outsourced entrepreneurial function i.e. creativity and start-up. He describes freelancers in this role as “light of foot” where they can “act fast and innovate in order to make a value-added impact in less time”.

After the successful launch of Argos Direct, the company needed a senior executive to drive the vision and strategy for growth; particularly the financial model underpinning Argos Direct. An independent and project-focused interim manager was seen as the best means of managing this stage of the project. An in-house executive would be more prone to succumb to ‘cash cow’ management pressures associated with the core of the business. Tony Lahert points out that this is usually associated with the short-termism of an operations management mind-set dominated by a sales and accountancy culture. In order to make the innovation work, a longer term perspective was needed and the project needed to be ring-fenced from the dominant culture and pressures within the parent organisation. A freelance interim manager would be better able to focus on project delivery without fear of internal politics. He or she would “not be afraid of the boss – since they are not employed or reviewed by the boss – and will speak up to say when something is wrong”.

Having a penchant and aptitude for innovation, as well as having observed freelancers at work in stage two of the project, Tony Lahert decided that he wanted to undertake the freelance interim manager post to roll out Argos Direct. He resigned from the company in order to take up the role of interim manager for the next stage of the Argos Direct project. The company accepted this proposal and Tony Lahert grew Argos Direct to a £100 million business in its second year.

On completion of the successful Argos Direct project Tony Lahert then decided to pursue a freelance career in order to maximise the value potential of his creative, strategic and executive skills. He was also motivated by the desire to avoid what he perceives as “the humdrum boredom of being an executive focused on operations rather than innovation”. He surmises that “when the knob turners get a hold of a business, then I am off”. By contrast he feels that freelancing offers diversity and fresh challenges. For these reasons he believes that most freelancers prefer to work part-time on any project. He argues that “innovators want freedom” and freelancing is a means of achieving this objective.

In his freelance career, Tony Lahert works on major projects with roughly three organisations every two years. He believes that as a freelancer he is able to undertake roughly eight times the number of innovation projects that he was previously able to do over any five year period as an employed executive. He also argues that freelancers have an advantage over employed executives in terms of the quality of their input: “Just as travel broadens the mind, a freelancer will have a broader and more colourful experiential mind-set than executives or owner-managers”. Thus, he argues that freelancers are an important source of innovation in the economy. In his freelance role, Tony Lahert has engaged with business through a diverse set of conduits that help differentiate his various areas of expertise. These include Step Solutions which he runs, Grant Thornton, Zolfo Cooper, the XtraMarket and Customer Heartbeat. His freelance involvement with these businesses included roles as a non-executive director and in an advisory or oversight capacity.

ARGOS DIRECT

TONY LAHERT, CEO OF STEP SOLUTIONS

Tony Lahert spent 20 years with Argos from 1973 when it launched. In that time his executive roles included Buying Director where he managed a £1 billion budget and a print run of 22 million catalogues. He was also responsible for the creation of Argos Direct. He launched and managed the development of this new corporate venture in three stages. The first stage involved the creative process of developing the idea for Argos to offer large sized goods for direct delivery to customers and to convince the company to support this innovation. Tony Lahert managed this process with a small team. The next stage involved the implementation of the strategy and bringing it to market. This stage required a product development team and Tony Lahert opted to hire freelancers rather than employees. His view was that he “did not want to hire people on a project that might not work and who he might have to sack”. He also wanted to set up a structure to enable the supply of a fully outsourced entrepreneurial function i.e. creativity and start-up. He describes freelancers in this role as “light of foot” where they can “act fast and innovate in order to make a value-added impact in less time”.

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ARM HOLDINGS

BILL PARSONS, EXECUTIVE VP OF HR

Advanced RISC Machines (ARM) was launched in 1990 as a spinout from Acorn computers with backing from Apple. The business grew using a licensing model of its microprocessor technology. Clients in the early 1990s included GEC Plessey, Sharp, Texas Instruments and Samsung. The firm went public in April 1998 and Apple sold its shares shortly afterwards. In 2005 ARM was named by Electronic Business as one of top ten most significant businesses in electronics over the last 30 years. In 2011 ARM was listed as 12th in the Fast Company’s 50 Most Innovative Companies. The company claims to be “the world’s leading semiconductor IP company” having shipped over 20 billion ARM-based chips, with "800 processor licenses sold to more than 250 companies”¹.

Bill Parsons, Executive VP of HR, describes the essence of the company’s business model as being like an “architect’s office” which produces designs which it licenses and then gets royalties on the chips that are made using the design”. In 2012 ARM was named as one of Britain’s Top Employers by the CRF Institute. The company also makes use of freelancers from the clerical level such as a junior administrator right up to professional technical specialists and senior interim executives.

Freelancers can play a significant role in developing innovation for ARM. At the explorative stage of an internal start-up or venture, a team could comprise a mix of employees and contractors. Their objective might be to develop a ‘thought experiment’ or put together a business plan for a new venture. Sometimes these projects are led by senior freelancers who were previously entrepreneurs who have owned their own business with a turnover of up to £1 - 2 million. Instead of developing new technology independently, these entrepreneurs often work for ARM on a freelance basis and if the new technology shows promise then ARM will buy their business with the freelance entrepreneur becoming an employed executive at ARM. Bill Parsons describes this transition as “posh temp-to-perm”.

If after the explorative stage is complete, the commercial viability of the innovation has been demonstrated, then ARM will typically staff it up with employees. The preceding freelance intensive stage serves the purpose of lowering sunk costs and managing the risk of innovation. Bill Parsons points out that ARM are “incredibly cautious about adding permanent headcount and hence use freelancers to manage risk in innovation and employment growth”. With regard to the latter he describes it as “try before you buy”. However, he notes that some people do not want to work as employees due to lifestyle, a desire to be their own boss and to maximise their income portfolio. In many of these cases the only option is to hire them on a freelance basis.

ARM also stimulates freelance work on innovation relating to open-source middleware. The aim here is to encourage the community of IT engineers across the globe who are committed to open source technologies to develop software that is complementary to ARM’s technology. These freelancers are paid on a win-only basis where winning occurs when the technology which they develop is actually used in the open source middleware.

ARM also use freelancers as a means of breaking into new markets across the globe. The development process involves a freelancer initially providing advice on doing business in a region, then moving on to work as a distributor and then if this works he or she will then typically move into an employee role. In China they initially hired a person on a freelance basis to establish a foothold in the market and to explore its viability. This global growth strategy proved successful and ARM is now the market leader in China and employs around 100 people. ARM is currently using a freelancer in a similar capacity to help it break into the Brazilian market.

Bill Parsons points out that freelancers are also used as a means of managing peaks and troughs in demand and to enable ARM to be expedient, agile and flexible. He says that ARM tries to keep around 10 -15% of its workforce as freelancers. However, he notes that in the IT divisions this figure rises to around 50% because this work is so project driven.

¹ http://www.arm.com/about/company-profile/index.php
Bidwriting.com offers a bid writing service for organisations bidding for work in a range of areas including R&D, tax relief, social housing, construction and the Public Finance Initiative (PFI). The business has an 85% success rate based on a formulaic and systemised means of preparing the quality element of tenders. At start-up the business used freelancers intensively in order to reduce finance needs by operating a variable cost model. It also needed to be able to be expedient as a means of competing. Bids generally have to be written in the range of one to eight weeks from the time of the call for tenders. Martyn Curley, co-founder and Director, states that a key objective at start-up was to be able to “turn bid writing teams on and off quickly to match short tender turnaround times”. He says that they were also adopting a minimum overhead and maximum profit model. So for these reasons it made sense to launch the business using a freelancer intensive model.

As the business developed it moved to a more employee plus freelancer model. Martyn Curley explains that it is necessary to have core expertise in house in order to ensure that the company’s unique approach to writing is maintained. He believes that it takes up to five years for the company to fully train a person up to a level where they can handle a tender on their own. The founders had many years of tender writing experience prior to start-up. He says that the company will always make use of freelancers in order to gain access to their specialist skills, maintain an element of a variable cost financial model and also to ensure that the company remains agile and flexible. However, he points out that freelancers can suffer from “the loneliness of the long distance bid writer”. He explains that writing the bids in a central office has the benefits of motivation coupled with the ability to spot and solve problems early. Therefore, their combined employee plus freelancer model enables the business to capture the benefits of both modes of working.

In addition to writing bids the company also offers a number of services to housing associations and businesses in areas such as the environment, health and safety, HR, and community service. These services sometimes involve supplying interim managers to these organisations in order to solve a problem requiring hands-on management. Bidwriting.com uses freelancers for these contracts given the contingent project-based nature of the work. Martyn Curley also emphasises that the use of freelancers means that Bidwriting.com and their clients do not have to take core staff off front line activities to write the bids. He says that these freelancers then acquire new knowledge which can become very useful as an input into new tender bid documents.
MARTIN LEACH, HEAD OF TRANSFORMATION

BSkyB is a corporate television broadcaster and communications provider for both home entertainment and business users. In the 12 months to June 2012 the company had a turnover of £6.8 billion with a customer base exceeding 10.6 million. In the same period the company had 22,800 employees². The company estimates that its business underpins over 56,000 jobs in its supply chain³ which involves many freelance intensive sectors such as media and entertainment, IT and telecommunications.

It makes direct use of freelancers in order to manage peaks and troughs in its business activity, particularly in IT related projects. Freelancers have also been used to resource short-term intensive activity such as customer retention. Freelancers enable the company to draw on specialised skills on a short-term project basis necessary to maximise the impact of these campaigns.

Freelancers have been used to provide other fixed-term needs such as maternity cover and this can involve appointments that operate at a relatively senior level. For example, in the company’s Transformation team, a freelancer with a background in TV/media was hired as an interim senior manager to support the business to adopt innovative ideas. This involves building and testing hypotheses with senior business stakeholders as well as interfacing with the team involved in data analysis and insight on these projects.

In the same Transformation team a freelance senior manager has been hired to support projects that use customer’s viewing information. Martin Leach, Head of Transformation, points out that this freelancer has been charged with the responsibility of providing answers to the business opportunity created by the availability of TV viewing information. Therefore, it involves innovating in areas where this information can be applied. Martin Leach explains that freelancers can be hired on a contingent programme basis and that the contract terminates once the programme is complete or once the full time employee returns from maternity leave, or the demand for the work goes away. The specialist expertise required, alongside the contingent project-based nature of this programme, weighs the appointment in favour of a freelancer. This is especially the case when the team may be reassigned to a totally different business problem where different expertise is required.

However, in terms of achieving the business objectives of gaining access to quick short-term specialised talent, as well as ring-fencing the cost and risk of a transformation project, Martin Leach points out that objectives can in certain circumstances be equally supplied by consultants as well as freelancers. The key for BSkyB is to be able to contract out the project to an able individual. He explains that consultancies can save the hiring manager the time and hassle involved in hiring contractors. This transfers the risk from BSkyB and the recruiting manager to the consultancy firm who is responsible for the delivery of the outcome. He also points out that contracting to a consultancy can be less risky for long-term assignments as they handle all training and holiday issues associated with a contractor.
Dan Taylor, Director of New Ventures

British Gas ring-fence some of their more revolutionary innovation initiatives from the core of the company with a view to integrating them later if successful. This serves the purpose of having a dedicated innovation team who do not disrupt the focus of the core organisation as well as enabling financial risk management. Dan Taylor is Director of New Ventures for many of these innovations across Smart Homes; smart meters, electric vehicle services, home energy management and home automation. In this role he outsourced much of these innovation projects and it did not matter to him whether these sub-contractors used employees or freelancers. However, given the short-term and specialised nature of these projects requiring diverse areas of expertise, many contractors made use of freelancers. For instance, Dan Taylor used a consultancy firm to develop the electrical vehicles innovation and this firm delivered the project using a 50:50 ratio of employees to freelancers.

Dan Taylor points out that the innovation projects usually involved two stages. The first stage comprised of exploring and developing strategies for new opportunities and the second stage entailed strategy implementation. The first stage involved areas such as idea generation, business analysis, market analysis, strategy creation and business case development. Dan Taylor contracted much of this work to consultancies. Dan Taylor explains “outsourcing allowed us to ring-fence the risk of the innovation but consultants are expensive so it is important to ascertain viability as soon as possible. If the innovation is not going to work we need to know quickly so that we can terminate the project”. Correspondingly, if the innovation is looking increasingly positive then they may want to scale up the team working on the project at short notice, which is when the consultancies often made use of freelancers. Part of the appeal of using freelancers at this stage is the fact that these projects required “short sharp bursts of activity: short-term availability is important so consultancies with a sizeable portfolio of freelancers are better able to supply this level of service”. Therefore, having an available supply of freelancers and contractors who are willing to work on this high risk basis is a key support mechanism for this outsourced approach to corporate innovation.

If the innovation shows sufficient promise in the first stage then it can be progressed onto the next stage which involves execution of the strategy. In this stage, project management is required, and British Gas often made use of freelance interim managers. The firm also made use of freelancers in short-term specialist roles which were required on the project. Dan Taylor emphasises that this is an evolutionary stage where the workforce involved in the project evolves from freelancers/consultants to employees. He explains that in the first two months of this stage that it is not unusual to have a workforce which is entirely comprised of consultants. However, as the project progresses these contractors increasingly work with employees as the task is to integrate the innovation back into the parent organisation. Eventually the team evolves to be comprised entirely of employees and hence the jobs created by the innovation process are to a large extent underpinned by the ability to use contractors/freelancers.

In terms of the lessons he has learned from hiring freelancers, Dan Taylor emphasises the importance of having a network of freelancers. He prefers to hire freelancers he has hired before and who have performed well. In general, he has found freelancers to be very productive, due in part to their professional and external expertise, but also due to their high motivation and dedication as a result of knowing that they can be let go at any time. He argues that “since they have a lack of history with the organisation, they tend to be more objective and have a balanced perspective. They also tend to be experienced people who are more mature and have a high level of emotional intelligence so able to deal with internal politics”.

Dan Taylor notes that company law and regulation can make it difficult for corporations to make optimal use of freelancers. He argues that “the need to have approved suppliers causes additional administration costs and delays if a corporation wants to make use of freelancers quickly”.

Elsewhere in British Gas he notes that freelancers are used to manage peaks and troughs in business activity.
PHILIP DE LISLE, CEO

Enhancing Clarity is an executive mentoring and 'thinking services' business which focuses on strategic development and business planning. The business was founded by Philip de Lisle who is a former serial entrepreneur. He previously ran a software business which ran on a 'lean and mean' plus adaptable business model using a 65:35 employee to freelancer ratio. The business evolved into an internet dot.com venture (Business Online Group plc) with external investors and involvement from MCI WorldCom. Philip de Lisle's main "buzz and enjoyment" from the business was on the creative and strategic side. He says he is not a "completer-finisher" type of person and has only got on well in business when he has an operations person on board. The gradual formalisation of the business prompted Philip de Lisle to resign from the Board in 2001.

Philip de Lisle did not want to form another company but rather focus on exploiting his talent for creativity and strategy. He therefore became a freelancer with no employees trading under the name 'Enhancing Clarity'. He provides mentoring, advisory and non-executive chair roles mainly for SMEs with a turnover of between £1 million and £10 million and who have growth potential. He mainly gets involved in projects on strategy, innovation and corporate governance. He does not take on interim manager roles and will hire other freelancers to take on these tasks on an as needed basis. He says that the freelancer role allows him "to be independent and to think in a less pressurised environment". In this freelancer role Philip de Lisle is able to 'stand back' from the business and map out a way forward. By contrast, he says that owner-managers find this task difficult as they are too close to the business.

Philip de Lisle sees himself as an entrepreneur in terms of wanting to maximise the impact of his innovative and creative talent. He says that this is where his passion lies and enacting it in a freelancer rather than owner-manager capacity makes it most enjoyable: "I get to play in other people’s sand boxes and I get paid for it. How good is that?" He points out that as an owner-manager his creative output was limited by the scope of the business and the demands that it placed on his time. As a freelancer he works with roughly nine businesses per year. Therefore, in terms of his creative output and impact on the economy, he argues that it has increased by around a factor of nine as a freelancer over what it was previously as an owner-manager. He argues that he has "affected more change as a freelancer than as an entrepreneur and with greater ease can see the wood from the trees".

FLEXMORT (ROFTEK LTD TRADING AS FLEXMORT)

SIMON ROTHWELL, CEO

Flexmort is a Birmingham based company specialising in flexible mortuary solutions. It produces mobile cooling systems in order to preserve recently deceased people in hospitals, hospices and funeral directors. The firm is a recent start-up and was founded by Simon Rothwell in 2010. The company supplies products to 40% of NHS hospitals and a wide range of funeral homes in the UK. It has recently begun to export to customers in Holland and Australia and also expanded to the design and development of medical products. The company operates a 'lean and mean' approach to management in order to carefully manage cash flow and to keep its products cost-competitive. Although the plan is to take on more permanent staff, it currently has three employees (CEO, sales manager and administrator) and makes extensive use of contractors and freelancers.

The company hires a freelancer to undertake product design for its innovation. The company aims to transfer this person to an employment contract once the volume of business grows sufficiently to warrant a full time designer. It also uses freelancers for invoicing and project-based work such as packaging envelopes for a marketing campaign.

The company outsources manufacturing, the servicing equipment supplied to clients, and some marketing. It also sources machine parts from a wide number of suppliers and then does assembly in-house. In terms of the firm’s objectives, Simon Rothwell CEO, points out that it does not matter whether the outsourcing goes to a contracting company or a freelancer as both enable his business to adopt a lower risk variable cost model. The combination of freelancers and businesses used in an outsourcing intensive model allows Flexmort to innovate without having to carry a high overhead, and hence the need for a substantial up-front capital requirement.

This facilitates this lean start-up to do its own product design, development and manufacturing as well as sales and marketing, while minimising the need to raise money from investors and banks. This variable cost approach to innovation manifests a modern model adopted by new ventures where the use of freelancers and contractors enable them to lower barriers to entry and compete with more financially resourced incumbents.

Simon Rothwell also points out that “outsourcing means that the firm can draw on fresh ideas and expertise from a range of different suppliers. The company tends to use a large number of suppliers to reduce the risk of trade secrets being learnt by suppliers as well as reduce the risk of over reliance on any one supplier”.

The freelance/outsourcing virtual model employed by Flexmort enables it to have greater flexibility in servicing clients in dispersed geographic regions. The agility of the company is also increased as freelancers and outsourcing reduce the regulatory/administrative burden and risks normally associated with hiring employees. Simon Rothwell notes that this model has freed up his time so that he can specialise on directing the company – particularly focusing on sales and innovation – rather than being drawn into every activity as a ‘jack of all trades’.

Flexmort (ROFTEK Ltd trading as Flexmort)
Lee Clarke, General Manager

Forewind is a joint venture between four major European energy companies cooperating in order to manage the creation of a substantial UK offshore wind farm in the Dogger Bank zone. The site is located in the North Sea roughly 150km off the Yorkshire coast. The wind farm is nearly 9,000km², equivalent to the size of Yorkshire. It has potential for up to nine wind farm projects of about 1GW, each requiring an investment of around £3 billion per project. The planning process takes roughly two years of data collection and preparation, followed by 18 months for each ‘permission’ to be determined. Forewind is responsible for the consenting phase to get the planning permission — after which it is planned to hand the projects to the shareholder organisations — each of which will take a lead in the construction and operation phase of each wind farm. The projects within the Dogger Bank zone are expected to seek finance from banks or pension funds once each is complete. This will enable the recycling of financial capital from one wind farm project to the next.

Forewind has 40 core staff working on the current project comprised of 30 employees (most seconded from the JV partners on 2+ year contracts) plus around ten contractors (involving a mixture of freelancers and contractors). In addition, they have up to 200 people involved in contracting/freelancing work on vessels doing engineering and survey work on site. The company faces restrictions on hiring employees from the parent organisations and hence often uses freelancers to do short-term work which is required quickly. They also have a number of small sub-projects (e.g. meteorological equipment being installed in Dogger Bank) and use several freelance engineers on these projects. Similarly they make use of freelance engineers in fabrication yards for health and safety and other specialist skills which are not required in the company on a longer term basis. Lee Clarke notes that he has had a good experience of using freelancers, especially in terms of getting new perspectives and fresh ideas. He also observes that it has not caused a ‘them and us’ culture between employees and freelancers. He has always treated employees and freelancers as equal partners and hence generated an integrated team culture.

Forewind will probably wind-down its activities after the nine permissions have been secured. Lee Clarke, having pursued a corporate entrepreneur career previously with npower, notes that the management team on this project have similar risk taking attributes in terms of being willing to take on the job despite knowing that it entails an uncertain future once the project ends.
SENIOR EXECUTIVE, A CONSULTING DIVISION

This company is a global information technology corporation with a presence in the UK that kindly supported the research by providing an interview from a senior executive. The executive and the company prefer to remain anonymous. The following relates to the pan European, Asian and African consulting part of the organisation. The firm has always made use of freelancers. Typically, around 30% of a 4,000 person workforce in the consulting part of the business is comprised of freelancers. Managing the opportunities, costs and risks of peaks and troughs in demand is one of the main reasons why the organisation hires freelancers. In boom periods the use of freelancers has risen to as high as 60% of the workforce while in downturns it can fall to as low as 10%. In the part of the business based in Great Britain, roughly half of freelancers are UK domiciled while the rest are sourced from overseas.

The company has a long-running target level of 30% freelancers in the workforce in order to have a significant variable cost base to mitigate risk. This target was prompted by prior difficulties with using a more employee-intensive model where the ability to downsize proved time consuming and costly. As a result, a greater use of freelancers was sought in order to increase the agility and flexibility of the organisation as well as to avoid the risk of bearing costly employee downtime. To this end, the firm uses freelancers in generalist roles so that they can be replaced easily; ensuring that the core of the business does not become reliant on unique skills of non-employees. The workforce target of 30% is also a long-term upper limit on freelancers because the company believes that it is essential that customers feel they are buying corporate consulting services and hence it is necessary to have this predominantly delivered by employees.

While freelancers can be used to manage opportunities and risks across the business cycle, the company finds that this can be challenging as the supply of freelancers tends to be pro-cyclical. The senior executive notes: “In boom periods employees want to work as freelancers but then in downturns the same people want to return to employment contracts”. The senior executive pointed out that in the recent downturn “we ended-up re-employing many of our former employees who had become freelancers”. In order to balance this countercyclical supply, the company has adopted tactics in boom periods such as offering freelance style higher risk performance-related pay to employees in order to maintain the desired ratio of employees to freelancers. For example, an employee on a fixed annual income of £60,000 could be offered £10,000 fixed plus a percentage of revenue generation.

Freelancers are hired on a project basis and mainly for a technical input. Roughly a third of the company’s demand for freelancers is due to a skills mismatch between employees’ capability and the variable technical needs of the organisation. The corporation also uses freelancing as a test-bed for screening and hiring employees. Freelancing reduces some of the risk associated with job creation.
H+K Strategies are a PR and communications consultancy based in London which predominantly serves major global corporations and public sector clients. The business makes use of a mix of employees and freelancers. The freelancers are mainly hired to serve one or more of three functions. The first is as a short-term workforce for contingent contracts with a finite life span such as one contract H+K had for the London Olympics. Freelancers are also used for interim positions varying from junior posts through to more senior managerial posts such as an Associate Director. H+K Strategies also use freelancers as an integral part of the firm’s entrepreneurial business model. Czarina Charles, Talent Acquisition Manager at H+K Strategies highlights that the agility of freelancers is a key means of being able to offer fast start dates for new contracts. “Freelancers can be deployed quickly and can hit the ground running which enable us to win business by being able to offer swift and effective delivery”.

Czarina Charles says that the company encounters two types of freelancers in the market. She describes one type as “career freelancers” and the other as “lifestyle freelancers”. “We find that career freelancers tend to be specialists best at the tactical side of our campaigns. So these types of freelancers are good to hire for specific and focused projects. By contrast “lifestyle freelancers” are usually those who have worked their way up the PR career ladder, but then opt for the freelance route as they want to work part-time, to be closer to their families or pursue a passion which may not necessarily generate the money needed to work on it full-time. Others prefer the flexibility of freelancing as they can choose their own holidays. Others like the variety of working across a range of projects and companies and the fact they are not embroiled in the company politics. Lifestyle freelancers tend to have a broad skillset and therefore are more able to manage bigger projects which have a wider remit”.

“Essentially, the ability to have the freedom to choose a work-life balance appears to be a major factor and sometimes this is manifested by a desire to do a personal project like writing a book.”
RICK O’NEILL, CEO AND CREATIVE DIRECTOR

Rick O’Neill started as a freelance product designer in 1999 after graduating from university and as his client base grew he evolved to set up a successful business which he sold in 2008. After this exit, Rick O’Neill returned to freelancing in the areas of branding and website development and as his customer demand increased, his business evolved from a freelancer to a limited company trading under the name of Look, Touch & Feel in 2009. He says that “there was no eureka moment, I just noticed that demand was increasing and so I needed to create a business”. The company was set up on a ‘skinny/lean’ variable cost model which involved the use of freelancers. He points out that “you have more of a hunger and an instinct for cost-effective entrepreneurship if you have been self-employed before than if you start with a lots of money in the bank”. He began with Simon McFarlane who he has known since he was three years old. Simon was hired on a freelance basis and looked after the technology aspects of the business while Rick took care of design. Rick would win business and then contract with Simon on a project by project basis. The business grew and Rick took on a graduate designer on a full time employee basis with some share options.

The company continued to grow causing Rick to move it out of his home and into a barn down the road which he had secured on an economical rent and which he felt provided a creative work environment. The company continued to grow, winning more prestigious contracts with clients such as the Open University, Aspire and the Jelly Bean Factory. As a result, they then hired another designer and a developer on a freelance basis in order to test these people out. Neither of these people proved to be a good fit with the company and Rick was able to terminate these freelance contracts. Freelancing was used as a means of managing the risk of hiring the wrong people.

Rick O’Neill notes that it is important to be able to manage the conflict of interest that can sometimes arise for young and small businesses when hiring freelancers who sell the same services as the hiring business. He points out that “freelancers are normally good at project management but at times can have a conflict of interest as they sometimes can try to cut the business out of the contract and work directly with the client”. He now only tends to use freelancers who he knows and also limits their direct contact with clients until he knows he can fully trust them not to run off with the business. He says that it takes about a year to build up trust with a new freelancer in order to be confident that they can represent the business. In addition, the company’s contracts with freelancers have been changed in order to protect IP and to include non-compete clauses.

Look, Touch & Feel also secure work through agencies and hence must respect their clients in exactly the same manner that they demand from freelancers. In other words, they often find themselves acting as a representative of an agency and hence must not pitch for business for Look, Touch & Feel. He notes that this type of industry business model leads to people having multiple email accounts and business cards. It involves assembling a team around a project with everyone then working under a single badge/brand even though it may involve many different companies and freelancers. He notes that about 10% of Look, Touch & Feel’s business involves working under different brands/labels. In terms of adding these clients to their portfolio of testimonials for marketing purposes, Rick notes that these are normally agreed in advance with the agencies e.g. a recent contract involving the National Farmers’ Union involved such a permission.

The core team of Look, Touch & Feel are four employees who have shares in the business. In addition, the business uses four freelancers. The freelancers’ work adds up to around 130% of a full time employee. Freelancers are mainly hired to access specialized skills and maintain a variable cost base in order to manage the risk and cost of what Rick describes as the “feast and famine” in customer demand. He also highlights that freelancers increase the agility of the company by enabling it to put together a team to deliver a project at very short notice. However, he notes that sometimes they have no option but to use freelancers as a lot of people in this business sector like the freelance lifestyle and are only willing to offer their services on this basis. Different types of freelancers are paid on a different basis. Developers are paid on a project fee on a contingent contract while graphic design freelancers are hired on an hourly or daily rate. Look, Touch & Feel often bundle a number of jobs together and hire designers to work on them all simultaneously. Ultimately designers also work on a contingent contract basis with a defined end point (purchase orders) to place a ceiling on the number of hours. The company also contract out the accounts of the company to a freelancer for half a day per week.

Rick O’Neill points out that while it is important to have a balanced team of employees and freelancers, ultimately the core of the business relies on the employees: “With employees you have commitment and know that you can draw on them when you need them”.

Look, Touch & Feel (looktouchfeel.com)
At the outset, Martin Pope is quick to point out that in choosing crew film makers, they do not make a particular distinction between freelancers and employees working for contractors. A key necessary option for film producers is to be able to contract out significant parts of the production process to highly skilled professionals at an affordable price. Martin Pope explains that the objective is to "find the right skills for the relevant task. People who have the skills for one film typically don't have the skills required for the next film that the producer wants to make. But they will find that their skills are required by a film made by another producer". Therefore, whether the legal entity contracted to do the work is a freelancer or contractor with employees makes little difference to a film producer. The motivation for outsourcing in both cases is based on the same objectives including: finding the right expertise to fulfil a particular specialist task, avoiding excessive overheads associated with downtime when using specialised labour across the film production life cycle, reducing the uncertainty and risk associated with trying to accurately budget the cost of a film, and also to ring-fence the finance of each film in order to enable access to external funding.

Martin Pope explains that there is also a supply-side constraint that causes film producers to use freelancers/contractors. He says "a lot of people in the industry are motivated by the desire to use their talent in ways that fulfil them personally. Freelancing enables them to choose work that achieves this objective and so it is often only possible to hire people on a freelance basis".

He explains that the film production process is different between animation and live film. The former is typically a longer process and can involve a smaller team than the latter. The use of freelancers varies over the pre, actual and post production phases of film making. In the case of animation, the pre-production phase might involve four or five people of which roughly half are freelancers, most usually involved in the script and story development. In the production phase it is common to outsource a significant amount of the work to an animation company. In the case of The Gruffalo, Magic Light Pictures used a German company who deployed a core staff of eight employees plus approximately 30 freelancers to the project. In the post-production phase the activity then downsized to around two or three people comprising Magic Light employees plus contracting work out to a PR consultant.

While a live film may begin with a similar pattern with four or five people developing the pre-production phase, it gradually scales up to around 60% of the size of the production phase before filming begins. In the production phase a typical crew and cast size could be around 80–100 people of which around 93% are freelancers and contractors. In the post-production phase the team size then falls back to around ten people of which roughly 60% are freelancers or contractors.

Martin Pope points out that the transformation of the film business from the highly concentrated studio controlled industry in the 1950s to the more segmented and entrepreneurial market of today has increased the importance of freelancers. While the old industry was more monopolistic, the vertically-integrated studios faced less uncertainty and hence were able to budget on a lower risk basis. In the new environment, freelancers enable smaller companies to access diverse and exceptional talent on a variable cost basis which reduces risk. Combined, these effects lower barriers to entry and concentration in the industry, thereby promoting competition and greater diversity. However, Martin Pope highlights that this new business environment requires film producers to be more innovative and to manage more risk: "Innovation becomes very risky in this environment and consumers have developed a thirst for continuous innovation". In this dynamic and risky environment the ability to be innovative and manage risk by outsourcing to freelancers/contractors becomes pivotal for the performance of the industry.

Martin Pope emphasises that a sufficient supply of freelance/contractor talent needs to be available in order to promote this dynamic industry model in the UK. To this end, he points out that public policy initiatives to support the film industry such as film tax credits play a very important role in this high risk business. "It is a known fact that there are really good crews in the UK which attract foreign production companies to make their films here. But this advantage can be undermined if Government policy to support film declines. If Government policy remains consistent then it will help create a more stable basis for the industry to grow with consequent employment possibilities for freelancers."

MARTIN POPE, CO-FOUNDER AND PRODUCER

Magic Light Pictures produces independent films and manage the rights for the children's story and film character, the Gruffalo. The company is based in London and produces both live action film such as Sparkle and Wild Target, and animation films such as The Gruffalo, The Gruffalo's Child and Chico and Rita. The company was founded in 2003 by BAFTA Award winners Michael Rose and Martin Pope. Martin Pope's previous career includes producing films such as A Touch of Pink, The Heart of Me, The Cottage and The Turn of the Screw. Michael Rose's credits include Chicken Run, Wallace and Gromit: Curse of the Were-Rabbit, and A Close Shave.

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EXECUTIVE, PROGRAMME ASSURANCE OFFICE

The programme assurance team is responsible for all central programme functions including:

- Resource management, recruitment, on-boarding, contract management
- Financial control - including business case preparation, forecasting, reporting and control, benefit tracking and modelling
- Risk and issue management
- Change control
- Programme governance – running all programme level governance forums

The executive (who wanted to remain anonymous) was hired in a role within the programme assurance office which was the central point of coordination for a number of work-streams under the banner of the ‘Transformation Programme’.

Within this programme, freelancers were used on a number of these work-streams in order to be able to mobilise a team to progress the work-stream development, tap into expertise not available from employees in the company, as well as to bring in an independent mind-set with a fresh perspective and enthusiasm for each project. The executive points out that building up a new team with employees would involve long pre-employment checks and other administrative burdens that would slow the process down to an unacceptable level. The executive also highlights that “freelancers are part of a different budget line which has less external scrutiny on it and therefore are more flexible in terms of deployment”. The executive believes the main reason for this is that freelancers pose less of a financial risk for organisations because they are easy to move on if they are underperforming, whereas permanent employees have a number of HR steps that need to be implemented before dismissal can be considered.

Therefore, when faced with the task of mobilising the Transformation Programme the executive was able to quickly expand from a team of 20 people and rapidly scale it up to 200 people in six months through the use of freelancers – accounting for 75–80% of the workforce throughout this phase of the project. The programme involved a full scale transformation of all the client channels the company uses to provide services to its customers such as telephony, branch and online. As a result, the team required a diverse set of skills, some of which were not necessarily available within the organisation. The executive explains that the use of freelancers involved “a full spectrum from senior

interim managers right down to junior analysts”. When the programme rolled into its second phase of build and implementation, a plan to redress the balance of freelancers to employees reduced the freelancer share of the workforce down to a target of 30%.

The executive observes that few of the freelancers in the integration programme took up the resulting employment positions because the remuneration packages on offer translated into substantial cuts to the current rates being paid on the programme.
GIDEON HYDE, PARTNER

Market Gravity is a consultancy business specialising in corporate venturing. It also hosts the Corporate Entrepreneur of the Year Awards. The company’s service offering allows corporations to outsource innovation. This involves a number of stages of the innovation process from idea development, market testing, launch and through to re-integration with the core business of the corporate client. The company delivers this service using a core team of full time consultants alongside associate freelancers. Freelancers are used in order to be able to draw on expert knowledge on a short-term project basis. This can entail work in both interim management and to supplement professional/specialist consultant roles. Sometimes the company is obliged to hire freelancers who it would prefer to employ only because some freelancers prefer to work on a freelance basis serving multiple clients and ultimately being their own boss.

Gideon Hyde, co-founder of Market Gravity points out that their core business is much more entrepreneurial than change management. He describes their remit as “bringing a start-up mentality to a corporate environment where venturing is more than technological change. It also involves changing both people and culture as well the creation of another business”. He argues that this “inevitably challenges the way a company works and cuts across structures and silos”. In addition, he highlights that “corporate venturing involves greater uncertainty than change management as it involves a lot more trial and error. It also involves more learning by doing, evolution of innovation and self-direction [so] leadership and strategic vision are very important”. He argues that trying to operate in this manner within a corporation is difficult due to governance structures and cultures created to support the ‘status quo’. Therefore, businesses often seek to outsource this innovation process so that it can be progressed in a supportive environment. The duration of one of Market Gravity’s contracts can extend three to five years if successful. Market Gravity can be tasked to take the innovation from creation through to re-integration and freelancers are typically involved to some degree at every stage of this process.

But the value-added provided by Market Gravity’s outsourcing of innovation extends further enabling a corporation to ring-fence the cost and risk of innovation. This ensures that the corporation is not stuck with “idle or misfit” employees if the business venture fails. He also points out that this form of outsourcing of innovation limits the political and financial downsides of failure by providing a “fail quick and fail cheap” option for corporations. He says: “Market Gravity turbo charge the entrepreneurial process so that corporations can assess the worthiness of an innovation before it has to commit long-term resources to it”. Gideon highlights that Market Gravity enables senior executives to “externalise responsibility as well as blame if the venture is unsuccessful”.

In order to achieve this risk-embracing and flexible service offering for corporate clients, Market Gravity make use of freelancers who can take on some of this risk as well as work on a project basis in a swift and flexible manner. Some of the freelancers who they use on projects are entrepreneurs who are between ventures. Gideon points out that even if one desired, it would be very difficult to hire these entrepreneurs on an employment basis because this style of work is alien to them. Therefore, engaging them instead on a freelance basis means that Market Gravity can access and hence supply some unique and high calibre entrepreneurial talent to corporations.

Market Gravity also needs to be able to draw on high calibre freelance interim managers. Gideon argues that this is particularly important at the re-integration stage which requires great expertise due to its challenging and tricky nature: “Bringing the new venture back into the business too early can kill it as it faces too many constraints, while leaving it too long can mean that the cultural divide with the parent organisation is too great”.
RICHARD SALVAGE, GROUP DIRECTOR

The Medsa Group comprises four companies: DTR Medical, Greased Lightning, Shield Automotive and The Recycling Company. The first three of these are manufacturing based. DTR Medical produces sterile medical instruments, Greased Lighting makes wax polish for cars and Shield Automotive makes car maintenance products. The Recycling Company is a waste management service provider. The Group defines its values and approach to business as “listening to the customer, being innovative and changing quickly all through harnessing the capabilities and potential of its key asset - its people”. Richard Salvage, Group Director, explains that for this modern innovation driven company “its people” is not restricted to employees but also extends to freelancers and customers. Harnessing the insights and talent of these people in an agile and flexible manner has been the driving force behind the company’s innovation-led rapid growth.

Freelancers are central to the Group’s R&D strategy which is strongly customer led. Richard Salvage places a strong emphasis on asking customers what they need and what problems they have with a view to using innovation to provide a solution. The company has its own laboratories and uses freelance scientists to deal with the diverse and specialist skills required to solve the varied customer needs and problems identified through their market research. He points out that the use of freelancers in this role not only enables the business to match the capability of a much larger firm’s R&D unit but also reduces the financial risk involved in innovation: “If the innovation does not work then what does it cost? It’s all variable cost”.

Freelancers are used extensively across the Group’s activities. They are used for diverse roles, which enables the business to avail itself of the benefits of specialisation of labour while still being a medium-sized enterprise. For instance, Greased Lightning makes use of a freelance television presenter to sell its products on Ideal World TV. Greased Lightning also hired a team of freelancers with experience in automotive retail to sell its products in 125 garden centres across the UK. This became a platform that enabled Greased Lightning to get its products into over 500 retail outlets in just 18 months. DTR Medical uses highly skilled freelancers to deal with peaks and troughs in demand. Richard Salvage describes the performance enhancing effects of freelancers as being like “putting a turbo charger on an engine. You can either enjoy the increased power or travel at the same speed at a lower cost. But how often have you heard people say that they used a turbo charger but reduced the size of their engine?”. Translated into economics terminology, freelancers increase productivity and reduce minimum efficient scale.

Richard Salvage also uses freelancers in senior executive roles at the start-up phase of some of the Group’s activities. He says that instead of hiring a high skill/cost executive to set up and run a new business activity, he hires a high skill/cost freelancer to do the difficult front-end part and then hands it over to a lower cost/skill employee-manager to do the easier task of running the operation afterwards: “I will always expect a good freelancer to build a function or process that is good enough to work well without them”. He describes this approach as separating short from long-term needs. He points out that it optimises executive cost and skills in start-up activities as well as helps to de-risk the probability of being stuck with an expensive employee executive overhead if any particular venture does not succeed.

THE MEDSA GROUP

5 http://www.medsagroup.com/
LEE CLARKE, FORMER HEAD OF HOME ENERGY SERVICES

Lee Clarke led the creation of Hometeam, npower’s home energy services corporate venture. He initially used the services of a consultancy firm (Edengene) to develop the business plan and sell the concept of the venture to the business. Once approved, npower decided to set the operation up as a ring-fenced entity which required Lee Clarke to in effect create a start-up. The venture was part of the retail division of npower but was based in a serviced office in Solihull separate from the main organisation. There was a shortage of suitable office space within npower for the start-up, but in fact Lee Clarke also wanted an independent location. He felt that this would allow the start-up to be different, fresh and to have a new culture – at least during the launch and growth phase. This approach allowed the venture to develop fast as it could do activities such as its own marketing without having to seek services from central marketing (whose main focus was on the ‘cash cow’ of the business). The separate location also helped to de-risk the venture because if it failed its closure would have a less disruptive effect on the core operations of npower.

Lee Clarke used a start-up team comprising roughly of an even split between employees and freelancers. The freelancers held the more senior roles as he used them to bring in experienced and higher level management that would not have been possible to secure from among npower’s employee base. For example, the lack of sales turnover at the time of start-up would have meant that it would have been very hard for him to justify employing a senior sales manager using internal grading structures based on size of the turnover and number of employees reporting to the manager. Therefore, it was necessary to turn to freelancers to get the high level of expertise required to successfully set up a new sales team. The use of freelancers also enabled the de-risking of the corporate start-up as these people could be laid-off quickly at minimal financial cost. Freelancers also minimised reputational risk of failure for the business as the corporate venture could be quickly closed with minimal disruption to the workforce of the main organisation.

The start-up proved to be successful and it became necessary for a tenfold increase in the size of the workforce from 20 to 200 people. The flexibility of freelancers was important for the evolution of the management team in this process as it was possible to easily transition from one head of sales to another – ensuring that the right type of managerial expertise was always in place. In this growth phase of development, the ratio of employees to freelancers started to increase dramatically. This process entailed the number of freelancers staying roughly fixed at ten people but with the total number of staff gradually growing to over 250. The scale-up of the corporate venture in this phase also included a number of business acquisitions and the company used some freelance interim managers to run these firms after the original management had departed. By the end of the scaling up of the corporate venture, most freelance roles including those at executive level, had either left the business or transitioned into permanent employee roles. This evolutionary process was enabled by the contingent project nature of the freelance contracts.

Lee Clarke observes that “freelancers don’t come cheap and so you must throw a lot of work at them to make sure you get value for money”. Although the freelancers were paid on a day rate, the number of days were justified on the basis of achieving key performance milestones which effectively broke the work into projects. This then meant that each project could have a ceiling placed on its cost, based on the time it takes for completion.
NSG Group is a global manufacturer of glass serving the global building, automotive and speciality glass markets. In 2011 the company had approximately 32,000 employees across the globe and a turnover of just under five billion Euros. The top three markets for its products are Europe (41%), Japan (29%) and the USA (14%). The company was originally founded in 1918 and growth entailed an acquisition of Britain’s Pilkington plc in 2006.

The study focuses on the Specialist Applications Systems development team unit – with team members based in the UK, Poland, Brazil and Japan – which serves all parts of the business. The Specialist Applications Systems team operates under the management of David Bullimore who is the Specialist Application Systems Manager. This unit has roughly 30 full time members and operates with an average of ten UK-based freelancers at any one time.

Freelancers are typically used on creative and innovation projects. David Bullimore describes it as “semi outsourcing projects while retaining full management responsibility for delivery and quality”. Freelancers are tasked with taking an innovation from concept through to completion. They are not just alternatives to employee R&D but also a substitute for buying applications in the market place; “off the shelf”. David Bullimore highlights that the key advantage of using freelancers in this realm is in better managing entrepreneurial risk and also the quality of innovation. Packaging R&D objectives into freelance projects enables NSG Group to accurately cost the innovation as the freelancer takes the risk and responsibility being paid on an output basis.

This risk management process is helped by the high quality supply of freelancers available in the UK. David Bullimore points out that they can get freelance developers with a first class honours degree from a top ten university with five years of work experience and a track record of successful projects. He points out that there is an incentive to use the same freelancers across different projects because this avoids losing key knowledge which they have previously acquired with NSG Group through learning by doing.

He points out that freelancing is more effective than outsourcing as it allows him to choose appropriate developers directly. He also points out that outsourced projects usually involve the use of the supplier selected employees who, in some cases, have not been as dedicated and output focused as hand-picked freelancers. These employees have often competing tasks within their organisation and are less output focused.

NSG Group also use freelancers to manage the cost and risks associated with peaks and troughs in demand across the globe. For instance, David Bullimore says that “a workload peak in Brazil can be satisfied by using high quality freelancers in the UK”. He says the quality of the British freelancers is one of the key reasons why they can engage in this type of international trade.

He argues that if the exceptional freelance talent was not available in the UK then NSG Group would consider moving more of its activities to overseas outsourcing companies where workers can be cheaper. The availability of a sufficient supply of high quality freelancers in the UK helps support British-based NSG Group employees as it helps make them more internationally competitive. David Bullimore emphasises that although freelancers can be perceived as being expensive, overall project timescale and cost can be reduced by using the right talent at the right time. In his experience, the best project results are achieved using the smallest possible number of highly skilled, highly focused and highly flexible resources. Time and cost is reduced by getting things right first time and eliminating the cycle of requirements gaps, quality shortfall and re-testing that often plagues projects with a larger team size. Freelancers can play an import part in achieving these goals.

David Bullimore concludes that he is very satisfied by the freelancer–employee partnership model used for innovation in NSG Group. He notes that the NSG Group Specialist Applications Systems team have increased the proportion of freelancers used in its projects over the last five years. This change has been triggered by the successes achieved using the approach and by its observed cost-effectiveness.
Nigel Cowmeadow, Director of Logistics

The company was founded by Konosuke Matsushita in 1918 trading under the name Matsushita Electric Housewares Manufacturing. The company began with a strong innovation ethos. Konosuke Matsushita set out the company’s mission as “the mission of a manufacturer is to make products to enhance one’s life – and benefit society”.

The company began when he left the Osaka Electric Light Company because they had no interest in an electric light socket that he had invented. He could not find any buyers for his product but picked up an order for fan insulation plates and then used the profits from this contract to refine his innovation to produce a two-way socket and attachment plug which had a cost advantage over rivals.

The company gradually evolved from basic electric components to consumer products such as irons and radios. The company grew by widening its product portfolio of electronic goods through relentless innovation and expanding internationally. The company had a turnover of approximately 78 billion US Dollars in 2010.

Panasonic tend to use freelancers in three areas: to deal with seasonal peaks in manufacturing, to fill short-term demand for unique IT expertise, and for business projects; particularly those involving change management and innovation. In terms of the use of freelancer involvement in senior management roles, this is usually confined to project management. Nigel Cowmeadow, European Logistics Director has observed that because freelancers are independent agents it enables them to be objective when dealing with internal politics and even-handed in managing vested interest groups.

Nigel Cowmeadow makes reference to a major technology change management programme at Panasonic UK as a good example of how freelancers can add value to a business. The company decided to adopt a uniform SAP information system across all of its European operations and in the UK this involved replacing an existing system which had been developed by an independent provider. Nigel Cowmeadow likened that change to an organisation undergoing a heart transplant as “one essential life organ of the company is lifted out and replaced by a new one”. The change management project involved the most complex and important KPIs. The risks were considerable as Panasonic UK had an annual turnover of £700 million and accounted for roughly 35% of Panasonic’s European sales.

In order to overcome these challenges Nigel Cowmeadow hired Val Cross, a senior freelance manager from TopInterim, who previously had worked in the IT company that had supplied Panasonic’s existing information systems. This enabled the company to put in place a high level technical expert at a senior executive level who could be fully focused on this specialist and highly risky technical operation.

Apart from the technical and business risks, the project necessitated winning over the hearts and minds of staff that had grown used to the existing information system. Nigel Cowmeadow decided to use a freelancer to manage the project. The decision was prompted by a number of factors. There was nobody internally who had the technical depth and breadth of knowledge of this particular information system to be able to provide direction to ensure that the new system would work effectively when implemented. This was going to be important because successful implementation was going to involve blending the expertise of Panasonic’s business area managers (e.g. accounts, marketing, logistics etc.) with IBM consultants who were hired to implement the SAP system, alongside an internal Panasonic team from Germany who had knowledge of the system working there. Each of these teams involved a rough 50:50 ratio of employees to freelancers.

As the IBM consultants were being paid on a day rate, it was key to have a project manager who would not be at a knowledge disadvantage in terms of ascertaining how long their part of the work ought to take. At its height, the IBM consultants were costing £250,000 per week, so it was important to get this aspect of cost management right without hampering their progress.

The new system was given a successful trial run over an Easter bank holiday weekend and then finally implemented over a May bank holiday weekend. The integration was delivered on time and on budget. Panasonic then hired Val Cross on a further two month contract to deal with any glitches that may arise in the new system.

Nigel Cowmeadow points out that that corporate executive careers tend to create narrow areas of expertise as people work in silos. By contrast freelancers tend to experience a greater variety of business situations and challenges in their work and so have a broader skill set. He argues that since freelancers are more independent, unbiased and lack conflicts of interests, they can be in a great position to cut through political and cultural obstacles which can stand in the way of a project’s success. In summation, he notes that on finite business projects which require broad and impartial programme management and budgetary expertise, it usually makes more sense to use a freelancer rather than an employee executive.

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KEVIN PERRETT, CEO

PTS is a real estate IT infrastructure project management and associated services company. It mainly serves organisations in banking and finance, insurance, law, Government, education, healthcare, and media and entertainment sectors.

PTS was initially founded as a subsidiary of the Construction Group in 1983. It became an independent firm when CEO Kevin Perrett led a management buyout in 1990. He has continued in the role of CEO to the present day. Initially, the newly independent company focused mainly on UK market penetration. In 2000 it started to focus on exports and by 2010 it had offices in ten countries. The current phase of the company’s evolution is to turn an organisation with a global footprint into a truly global organisation. In its financial year ending March 31st 2012, the company had a profit of £2.33 million against a turnover of £38 million.

Kevin Perrett believes in building a team around him made up of individuals who have complementary skills and greater experience than him in certain areas. He wants his team to challenge him and does not employ “yes men”. However, these people need to fit in with the cultural ethos of PTS Consulting. He has a strong belief that PTS must have a core of highly skilled employees. To this end, recruitment is done carefully and over time the company has evolved to a situation where very often working as a freelancer for PTS turns out to be the means by which ability, motivation and fit can be assessed for suitability of a full time employment job offer. In effect, utilisation of freelancers can serve as a means of lowering the risk of hiring the wrong people.

Prior to 2008 Perrett never used to hire freelancers and all of the firm’s business was carried out by employees. The differentiation of the company was built around being a specialist IT infrastructure provider that used an employee–only delivery model. To achieve this policy objective, the company would often turn down business that would require PTS to employ more people who they might have difficulty to sustain on a permanent basis. Kevin Perrett remembers how he once turned down a contract requiring 20 new members of staff because he could not find work for these prospective employees when the contract was due to finish.

He says the employee–only model was forced to change after the 2008 crash. “The crash caused a big fall in demand and over £1.5 million in bad debts. We were left with a large amount of employee downtime and had no option but to lay off 9% of our workforce. When growth started again we mitigated the risk of over-hiring employees by using contractors”. Kevin Perrett says that in the new model freelancers work in partnership with employees on a project basis. Most of these projects have a duration of two to three years. He says this new model is necessary because “times have changed and become much more uncertain and risky so using contractors is an important means of managing this risk”. He argues that if you have a “variable cost freelance fringe then you can avoid firing core staff”. He believes that this new model engenders core employee loyalty and allows the company to grow as well as meet variable demand. Freelancers used to manage perceived peaks in demand that turn out to be a trend are often then hired as employees.

This new ‘core employees with freelancers’ model is also important because the company is now more diverse than before, serving more countries with a greater range of services across more varied sectors. This is in contrast to the earlier days of the firm when most of its business was concentrated in the banking sector in the City of London. The ability to be able to draw on diverse freelance talent on a short-term basis and often at short notice was an important extra dimension required for the capability of the company’s workforce.
KEALAN DOYLE, CEO

Symvan Securities is a corporate finance house which is based in London and focuses on serving the needs of SMEs with a market value of between £20 million to £200 million. Symvan specialises in the oil and gas, mining, real estate and technology sectors. The firm’s service offering includes fundraising (private equity, pre-IPO placements and IPOs), research, investor relations and broking between corporations and their institutional investors. The firm was founded in 2010 and has five employees and two freelancers.

One freelancer works on investor relations to promote the company and boost secondary trading i.e. to make existing stock attractive and hence promote its value. This freelancer is hired because of her specialist skills, particularly her network of key personal contacts in terms of private clients who have an interest in the sectors targeted by Symvan. She is hired on a deal by deal basis and this avoids idle downtime between deals, but CEO Kealan Doyle explains that there is also the element of supply-side fit: “If the freelancer does not like the deal or it does not fit her clients then she will pass on it”. Overall, this freelancer is hired in order to increase cost-base flexibility (replacing fixed by variable costs), reduce idle downtime and also to promote performance. Kealan Doyle observes that “this freelancer likes working on this flexible and project-based basis which also allows her to work on other exciting deals with other companies, so that overall she is highly motivated, which increases her productivity”.

Symvan also outsource some sales and marketing projects to another freelancer who is hired on a deal by deal basis. The motivation is the same as above.

Kealan Doyle, points out that “we definitely pay freelancers more than employees but feel it is worth it as they are very productive and we only pay them on an ‘as needed basis’ so there is no wasted spare capacity that you would have shelling out a monthly salary”.

The company also outsource accountancy, legal, and IT support as the firm is currently not large enough to justify having a full time person in house. Kealan Doyle notes that “in terms of the benefits of outsourcing, the distinction between freelancers and employed contractors is not that important as both serve the objectives of managing risk, minimising idle capacity, and lowering costs”. In sum, the ability to outsource reduces barriers to entry and promotes market entry by new business such as Symvan.

In terms of the vision for the future, Kealan Doyle expects that “as the company grows we would of course envisage using more freelancers but likewise as the risk of idle downtime declines we would also envisage some freelancer roles evolving into employee posts.”
DAVID PINCHARD, CEO

TopInterim provides freelance interim managers to organisations at senior executive and board level. The company was founded in 2000 and for market segmentation purposes has evolved to trade both under its own name and as Transformation-Leaders. The business has a select network of freelance senior executives to provide organisations with interim directors and manager in areas such as general management, finance, IT, international HR, sales and production. Reputation is key to the success of the business where recommendations, referrals and trust are core drivers of the hiring process.

David Pinchard, founder and CEO of TopInterim explains the optimality of using an employee or freelance manager is determined by the organisational needs of the business. A firm requiring stability, continuity and evolutionary change will usually opt for an employee-manager while a firm operating in a turbulent environment requiring transformation will often draw on the services of senior interim managers. The typical projects that these freelancers will manage include innovation, adoption of internally disruptive technologies, business turnaround and downsizing. They all hinge on adding value to a business and the basis for freelancers’ remuneration is usually performance/output based rather than a temporal/input basis. David Pinchard describes the process as businesses outsourcing entrepreneurial management where the interim managers are entrepreneurs themselves. He says they “serve an entrepreneurial function in that they manage economic disequilibrium”. He argues that these freelance executives are visionaries and at an individual level “must be financially independent in order to be willing to risk losing the project if their vision is not going to be implemented”. He also describes them as “portfolio managers” who tap into their unique talents and apply them across diverse organisations.

David Pinchard argues that “interim managers add unique value by bringing an objective and independent managerial approach to business”. They can remain aloof from internal politics which can be daunting when a business is faced with major transformations such as downsizing a Government department or transforming a business which faces much internal opposition. David Pinchard contrasts this with employee executives “who are too tied-up with internal politics and have a vested interest in the outcome”. He also believes that employee-managers are too risk averse to be effective in this entrepreneurial context: “Full-time employee-managers are afraid that it will all blow up in their faces and cause them to lose their job”.

David Pinchard points out that at first sight some organisations may view senior interim managers as expensive and he admits that “It is true that these are high calibre executives with ‘must-see CVs’ who are paid well”. However, he says that they are highly productive, focused and driven executives who deliver results for organisations. In these terms they are very good value for money. He also argues that they are less risky than employee executives as they are paid on results.

Since his first assignment as an interim manager, David Pinchard has observed a trend where it is becoming increasingly accepted as normal for organisations to hire an interim executive when change management is required. As this trend continued, this growing market segmented into senior interim managers and what David Pinchard terms more “top-end” senior “Transformation Leaders” – the latter particularly important in highly uncertain business contexts which accelerated after 2008. These developments necessitated the dual trading names for his business in order to more clearly differentiate the service offering and hence better target these different market segments. The business is currently expanding internationally with entry into China.

TRANSFORMATION-LEADERS AND TOPINTERIM
PHILIP MCCARTHY-CLARKE, INNOVATION DIRECTOR

Vocalink is a company owned by banks and building societies which run much of the UK’s payment infrastructure – including BACS, Faster Payments and the LINK ATM network. It connects over 60,000 ATMs, processes roughly £3.5 billion transactions each year, has approximately 700 employees and is owned by the UK’s largest banks and building societies. Philip McCarthy-Clarke was the Director of the Innovation Department from 2006-2009 with a brief to manage corporate venturing. The division investigated and developed innovative ideas through a filtering process that would often see just five ideas commercialised from a starting point of 200. He points out that due to industry short-termism there was a leaning towards incremental technical innovation rather than longer-term game-changing innovation.

Initially, Philip McCarthy-Clarke tried to build his innovation team by hiring employees but could not find people with the required talent for innovation despite being able to offer top rates of pay. He attributes part of the problem to the fact that the company was located outside of London and that it was a lesser known brand. He remembers losing one employee to a lower paid job in RBS based in London. However, he also believes that it is generally hard to find talented employees for an innovation role as people with the right profile are few and far between. He says that “delivering innovation requires people with both creative and entrepreneurial capabilities – gifted generalists with both left and right brain capability”. Having worked previously in growth consultancy, he had to turn to freelancers and consultants to find these attributes. This approach facilitated project-based innovation as these contractors enjoyed fresh challenges, were confident and motivated to embrace the uncertainty associated with innovation. They thrived on a sense of project ownership and delivering change, even against political opposition.

Freelancers were typically engaged after a stage when the broad strategic objectives behind innovative ideas were complete. This left them with the remaining tasks of refining the innovations and converting them into commercial opportunities.

Once commercial potential had been established, the next challenge was to re-integrate projects back into the parent organisation. The organisational and cultural divide between the Innovation Department and the core of the company made this transition difficult. The parent organisation had an employee mind-set and was an operations focused organisation. There was often no real interest or commitment to make any of the innovations work. Philip McCarthy-Clarke noted that “95% of Vocalink’s income for the next five years was assured from existing service offerings and hence there was no pressure to innovate”.

In order to facilitate the re-integration process Philip McCarthy-Clarke decided to hire employees to work alongside freelancers in the Innovation Department. However, this approach was not successful as these employees were not as talented and motivated as the freelancers. Philip McCarthy-Clarke explained that the employees did not have the same sense of ownership of the innovation project as freelancers. He argues that “freelancers are more independent and retain their own mind-set. They are motivated by seeing a project through to completion. They are more resilient when a project requires ‘pushing it through’.”

The parent organisation was keen for Philip McCarthy-Clarke to use a preferred list of suppliers for recruitment and to make greater use of employees. He tried to convert freelancers to employment contracts but they preferred to be hired for specific projects rather than on a continuous employment basis with a car, pension etc. However, the parent organisation forced the issue leaving the freelancers with no option but to disengage from their activity with the organisation or take up employment. Some took up employment but ultimately this change led to a decline in the performance of the Innovation Department. Ultimately, it prompted Philip McCarthy-Clarke to leave the organisation — and he is now back in a consulting role as a Partner in a leading growth advisory business.