



The Use and Value of Freelancers: The Perspective of Managers

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Abstract. In this paper we provide an overview of the various means through which executives and entrepreneurs in Great Britain perceive freelancers as adding value to their businesses. To this end the paper reviews research on users of freelancers in large and small firms across industries in Great Britain. The evidence comprises a mix of case study and survey data. The results illustrate that managers perceive freelancers as a relatively high value added segment of the labour force which is particularly useful in dynamic and innovative business environments. In essence, freelancers are less of a cheap shadow precariat workforce and more a skilled specialised workforce that enable businesses to reduce: barriers to entry, risk and financial requirements while enhancing: business agility, flexibility and efficiency. Freelancers are viewed as important inputs that enable an innovation driven and entrepreneurial economy to perform.

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1. Introduction

This short review paper is intended to provide a concise survey of some recent theoretical and empirical research on the role and value of freelancers as perceived by executives and owner-managers. This review also presents some new data. Combined this evidence gives an insight into the functions that freelancers serve in the modern economy and also provides a useful marketing insight for freelancers by identifying their unique selling points (USPs) - as defined by their customers. Compared with a body of earlier studies which emphasised the role of freelancers as being predominantly a non-unionised cheap substitute for employees (Sisson, 1983, Wial, 1994, Herzenberg et al 1998 and Milward et al. 2000), this newer evidence positions freelancers as differentiated to employees, and typically being complements rather than substitutes, in project-

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based, and uncertain, risky business environments associated with the innovation-driven entrepreneurial economy. This accords with the work of Van den Born and Van Witteloostuijn (2013), who identified the emergence of a new type of worker who “contracts out her or his skills to various organisations” (p.24) and is typified by the skilled independent professional. Thus the freelancer reflects a new organisational form characterised by three types of workers: core employees, professional freelancers, and routine workers. In this environment freelancers are increasingly skilled, more expensive than employees and creators of employment rather than competitors of employees. However, we explicitly allow our freelance definition to be determined by the organisations that employ them, and find that although the largest group fit the skilled professional characterisation other freelancers are widely employed who fulfil what might be termed routine tasks. In the next sections of the paper we review this research. Section 2 provides an overview of the more traditional ‘static economy’ view of freelancing while section 3 provides an account of freelancing in the modern dynamic economy. The paper closes with conclusions and implications.

2. The Orthodox View of Freelancers in Economics and Management Research

The main and orthodox focus of economics research has been in a static domain where dynamic effects such as innovation and entrepreneurship are held constant (Audretsch, Baumol and Burke, 2001). This means that the innovative and enterprising roles of freelancers are not part of the analysis. As a result, the remaining economic role of freelancers was as a competitive, temporary, workforce who compete with permanent employees for jobs. In fact, Coase’s (1937) justification for the existence of firms indicated that employees would be insiders and more likely to be more highly skilled and bearers of high worth human capital than freelancers. In this sense it is not surprising that most economics analysis of freelancers depicted them as low quality/price substitutes for employees with whom they compete for work.

Later research in the fields of industrial relations and entrepreneurship were based on a similar theoretical predisposition due to the fact these research trajectories were not focused on different research questions where freelancers only appeared in a cameo capacity. Burke (2011) illustrates these roles through Table 1 which shows that the labour force can be divided into a 2x2 matrix based on the dual distinction of whether a person is employed or self-employed, and a manager or a worker. Freelancers comprise the lower right hand box illustrating their self-employed but non managerial status. The table is instructive as it both illustrates why freelancers share some characteristics with other self-employed entrepreneurs and workers on employment contracts, but highlights that they form a unique category in the labour force. So unfortunately, these cameo roles

of freelancers in industrial relations and entrepreneurship research did not cover the full character of freelancers. The industrial relations literature categorises freelance workers as part of an unregulated secondary labour market where the majority of workers are worse off than they would be in continuous employment (e.g. Wial, 1994, Herzenberg et al 1998, Krausz, 2000 and de Jong et al 2009). The entrepreneurship literature captures freelance workers by dint of including the self-employed without employees as part of analysis of the self-employed. By consequence freelancers are depicted as low performing self-employed entrepreneurs (see Burke 2011 for an overview).

Table 1: Labour Force Functional Categories

	Manager	Worker
Employed	Executive	Employee
Self-Employed	Entrepreneur	Freelancer

Source: Burke (2011)

So in sum, the methodological confines of neoclassical economics and the scope of industrial relations and entrepreneurship research by consequence ignored the dynamic and innovative roles of freelancers; especially in research contexts where they ought to be the main economic agent under investigation.

3. A Re-Appraisal of Freelancing

The gaps and oversights in the research literature are unearthed in the theory and extensive series of case studies undertaken on the construction industry in Burke (2011) and in most of the remaining industries in Burke (2012). In other words, this research derives a theoretical model that is based on empirical observation of the various ways in which businesses use and recognise the value of freelancers. The research highlights that freelancers play a valuable and pivotal role in Britain’s 21st century innovation-driven economy. Freelancers:

- enable businesses to use greater specialisation of labour while avoiding the cost of expensive downtime associated with using employees in such circumstances

- are sources of and conduits for innovation and entrepreneurship in both corporations and SMEs
- enable businesses to manage, in fact reduce, entrepreneurial risk and so promote innovation and entrepreneurship
- liberate businesses from the limits of their internal resource base and enable the use of exceptional talent and diverse skills that would otherwise not be economically feasible to hire on employee contracts
- enable de-risking of some of the uncertainties of the market so that firms can reduce risk associated with business growth
- reduce the amount of finance required for innovation and business start-ups
- reduce barriers to market entry and reduce minimum efficient scale
- promote efficiency-driven economic performance
- enable businesses to maximise performance across peaks and troughs in demand
- create jobs by increasing the level of innovation and efficiency in the economy and helping new projects succeed

Burke (2011) highlights the benefits of using freelancers to adopt a specialised labour market model without the costs associated with downtime. For example, the research explores the specialised labour inputs used in a 224 (predominantly apartment) unit project conducted by UK nationwide builder Taylor Wimpey in Diglis Basin in Worcestershire. Burke estimates that the average percentage of downtime work days per specialised input for this typical corporate apartment build project is 82%. Weighted by cost the average downtime is 74% which indicates that the potential cost savings generated by freelance workers are very high. In the absence of freelancers, Taylor Wimpey and their contractors would be obliged to hire employees and pay them during this downtime. The worst case scenario for these firms is where they cannot find any alternative work for employees during this downtime. The data in Table 2 illustrates that these costs could potentially entail an average scale up in labour costs by a multiple of nearly 4 (3.85) given downtime unused capacity of 74%.

Table 2: Diglis Bason Apartment & House Project

Input	% downtime
Foundation work, substructure, drainage	55.8
Piling	90.4
Brickwork	74.2
Floor Planks	92.3
Scaffold	92.3
Steelwork	88.5
Roofing	86.5
Window Installation	88.8
Kitchens	90.8
Lift Installation	96.2
Plastering	69.2
Electrical / Carpentry	55.4
Painting	82.7
Finals / Clean	91.2
Average	82.4
Max	96.2
Min	55.4
Average weighted by cost	74.3

Source: Burke (2011)

Analysing the perceptions of senior executive and owner-managers Burke (2011 and 2012) shows that freelancers usually generate these benefits through a working partnership with employees. In other words, a symbiotic complementary relationship where freelancers are able to add to the diversity of talent and skills in a business thereby enhancing employee productivity and job security rather than the orthodox depiction of a homogeneous low quality/price who threaten employees’ jobs.

These freelance contributions to business have only really come to the fore with the emergence of the innovation-driven economy over the last three decades. In this setting businesses benefit from being:

- Innovative
- Flexible and agile
- Able to manage entrepreneurial risk

- Capable of prospering despite greater market uncertainty

Freelancers can enable, or facilitate, businesses to do all these things and hence have become a key driver for economic performance in the economy. Burke (2011 and 2012) argues that as a result there is a need to identify the defining and unique features which distinguish freelancers as unique economic agents in their own right. These studies show that freelancers tend to serve a different function to employees in the context of their role in an innovation-driven economy.

In terms of corporations and large firms Burke (2012), drawing on detailed case studies with organisations employing freelancers, finds that freelancers have been used to fulfil managerial and technical roles at each stage of the innovation development process from:

1. Innovation creation.
2. Commercialisation of innovation.
3. Integration of innovation into the core of the organisation.

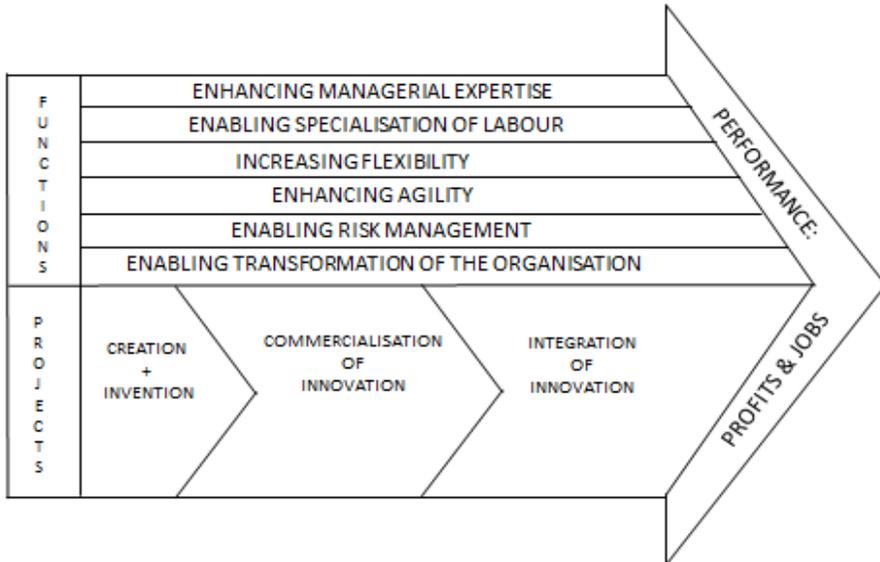
Throughout all the stages of innovation development, according to these case studies, freelancers can add value by:

- Idea generation.
- Lowering the cost and risk of innovation.
- Providing entrepreneurial management expertise not available in-house and without distracting executives from core business.
- Enabling the use of specialised human capital not available in-house and without distracting employees from core business.
- Enhancing the flexibility and agility of businesses.

These effects can increase the scale and effectiveness of innovation undertaken by business, both independently, and through a cross-fertilisation process, by working in parallel with core employees, and are summarised in the Freelance Innovation Value Chain (Burke, 2012). The bottom panel shows that the projects undertaken by freelancers can involve three stages of innovation development. The top panel shows the value-added provided by the various roles of freelancers across each of these three stages. The front arrow of the diagram illustrates that the combined effect of these roles in increasing profits and creating

jobs across all three stages enhances business performance, and were associated by the case study analysis.

Figure 1: The Freelance Innovation Value Chain



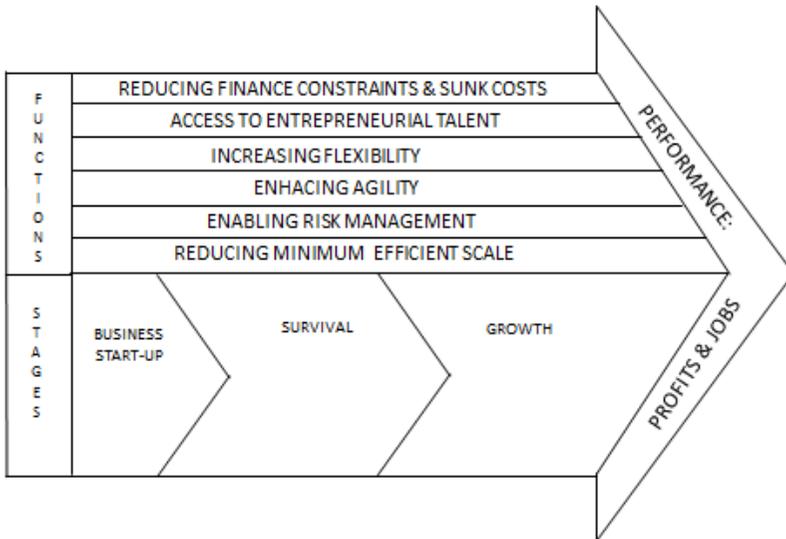
Source: Burke (2012)

Freelancers also promote innovation-driven economic performance through entrepreneurship. Burke (2012) highlights that freelancers are frequently used at each stage of a new venture’s development: from start-up, to early stage survival and through to business growth. These freelancers fulfil managerial, technical and professional tasks. Across all stages of new venture development freelancers can help businesses to raise their performance by providing:

- Access to external specialised and entrepreneurial talent on a ‘pay as you grow’ basis.
- Reduced finance constraints.
- Reduced sunk costs and risk.
- Greater flexibility and agility.
- Increased ability to compete against large firms by reducing minimum efficient scale.

The value created in new ventures by freelancers is summarised in the Freelance Entrepreneurship Value Chain (Burke, 2012). The lower panel illustrates that freelancers are involved in projects in the start-up, early stage survival and business growth phases of new venture development. The upper panel illustrates the roles in which freelancers add value. The combined effect of these roles across all three phases is illustrated at the front arrow in terms of enhanced profits and job creation in new ventures.

Figure 2: The Freelance Entrepreneurship Value Chain

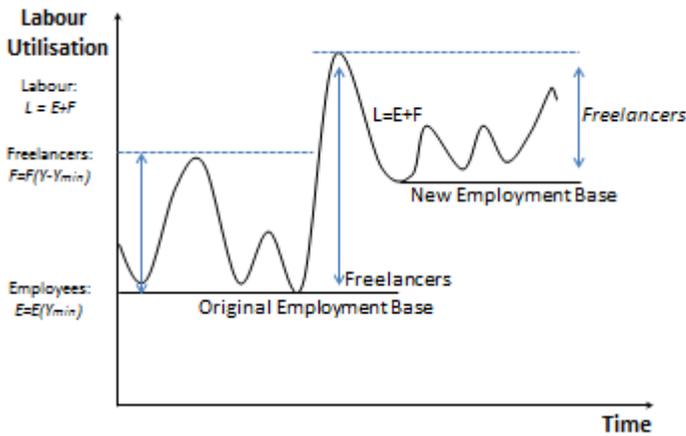


Source: Burke (2012)

Burke (2011 and 2012) shows that freelancers enable businesses to be agile, flexible and to manage risk in adjusting their workforce to meet the uncertainty inherent in a dynamic business environment. This enables firms to reduce the risk to grow in order to take on business that may become sustainable but is initially at risk of being temporary. Without the use of freelancers, the option to grow entails hiring employees who form part of a business's overheads and whose jobs would not be sustainable if the expected sales from growth are not realised. As a result, many businesses may choose not to take the risk involved in growth. By contrast freelancers enable businesses to adopt a variable cost (pay as you go) labour model which removes the risk of acquiring unsustainable labour costs. Once the decision to grow has been taken and if expected sales prove sustainable then at that point businesses usually replace freelancers by employees. Therefore, through this process freelancers can be used to accelerate growth strategies and complement core workers' efforts to scale up the business until such time that it becomes apparent that a new higher level of sustainable business is either

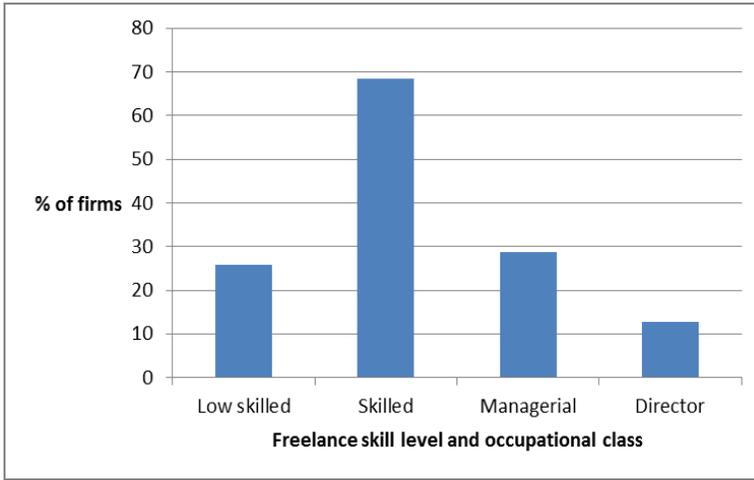
achievable or not. The former is illustrated in Figure 3 where it can be seen by enabling a business to take the risk of growing, and freelancers thereby create jobs for employees. In other words, our evidence is consistent with freelancers having a symbiotic complementary relationship with employees.

Figure 3: Freelancers used to Manage Risk of Business Growth and Market Volatility



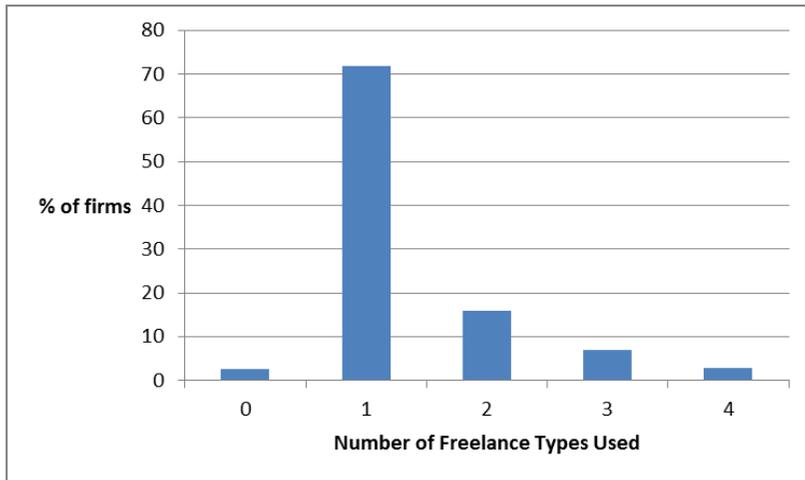
Source: Burke (2012)

Having established why firms might choose to adopt a freelance model, and further considered what potential benefits there are for firms and freelancers, we now report new evidence on the prevalence of different types of freelancers. The data is drawn from a survey of 1028 businesses (excluding own account worker businesses) in Great Britain in 2013 which was carried out by ComRes and which we helped design. Here we separate out different types of freelancers into skill-based categorisations including: low skill-based; skilled, managerial, and director level freelancers. Figure 4 shows that the most prevalent class of freelancers is skilled workers who are employed by 68.4% of British businesses. More than 1 in 4 businesses use both low skilled and managerial level freelancers. It was also the case that nearly 1 in 8 British businesses employed freelancers at the director level. What our evidence clearly shows is that freelance adoption by British businesses covers the full spectrum of skill levels and occupational classes. This is contrary to the early theorising about freelancers being merely disenfranchised workers and also contrary to recent claims that the rise in freelancing is confined to the creative industries (Moeran, 2009). In fact, freelancing is clearly a phenomenon that is pervasive throughout the economy and covers all sectors of industry and all types of workers.

Figure 4: Firms Employment of Freelancers by Skill Level and Occupational Class

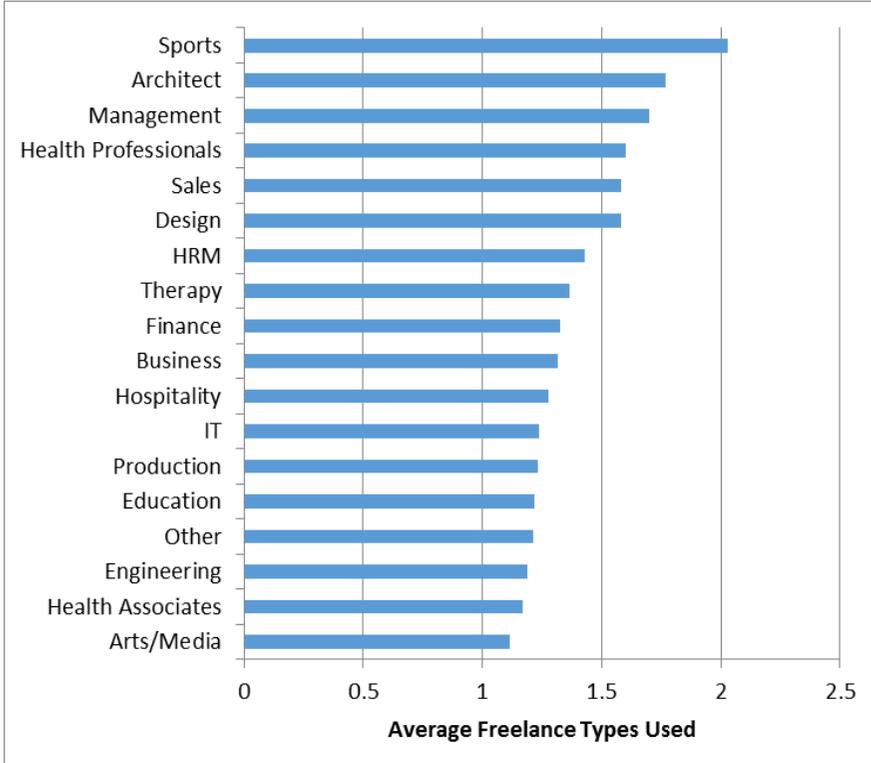
The obvious question following on from this is whether individual firms adopt a single freelance type model or whether firms engage with multiple types of freelancers simultaneously. Figure 5 shows our evidence in this respect. Here we note that use of a single type of freelancer is by far the most common freelance business model in Great Britain, one adopted by 71.9% of businesses. This suggests that firms have very specific gaps, be they physical or knowledge based, in their workforce at particular points in time and seek to fill these gaps with freelance workers. But around 1 in 6 businesses use two distinct types of freelancer simultaneously. And nearly one in ten businesses use three or four different types of freelancers. This reinforces our contention that the focus to date has been largely incorrect in focusing on individual freelancers of specific types and assumed that the host firm is relatively passive, or reactive, in their decision to hire freelancers.

Figure 5: Use of Multiple Skills and Occupational Freelance Classes



There are also some important differences in terms of multiple usage of freelancers by industry sector and by size of business. Figure 6 highlights the fact that the sports industry, business management, architecture and health professions have a relatively high incidence of engaging multiple types of freelance workers. This contrasts with arts/media, health sectors, and engineering sector businesses who tend to adopt a single type of freelancer model. What we were unable to address, due to the demand-side focus of our study, is the potential for freelancers to co-operate with one another through collaborative networks and offer hiring firms (users) a co-ordinated set of complementary freelancers.

There is also a clear relationship between the size class of business and the adoption of multiple freelance models. Here, the larger a business is, the higher the adoption rate of multiple freelance use models. This suggests that smaller businesses have very specific gaps in their skills and knowledge base and engage with specialist freelance workers to add breadth to their core human capital base. Larger businesses, in contrast, tend to engage with freelance workers across the occupational and skills spectrum simultaneously which suggests a different type of business model.

Figure 6: Number of Freelance Types Used by Sector

4. Conclusion and Implications

Freelancing is a much more widespread and diverse form of work organisation for both freelance workers themselves and for the businesses that engage them. Contrary to popular belief they are pervasive throughout all segments of the labour market, and across all occupational and skill levels. Equally, it is a form of contractual engagement that is widely adopted throughout all business sectors and across all size classes of firms.

Only a minority of businesses use low-skilled freelancers. The orthodox generalisations about freelancers being just disenfranchised workers do not appear to hold to any great extent in the modern landscape, nor do the newer unfounded assumptions that freelance work is unique to creative industries. There is a substantial presence and use of highly educated freelance workers across the boards of directors and management teams of businesses throughout the economy. Equally, there is a high prevalence of high and low skilled freelance workers and businesses often use a mix of freelance types to complement their existing workforce.

The key piece of evidence is that freelance workers in Great Britain are typically engaged in a complementary role alongside established employees, rather than as substitutes for them. Further research into the strategic use of freelancers and strategic complementarities would help us to understand at what stage of their strategic decision-making organisations elect to hire freelancers or whether it is a choice made independently of other strategic decision-making. On the supply-side, future research might help us understand more about how freelancers choose the type of engagement with particular organisations, at what level in the value chain, and the intensity of their commitment to them.

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